2013
Annual Report

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.

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Branch Network

KARACHI

Main Branch:

Office # 304, 3rd Floor, Business Arcade,
Shahra-e-Faisal, Karachi.

HYDERABAD

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

LAHORE

Allama Iqbal Town Branch:

Office No. 03, 2nd Floor, Sky Centre,
Karim Block, Allama Iqbal Town Road.
Phone: 042-35295423-24
Fax: 042-35295425

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

Board of Directors

Mr. Nasser Durrani
Chairman

Mr. Naveed Amin
Chief Executive Officer / Director

Board of Directors

Ms. Mehnaz Kaludi
Director

Mr. Ali A. Rahim
Director

Mian Tahir Bashir
Director

Mr. Junaid Mohmand
Director

Mr. Ateeq ur Rehman
Director

Corporate Information

BOARD OF DIRECTORS

Mr. Nasser Durrani Chairman
Mr. Naveed Amin Chief Executive Officer
Mr. Ali A. Rahim
Ms. Mehnaz Kaludi
Mr. Junaid Mohmand
Mian Tahir Bashir
Mr. Ateeq Ur Rehman

AUDIT COMMITTEE

Mr. Ateeq Ur Rehman Chairman
Mr. Ali A. Rahim Member
Mian Tahir Bashir Member
Ms. Shafque Akhter Committee Secretary

HUMAN RESOURCE COMMITTEE

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

Corporate Information

ACTING COMPANY SECRETARY & CFO
Mr. Naeem-ul-Hasan

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: BB + Short-term: B

REGISTERED OFFICE
56-F, Nazim-ul-Din Road, F-6/1, 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

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

Notice of the 12th Annual General Meeting

Notice is hereby given that the Twelfth Annual General Meeting of the shareholders of SME Leasing Limited (the Company) will be held at the Registered office of company, Islamabad on Wednesday April 30, 2014 at 10:30 am to transact the following business:

ORDINARY BUSINESS.

1. To confirm the minutes of the 11th Annual General Meeting of the Company held on April 30, 2013.

2. To receive, consider and adopt the audited Financial Statements of the Company for the year ended December 31, 2013 together with the Directors' and Auditors' Reports thereon.

3. To appoint auditors for the year ending December 31, 2014 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, 2014.

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

By Order of the Board

Naeem-ul-Hasan
Acting Company Secretary

Karachi: April 9, 2014

Notes:

1. The Register of the members of the Company will remain closed from April 23, 2014 to April 30, 2014 (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 # 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 # 304, 3rd Floor, Business Arcade, Shahrah-e-Faisal, Karachi

Directors' Report

DIRECTORS' REPORT

The Board of Directors of SME Leasing Limited is pleased to present before you the annual audited financial statements for the year ended December 31, 2013.

Operational Review

We are pleased to inform you that after the joining of full-time CEO in September 2013 your company started working aggressively on fresh leasing business as an immediate priority and also on the long outstanding non-performing loans (NPLs) and produced good results in the last quarter.

The Board is pleased to inform you that your company has written leases of Rs 78.9 million, almost all in the last quarter, as compared to Rs 51.62 million in 2012. Your company is expecting a substantial growth in the coming year.

The company focused on exploring and recording new business causing growth in financing portfolio and also on recoveries, which reflected in a rise in revenue. The recovery effort has borne results, which not only contribute in booking of additional assets but also reduce financial cost due to reduced utilization of bank borrowing.

The Company's current gross revenue is Rs 28.39 million as compared to Rs 45.83 million in 2012 is due to leases maturing which the company expects to replace in the coming days; operating expenses reduced to Rs 29.42 from Rs 40.56 million as compared to the last year. During the year Rs 28 million has been recovered from NPLs.

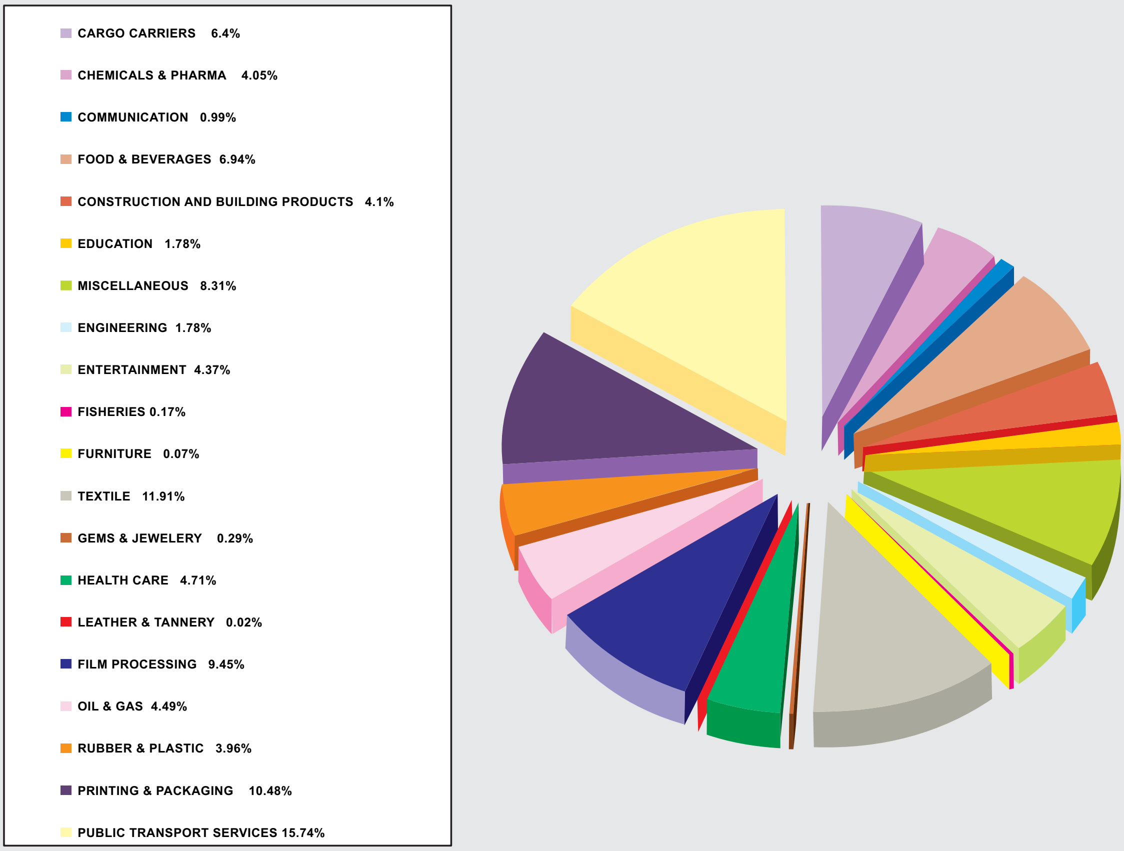
	2013 Rupees	2012 Rupees
Gross revenue	**28,391,913**	45,826,639
Operating Expenses	**(36,778,840)**	(61,319,110)
Profit/(Loss) before provisions	**(8,386,927)**	(15,492,471)
Reversal of provisions /(Provisions)	**953,578**	(13,366,053)
Profit/(Loss) before taxation	**(7,433,349)**	(28,858,524)
Current Taxation:	**(283,919)**	(229,133)
(Loss) after taxation	**(7,717,268)**	(29,087,657)
Earnings/(loss) per share - basic and diluted	**(0.24)**	(0.91)

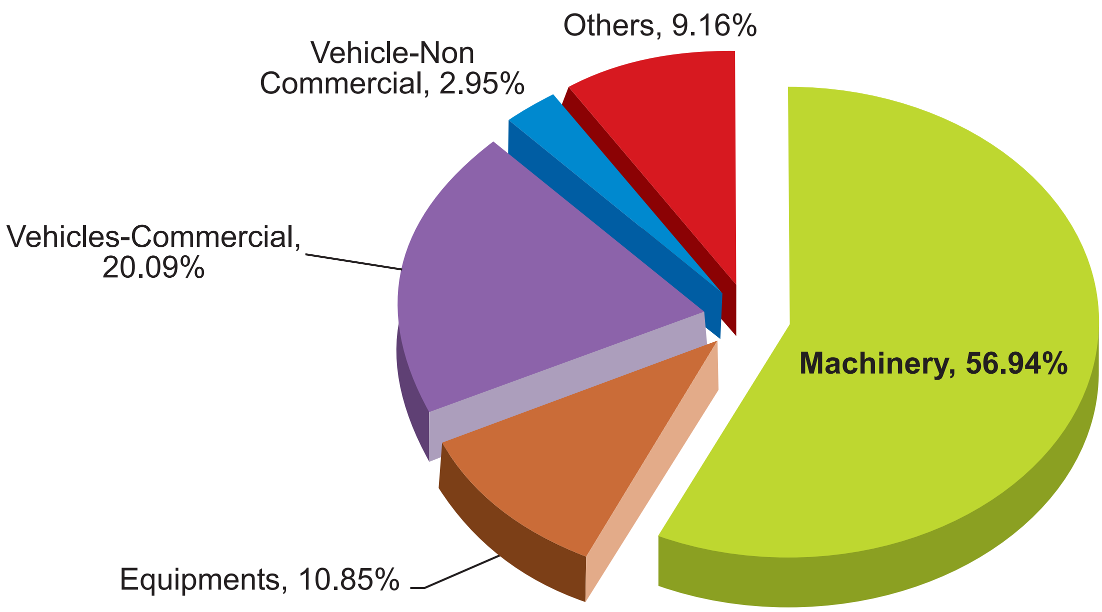
Dividend

Due to the company having incurred a loss the Board has not recommended any dividend for the year under review.

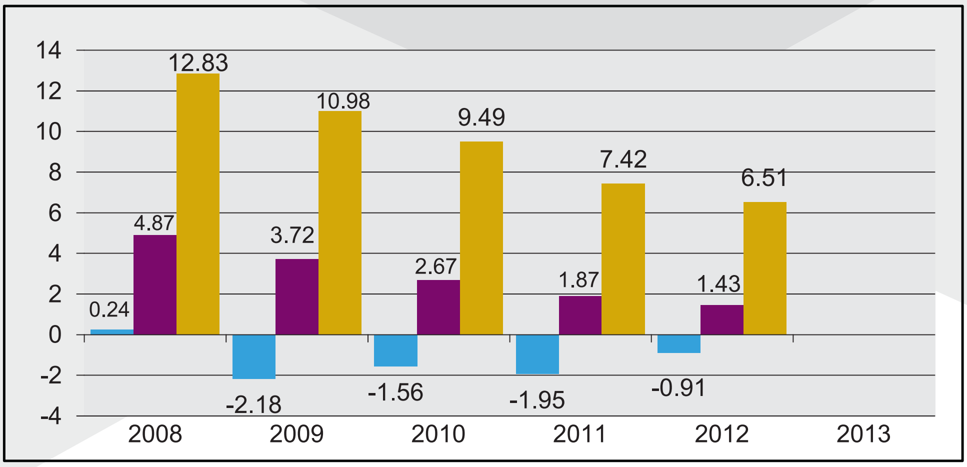
Economic review

The year 2013 was also tough on business. The power crises, law and order situation, terrorism and lack of availability of financing again effected the growth of the economy as effectively your company.

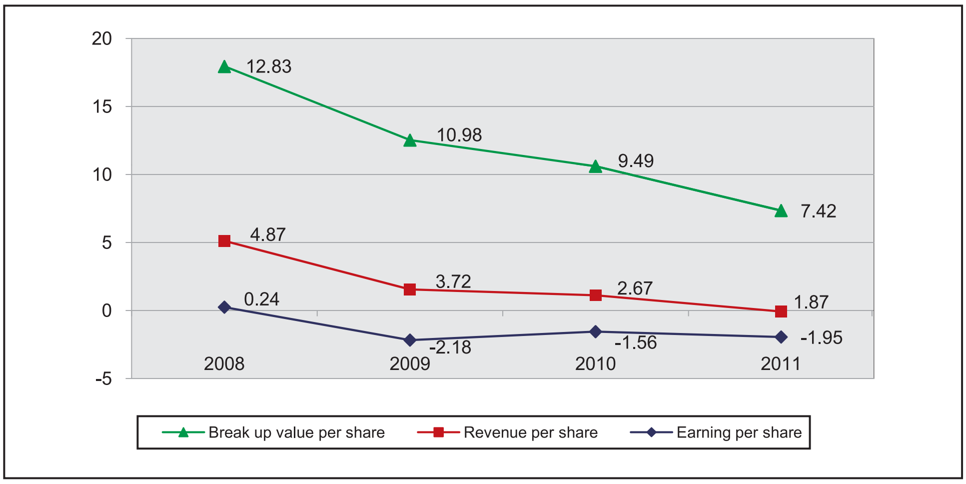

CARGO CARRIERS 6.4%
CHEMICALS & PHARMA 4.05%
COMMUNICATION 0.99%
FOOD & BEVERAGES 6.94%
CONSTRUCTION AND BUILDING PRODUCTS 4.1%
EDUCATION 1.78%
MISCELLANEOUS 8.31%
ENGINEERING 1.78%
ENTERTAINMENT 4.37%
FISHERIES 0.17%
FURNITURE 0.07%
TEXTILE 11.91%
GEMS & JEWELERY 0.29%
HEALTH CARE 4.71%
LEATHER & TANNERY 0.02%
FILM PROCESSING 9.45%
OIL & GAS 4.49%
RUBBER & PLASTIC 3.96%
PRINTING & PACKAGING 10.48%
PUBLIC TRANSPORT SERVICES 15.74%


Others, 9.16%
Vehicle-Non Commercial, 2.95%
Vehicles-Commercial, 20.09%
Machinery, 56.94%
Equipments, 10.85%

Key Ratios



Key Ratios



Further, commercial banks are still reluctant in taking exposure on the NBFI sector; NBFI and 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.

Minimum equity requirements

The recommendations of the Reform Committee of Securities and Exchange Commission of Pakistan (SECP) are being reviewed by a Commission. It is expected that matter of the minimum equity requirements would be resolved soon.

Future Prospects

In the absence of funding for its disbursements from commercial banks other than the parent bank the company is also utilizing internal cash generation through recovery measures. Whilst this would be insufficient for rapid result in near future, it is a step towards revival; and the management is optimistic about bringing improvement in the coming year. Going forward, in view of the current overall economic trends the company would remain cautious and diversified in maintaining its financing portfolio. Note # 1.2 depicts the subsequent period performance of the company.

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 the human resource.

Board of Directors

Mr Naveed Amin assumed office of Chief Executive Officer on September 16, 2013, in place of Mr Ali A. Rahim who was appointed as Director and thereafter Acting Chief Executive Officer of the Company after resignation of Mr Nadim Anwar Khan.

On September 19, 2013, Mr Sajjad Ahmed Warraich resigned from the Board and Mr Naveed Amin was appointed as Director 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. Nasser Durrani	4	Mr. Naveed Amin	1
Mr. Ali A Rahim	4	Mr. Ateeq Ur Rehman	4
Mr. Junaid Mohmand	4	Ms. Mehnaz Kaludi	3
Mian Tahir Bashir	4	Mr. Sajjad Ahmed Warraich*	2

* Mr Sajjad Ahmed Warraich resigned from the Board; vacancy was filled by Mr Naveed Amin.

Audit Committee Meetings

Director	Meetings attended
Mr. Ateeq Ur Rehman	4
Ms. Mehnaz Kaludi	2
Mian Tahir Bashir	4

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, 2013, 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, 2013, was Rs 4.03 million (un-audited) and as at December 31, 2012, was Rs 4.34 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, 2012, the rating agency, JCR-VIS, has revised the long term entity rating to BB+ (Double B plus) and short term of B(B) with stable outlook.

Parent Company

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

Auditors

The present auditors M/s KPMG Taseer Hadi & Company, Chartered Accountants, retire and being eligible, offer themselves for re-appointment for the year ending December 31, 2014. 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 2014.

Pattern of Shareholding

The pattern of shareholding of the Company as on December 31, 2013, 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,

Nasser Durrani

Nasser Durrani
Chairman

Islamabad: March 4, 2014

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

Financial Highlights

(Rupees in 000)

Balance Sheet	2013	2012	2011	2010	2009	2008
Paid-up Capital	320,000	320,000	320,000	320,000	320,000	200,000
Total Equity	200,334	207,886	237,473	303,664	351,263	410,580
Gross Lease Receivable	697,016	718,133	914,494	1,065,118	1,649,953	1,981,260
Net Investment in Lease	459,877	481,606	662,865	843,012	1,402,780	1,740,093
Long-Term Liabilities	62,452	64,013	98,820	297,074	529,821	895,906
Current Liabilities	279,299	315,155	453,190	388,898	709,693	673,422
Current Assets	421,028	472,700	582,321	519,151	633,000	757,954
Total Assets	542,085	587,054	789,483	989,636	1,590,777	1,979,908

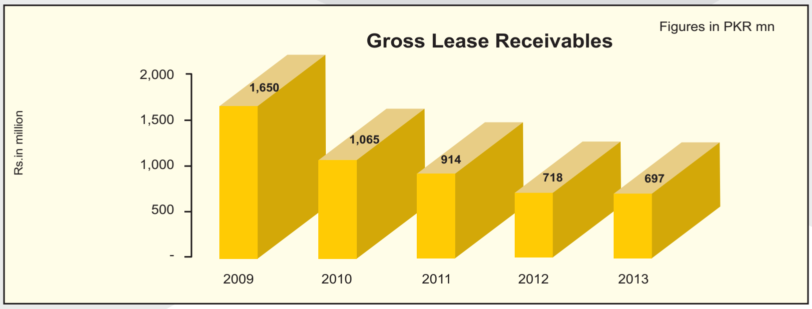
(Rupees in 000)

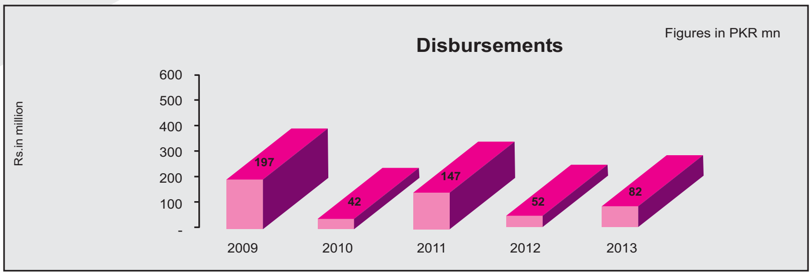
Income Statement	2013	2012	2011	2010	2009	2008
Lease Income	26,204	44,906	53,376	84,512	122,427	149,359
Total Revenue	28,392	45,827	59,718	85,591	119,197	155,855
Financial Charges	7,362	20,764	30,769	46,824	92,451	101,053
Administrative Expenses	29,416	40,555	47,249	44,709	47,631	43,630
Provisions	(954)	13,366	43,642	41,447	49,676	8,896
Total Expenses	35,825	74,685	126,661	132,979	189,758	153,579
Profit Before Taxation	(7,433)	(28,859)	(61,943)	(47,388)	(70,560)	2,275
Profit After Taxation	(7,717)	(29,088)	(62,540)	(49,786)	(69,748)	7,710

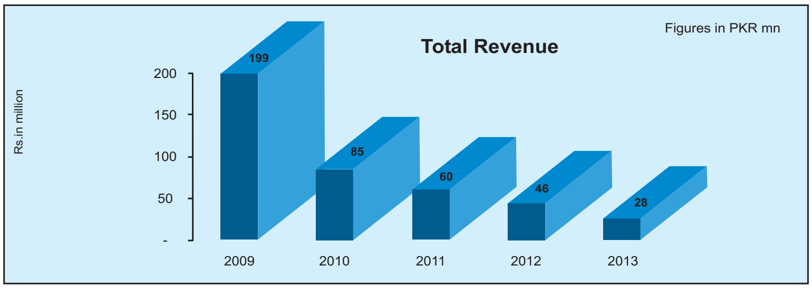
Financial Indicators	2013	2012	2011	2009	2008	2007
Breakup Value (Rs per share)	6.26	6.50	7.42	10.98	12.83	13.60
Current Ratio (X)	1.51	1.28	0.89	0.89	1.12	1.17
Debt-Equity Ratio (Times)	0.38	0.68	0.73	1.3	1.78	1.69
Earning Per Share (Rs.)	(0.91)	(1.95)	(1.56)	-2.18	0.24	0.96
Financial Charges to Total Exps (%)	20.55	25.29	35.21	48.72	65.80	65.80
Financial Charges to Total Revenue (%)	25.93	51.52	54.71	77.56	64.84	64.84
Income Expense Ratio (Times)	0.73	0.49	0.64	0.65	0.97	0.97
Net Profit Margin (%)	(27.18)	(104.71)	(58.17)	-58.51	4.95	4.95
Return on Average Equity (%)	(3.78)	(23.11)	(15.20)	-18.31	1.82	7.30
Return to Shareholders (%)	-	-	-	7.50	-	
Revenue Per Share (Rs.)	0.89	1.87	2.67	3.72	4.87	4.87

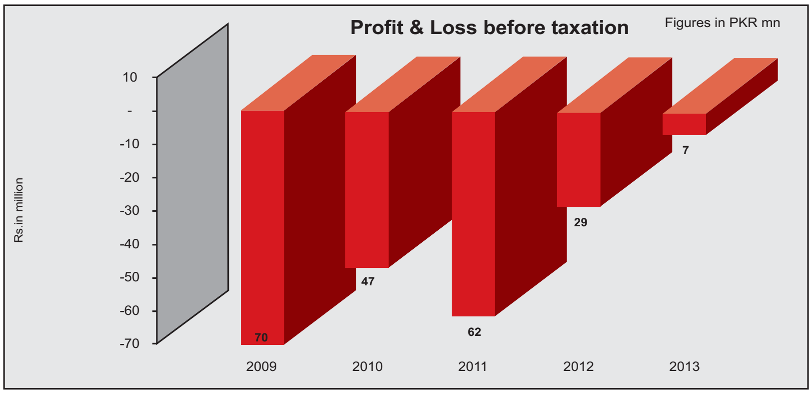
* bonus issue

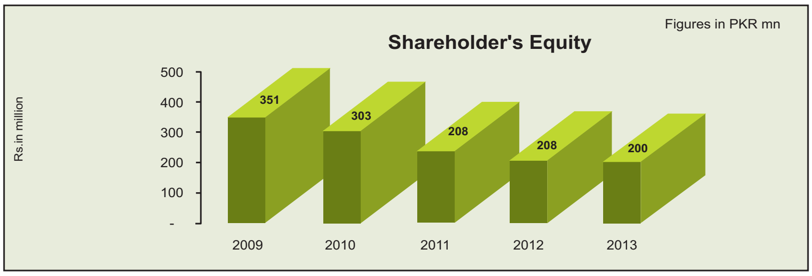
Financial Highlights and Charts











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 presentthe board includes:

Category	**Names**
Independent Directors	1. Mr.AteequrRehman 2. Ms.MehnazKaludi
Non-Executive Directors	1. Mr.Nasser Durrani 2. Mr.JunaidMohmand 3. Mian Tahir Bashir 4. Mr. Ali A. Rahim
Executive Director	1. Mr. Naveed Amin

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

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. A casual vacancy occurred on the board during the year due to resignation of Mr. SajjadWarraich on 19 September, 2013 and was filled up on the same date by the board by appointing Mr. Naveed Amin.

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 companyalong 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.The Board arranged Code of Corporate Governance training program for aNon-Executive Director during the year.

10. During the year, Chief Financial Officer (CFO) who was also the Company Secretary has resigned. The Board promoted another employee, as the acting CFO and Company Secretary, till the appointment of full time CFO and Company Secretary. The Company is in due course of hiring a professional accountant to meet the said requirement.

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, the Chairperson of which is an independent Director and theother members of the Committee are non-executive Directors.

18. The Board has set up an effective internal audit function. The Head of Compliance, whois 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 InternalAudit.

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 CCGhave been complied with.

For SME Leasing Limited

Naveed Amin
Chief Executive Officer

Karachi: March 04, 2014

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
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We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of **SME Leasing Limited** for the year ended 31 December 2013 to comply with the requirements of Listing Regulation No 35 of the Lahore Stock Exchange.

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

As a part of our audit of the 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 of Directors 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.

The Code requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee, We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Company for the year ended 31 December 2013.

Further, we highlight the contents of note 10 & 18 of the Statement of Compliance relating to appointment of Chief Financial Officer and Head of Internal Audit.

Kpmg Taseer Hadi & Co.

Date: March 04, 2014
Karachi

KPMG Taseer Hadi & Co.

Auditors' Report to the Members

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

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

We have audited the annexed balance sheet of **SME Leasing Limited** ("the Company") as at 31 December 2013 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the 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 financial statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by the management, as well as, evaluating the overall presentation of the financial 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 except for the change in accounting policy as stated in note 2.5.2 to the financial Statements with which we concur;

   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 2013 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 statements 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

Date: March 04, 2014
Karachi

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

Balance Sheet

As at 31, December 2013

	Note	31 December 2013	31 December 2012 (Restated)	31 December 2011 (Restated)
		(Rupees)		
ASSETS				
Current assets				
Cash and bank balances	4	**6,033,050**	7,191,492	10,415,717
Advances	5	**1,282,930**	1,469,279	1,634,933
Deposits, prepayments and other receivables	6	**2,128,180**	1,716,969	2,937,423
Accrued interest on long term finances and loans		**132,771**	557,555	326,166
Investments	7	**3,987,699**	3,809,433	3,863,500
Current maturity of non-current assets	8	**407,463,578**	457,954,941	563,601,645
		421,028,208	472,699,669	582,779,384
Non-current assets				
Long term finances and loans	9	**6,510,409**	9,669,087	24,472,848
Net investment in finance leases	10	**98,779,821**	82,582,479	158,288,976
Long term deposits and prepayments	11	**1,560,055**	1,299,022	1,382,511
Fixed assets	12	**14,206,139**	20,804,081	23,017,281
		121,056,424	114,354,669	207,161,616
Total assets		**542,084,632**	587,054,338	789,941,000
LIABILITIES				
Current liabilities				
Accrued and other liabilities	13	**6,840,078**	6,839,103	7,864,521
Accrued mark-up on borrowings	14	**644,874**	1,704,444	3,204,749
Short term borrowings	15	**37,534,120**	55,758,690	108,856,366
Short term certificates of investment	16	**200,000**	8,112,646	757,413
Current maturity of non-current liabilities	17	**220,987,809**	229,553,091	319,115,487
Provision for compensated absences		**676,871**	837,805	1,267,000
Advance tax net of provisions		**12,415,093**	12,349,697	12,582,608
		279,298,845	315,155,476	453,648,144
Non-current liabilities				
Long term finances	18	**723,580**	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	**1,404,491**	1,109,025	2,102,921
Lease key deposits	10	**56,649,944**	55,798,107	72,496,595
Deferred liabilities	20	**3,674,069**	3,365,393	4,409,285
		62,452,084	64,013,056	99,120,329
Total liabilities		**341,750,929**	379,168,532	552,768,473
NET ASSETS		**200,333,703**	207,885,806	237,172,527
FINANCED BY				
Authorised share capital 100,000,000 (31 December 2012: 100,000,000) ordinary shares of Rs. 10 each		**1,000,000,000**	1,000,000,000	1,000,000,000
Issued, subscribed and paid-up capital	21	**320,000,000**	320,000,000	320,000,000
Reserves		**48,466,329**	48,466,329	48,466,329
Accumulated loss		**(168,940,325)**	(160,709,956)	(131,477,302)
		199,526,004	207,756,373	236,989,027
Surplus on revaluation of available-for-sale investments - net		**807,699**	129,433	183,500
Total shareholders' equity		**200,333,703**	207,885,806	237,172,527
COMMITMENTS	22			

The annexed notes 1 to 38 form an integral part of these financial statements.

Ali A. Rahim
Director

Naveed Amin
Chief Executive Officer

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

Profit and Loss Account

For the year ended 31, December 2013

	Note	2013 Rupees	2012 Rupees
INCOME			
Income from leasing operations	23	**26,204,493**	44,906,045
OTHER OPERATING INCOME			
Profit on bank accounts / return on investments	24	**423,621**	467,304
Other income	25	**1,763,799**	453,290
		2,187,420	920,594
		28,391,913	45,826,639
EXPENSES			
Administrative and operating expenses	26	**29,416,365**	40,555,127
Finance cost	27	**7,362,475**	20,763,983
		36,778,840	61,319,110
		(8,386,927)	(15,492,471)
PROVISIONS			
(Reversal) / provision for potential lease losses - net	10.1.2	**(865,544)**	11,448,821
(Reversal) / provision for doubtful finances and loans - net	9.3	**(88,034)**	1,917,232
		(953,578)	13,366,053
Loss before taxation		**(7,433,349)**	(28,858,524)
Taxation	28	**(283,919)**	(229,133)
Loss after taxation		**(7,717,268)**	(29,087,657)
Loss per share - basic and diluted	29	**(0.24)**	(0.91)

The annexed notes 1 to 38 form an integral part of these financial statements.

Ali A. Rahim
Director

Naveed Amin
Chief Executive Officer

Statement of Comprehensive Income

For the year ended 31, December 2013

	2013 Rupees	2012 Rupees
Loss after taxation	**(7,717,268)**	(29,087,657)
Other comprehensive income		
Surplus / (deficit) on revaluation of available-for-sale investments	**678,266**	(54,067)
Actuarial loss on defined benefit obligations	**(513,101)**	(144,997)
	165,165	(199,064)
Total comprehensive loss for the year	**(7,552,103)**	(29,286,721)

The annexed notes 1 to 38 form an integral part of these financial statements.

Ali A. Rahim
Director

Naveed Amin
Chief Executive Officer

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

Cash Flow Statement

For the year ended 31, December 2013

	Note	2013 Rupees	2012 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		**(7,433,349)**	(28,858,524)
Adjustments for:			
- Depreciation and amortisation		**1,962,290**	2,349,262
- Gratuity		**895,250**	1,226,569
- Finance cost		**7,095,064**	20,289,999
- Profit on bank accounts / return on investments		**(501,356)**	(556,618)
- Lease finance charges		**267,411**	473,984
- (Gain) / loss on disposal of fixed assets		**(1,686,064)**	(363,976)
- Provision for potential lease losses		**(865,544)**	11,448,821
- Provision for doubtful finances and loans		**(88,034)**	1,917,232
		7,079,017	36,785,273
Operating profit before working capital changes		**(354,332)**	7,926,749
Movement in working capital			
(Increase) / decrease in operating assets			
- Accrued interest on loans		**424,784**	(231,389)
- Decrease in net investment in finance leases		**22,595,281**	169,810,033
- Deposits and prepayments		**(411,211)**	1,220,454
- Long term deposits and prepayments		**(261,033)**	83,489
- Advances		**186,349**	165,654
		22,534,170	171,048,241
(Decrease) / increase in operating liabilities			
- Provision for compensated absences		**(160,934)**	(429,195)
- Long term deposits received		**125,648**	(85,135,550)
- Accrued and other liabilities		**975**	(1,025,418)
		(34,311)	(86,590,163)
Cash generated from operations		**22,145,527**	92,384,827
- Decrease in long term finances and loans		**15,810,996**	12,980,876
- Financial charges paid		**(8,154,634)**	(21,790,304)
- Interest received		**501,356**	556,618
- Gratuity paid		**(1,099,675)**	(2,415,458)
- Taxes paid		**(218,523)**	(462,045)
		6,839,520	(11,130,313)
Net cash flows from operating activities		**28,985,047**	81,254,514
CASH FLOW FROM INVESTING ACTIVITIES			
- Capital expenditure		**(138,184)**	(251,536)
- Proceeds from disposal of fixed assets		**8,192,400**	1,429,450
- Proceeds from disposal of investments		**500,000**	-
Net cash flows from investing activities		**8,554,216**	1,177,914
CASH FLOW FROM FINANCING ACTIVITIES			
- Decrease in long-term finances		**(10,740,217)**	(31,611,884)
- Increase in certificates of investment		**(8,112,646)**	1,555,233
- Lease rentals paid		**(1,620,272)**	(2,502,326)
Net cash flows used in financing activities		**(20,473,135)**	(32,558,977)
Net increase in cash and cash equivalents		**17,066,128**	49,873,451
Cash and cash equivalents at beginning of the year		**(48,567,198)**	(98,440,649)
Cash and cash equivalents at end of the year	32	**(31,501,070)**	(48,567,198)

The annexed notes 1 to 38 form an integral part of these financial statements.

Ali A. Rahim
Director

Naveed Amin
Chief Executive Officer

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

Statement of Changes in Equity

For the year ended 31, December 2013

	Capital reserves			Revenue reserves			
	Issued, subscribed and paid-up capital	Share premium	Statutory reserve	Reserve against future losses	Accumu-lated loss	Surplus / (deficit) on revaluation of available-for-sale investments	Total shareholder equity
	-------------------(Refer note 3.20)-------------------						
	(Rupees)						
Balance as at 1 January 2012 as previously reported	320,000,000	10,000,000	28,019,277	10,447,052	(131,177,123)	183,500	237,472,706
Restatement due to change in accounting policy on recognition of actuarial gains / (losses) on defined benefit obligations - net of tax - note 2.5.2	-	-	-	-	(300,179)	-	(300,179)
Balance as at 1 January 2012 - restated	320,000,000	10,000,000	28,019,277	10,447,052	(131,477,302)	183,500	237,172,527
Total comprehensive income for the year ended 31 December 2012							
Loss for the year	-	-	-	-	(29,087,657)	-	(29,087,657)
Other comprehensive income							
Actuarial loss on defined benefit obligation					(144,997)	-	(144,997)
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	(160,709,956)	129,433	207,885,806
Total comprehensive income for the year ended 31 December 2013							
Loss for the year	-	-	-	-	(7,717,268)	-	(7,717,268)
Other comprehensive income							
Actuarial loss on defined benefit obligation					(513,101)	-	(513,101)
Surplus on revaluation of available-for-sale investments - net	-	-	-	-	-	678,266	678,266
Balance as at 31 December 2013	**320,000,000**	**10,000,000**	**28,019,277**	**10,447,052**	**(168,940,325)**	**807,699**	**200,333,703**

The annexed notes 1 to 38 form an integral part of these financial statements.

Ali A. Rahim
Director

Naveed Amin
Chief Executive Officer

Notes to the Financial Statements

For the year ended 31, December 2013

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 2012: 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 56-F, Nazim-ul-Din 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. 700 million by 30 June 2013. The equity of the Company as at 31 December 2013 is Rs. 199.526 million which is Rs. 500.473 million short of the minimum capital requirement. The Company has been incurring losses since year ended 31 December 2009 mainly on account of provision on doubtful finances which has resulted in erosion of equity. During the year ended 31 December 2013, the Company has incurred a loss of Rs. 7.717 million and the accumulated losses amounts to Rs. 168.940 million as at the year end. Further, the net assets of the Company amounting to Rs. 200.333 million includes non-performing loans, net of provision, amounting to Rs. 134.364 million.

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

The Company has applied for renewal of the license on 22 April 2013 and submitted a detailed business plan including measures to be taken for improvement of financial health of the Company and due compliance with minimum equity requirement as per NBFC Regulations 2008. Considering the financial health of the Company and expiry of leasing license, the SECP in letter dated 05 July 2013 instructed the Company to not to raise deposits from general public in any form till the compliance of the minimum equity requirement and the renewal of the leasing license.

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 realize 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. 90 million out of which Rs. 37.534 million has been utilised as at 31 December 2013 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;

- Concerted efforts are being made for the recovery of non-performing loans and in this respect during the year Rs. 28.315 million has been recovered. Out of the said amount Rs. 13.834 million was recovered in the last quarter of financial year ended 31 December 2013. Further, subsequent to the year ended 31 December 2013, Rs. 3.862 million has been recovered in respect of the non-performing loans till the end of February 2014;

- The Company recommenced leasing business from September 2013 after a considerable gap, with attractive mark up rates and reasonable deposit margins. During the year leases amounting to Rs.81.730 million (2012: 51.620 million) have been disbursed out of which Rs 2.750 million was disbursed upto September quarter and further Rs 78.980 million was disbursed in the last quarter. Subsequent to the balance sheet date the Company has booked business of Rs.50.112 million.

Notes to the Financial Statements

For the year ended 31, December 2013

- The management of the Company has curtailed its administrative and other operating expenses as reflected in the profit and loss account to minimum possible level without effecting the operational efficiency of the Company. This has resulted in improving the operational results and equity position 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 for the investments classified as 'available-for-sale' and certain staff retirement benefits as reported in their respective note.

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).

Notes to the Financial Statements

For the year ended 31, December 2013

2.5 New or amendments to existing standard/interpretation and forthcoming requirements

2.5.1 Standards, amendments or interpretation which become effective during the year.

During the year certain amendments to standards or new interpretations become effective. However, except for IAS 19, "Employee Benefits", other amendments were not relevant or did not have any material effect on the financial statement of the company.

2.5.2 Change in Accounting Policy

IAS 19 (revised) 'Employee benefits' amends the accounting for employment benefits which became effective to the company from 1 January 2013. The change introduced by the IAS 19 (revised) are as follows:

i) The standard requires past service cost to be recognised in profit or loss;

ii) The standard replaces the interest cost on defined benefit obligation and the expected return on plan assets with the net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year; v

iii) There is new term "remeasurement". This is made up of actuarial gain and losses, the difference between actual investment return and return implied by the net interest cost; and

iv) The amendment requires an entity to recognise remeasurement immediately in other comprehensive income. Actuarial gains or losses beyond corridor limit were previously amortised over the expected future service of the employees.

The adoption of the revised standard has resulted in a change in the company's accounting policy related to recognition of actuarial gains and losses (note 3.4). Consequently, the Company now recognizes all actuarial gains and losses directly in other comprehensive income with no subsequent recycling through the profit and loss account. Previously, actuarial gains or losses beyond corridor limit were amortised over the expected future service of the employee.

The change in accounting policy has been applied retrospectively. The effect of the change in accounting policy on the current and prior period financial statements have been summarized below:

	2013 Rupees	2012 Rupees
Effect on Balance Sheet		
Accumulated loss		
As previously reported	**(160,264,780)**	(131,177,123)
Effect of change in accounting policy	**(445,176)**	(300,179)
As restated	**(160,709,956)**	(131,477,302)
Deferred liability		
As previously reported	**2,920,217**	4,109,106
Effect of change in accounting policy	**445,176**	300,179
As restated	**3,365,393**	4,409,285

Effect on Other Comprehensive Income	**For the year ended 2012 (Rupees)**
As previously reported	(54,067)
Effect of change in accounting policy	(144,997)
As restated	(199,064)

Notes to the Financial Statements

For the year ended 31, December 2013

Had the company not changed its accounting policy, the effect on the financial statements for the year ended 31 December 2013 would have been as follows:

- Deferred liability on Employees' benefits and accumulated loss would have been lower by Rs. 0.958 million.
- Other Comprehensive Income would have been higher by Rs 0.513 million.

2.5.3 Standards, Interpretations and Amendments not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2014:

- IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The amendment has not impact on these 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.

- Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" Continuing hedge accounting after derivative novations (effective for annual periods beginning on or after 1 January 2014). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendment has not impact on these financial statements of the Company. The amendment has not impact on these financial statements of the Company.

- Amendments to IAS 19 "Employee Benefits" Employee contributions – a practical approach (effective for annual periods beginning on or after 1 July 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria.

- Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after 1 July 2014). The new cycle of improvements contain amendments to the following standards:

- IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition. The amendment has not impact on these financial statements of the Company.

- IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves. The amendment has not impact on these financial statements of the Company.

- IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition this amendment clarifies that a reconciliation of the total of the reportable segment's assets to the entity assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities. The amendment has not impact on these financial statements of the Company.

- Amendments to IAS 16'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.

- IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should: assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination. The amendment has not impact on these financial statements of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash balances and balances in current and savings bank accounts. Short term running inance 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 assets

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.

Notes to the Financial Statements

For the year ended 31, December 2013

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.

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. Remeasurement of the defined benefit liability, which comprises actuarial gain and losses are recognised immediately in other comprehensive income based on actuarial

The company determines the net interest expense (income) on the net defined benefit liability (asset) for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual year to the then net defined benefit liability (asset), taking into account and change in the net defined benefit liability (asset) during the year as a result of contribution and benefit payments. Net interest expense and other expense related to defined benefit plans are recognised in profit and loss account.

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 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.

Notes to the Financial Statements

For the year ended 31, December 2013

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.

Notes to the Financial Statements

For the year ended 31, December 2013

3.11 Derivative financial instruments

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

3.12 Offsetting of financial assets and financial liabilities

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

3.13 Taxation

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

Current

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

Deferred

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

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

3.14 Provisions

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

3.15 Long term finances

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

Subsequently, these are carried at 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.

Notes to the Financial Statements

For the year ended 31, December 2013

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

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

- Unrealised lease income and unrealised income on loans and finances is held in suspense account, where necessary, in accordance with 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 (2012: 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 2013.

	Note	2013 Rupees	2012 Rupees
4. CASH AND BANK BALANCES			
Cash in hand		**53,579**	53,709
Balance with State Bank of Pakistan in current account		**3,095**	17,755
Balances with banks in:			
- current accounts	4.1	**3,397,573**	3,705,284
- saving accounts	4.2	**2,578,803**	3,414,744
		6,033,050	7,191,492

4.1 These include balance with a related party amounting to Rs. 1.692 million (2012: Rs. 2.548 million).

4.2 These carry profit rate of 6% per annum (2012: 6% per annum).

Notes to the Financial Statements

For the year ended 31, December 2013

	Note	2013 Rupees	2012 Rupees
5. ADVANCES - considered good			
Advances to:			
- executives	5.1	-	190,000
- employees	5.1	244,922	269,609
- others		1,038,008	1,009,670
		1,282,930	1,469,279

5.1 These 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	2013 Rupees	2012 Rupees
6. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Security deposits		209,400	132,200
Prepayments		1,682,868	1,331,948
Other receivable	6.1	235,912	252,821
		2,128,180	1,716,969

6.1 This represents interest receivable against investments in Special saving certificates.

	Note	2013 Rupees	2012 Rupees
7. INVESTMENTS - available-for-sale			
Government securities			
- Special saving certificates	7.1	2,000,000	2,500,000
Mutual Funds			
- Close end mutual fund	7.2	1,987,699	1,309,433
		3,987,699	3,809,433

7.1 The rate of return on this investment is 11.6% to 14.2% per annum (31 December 2012: 11.6% to 14.2% per annum). All of the investments have matured in December 2013 and the amount has been encashed subsequent to the year end.

7.2 This represents investment in 306,271 certificates (2012: 275,670) of Namco Balanced Fund, a close end mutual fund. As at 31 December 2013, the cost of the above investments amounted to Rs. 1.18 million (2012: Rs. 1.18 million).

	Note	2013 Rupees	2012 Rupees
8. CURRENT MATURITY OF NON-CURRENT ASSETS			
Current portion of :			
- Long term finances and loans	9	46,366,876	58,931,160
- Net investment in leases	10	361,096,702	399,023,781
		407,463,578	457,954,941

Notes to the Financial Statements

For the year ended 31, December 2013

	Note	2013 Rupees	2012 Rupees
9. LONG TERM FINANCES AND LOANS - secured			
Related parties - considered good			
- Employees	9.1	**1,506,965**	1,590,776
Other than related parties			
Customers	9.2		
- considered good		**17,591,931**	34,773,492
- considered doubtful		**38,515,752**	37,061,376
		56,107,683	71,834,868
Provision for doubtful finances and loans	9.3	**(4,737,363)**	(4,825,397)
		51,370,320	67,009,471
		52,877,285	68,600,247
Less: Current maturity	8		
Related parties			
- Employees		**(93,038)**	(88,509)
Other than related parties			
- Customers		**(46,273,838)**	(58,842,651)
		(46,366,876)	(58,931,160)
		6,510,409	9,669,087

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% (2012: 7%) per annum while the housing loans carry mark-up at 5% (2012: 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% (2012: 13.5% to 25.44%) per annum.

	2013 Rupees	2012 Rupees
9.3 Provision for doubtful finances and loans		
Balance at beginning of the year	**4,825,397**	2,908,165
Provision for the year	**2,605**	1,925,093
Reversal for the year	**(90,639)**	(7,861)
	(88,034)	1,917,232
Balance at end of the year	**4,737,363**	4,825,397
10. NET INVESTMENT IN FINANCE LEASES		
Net investment in finance leases	**459,876,523**	481,606,260
Current portion shown under current assets	**(361,096,702)**	(399,023,781)
	98,779,821	82,582,479

Notes to the Financial Statements

For the year ended 31, December 2013

10.1 Net investment in finance leases

		2013			2012		
		Not later than one year	**Later than one year and less than five years**	**Total**	Not later than one year	Later than one year and less than five years	Total
				(Rupees)			
Minimum lease payments		**372,553,627**	**50,912,406**	**423,466,033**	404,827,591	39,881,232	444,708,823
Add: Residual value of leased assets	10.1.1	**216,900,049**	**56,649,944**	**273,549,993**	217,626,238	55,798,107	273,424,345
Gross investment in leases		**589,453,676**	**107,562,350**	**697,016,026**	622,453,829	95,679,339	718,133,168
Unearned lease income		**(13,355,593)**	**(8,782,529)**	**(22,138,122)**	(3,943,874)	(13,096,860)	(17,040,734)
Mark-up held in suspense		**(57,717,015)**	**-**	**(57,717,015)**	(61,336,264)	-	(61,336,264)
		(71,072,608)	**(8,782,529)**	**(79,855,137)**	(65,280,138)	(13,096,860)	(78,376,998)
		518,381,068	**98,779,821**	**617,160,889**	557,173,691	82,582,479	639,756,170
Provision for potential lease losses	10.1.2	**(157,284,366)**	**-**	**(157,284,366)**	(158,149,910)	-	(158,149,910)
Net investment in finance leases		**361,096,702**	**98,779,821**	**459,876,523**	399,023,781	82,582,479	481,606,260

The Internal Rate of Return (IRR) on lease contract receivable ranges from 9.5% to 24% per annum (2012: 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. 240.233 million (2012: Rs. 272.12 million).

		2013 Rupees	2012 Rupees
10.1.2 Provision for potential lease losses			
Balance at beginning of the year		**158,149,910**	146,701,089
Provision for the year		**5,699,706**	19,539,824
Reversals for the year		**(6,565,250)**	(8,091,003)
		(865,544)	11,448,821
Balance at end of the year		**157,284,366**	158,149,910
11. LONG TERM DEPOSITS AND PREPAYMENTS			
Security deposits against assets acquired under lease arrangements		**441,500**	513,800
Other deposits		**785,222**	785,222
Prepayments		**333,333**	-
		1,560,055	1,299,022
12. FIXED ASSETS			
Property and equipment	12.1	**14,160,058**	20,763,141
Intangible assets	12.2	**46,081**	40,940
		14,206,139	20,804,081

12.1 Property and Equipment

	2013							
	COST			ACCUMULATED DEPRECIATION			Net book value as at 31 December 2013	Depreciation rate % per annum
	As at 1 January 2013	Additions / (Disposals)	As at 31 December 2013	As at 1 January 2013	For the year/ (on disposals)	As at 31 December 2013		
	(Rupees)							
Owned								
Office premises	22,064,190	- (7,000,000)	15,064,190	4,162,382	1,074,039 (1,108,338)	4,128,083	10,936,107	5
Building improvements	702,734	- -	702,734	697,969	3,166 -	701,135	1,599	33.33
Furniture and fixtures	1,682,416	- -	1,682,416	1,556,799	40,676 -	1,597,475	84,941	20
Office equipment and others	1,011,487	8,825 -	1,020,312	904,406	33,462 -	937,868	82,444	15
Computers	1,281,926	61,659 -	1,343,585	1,247,670	18,939 -	1,266,609	76,976	33.33
Vehicles	3,293,890	43,500 (994,000) 1,680,755 *	4,024,145	3,291,701	3,640 (751,593) 1,146,449 *	3,690,197	333,948	20
	30,036,643	113,984 (7,994,000) 1,680,755	23,837,382	11,860,927	1,173,922 (1,859,931) 1,146,449	12,321,367	11,516,015	
Leased								
Vehicles	4,026,755	1,732,500 (698,000) (1,680,755) *	3,380,500	1,439,330	769,309 (325,733) (1,146,449) *	736,457	2,644,043	20
	34,063,398	1,846,484 (8,692,000)	27,217,882	13,300,257	1,943,231	13,057,824 (2,185,664)	14,160,058	

* Represents assets transferred from leased asset to owned assets

Notes to the Financial Statements
For the year ended 31, December 2013

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 2013

12.1.2 Particulars of disposal of Fixed Assets

Particulars	Cost	WDV	Sale proceeds	Gain on disposal	Mode of	Particulars of buyers
	---- (Rupees) ----					
Office Premises	7,000,000	5,891,662	7,500,000	1,608,338	Tender	Mrs. Fouzia Nadeem
Owned Vehicles						
Suzuki Liana	994,000	242,407	285,600	43,193	Terms of employment	Employee- Mr Tanveer ul Bari
Leased Vehicles						
Suzuki Alto	698,000	372,267	406,800	34,533	Terms of employment	Employee - Mr Hamid M. Khan
	8,692,000	6,506,336	8,192,400	1,686,064		

12.2 Intangible Assets

2013

	COST			ACCUMULATED AMORTISATION			Net book value as at 31 December 2013	Amortisation rate % per annum
	As at 1 January 2013	Additions / (Disposals)	As at 31 December 2013	As at 1 January 2013	For the year	As at 31 December 2013		
	----(Rupees)----							
Software licenses and licenses	762,630	24,200	786,830	721,690	19,059	740,749	46,081	33.33

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

Notes to the Financial Statements

For the year ended 31, December 2013

	Note	2013 Rupees	2012 Rupees
13. ACCRUED AND OTHER LIABILITIES			
Accrued liabilities		675,905	966,336
Rentals received in advance		1,503,900	242,998
Payable on maturity of leases		599,726	412,040
Insurance payable		3,194,674	4,252,371
Payable to SME Bank Limited - holding company	13.1	228,842	20,872
Unclaimed dividend		20,629	20,629
Payable to Staff Provident Fund		3,488	7,650
Others		612,914	916,207
		6,840,078	6,839,103

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

14. ACCRUED MARK-UP ON BORROWINGS

		2013 Rupees	2012 Rupees
Interest accrued on :			
- Long term finances		375,900	314,301
- Short term borrowings		265,757	941,025
- Certificates of investment		3,217	449,118
		644,874	1,704,444

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

		2013 Rupees	2012 Rupees
- Long term finance		-	89,118
- Short term borrowings		265,757	941,025
		265,757	1,030,143

15. SHORT TERM BORROWING

The Company has a running finance facility available from the holding company amounting to Rs. 90 million (2012: Rs. 150 million) at mark-up rates ranging between 13.49% to 15.42% (2012: 16.46% to 17.38%) 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.

16. CERTIFICATES OF INVESTMENT

		2013 Rupees	2012 Rupees
Certificates of Investment		200,000	8,312,646
Short term Certificates of Investment		(200,000)	(8,112,646)
		-	200,000

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 2014 to December 2014 and carries return at the rate ranging from 11.5% to 14% (2012: 11.5% to 14%) per annum.

17. CURRENT MATURITY OF NON-CURRENT LIABILITES

	Note	2013 Rupees	2012 Rupees
Long term finances	18	3,057,259	10,980,525
Liabilities against assets subject to finance lease	19	1,030,501	946,328
Lease key deposits	10.1	216,900,049	217,626,238
		220,987,809	229,553,091

Notes to the Financial Statements

For the year ended 31, December 2013

18. LONG TERM FINANCES - secured

	Note	2012 Rupees	2011 Rupees
- SME Bank Limited		-	2,379,780
- Other financial institutions	18.1	3,780,839	12,141,276
		3,780,839	14,521,056
Current maturity			
- SME Bank Limited		-	(2,379,780)
- Other financial institutions	18.1	(3,057,259)	(8,600,745)
		(3,057,259)	(10,980,525)
		723,580	3,540,531

18.1 Long term loans - other financial institutions (secured)

Name of lending institution	Rate	Note	2013 Rupees	2012 Rupees
United Bank Limited	3 months KIBOR plus 1.5%		-	6,250,000
Energy Conservative Fund (Enercon)	5%	18.1.1	3,780,839	5,891,276
			3,780,839	12,141,276
Current maturity			(3,057,259)	(8,600,745)
			723,580	3,540,531

18.1.1 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.

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2013			2012		
	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	1,256,742	226,241	1,030,501	1,184,595	238,267	946,328
Payable later than one year but not later than five years	1,527,363	122,872	1,404,491	1,186,473	77,448	1,109,025
	2,784,105	349,113	2,434,992	2,371,068	315,715	2,055,353

Notes to the Financial Statements

For the year ended 31, December 2013

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 14.39% to 23% per annum (2012: 21.57% to 23% per annum). These finance lease arrangements will mature in the year 2014 to 2016. 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. Number of employees covered under the scheme are 18 (2012: 20).

Principal actuarial assumptions

The latest actuarial valuation of the gratuity scheme was carried out on 31 December 2013 by Nauman Associates using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme :

	2013 Rupees	2012 Rupees
Valuation Discount rate	**13.00%**	12.00%
Expected long term rate of increase in salary level	**13.00%**	12.00%
Demographic assumptions		
Mortality rate	**SLIC (2001- 2005)**	LIC (1975-1979)
Employee turnover rate	**Moderate**	Moderate

	2013 Rupees	2012 Rupees
20.1 Liability in balance sheet		
Present value of defined benefit obligation	**3,674,069**	3,365,393
20.2 Movement in liability during the year		
Opening balance	**3,365,393**	4,409,285
Charged to profit and loss account	**895,250**	1,226,569
Remeasurements chargeable in other comprehensive income	**513,101**	144,997
Benefits paid during the year	**(1,099,675)**	(2,415,458)
Closing balance	**3,674,069**	3,365,393
20.3 Reconciliation of the present value of defined benefit obligations		
Present value of obligations as at 1 January	**3,365,393**	4,409,285
Current service cost	**491,403**	642,037
Interest cost	**403,847**	584,532
Benefits paid during the year	**(1,099,675)**	(2,415,458)
Remeasurements loss/(gain) chargeable in other comprehensive income	**513,101**	144,997
Present value of obligations as at 31 December	**3,674,069**	3,365,393
20.4 Charge for the year		
Current services cost	**491,403**	642,037
Interest cost	**403,847**	584,532
	895,250	1,226,569

Notes to the Financial Statements

For the year ended 31, December 2013

		2013 Rupees	2012 Rupees
20.5	**Re-measurements recognised in other comprehensive income**		
	Actuarial losses / (gains) on obligation		
	Experience adjustment	**(513,101)**	(144,997)
	Total re-measurements recognised in other comprehensive income	**(513,101)**	(144,997)

20.6 Expected accrual of expenses in respect of defined benefit scheme in the next financial year on the advice of the actuary is Rs. 1.100 million.

20.7 Sensitivity analysis

Sensitivity analysis has been performed by varying one assumption keeping all other assumptions constant and calculating the impact on the present value of the defined benefit obligations under the employee benefit schemes. The increase / (decrease) in the present value of defined benefit obligations as a result of change in each assumption is summarized below:

	Rupees	Rate effect
Discount rate effect		
Original liability	**3,674,069**	13%
1% increase	**3,302,074**	14%
1% Decrease	**4,112,512**	12%
Salary increase rate effect		
Original liability	**3,674,069**	13%
1% increase	**4,108,338**	14%
1% Decrease	**3,299,015**	12%

The sensitivity analysis prepared presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

20.8 Maturity profile

	2013	2012
The weighted average duration of the obligation (in years)	**11**	12

21 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2013 (Number of shares)	2012 (Number of shares)		2013 Rupees	2012 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

Notes to the Financial Statements

For the year ended 31, December 2013

21.1 At 31 December 2013 SME Bank Limited (holding company) and its nominees hold 73.14% (2012: 73.14%) number of ordinary shares of Rs. 10 each.

22. COMMITMENTS

	Note	2013 Rupees	2012 Rupees
Lease disbursements	22.1	**13,000,000**	-

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

23. INCOME FROM LEASING OPERATIONS

	Note	2013 Rupees	2012 Rupees
Leases			
Income from finance lease operations		**20,573,150**	34,333,890
Gain on termination of leases		**109,709**	164,954
		20,682,859	34,498,844
Income on long term finances and loans to customers		**5,521,634**	10,407,201
		26,204,493	44,906,045

24. PROFIT ON BANK ACCOUNTS / RETURN ON INVESTMENTS

	Note	2013 Rupees	2012 Rupees
Mark-up on government securities		**178,010**	272,939
Profit on bank accounts		**245,611**	194,365
		423,621	467,304

25. OTHER INCOME

	Note	2013 Rupees	2012 Rupees
Income from financial assets			
Mark-up on loans to employees		**77,735**	88,888
Other Income		**-**	426
		77,735	89,314
Income from non-financial assets			
Gain / (loss) on disposal of fixed assets	12.1.2	**1,686,064**	363,976
		1,763,799	453,290

26. ADMINISTRATIVE & OPERATING EXPENSES

	Note	2013 Rupees	2012 Rupees
Salaries, allowances and other benefits	26.1 & 26.2	**15,032,173**	21,010,354
Directors' fee	26.3	**290,000**	260,000
Rent		**2,253,129**	4,678,056
Electricity, gas and water		**705,167**	621,777
Telephone and postage		**906,580**	1,007,284
Repairs and maintenance		**459,977**	1,439,008
Books and periodicals		**29,341**	27,013
Fees and subscriptions		**34,384**	35,291
Vehicle running		**298,999**	219,852
Advertising		**49,800**	41,520
Training and development		**29,000**	8,300
Travelling, conveyance and entertainment		**1,372,706**	1,792,390
Printing and stationery		**760,646**	760,787
Auditors' remuneration	26.4	**516,900**	478,902
Depreciation and amortisation	12	**1,962,290**	2,349,262
Legal and professional		**3,020,404**	4,175,940
Insurance		**1,029,514**	908,919
Miscellaneous		**665,355**	740,472
		29,416,365	40,555,127

Notes to the Financial Statements

For the year ended 31, December 2013

26.1 Salaries allowances and other benefits include Rs. 0.895 million (2012: Rs.1.226 million) in respect of staff gratuity scheme and Rs. 0.327 million (2012: Rs. 0.399 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. 0.108 million (2012: Rs. 0.461 million)

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:

	2013		2012	
	Chief Executive	**Executives**	Chief Executive	Executives
	(Rupees)			
Managerial remuneration	**617,645**	**1,621,608**	1,472,911	2,523,903
Housing and utilities	**339,707**	**717,018**	762,647	1,390,182
Provident fund	**-**	**133,260**	-	193,817
Medical and other perquisites	**92,649**	**169,158**	279,119	379,146
Gratuity	**-**	**168,754**	794,120	276,548
Leave encashment	**-**	**205,850**	87,500	175,350
Others	**-**	**38,616**	-	91,302
	1,050,001	**3,054,264**	3,396,297	5,030,248
Number of persons	**1**	**4**	2	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

	2013 Rupees	2012 Rupees
Annual audit	**250,000**	250,000
Half yearly review	**100,000**	100,000
Other certifications	**50,000**	50,000
Out of pocket expenses	**116,900**	78,902
	516,900	478,902

27. FINANCE COST

	2013 Rupees	2012 Rupees
Mark-up on:		
- Long term finance	**283,475**	3,078,161
- Short term borrowings	**6,037,655**	15,883,087
- Certificates of investment	**533,876**	968,961
	6,855,006	19,930,209
Lease finance charges	**267,411**	473,984
Bank charges	**240,058**	359,790
	7,362,475	20,763,983

Notes to the Financial Statements

For the year ended 31, December 2013

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

	2013 Rupees	2012 Rupees
Long term finance	**17,494**	585,064
Short term borrowings	**6,037,655**	15,883,087
	6,055,149	16,468,151

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, the Honourale High Court has declared the selection of case as null and void, hence the return stands accepted as deemed assessment order under section 120 of Income tax Ordinance, 2001.

	2013 Rupees	2012 Rupees
28.3 Deferred tax liabilities / (assets) - net		
Deductible temporary differences		
Carried forward losses	**(89,211,679)**	(95,520,568)
Provisions against potential lease losses & long term finances and loans	**(56,478,441)**	(57,041,357)
Liabilities against gratuity expense	**(1,285,924)**	(1,022,076)
	(146,976,044)	(153,584,001)
Taxable temporary differences		
Net investment in lease	**15,732,722**	32,665,695
Liabilities against assets subject to finance lease	**73,167**	186,224
Accelerated tax depreciation on fixed assets	**2,185,542**	3,536,179
	17,991,431	36,388,098
	(128,984,613)	(117,195,903)

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. 128.984 million (2012: Rs. 117.195 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

	2013 Rupees	2012 Rupees
Loss after taxation attributable to ordinary shareholders	**(7,717,268)**	(29,087,657)
	(Number of shares)	
Weighted average number of outstanding ordinary shares	**32,000,000**	32,000,000
	(Rupees)	
Loss per share - basic and diluted	**(0.24)**	(0.91)

Notes to the Financial Statements

For the year ended 31, December 2013

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:

	2013		2012	
	Key management personnel	**SME Bank Limited (Holding Company)**	Key management personnel	SME Bank Limited (Holding Company)
Borrowings				
Balance as at 1 January	**-**	**58,138,470**	-	115,524,439
Repayments during the year-net	**-**	**(20,604,350)**	-	(57,385,969)
Balance as at year end	**-**	**37,534,120**	-	58,138,470
Loans and advances				
Balance as at 1 January	**190,000**	**-**	242,499	-
Advances given during the year	**228,000**	**-**	568,287	-
Repayments during the year	**(418,000)**	**-**	(620,786)	-
Balance as at year end	**-**	**-**	190,000	-

	2013 Rupees	2012 Rupees
Balances		
(Payable) / receivable from Staff Provident Fund	**(3,488)**	(7,650)
Transactions during the year		
Mark-up expense against borrowings from holding company	**6,055,149**	16,468,151
Disposal of Motor Vehicle to the Chief Financial Officer - Sales proceeds	**285,600**	167,500
Total rentals received during the year	**-**	28,490
Rent expense	**514,876**	460,464
Key management remuneration	**1,848,000**	5,150,810
Post retirement benefits	**76,000**	936,406
Staff Provident Fund - Company's contribution	**36,480**	120,687

31. PROVIDENT FUND

	2013 (Unaudited) Rupees	2012 (Audited) Rupees
Size of the fund (Net Assets)	**4,075,086**	4,188,802
Cost of investments made	**3,687,548**	3,914,333
Percentage of investments made	**90.49%**	93.45%
Fair value of investments	**4,025,010**	4,337,548

All the investments of the Provident fund are kept in mutual funds.

Investments out of provident fund have been made in accordance with the provisions of the section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

Notes to the Financial Statements

For the year ended 31, December 2013

32. CASH AND CASH EQUIVALENTS

	Note	2013 Rupees	2012 Rupees
Cash and bank balances	4	**6,033,050**	7,191,492
Short term borrowings	15	**(37,534,120)**	(55,758,690)
		(31,501,070)	(48,567,198)

33. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

- credit risk
- liquidity risk
- market risk

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

33.1 Risk management framework

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

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

33.2 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.

33.2.1 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.

33.2.2 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 2013 is as follows:

Notes to the Financial Statements

For the year ended 31, December 2013

	2013		2012	
	Balance sheet	Maximum exposure	Balance sheet	Maximum exposure
	(Rupees)			
Bank balances	6,033,050	5,979,471	7,191,492	7,137,783
Investments	3,987,699	1,987,699	3,809,433	1,309,433
Advances	1,282,930	1,282,930	1,469,279	1,469,279
Accrued interest on working capital loans	132,771	132,771	557,555	557,555
Net investment in finance lease	459,876,523	459,876,523	481,606,260	481,606,260
Long term finances and loans	52,877,285	52,877,285	68,600,247	68,600,247
Short term and long term deposits	3,688,235	1,436,122	3,015,991	1,431,222
	527,878,493	523,572,801	566,250,257	562,111,779

33.2.3 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	2013	2012
A1+	71.65%	17.24%
AA+	-	-
AA	-	48.07%
BBB	-	-
A-3	28.30%	34.44%
Others	0.05%	0.25%
	100%	100%

33.2.4 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 2013 against them are as follows:

	Net Exposure	Lower of collateral and gross exposure
Lease Finance		
- Regular	160,571,246	160,571,246
- Non Performing net of provision	299,305,277	299,305,277
	459,876,523	459,876,523
Working Capital Finance		
- Regular	17,591,931	17,591,931
- Non Performing net of provision	33,778,389	33,778,389
	51,370,320	51,370,320

Notes to the Financial Statements

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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.

33.2.5 Impairment losses and past due balances

	2013			
	Total	**Loans and receivables**	**Net investment in finance lease**	**Impairment recognised**
	----(Rupees)----			
Not past due	**141,308,058**	**13,376,826**	**127,931,232**	**-**
1 - 89 days	**34,114,574**	**2,866,350**	**31,248,224**	**-**
90 days-1 year	**14,426,500**	**3,049,102**	**11,377,398**	**-**
More than 1 year	**321,397,711**	**36,815,405**	**446,604,035**	**(162,021,729)**
	511,246,843	**56,107,683**	**617,160,889**	**(162,021,729)**

	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)

33.2.6 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.

Notes to the Financial Statements

For the year ended 31, December 2013

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

	2013		2012	
	Rupees	**Percentage**	Rupees	Percentage
Cargo carriers	**48,935,942**	**6.40**	59,733,974	7.40
Chemicals	**30,978,112**	**4.05**	16,370,248	2.03
Communication	**7,573,931**	**0.99**	8,614,842	1.07
Construction and building products	**31,361,502**	**4.10**	46,464,618	5.76
Education	**13,576,316**	**1.78**	18,041,337	2.24
Engineering	**13,591,605**	**1.78**	15,333,745	1.90
Entertainment	**33,444,874**	**4.37**	34,538,263	4.28
Film processing	**72,298,273**	**9.45**	79,658,060	9.87
Fisheries	**1,285,857**	**0.17**	1,285,857	0.16
Food and beverages	**53,067,164**	**6.94**	57,758,823	7.16
Furniture	**551,872**	**0.07**	551,872	0.07
Gems and jewellery	**2,202,865**	**0.29**	2,202,865	0.27
Health care	**36,008,823**	**4.71**	25,410,226	3.15
Leather and tannery	**134,425**	**0.02**	134,425	0.02
Miscellaneous	**63,523,739**	**8.31**	80,902,559	10.03
Oil and gas	**34,369,515**	**4.49**	52,504,213	6.51
Printing and packaging	**80,165,138**	**10.48**	98,691,952	12.23
Public transport services	**120,354,898**	**15.74**	125,187,196	15.51
Rubber and plastic	**30,310,156**	**3.96**	18,304,758	2.27
Textile and garment	**91,083,662**	**11.91**	65,192,158	8.08
	764,818,669	**100**	806,881,991	100

33.3 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.

33.3.1 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.

33.3.2 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).

Notes to the Financial Statements

For the year ended 31, December 2013

	2013			
	Total	**Contractual cash flow**	**Upto one year**	**More than one year**
	---------- (Rupees) ----------			
Liabilities				
Accrued and other liabilities	**6,840,078**	**6,840,078**	**6,840,078**	**-**
Short term borrowings	**37,534,120**	**37,799,877**	**37,799,877**	**-**
Certificates of investment - unsecured	**200,000**	**203,217**	**203,217**	**-**
Long term finances - secured	**6,215,831**	**6,591,731**	**3,433,159**	**3,158,572**
Long term deposits	**273,549,993**	**273,549,993**	**216,900,049**	**56,649,944**
Liabilities against asset subject to finance lease	**2,434,992**	**2,784,105**	**1,256,742**	**1,527,363**
	326,775,014	**327,769,001**	**266,433,122**	**61,335,879**

	2012			
	Total	Contractual cash flow	Upto one year	More than one year
	---------- (Rupees) ----------			
Liabilities				
Trade and other payables	6,839,103	6,839,103	6,839,103	-
Short term borrowings	55,758,690	56,699,715	56,699,715	-
Certificates of investment -	8,312,464	8,766,764	8,566,764	200,000
unsecured	16,576,409	16,890,710	11,294,826	5,595,884
Long term finances - secured	273,424,345	273,424,345	217,626,238	55,798,107
Long term deposits				
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

33.4 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.

33.4.1 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.

Notes to the Financial Statements

For the year ended 31, December 2013

33.4.2 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	
	2013 (Rupees)	2012 (Rupees)
Fixed rate instruments		
Financial assets		
Investments	**2,000,000**	2,500,000
Financial liabilities		
Certificates of investments	**200,000**	8,312,646
Long term finance	**3,780,839**	5,891,376
	3,980,839	14,204,022
Variable rate instruments		
Financial assets		
Bank balances	**2,578,803**	3,414,744
Net investments in finance lease	**459,876,523**	481,606,260
Long term finance and loans	**52,877,285**	68,600,247
	515,332,611	553,621,251
Financial liabilities		
Short term borrowings	**37,534,120**	55,758,690
Long term finance	**-**	8,629,680
Liabilities against assets subject to finance lease	**2,434,992**	2,055,353
	39,969,112	66,443,723

33.4.3 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.

33.4.4 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. 4.760 million (2012: Rs.4.872 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 2012.

The sensitivity analysis prepared as of 31 December 2013 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.

33.4.5 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 2013

	2013				
	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	**2,578,803**	**2,578,803**	**-**	**-**
Investments	12-13	**2,000,000**	**2,000,000**	**-**	**-**
Long term finances and loans	13.5- 25.44	**52,877,285**	**36,492,838**	**9,874,038**	**6,510,409**
Net investment in finance lease	9.5 - 25.11	**459,876,523**	**296,160,077**	**64,936,625**	**98,779,821**
Total financial assets as on 31 December 2013		**517,332,611**	**337,231,718**	**74,810,663**	**105,290,230**
Financial liabilities					
Short term borrowings	13.49 - 15.42	**37,534,120**	**-**	**37,534,120**	**-**
Certificates of investment	9.5 -14	**200,000**	**-**	**200,000**	**-**
Long term finances	5 - 12.18	**3,780,839**	**1,222,904**	**1,834,355**	**723,580**
Liabilities against asset subject to finance lease	21.53 - 23	**2,434,992**	**222,741**	**807,760**	**1,404,491**
Total financial liabilities as on 31 December 2012		**43,949,951**	**1,445,645**	**40,376,235**	**2,128,071**
On balance sheet gap		**473,382,660**	**335,786,073**	**34,434,428**	**103,162,159**
Total interest rate sensitivity gap		**473,382,660**	**335,786,073**	**370,220,501**	**473,382,660**

	2012				
	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	3,414,744	3,414,744	-	-
Investments	11.6 - 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 2011		556,121,251	396,674,783	67,194,902	92,251,566
Financial liabilities					
Short term borrowings	15.50 - 16.57	55,758,690	-	55,758,690	-
Certificate of investment	11.5 - 14	8,312,646	1,400,000	6,712,646	200,000
Long term finances	5 - 14.98	14,521,056	9,195,693	1,784,832	3,540,531
Liabilities against asset subject to finance lease	21 - 23	2,055,353	191,174	755,154	1,109,025
Total financial liabilities as on 31 December 2011		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

Notes to the Financial Statements

For the year ended 31, December 2013

33.5 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.

A change in one percent increase / decrease in the price of such certificates as on 31 December 2013, with all other variables held constant, the equity of the Company for the year would have been higher / lower by Rs. 19,877 (2012: Rs. 13,094).

34. CAPITAL RISK MANAGEMENT

34.1 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. The Company is required to maintain a minimum equity of Rs 700 million by NBFC Regulations, 2008. Currently the Company is short of equity as mentioned in note 1.2 to these financial statements.

34.2 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:

	2013 Rupees	2012 Rupees
Total debt	**3,980,839**	22,833,702
Total equity	**199,526,004**	208,201,549
Total capital employed	**203,506,843**	231,035,251
Gearing ratio	**1.96%**	9.88%

34.3 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.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31, December 2013

31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale investments				
Government Securities - Special saving certificates	**-**	**2,000,000**	**-**	**2,000,000**
Units of Close end Mutual Fund	**1,987,699**	**-**	**-**	**1,987,699**
	1,987,699	**2,000,000**	**-**	**3,987,699**

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 / Certificates of Mutual Fund	1,309,433	-	-	1,309,433
	1,309,433	2,500,000	-	3,809,433

36. 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.

	2013				
	Finance lease	**Loans and receivables**	**Investment**	**Others**	**Total**
	(Rupees)				
Segment revenue	**20,682,859**	**5,521,634**	**178,010**	**2,009,410**	**28,391,913**
Segment profit	**21,548,403**	**5,609,668**	**178,010**	**2,009,410**	**29,345,491**
Segment result					**29,345,491**
Unallocated cost					
Finance cost					**7,362,475**
Administrative and operating expenses					**29,416,365**
					36,778,840
Loss before tax					**(7,433,349)**
Taxation					**(283,919)**
Loss after tax					**(7,717,268)**
Other information					
Segment assets	**459,876,523**	**51,370,320**	**4,223,611**	**-**	**515,470,454**
Unallocated assets				**26,614,178**	**26,614,178**
Total assets					**542,084,632**
Segment liabilities	**278,848,293**	**-**	**-**	**-**	**278,848,293**
Unallocated liabilities				**62,902,636**	**62,902,636**
Total liabilities					**341,750,929**
Net assets					**200,333,703**
Capital expenditure	**-**	**-**	**-**	**138,184**	**138,184**

Notes to the Financial Statements

For the year ended 31, December 2013

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

36.2 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.

	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

37. NUMBER OF EMPLOYEES

The number of employees as on the year end were 40 and average number of employees during the year were 37.

38. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on March 04, 2014 by the Board of Directors of the Company.

Ali A. Rahim
Director

Naveed Amin
Chief Executive Officer

Pattern of Shareholding

As at December 31, 2013

Shareholding From		To	No of Shareholders	Total Shares Held	Percentage %
1	-	100	15	243	0.00%
101	-	500	193	96,387	0.30%
501	-	1,000	38	37,325	0.12%
1,001	-	5,000	41	117,492	0.37%
5,001	-	10,000	3	26,999	0.08%
10,001	-	100,000	11	369,525	1.15%
100,001	-	1,000,000	8	4,064,854	12.70%
1,000,001	-	2,000,000	3	3,881,977	12.13%
23,000,001	-	24,000,000	1	23,405,198	73.14%
			313	**32,000,000**	**100%**

Categories of Shareholders

As at December 31, 2013

Category No.	Categories of	Numbers of Share Held	Category wise No.of Shareholders	Category wise Share Held	Percentage %
1	Individuals		283	847,072	2.65%
2	Joint Stock Companies		9	1,373,035	4.29%
3	B1anks		4	26,836,525	83.86%
4	Public Sector Companies and Corporations		1	1,353,525	4.23%
5	Leasing Companies / Modarabas and Mutual Funds		3	1,111,836	3.47%
6	Pakistan Kuwait Investment Co. (Pvt) Ltd.		1	225,000	0.70%
7	Insurance Companies		1	155,000	0.48%
8	Others		1	46,000	0.14%
9	Executives		3	52,000	0.16%
10	Directors, CEO, their spouses and minor Children		7	7	0.00%
	Mr. Ihsan-ul-Haq Khan	1			0%
	Mrs. Arjumand A. Qazi	1			0%
	Mr. Nasser Durrani	1			0%
	Mr. Mehboob Hussain	1			0%
	Mr. Zubair Farid Tufail	1			0%
	Mr. Masood Naqi	1			0%
	Mr. Ali A. Rahim	1			0%
	Total		**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 12th Annual General Meeting of the Company to be held on April 30, 2014 and at any adjournment thereof.

Signed this ____________________ (day) of ____________________ (date, month) 2014.

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