

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.
Phone No. 92-21-34322128-9 Fax: 92-21-34322082

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

Chowk Shahah Pura, City Bazar, Street No. 3, Shop No. 195,
Opposite Sahab Marriage Hall, Sialkot.
Phone: 052-3572136

PESHAWAR

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

Board of Directors

Mr. Ihsan ul Haq Khan ▶
Director



◀ **Ms. Mehnaz Kaludi**
Chairperson / Director

Board of Directors



➤ **Mr. Ali A. Rahim** ◀
Director



➤ **Mian Tahir Bashir** ◀
Director



➤ **Mr. Junaid Mohmand** ◀
Director



➤ **Mr. Ateeq ur Rehman** ◀
Director

Corporate Information

BOARD OF DIRECTORS

Ms. Mehnaz Kaludi - Chairperson
Mr. Ihsan ul Haq Khan
Mr. Ali A. Rahim
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. Ihsan ul Haq Khan
Mr. Junaid Mohmand Member

Corporate Information

COMPANY SECRETARY & CFO

Mr. Osama Iqbal

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 **Corptec Associates (Pvt.) Limited**

503-E, Johar Town, Lahore.

BANKS AND LENDING INSTITUTIONS

Allied Bank Limited
MCB Bank Limited
SME Bank Limited
Meezan Bank Limited

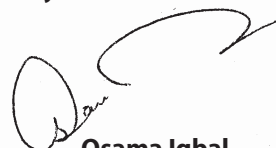
Notice of the 13th Annual General Meeting

Notice is hereby given that the Thirteenth Annual General Meeting of the shareholders of SME Leasing Limited (the Company) will be held at the Registered office of company, Islamabad on Friday April 24, 2015 at 11:00 am to transact the following business:

ORDINARY BUSINESS.

1. To confirm the minutes of the 12th Annual General Meeting of the Company held on April 30, 2014.
2. To receive, consider and adopt the audited Financial Statements of the Company for the year ended December 31, 2014 together with the Directors' and Auditors' Reports thereon.
3. To appoint auditors for the year ending December 31, 2015 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, 2015.
4. To transact any other business with the permission of the Chair.

By Order of the Board



Osama Iqbal
Company Secretary

Karachi: April 03, 2015

Notes:

1. The Register of the members of the Company will remain closed from April 17, 2015 to April 24, 2015 (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, 2014.

Operational Review

We are pleased to inform you that your company started working aggressively on fresh leasing business in 2014 as an immediate priority and also on the long outstanding non-performing loans (NPLs) and produced good results in the year.

The Board is pleased to inform you that your company has written leases of Rs. 256 million, almost in the first half of the year, as compared to Rs. 81.73 million in 2013. Your company is expecting a substantial growth in the coming year.

Despite a number of positive indicators, Pakistan economic conditions during the year remained full of uncertainties, mainly due to law and order situation, terrorism, energy as well as financial crises. The Leasing sector, since 2008 financial meltdown, has been facing severe difficulties due to Non-Performing Loans and non-availability of funds.

The company remained focused on exploring and recording new business and on recoveries from Non-Performing Loans (NPLs) to cause a growth in financing portfolio and booking of additional assets. This also contributed towards the reduced financial cost due to reduced bank borrowings. The company despite of economic and financial pressures continued its efforts to maintain positive impact on its balance sheet.

The Company's current gross revenue is Rs. 46.22 million as compared to Rs. 28.39 million in 2013 due to concentrating on new business opportunities at handsome profit margin; operating expenses increased to Rs. 54.48 million from Rs. 36.78 million as compared to the last year due to increased borrowing cost. During the year Rs. 23 million has been recovered from NPLs.

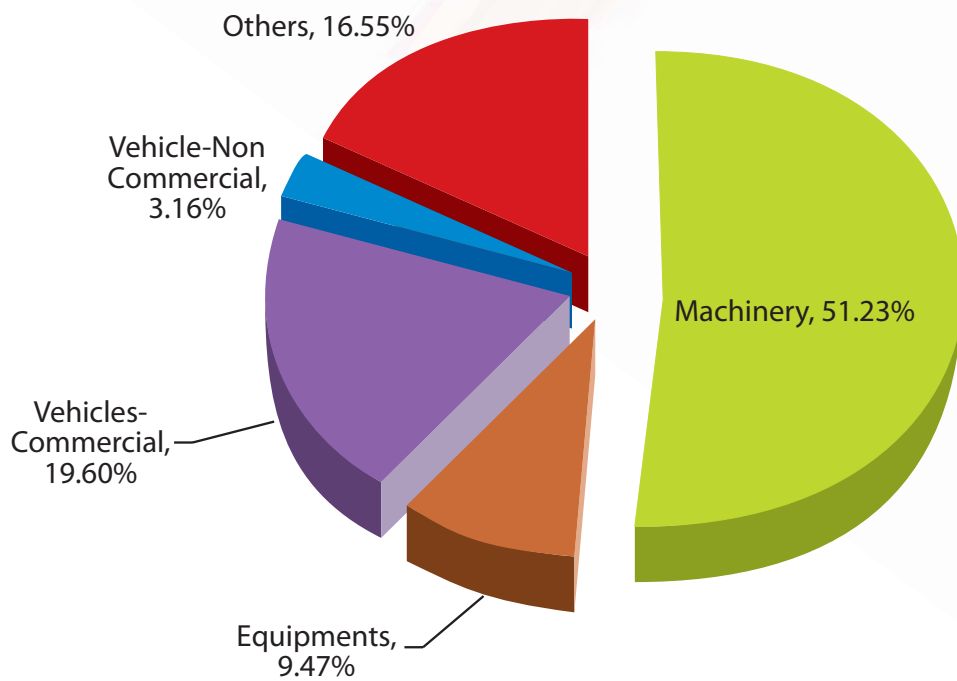
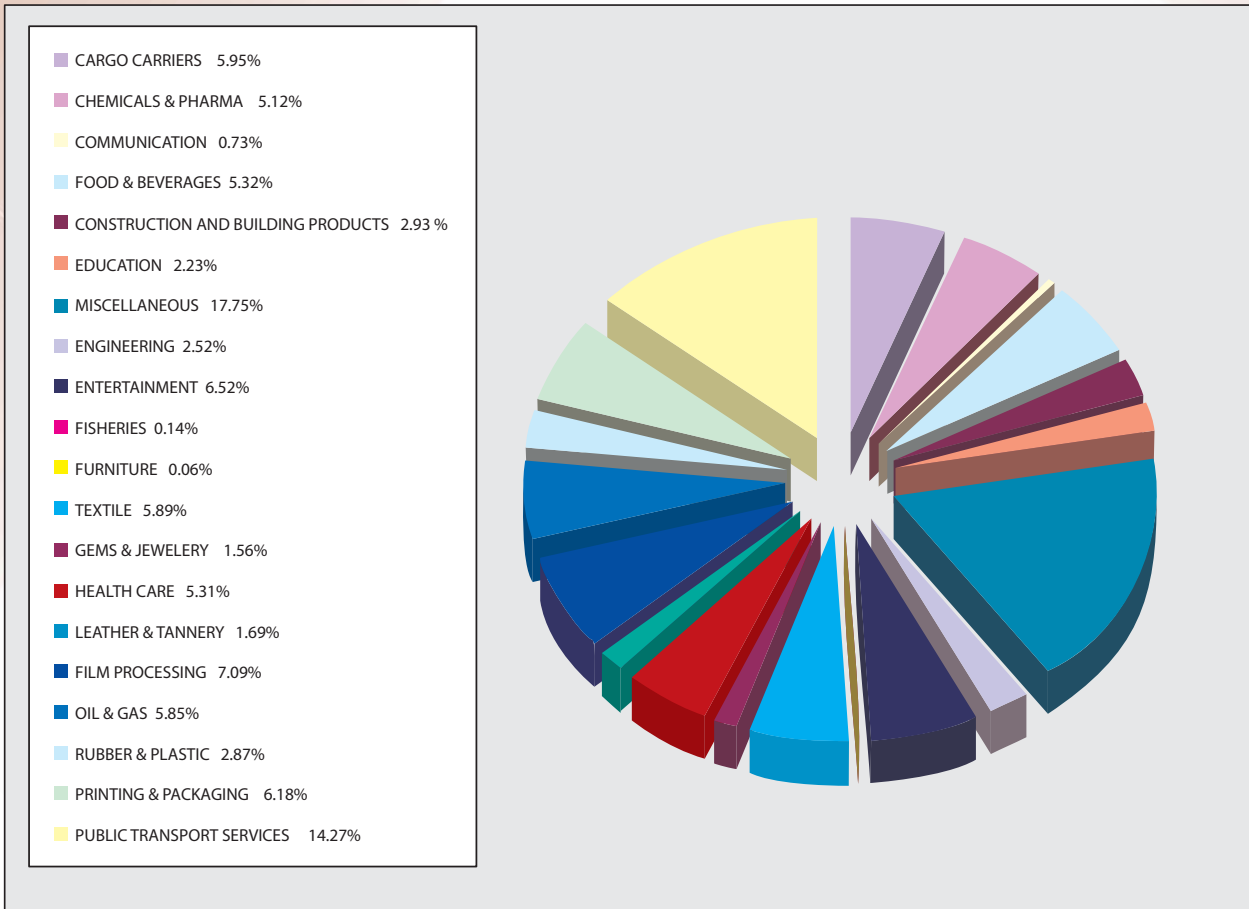
	2014 Rupees	2013 Rupees
Gross revenue	46,219,696	28,391,913
Operating Expenses	(54,480,558)	(36,778,840)
Profit/(Loss) before provisions	(8,260,862)	(8,386,927)
(Charge)/Reversal of provisions	(2,322,449)	953,578
(Loss) before taxation	(10,583,311)	(7,433,349)
Current Taxation:	(462,197)	(283,919)
(Loss) after taxation	(11,045,508)	(7,717,268)
(Loss) per share - basic and diluted	(0.35)	(0.24)

Dividend

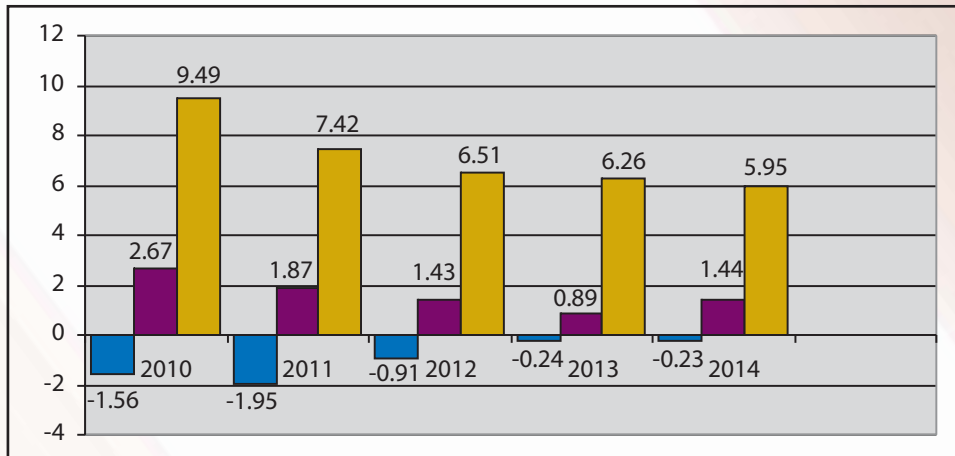
Due to the company having incurred a loss the Board has not recommended any dividend for the year under review.

Economic review

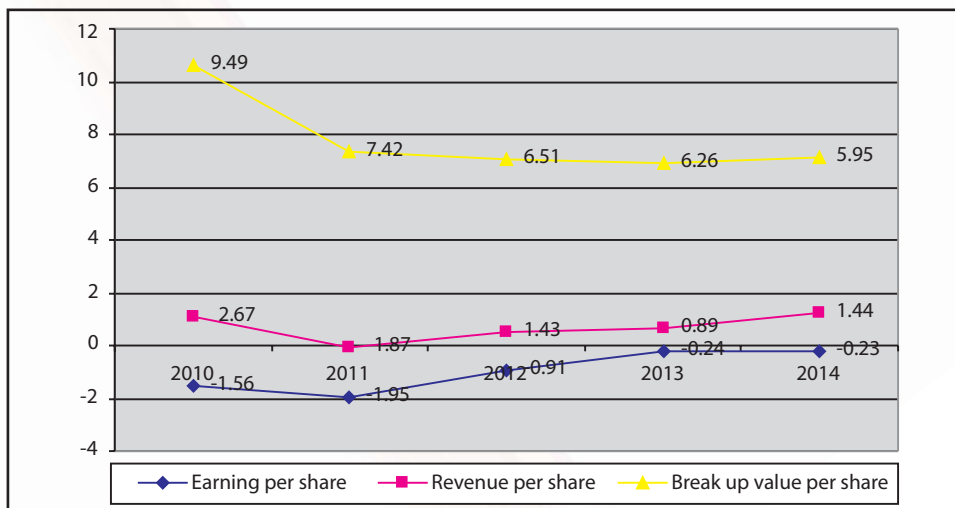
The year 2014 also remained suppressed for the business. The tough crisis over power, energy and finance, effected the growth of the economy. Lack of availability of financing not only shakes the confidence of the investor, but also affects the sustainability of the economy.



Key Ratios



Key Ratios



Further, commercial banks are still reluctant in taking exposure on the NBFIs sector; NBFIs 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. Prudential regulations of State Bank of Pakistan have restricted the single exposure to a related party. Therefore management is working on various funding options in consultation with the main sponsor, SME Bank Limited, to build new healthy assets in the coming year. Concerted efforts are being made for the recovery of non-performing leases and loans and finances and in this respect during the year Rs. 23.012 million has been recovered. Further, subsequent to the year ended 31 December 2014, Rs. 1.028 million has been recovered in respect of the non-performing Loans till the end of January 2015. Furthermore, the Company has recommenced leasing business on attractive markup rates.

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. Ihsan-ul-Haq Khan assumed the charge of Chairmanship of the Board of Directors of the Company on August 27, 2014 in place of Mr. Nasser Durrani by virtue of change in nomination from the sponsors, SME Bank Limited.

Mr Naveed Amin resigned from the office of Chief Executive Officer and directorship on November 20, 2014 and Mr. Masrur Zulfiqar, VP Head Marketing, was given additional charge to discharge duties of Chief Executive Officer.

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

Board of Directors Meetings

Director	Meetings attended	Director	Meetings attended
Mr Ihsan-ul-Haq Khan	3	Mian Tahir Bashir	5
Mr Nasser Durrani	2	Mr Naveed Amin*	5
Mr Ali A Rahim	5	Mr Ateeq Ur Rehman	5
Mr Junaid Mohmand	5	Ms Mehnaz Kaludi	3

* Mr Naveed Amin has resigned from the Board.

Audit Committee Meetings

Director	Meetings attended
Mr Ateeq Ur Rehman	4
Mr Ali A. Rahim	4
Mian Tahir Bashir	4

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

Corporate Governance - Public Sector Companies

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 for Public Sector Companies 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 Board of the company is fully cognizant of its responsibility as recognized by the Code of Corporate Governance, detailed in listing regulation and Public Sector Companies (Corporate Governance) Rules, 2013 issued by the Securities and Exchange Commission of Pakistan. Following are the comments on acknowledgement of SMEL's commitment towards high standards of corporate governance and continuous improvements:

- i) Compliance has been made with the relevant principles of corporate governance, and the rules that have not been complied with, have been identified along with the period in which such non-compliance is made, and reasons for such non-compliance.
- ii) The financial statements prepared by the management of SME Leasing Limited present fairly its statement of affairs, the results of its operations, cash flows, statement of comprehensive income and changes in its equity;
- iii) Proper books of accounts of the company have been maintained;
- iv) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- v) International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements;
- vi) The system of internal control is sound in design and has been effectively implemented and monitored;
- vi) The non-executive members of the Board do not have fixed remuneration and are being paid a fixed fee for each meeting attended. The said fees are decided upon by the entire Board of directors collectively.
- vii) 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;
- viii) There has been no material departure from the best practices of Corporate Governance as detailed in the listing regulations and Public Sector Code of Corporate Governance;
- 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, 2014, was Rs 4.44 million (un-audited) and as at December 31, 2013, was Rs 4.03 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, 2013, the rating agency, JCR-VIS, has maintained 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, 2015. 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 2015.

Pattern of Shareholding

The pattern of shareholding of the Company as on December 31, 2014, 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



Ms. Mehnaz Kaludi
Chairperson

Dated: March 04, 2015

Financial Highlights

(Rupees in 000)

Balance Sheet	2014	2013	2012	2011	2010	2009
Paid-up Capital	320,000	320,000	320,000	320,000	320,000	320,000
Total Equity	190,474	200,334	207,886	237,473	303,664	351,263
Gross Lease Receivable	777,084	697,016	718,133	914,494	1,065,118	1,649,953
Net Investment in Lease	519,173	459,877	481,606	662,865	843,012	1,402,780
Long-Term Liabilities	72,553	62,452	64,013	98,820	297,074	529,821
Current Liabilities	395,357	279,299	315,155	453,190	388,898	709,693
Current Assets	427,864	421,028	472,700	582,321	519,151	633,000
Total Assets	658,384	542,085	587,054	789,483	989,636	1,590,777

(Rupees in 000)

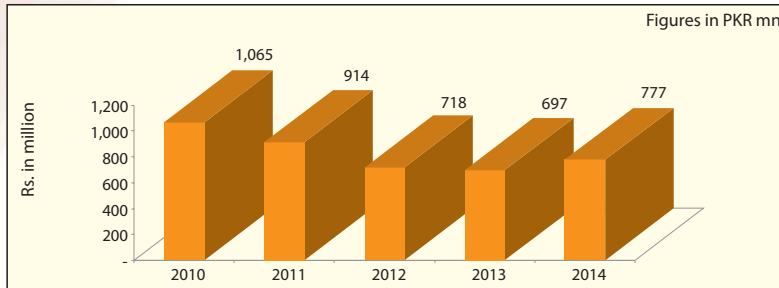
Income Statement	2014	2013	2012	2011	2010	2009
Lease Income	46,063	26,204	44,906	53,376	84,512	122,427
Total Revenue	46,220	28,392	45,827	59,718	85,591	119,197
Financial Charges	16,535	7,362	20,764	30,769	46,824	92,451
Administrative Expenses	37,945	29,416	40,555	47,249	44,709	47,631
Provisions	2,322	(954)	13,366	43,642	41,447	49,676
Total Expenses	56,803	35,825	74,685	126,661	132,979	189,758
(Loss) Before Taxation	(10,583)	(7,433)	(28,859)	(61,943)	(47,388)	(70,560)
(Loss) After Taxation	(11,046)	(7,717)	(29,088)	(62,540)	(49,786)	(69,748)

Financial Indicators	2014	2013	2012	2011	2010	2009
Breakup Value (Rs per share)	5.95	6.26	6.51	7.42	9.49	10.98
Current Ratio (X)	1.08	1.51	1.50	1.28	1.13	0.89
Earning Per Share (Rs.)	(0.23)	(0.24)	(0.91)	(1.95)	(1.56)	(2.18)
Financial Charges to Total Exps (%)	29.11	20.55	27.80	25.29	35.21	48.72
Financial Charges to Total Revenue (%)	35.78	25.93	45.31	51.52	54.71	77.56
Income Expense Ratio (Times)	0.81	0.73	0.60	0.49	0.64	0.65
Net Profit Margin (%)	(23.90)	(27.18)	(63.47)	(104.71)	-58.17	(58.51)
Return on Average Equity (%)	(5.55)	(3.78)	(13.05)	(23.11)	(15.20)	(18.31)
Return to Shareholders (%)	-	-	-	-	-	-
Revenue Per Share (Rs.)	1.44	0.89	1.43	1.87	2.67	3.72

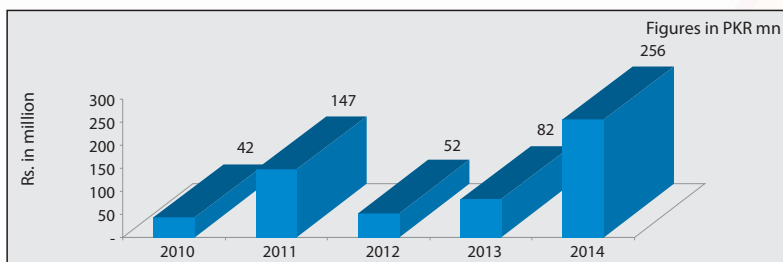
* bonus issue

Financial Highlights and Charts

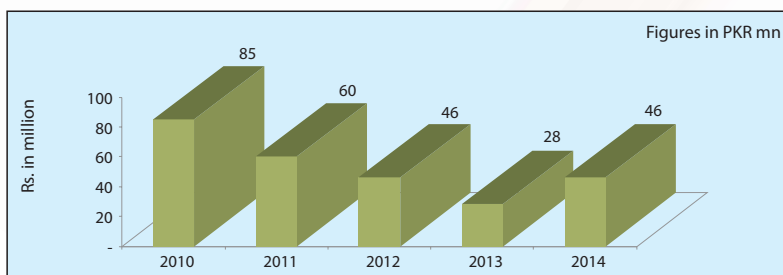
Gross Lease Receivables



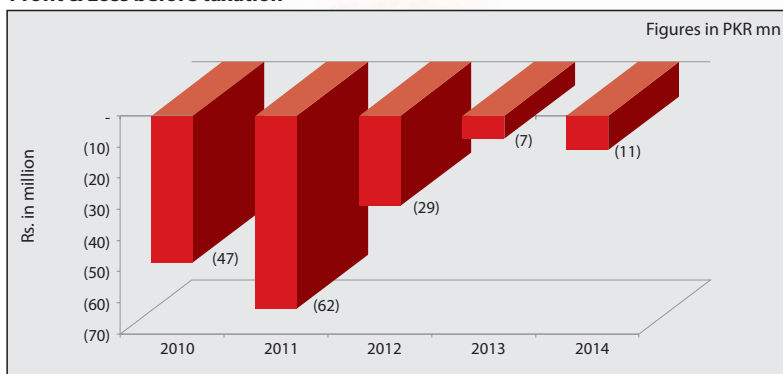
Disbursements



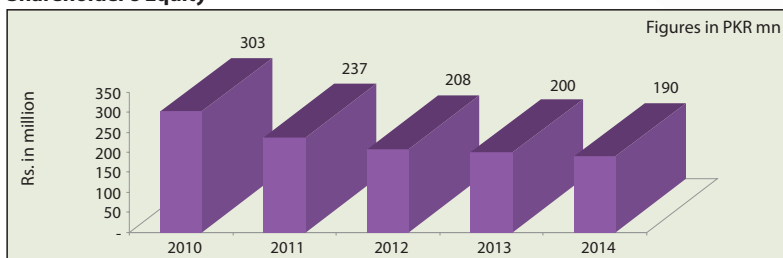
Total Revenue



Profit & Loss before taxation



Shareholder's Equity



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 Public Sector Companies (Corporate Governance) Rules, 2013

Name of company: **SME Leasing Limited**

Name of the line ministry: **Ministry of Finance**

For the year ended December 31, 2014

I. This statement is being presented to comply with the Public Sector Companies (Corporate Governance) Rules, 2013 (hereinafter called "the Rules") issued for the purpose of establishing a framework of good governance, whereby a public sector company is managed in compliance with the best practices of public sector governance.

II. The company has complied with the provisions of the Rules in the following manner:

S. No.	Provision of the Rules	Rule no.	Y	N	N/A												
			Tick the relevant box														
1.	The independent directors meet the criteria of independence, as defined under the Rules.	2(d)	✓														
2.	The Board has the requisite percentage of independent directors. At present the board includes: <table border="1" data-bbox="236 981 981 1305"> <thead> <tr> <th>Category</th> <th>Names</th> <th>Date of Appointment</th> </tr> </thead> <tbody> <tr> <td>Independent Directors</td> <td>Mr Ateequr Rehman Ms Mehnaz Kaludi</td> <td></td> </tr> <tr> <td>Executive Directors</td> <td>–</td> <td></td> </tr> <tr> <td>Non-Executive Directors</td> <td>Mr. Ali A. Rahim Mr. Ihsan-ul-Haq Mr. Junaid Mohmand Mr. Mian Tahir Bashir</td> <td></td> </tr> </tbody> </table>	Category	Names	Date of Appointment	Independent Directors	Mr Ateequr Rehman Ms Mehnaz Kaludi		Executive Directors	–		Non-Executive Directors	Mr. Ali A. Rahim Mr. Ihsan-ul-Haq Mr. Junaid Mohmand Mr. Mian Tahir Bashir		3(2)		✓	
Category	Names	Date of Appointment															
Independent Directors	Mr Ateequr Rehman Ms Mehnaz Kaludi																
Executive Directors	–																
Non-Executive Directors	Mr. Ali A. Rahim Mr. Ihsan-ul-Haq Mr. Junaid Mohmand Mr. Mian Tahir Bashir																
3.	A casual vacancy of Mr. Naseer Durrani (Chairman) occurred on the board on August 27, 2014 and was filled up (appointing Ihsan Ul Haq Khan) by the directors on the same date. Casual vacancy of Mr. Naveed Amin (CEO) occurred on the board on December 20, 2014.	3(4)	✓		✓												
4.	The directors have confirmed that none of them is serving as a director on more than five public sector companies and listed companies simultaneously, except their subsidiaries.	3(5)	✓														
5.	The appointing authorities have applied the fit and proper criteria given in the Annexure in making nominations of the persons for election as board members under the provisions of the Ordinance.	3(7)	✓														
6.	The chairman of the board is working separately from the chief executive of the Company	4(1)	✓														
7.	The chairman has been elected from amongst the independent directors.	4(4)		✓													
8.	The Board has evaluated the candidates for the position of the chief executive on the basis of the fit and proper criteria as well as the guidelines specified by the Commission.	5(2)			✓												

S. No.	Provision of the Rules	Rule no.	Y	N	N/A
			Tick the relevant box		
9.	(a) The company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures, including posting the same on the company's website. (b) The Board has set in place adequate systems and controls for the identification and redressal of grievances arising from unethical practices.	5(4)	✓		
10.	The Board has established a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty; and relationship with the stakeholders, in the manner prescribed in the Rules.	5(5)	✓		
11.	The Board has developed and enforced an appropriate conflict of interest policy to lay down circumstances or considerations when a person may be deemed to have actual or potential conflict of interests, and the procedure for disclosing such interest.	5(5)(b)(ii)	✓		
12.	The Board has developed and implemented a policy on anticorruption to minimize actual or perceived corruption in the company.	5(5)(b)(vi)			
13.	(a) The Board has ensured equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of service. (b) A Committee has been formed to investigate deviations from the company's code of conduct.	5(5)(c)(ii)	✓		
14.	The Board has ensured compliance with the law as well as the company's internal rules and procedures relating to public procurement, tender regulations, and purchasing and technical standards, when dealing with suppliers of goods and services, in accordance with the PPRA Rules.	5(5)(c)(iii)			✓
15.	The board has developed a vision or mission statement, corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.	5(6)	✓		
16.	The board has quantified the outlay of any action in respect of any service delivered or goods sold by the Company as a public service obligation, and have submitted its request for appropriate compensation to the Government for consideration.	5(8)			✓
17.	(a) The board has met at least four times during the year. (b) Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. (c) The minutes of the meetings were appropriately recorded and circulated.	6(1) 6(2) 6(3)	✓		
18.	(a) The board has carried out performance evaluation of its members, including the chairman on the basis of a process, based on specified criteria. (b) The board has also monitored and assessed the performance of senior management on annual basis*. * Strike out whichever is not applicable	8	✓	✓	

S. No.	Provision of the Rules	Rule no.	Y	N	N/A																		
			Tick the relevant box																				
19.	The board has reviewed and approved the related party transactions placed before it after recommendations of the audit committee. A party wise record of transactions entered into with the related parties during the year has been maintained.	9	✓																				
20.	The board has approved the profit and loss account for, and balance sheet as at the end of, the first, second and third quarter of the year as well as the financial year end, and has placed the annual financial statements on the company's website. Monthly accounts were also prepared and circulated amongst the board members.	10	✓																				
21.	All the board members underwent an orientation course arranged by the company to apprise them of the material developments and information as specified in the Rules.	11		✓																			
22.	<p>(a) The board has formed the requisite committees, as specified in the Rules.</p> <p>(b) The committees were provided with written term of reference defining their duties, authority and composition.</p> <p>(c) The minutes of the meetings of the committees were circulated to all the board members.</p> <p>(d) The committees were chaired by the following non executive directors:</p> <table border="1" data-bbox="236 1070 981 1612"> <thead> <tr> <th>Committee</th> <th>Number of members</th> <th>Name of Chair</th> </tr> </thead> <tbody> <tr> <td>Audit Committee</td> <td>Mr Ateeq Ur Rehman Mr Ali A. Rahim (Member) Mian Tahir Bashir (Member) Ms Shafaque Akhter (Committee Secretary)</td> <td>Mr AteequrRehman</td> </tr> <tr> <td>Board Credit Committee</td> <td>All Board of Directors</td> <td>Mr. Ihsan-ul-Haq</td> </tr> <tr> <td>Human Resources Committee</td> <td>Ms Mehnaz Kaludi Mr Ihsan-ul-Haq Mr Junaid Mohmand</td> <td>Ms Mehnaz Kaludi</td> </tr> <tr> <td>Procurement Committee</td> <td colspan="2">Not Applicable</td> </tr> <tr> <td>Nomination Committee</td> <td colspan="2">Not Applicable</td> </tr> </tbody> </table>	Committee	Number of members	Name of Chair	Audit Committee	Mr Ateeq Ur Rehman Mr Ali A. Rahim (Member) Mian Tahir Bashir (Member) Ms Shafaque Akhter (Committee Secretary)	Mr AteequrRehman	Board Credit Committee	All Board of Directors	Mr. Ihsan-ul-Haq	Human Resources Committee	Ms Mehnaz Kaludi Mr Ihsan-ul-Haq Mr Junaid Mohmand	Ms Mehnaz Kaludi	Procurement Committee	Not Applicable		Nomination Committee	Not Applicable		12	✓		
Committee	Number of members	Name of Chair																					
Audit Committee	Mr Ateeq Ur Rehman Mr Ali A. Rahim (Member) Mian Tahir Bashir (Member) Ms Shafaque Akhter (Committee Secretary)	Mr AteequrRehman																					
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Procurement Committee	Not Applicable																						
Nomination Committee	Not Applicable																						
23.	The board has approved appointment of Chief Financial Officer, Company Secretary and Chief Internal Auditor, with their remuneration and terms and conditions of employment, and as per their prescribed qualifications.	13/14	✓																				
24.	The company has adopted International Financial Reporting Standards notified by the Commission under clause (i) of subsection (3) of section 234 of the Ordinance.	16	✓																				
25.	The directors' report for this year has been prepared in compliance with the requirements of the Ordinance and the Rules and fully describes the salient matters required to be disclosed.	17	✓																				

S. No.	Provision of the Rules	Rule no.	Y	N	N/A											
			Tick the relevant box													
26.	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.	18	✓													
27.	A formal and transparent procedure for fixing the remuneration packages of individual directors has been set in place. The annual report of the company contains criteria and details of remuneration of each director.	19	✓													
28.	The financial statements of the company were duly endorsed by the chief executive and chief financial officer, before approval of the board.	20	✓													
29.	The board has formed an audit committee, with defined and written terms of reference, and having the following members:	21														
	<table border="1"> <thead> <tr> <th>Name of member</th> <th>Category</th> <th>Professional backgroundⁱⁱ</th> </tr> </thead> <tbody> <tr> <td>Mr Ateeq ur Rehman</td> <td>Chairman</td> <td>Businessman/ Member of KCC</td> </tr> <tr> <td>Mr Ali A Rahim</td> <td>Member</td> <td>Chartered Accountant/ Tax Consultant</td> </tr> <tr> <td>Mian Tahir Bashir</td> <td>Member</td> <td>Chartered Accountant/ Banking Professional</td> </tr> </tbody> </table>	Name of member	Category	Professional background ⁱⁱ	Mr Ateeq ur Rehman	Chairman	Businessman/ Member of KCC	Mr Ali A Rahim	Member	Chartered Accountant/ Tax Consultant	Mian Tahir Bashir	Member	Chartered Accountant/ Banking Professional			
Name of member	Category	Professional background ⁱⁱ														
Mr Ateeq ur Rehman	Chairman	Businessman/ Member of KCC														
Mr Ali A Rahim	Member	Chartered Accountant/ Tax Consultant														
Mian Tahir Bashir	Member	Chartered Accountant/ Banking Professional														
	The chief executive and chairman of the Board are not members of the audit committee.															
	The audit committee has only one independent director.	21(1)		✓												
30.	The board has set up an effective internal audit function, which has an audit charter, duly approved by the audit committee, and which worked in accordance with the applicable standards.	22	✓													
	The Head of Compliance (Ms.Shafaque), who is conversant with the policies and procedures of the Company, is entrusted with the additional task of Head of Internal Auditor	22(2)		✓												
31.	The company has appointed its external auditors in line with the requirements envisaged under the Rules.	23	✓													
32.	The external auditors of the company have confirmed that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as applicable in Pakistan.	23(4)	✓													
33.	The external auditors have not been appointed to provide non-audit services and the auditors have confirmed that they have observed applicable guidelines issued by IFAC in this regard.	23(5)	✓													
34.	The company has complied with all the corporate and financial reporting requirements of the Rules.		✓													

Statement of Compliance

With the Public Sector Companies (Corporate Governance) Rules, 2013

Certain additional disclosures as required under Code of Corporate Governance (CCG) 2012

1. All the resident directors of the Company registered as taxpayers and none of them has defaulted in payment of any loan to banking company, a DFI or an NBFIs or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
2. 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.
3. Training programs were not arranged during the year for the members of the Board (including the Chief Executive Officer). However, the management is in process of arranging training program for the members of the Board in due course.
4. During the year, Chief Executive Officer (CEO) has resigned. The board promoted another employee, as the acting CEO, till the appointment of full time CEO. The Company is in due course of hiring a professional to meet the said requirement.
5. 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.
6. 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 share 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.
7. 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.
8. Material/price sensitive information has been disseminated among all market participants at once through stock exchanges.
9. We confirm that all other material principles contained in the CCG have been complied with.

Statement of Compliance

With the Public Sector Companies (Corporate Governance) Rules, 2013

Reasons for Non-Compliance with the Public Sector Companies (Corporate Governance) Rules, 2013

We confirm that all other material requirements envisaged in the Rules have been complied with [except for the following, toward which reasonable progress being made by the company to seek compliance by the end of next accounting year]:

S. No.	Rule/sub-rule no.	Reasons for non-compliance	Future course of action
1.	3(2) & 21(1)	Due to non-availability of CEO in 2013, one of the independent directors (Mr. Ali A Rahim) assumed the charge of acting CEO (therefore was not considered independent). He is also the member of Audit Committee.	Matter will be brought up with the Board for reconstitution.
1.	4(4)	The composition of Board of Directors is such that in past Chairman elected by the Board usually be the president of our sponsors.	The matter will be taken in next Board of Directors meeting for further actions.
2.	8	Due to the change of Chairman and Chief Executive Officer during the year performance evaluation mechanism could not be finalized	Company has initiated necessary measure for developing evaluation mechanism and full compliance with this regard would be insured.
3.	11	Due to Changes in Board, planned orientation courses were deferred in next year.	Orientation courses are planned for the year 2015.
5.	22(2)	Due to non-availability of resources, temporary arrangement was made by the board and an additional responsibility of Head of Internal Audit was given to the Head of Compliance (Ms. Shafaque Akhter)	The matter will be taken in next Board of Directors meeting for further actions.

For SME Leasing Limited



Chief Executive Officer
Karachi: March 04, 2014



Chairperson

Review Report to the Members

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



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Chartered Accountants
Sheikh Sultan Trust Building No. 2
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REVIEW REPORT TO THE MEMBERS ON THE STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE AND PUBLIC SECTOR COMPANIES (CORPORATE GOVERNANCE) RULES, 2013

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance and Public Sector Companies (Corporate Governance) Rules, 2013 (both herein referred to as 'Codes') prepared by the Board of Directors of SME Leasing Limited for the year ended 31 December 2014 to comply with the requirements of Listing Regulation of the Lahore Stock Exchange where the Company is listed and the provisions of Public Sector Companies (Corporate Governance) Rules, 2013.

The responsibility for compliance with the Codes 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 Codes and report if it does not and to highlight any non-compliance with the requirements of the Codes. 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 Codes.

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 Codes require 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 its 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 aspects, with the Codes as applicable to the Company for the year ended December 31, 2014.

Further, we highlight below instances of non-compliance with the requirements of the Codes as reflected in the point / paragraph references where these are stated in the Statement of Compliance:

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.

Review Report to the Members

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



KPMG Taseer Hadi & Co.

Point / paragraph

S.No.	Reference	Description
i.	S No. 2	As stated in the Explanation, the Board does not have the requisite percentage of independent Directors.
ii.	S No. 7	As stated in the Explanation, Chairman of the Board is not elected from amongst the independent directors.
iii.	S No. 18(a)	As stated in the Explanation, criteria for the performance evaluation of the members of the Board of Directors have not yet been established.
iv.	S No. 21	As stated in the Explanation, orientation course for BOD members has not been arranged by the Company.
v.	S No. 29	As stated in the Explanation, the Audit Committee do not comprise of majority of independent directors.
vi.	S No. 30	As stated in the Explanation, Head of Internal Audit is also acting as Head of Compliance.
vi.	Paragraph 3	Training program was not arranged during the year for the members of BOD, (refer to additional requirements of Code of Corporate Governance, 2012).

Date: 04 March 2015

Karachi

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

Auditors' Report to the Members



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

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Internet www.kpmg.com.pk

Auditors' Report to the Members

We have audited the annexed balance sheet of **SME Leasing Limited** ("the Company") as at 31 December 2014 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;
 - 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 2014 and of the loss, its cash flows and changes in equity for the year then ended; and


KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

- 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.

Date: 04 March 2015

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

Balance Sheet

As at 31, December 2014

	Note	31 December 2014	31 December 2013
----- (Rupees) -----			
ASSETS			
Current assets			
Cash and bank balances	4	5,520,170	6,033,050
Advances	5	2,129,255	1,282,930
Deposits, prepayments and other receivables	6	982,396	2,128,180
Accrued interest on loans		1,391,293	132,771
Investments	7	3,209,123	3,987,699
Asset held for sale	8	3,979,986	-
Current maturity of non-current assets	9	416,543,263	407,463,578
		433,755,486	421,028,208
Non-current assets			
Long term finances and loans	10	57,647,617	6,510,409
Net investment in finance leases	11	154,887,400	98,779,821
Long term deposits and prepayments	12	1,626,654	1,560,055
Fixed assets	13	10,466,345	14,206,139
		224,628,016	121,056,424
Total assets		658,383,502	542,084,632
LIABILITIES			
Current liabilities			
Accrued and other liabilities	14	15,654,125	6,840,078
Accrued mark-up on borrowings	15	2,382,032	644,874
Short term borrowings	16	155,320,077	37,534,120
Short term certificates of investment	17	-	200,000
Current maturity of non-current liabilities	18	208,632,647	220,987,809
Provision for compensated absences		1,033,768	676,871
Advance tax net of provisions		12,334,023	12,415,093
		395,356,672	279,298,845
Non-current liabilities			
Long term finances	19	-	723,580
Liabilities against assets subject to finance lease	20	1,974,255	1,404,491
Long term deposits	11	65,971,901	56,649,944
Deferred liabilities	21	4,606,467	3,674,069
		72,552,623	62,452,084
Total liabilities		467,909,295	341,750,929
NET ASSETS		190,474,207	200,333,703
FINANCED BY			
Authorised share capital			
100,000,000 (31 December 2013: 100,000,000) ordinary shares of Rs. 10 each		1,000,000,000	1,000,000,000
Issued, subscribed and paid-up capital			
Reserves	22	320,000,000	320,000,000
Accumulated loss		48,466,329	48,466,329
		(180,021,245)	(168,940,325)
		188,445,084	199,526,004
Surplus on revaluation of available-for-sale investments - net		2,029,123	807,699
Total shareholder's equity		190,474,207	200,333,703
COMMITMENTS			
	23		

The annexed notes 1 to 39 form an integral part of these financial statements.



Mian Tahir Bashir
Director



Masrur Zulfiqar Ali
Chief Executive Officer

Profit and Loss Account

For the year ended 31, December 2014

	Note	2014 Rupees	2013 Rupees
INCOME			
Income from leasing operations	24	46,062,940	26,204,493
OTHER OPERATING INCOME			
Profit on bank accounts / return on investments	25	75,056	423,621
Other income	26	81,700	1,763,799
		156,756	2,187,420
		46,219,696	28,391,913
EXPENSES			
Administrative and operating expenses	27	37,945,238	29,416,365
Finance cost	28	16,535,320	7,362,475
		54,480,558	36,778,840
		(8,260,862)	(8,386,927)
PROVISIONS			
Provision / (reversal) for potential lease losses - net	11.1.3	2,006,744	(865,544)
Provision / (reversal) for doubtful finances and loans - net	10.3	315,705	(88,034)
		2,322,449	(953,578)
Loss before taxation		(10,583,311)	(7,433,349)
Taxation	29	(462,197)	(283,919)
Loss for the year		(11,045,508)	(7,717,268)
Loss per share - basic and diluted	30	(0.35)	(0.24)

The annexed notes 1 to 39 form an integral part of these financial statements.



Mian Tahir Bashir
Director



Masrur Zulfiqar Ali
Chief Executive Officer

Statement of Comprehensive Income

For the year ended 31, December 2014

	2014 Rupees	2013 Rupees
Loss after tax	(11,045,508)	(7,717,268)
Other comprehensive income		
Surplus on revaluation of available-for-sale investments	1,221,424	678,266
Actuarial loss on defined benefit obligations	(35,412)	(513,101)
	1,186,012	165,165
Total comprehensive loss for the year	(9,859,496)	(7,552,103)

The annexed notes 1 to 39 form an integral part of these financial statements.



Mian Tahir Bashir
Director



Masrur Zulfiqar Ali
Chief Executive Officer

Cash Flow Statement

For the year ended 31, December 2014

Note	2014 Rupees	2013 Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(10,583,311)	(7,433,349)
Adjustments for:		
- Depreciation and amortisation	1,978,404	1,962,290
- Gratuity	1,069,380	895,250
- Finance cost	16,151,671	7,095,064
- Profit on bank accounts / return on investments	(145,756)	(501,356)
- Lease finance charges	383,649	267,411
- Gain on disposal of fixed assets	(11,000)	(1,686,064)
- Provision for potential lease losses	2,006,744	(865,544)
- Provision for doubtful finances and loans	315,705	(88,034)
	<u>21,748,797</u>	<u>7,079,017</u>
Operating profit before working capital changes	11,165,486	(354,332)
Movement in working capital		
(Increase) / decrease in operating assets		
- Accrued interest on loans	(1,258,522)	424,784
- Decrease in net investment in finance leases	(61,303,497)	22,595,281
- Deposits and prepayments	1,145,784	(411,211)
- Long term deposits and prepayments	(66,599)	(261,033)
- Advances	(846,325)	186,349
	<u>(62,329,159)</u>	<u>22,534,170</u>
(Decrease) / increase in operating liabilities		
- Provision for compensated absences	356,897	(160,934)
- Long term deposits received	(1,409,770)	125,648
- Accrued and other liabilities	8,814,047	975
	<u>7,761,174</u>	<u>(34,311)</u>
Cash generated from operations	(43,402,499)	22,145,527
- Decrease in long term finances and loans	(57,343,424)	15,810,996
- Financial charges paid	(14,414,513)	(8,154,634)
- Interest received	145,756	501,356
- Gratuity paid	(172,394)	(1,099,675)
- Taxes paid	(543,267)	(218,523)
	<u>(72,327,842)</u>	<u>6,839,520</u>
Net cash flows from operating activities	(115,730,341)	28,985,047
CASH FLOW FROM INVESTING ACTIVITIES		
- Capital expenditure	(310,266)	(138,184)
- Proceeds from disposal of fixed assets	245,670	8,192,400
- Proceeds from disposal of investments	2,000,000	500,000
Net cash flows from investing activities	1,935,404	8,554,216
CASH FLOW FROM FINANCING ACTIVITIES		
- Decrease in long-term finances	(2,515,350)	(10,740,217)
- Decrease in certificates of investment	(200,000)	(8,112,646)
- Lease rentals paid	(1,788,550)	(1,620,272)
Net cash flows used in financing activities	(4,503,900)	(20,473,135)
Net increase in cash and cash equivalents	(118,298,837)	17,066,128
Cash and cash equivalents at beginning of the year	(31,501,070)	(48,567,198)
Cash and cash equivalents at end of the year	(149,799,907)	(31,501,070)

33

The annexed notes 1 to 39 form an integral part of these financial statements.



Mian Tahir Bashir
Director



Masrur Zulfiqar Ali
Chief Executive Officer

Statement of Changes in Equity

For the year ended 31, December 2014

	Issued, subscribed and paid-up capital	Capital reserves		Revenue reserves			Total shareholder equity
		Share premium	Statutory reserve	Reserve against future losses	Accum- lated loss	Surplus / (deficit) on revaluation of available- for-sale investments	
----- (Refer note 3.20) -----							
----- (Rupees) -----							
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	-	-	-	-	-	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
Total comprehensive income for the year ended 31 December 2014							
Loss for the year	-	-	-	-	(11,045,508)	-	(11,045,508)
Other comprehensive income							
Actuarial loss on defined benefit obligation	-	-	-	-	(35,412)	-	(35,412)
Surplus on revaluation of available-for-sale investments	-	-	-	-	-	1,221,424	1,221,424
Balance as at 31 December 2014	320,000,000	10,000,000	28,019,277	10,447,052	(180,021,245)	2,029,123	190,474,207

The annexed notes 1 to 39 form an integral part of these financial statements.



Mian Tahir Bashir
Director



Masrur Zulfiqar Ali
Chief Executive Officer

Notes to the Financial Statements

For the year ended 31, December 2014

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 2013: 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. The equity of the Company as at 31 December 2014 is Rs. 188.445 million which is Rs.511.60 million short of the minimum capital requirement. The Company has been incurring losses since year ended 31 December 2009 which has resulted in erosion of equity. During the year ended 31 December 2014, the Company has incurred a loss of Rs. 11.046 million and the accumulated losses amounts to Rs. 180.021 million as at the year end. Further, the net assets of the Company amounting to Rs. 190.474 million includes non-performing leases and loans and finances, net of provision, amounting to Rs. 129.885 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.

Further the Company is dependent on the running finance facility granted by the Parent Company. The revised prudential regulation of State Bank of Pakistan (SBP) applicable from June 2015 has restricted the exposure by bank to a related party to the extent of 7.5% of its equity. However, the Parent Company will apply to the State Bank of Pakistan for the relaxation of the aforesaid requirement in respect of its financing to the Company.

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

- Securities and Exchange Commission of Pakistan on the recommendation of NBF Sector Reform Committee is currently reviewing the overall regulatory regime of NBF 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. 180 million out of which Rs. 155.320 million has been utilised as at 31 December 2014. The bank will renew the facility on 23 April 2015. 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 16 to these financial statements. As discussed earlier, the parent company will apply for relaxation to the State Bank of Pakistan from the requirements of related party exposure limits in order to continue its support towards the Company;
- 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 foreseeable future;
- Concerted efforts are being made for the recovery of non-performing leases and loans and finances and in this respect during the year Rs. 23.012 million has been recovered. Further, subsequent to the year ended 31 December 2014, Rs. 1.028 million has been recovered in respect of the non-performing Loans till the end of January 2015;

Notes to the Financial Statements

For the year ended 31, December 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.256.540 million (2013: 81.730 million) have been disbursed;

Based on the above mentioned financial measures and the concerted operational measures being taken by the Company, the management is confident of the profitable operations in the foreseeable future and therefore, has prepared the financial statements on going concern basis.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgments

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

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

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

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

- Classification and valuation of investments (notes 3.9 and 7).
- Provision for current and deferred taxation and recognition and measurement of deferred tax assets and liabilities (notes 3.14 and 29).
- Classification and provision of net investment in finance lease and loans and finances (notes 3.6, 3.7, 10 and 11).
- Determination and measurement of useful life and residual value of operating fixed assets (note 3.2 and 13).
- Staff retirement benefits (3.5 and 21).

Notes to the Financial Statements

For the year ended 31, December 2014

2.5 STANDARDS AND IFRIC INTERPRETATIONS THAT ARE 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 2015:

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.

Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are ‘highly correlated’, or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on Company’s financial statements.

IFRS 10 ‘Consolidated Financial Statements’ – (effective for annual periods beginning on or after 1 January 2015) replaces the part of IAS 27 ‘Consolidated and Separate Financial Statements’. IFRS 10 introduces a new approach to determining which investees should be consolidated. The single model to be applied in the control analysis requires that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 has made consequential changes to IAS 27 which is now called ‘Separate Financial Statements’ and will deal with only separate financial statements. Certain further amendments have been made to IFRS 10, IFRS 12 and IAS 28 clarifying the requirements relating to accounting for investment entities and would be effective for annual periods beginning on or after 1 January 2016. The adoption of this standard is not like to have an impact on Company’s financial statements.

IFRS 11 ‘Joint Arrangements’ (effective for annual periods beginning on or after 1 January 2015) replaces IAS 31 ‘Interests in Joint Ventures’. Firstly, it carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31 and are now called joint operations. Secondly, the remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of using the equity method or proportionate consolidation; they must now always use the equity method. IFRS 11 has also made consequential changes in IAS 28 which has now been named ‘Investment in Associates and Joint Ventures’. The amendments requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business are effective for annual periods beginning on or after 1 January 2016. The adoption of this standard is not like to have an impact on Company’s financial statements.

IFRS 12 ‘Disclosure of Interest in Other Entities’ (effective for annual periods beginning on or after 1 January 2015) combines the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, into one place. The adoption of this standard is not like to have an impact on Company’s financial statements.

IFRS 13 ‘Fair Value Measurement’ effective for annual periods beginning on or after 1 January 2015) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The adoption of this standard is not like to have an impact on Company’s financial statements.

Amendment to IAS 27 ‘Separate Financial Statement’ (effective for annual periods beginning on or after 1 January 2016). The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction.

Notes to the Financial Statements

For the year ended 31, December 2014

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) [effective for annual periods beginning on or after 1 January 2016]. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

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'.
- IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination.
- IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria.
- Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible Assets'. The 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.

Annual Improvements 2012-2014 cycles (amendments are effective for annual periods beginning on or after 1 January 2016). The new cycle of improvements contain amendments to the following standards:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. IFRS 5 is amended to clarify that if an entity changes the method of disposal of an asset (or disposal group) i.e. reclassifies an asset from held for distribution to owners to held for sale or vice versa without any time lag, then such change in classification is considered as continuation of the original plan of disposal and if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held for distribution, then it ceases held for distribution accounting in the same way as it would cease held for sale accounting.
- IFRS 7 'Financial Instruments- Disclosures'. IFRS 7 is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety. IFRS 7 is also amended to clarify that additional disclosures required by 'Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS7)' are not specifically required for inclusion in condensed interim financial statements for all interim periods.
- IAS 19 'Employee Benefits'. IAS 19 is amended to clarify that high quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid.
- IAS 34 'Interim Financial Reporting'. IAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements and disclosed elsewhere should be cross referred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Cash and cash equivalents

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

Notes to the Financial Statements

For the year ended 31, December 2014

3.2 Fixed assets

3.2.1 Property and equipment

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

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

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

3.2.2 Intangible

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

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

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

3.3 Assets held under finance lease

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

3.4 Assets held for sale

Non current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

3.5 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.

Notes to the Financial Statements

For the year ended 31, December 2014

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 of actuarial gains 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 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 recognized in profit and loss account.

3.6 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.

3.7 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.

3.8 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 loses control of contractual rights that comprises the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is taken to profit and loss account directly.

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

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

Notes to the Financial Statements

For the year ended 31, December 2014

3.9 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.

3.10 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.

3.11 Impairment

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

3.12 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.

Notes to the Financial Statements

For the year ended 31, December 2014

3.13 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.

3.14 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.

3.15 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.

3.16 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.

3.17 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.

3.18 Revenue recognition

- The Company follows the finance lease method in accounting for the recognition of lease income. Under this method, the unearned lease income i.e. the excess of gross lease rentals and the estimated residual value over the cost of the leased assets is deferred and taken to income over the term of the lease contract, so as to produce a systematic return on the net investment in finance lease. Unrealised lease income is held in suspense account, where necessary, in accordance with the requirements of the NBFC Regulations.
- Front-end fees and documentation charges are taken to income when realised.
- Income on investments is accounted for on accrual basis.
- Dividend income is recognised when the right to receive the dividend is established.

Notes to the Financial Statements

For the year ended 31, December 2014

- 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.

3.19 Earnings / (loss) per share

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

3.20 Dividend distribution and transfer between reserves

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

3.21 Capital and Revenue reserves

Share premium

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

Statutory reserves

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

Reserve against future losses

This reserve represents amounts set aside in view of the risks associated with the economic cyclical nature of the business and is recognised as an appropriation of retained earnings. Any credits resulting from reduction of such amounts result in an increase in unappropriated profit and are not included in the determination of profit and loss for the period. The amount to be set aside against future losses is determined at the rate of 0.5 percent of the outstanding balance of the regular portfolio of leases and loans and receivables as at each year end. No such reserve has been created by the Company for the year ended 31 December 2014.

	Note	2014 Rupees	2013 Rupees
4. CASH AND BANK BALANCES			
Cash in hand		66,508	53,579
Balance with State Bank of Pakistan in current account		23,095	3,095
Balances with banks in:			
- current accounts	4.1	5,285,026	3,397,573
- saving accounts	4.2	145,541	2,578,803
		5,520,170	6,033,050

4.1 These include balance with a related party amounting to Rs. 0.946 million (2013: Rs 1.692 million).

4.2 These carry profit rate of 6% to 7% per annum (2013: 6% per annum).

Notes to the Financial Statements

For the year ended 31, December 2014

	Note	2014 Rupees	2013 Rupees
5. ADVANCES - considered good			
Advances to:			
- employees	5.1	502,855	244,922
- others		1,626,400	1,038,008
		<u>2,129,255</u>	<u>1,282,930</u>

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

6. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Security deposits		95,000	209,400
Prepayments		887,396	1,682,868
Other receivable		-	235,912
		<u>982,396</u>	<u>2,128,180</u>

7. INVESTMENTS - available-for-sale

Government securities			
- Special saving certificates		-	2,000,000
Mutual Funds			
- Open end mutual fund	7.1	3,209,123	1,987,699
		<u>3,209,123</u>	<u>3,987,699</u>

7.1 This represents investment in 327,709 units (2013: 306,271) of Namco Balanced Fund, an open end mutual fund. As at 31 December 2014, the cost of the above investments amounted to Rs. 1.18 million (2013: Rs. 1.18 million). During the year Namco Balance Fund was converted into open end funds from the closed end funds.

8. ASSETS HELD FOR SALE

During the period, the Board of directors in their meeting held on 27 October 2014 decided to sell the property located at F.B area. Consequently, the Company has accordingly classified the said asset from operating fixed assets to assets held for sale in accordance with the requirements of IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations.

	Note	2014 Rupees	2013 Rupees
9. CURRENT MATURITY OF NON-CURRENT ASSETS			
Current portion of:			
- Long term finances and loans	10	52,257,387	46,366,876
- Net investment in leases	11	364,285,876	361,096,702
		<u>416,543,263</u>	<u>407,463,578</u>

Notes to the Financial Statements

For the year ended 31, December 2014

	Note	2014 Rupees	2013 Rupees
10. LONG TERM FINANCES AND LOANS - secured			
Related parties - considered good			
- Employees	10.1	1,211,419	1,506,965
Other than related parties			
Customers	10.2		
- considered good		78,682,315	17,591,931
- considered doubtful		35,064,338	38,515,752
		113,746,653	56,107,683
Provision for doubtful finances	10.3	(5,053,068)	(4,737,363)
		108,693,585	51,370,320
		109,905,004	52,877,285
Less: Current maturity	9		
Related parties - Employees		(107,709)	(93,038)
Other than related parties - Customers		(52,149,678)	(46,273,838)
		(52,257,387)	(46,366,876)
		57,647,617	6,510,409

10.1 These represent housing loans given to employees. 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 housing loans are secured by registered mortgage in favour of the Company. These loans carry mark-up at 5% (2013: 5%) per annum.

10.2 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% (2013: 13.5% to 25.44%) per annum.

10.3 Provision for doubtful finances and loans

	2014 Rupees	2013 Rupees
Balance at beginning of the year	4,737,363	4,825,397
Provision for the year	315,705	2,605
Reversal for the year	-	(90,639)
	315,705	(88,034)
Balance at end of the year	5,053,068	4,737,363

11. NET INVESTMENT IN FINANCE LEASES

Net investment in finance leases	519,173,276	459,876,523
Current portion shown under current assets	(364,285,876)	(361,096,702)
	154,887,400	98,779,821

Notes to the Financial Statements

For the year ended 31, December 2014

11.1 Net investment in finance leases

		2014			2013		
		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	11.1.1	400,708,895	104,235,133	504,944,028	372,553,627	50,912,406	423,466,033
Add: Residual value of leased assets	11.1.2	206,168,322	65,971,901	272,140,223	216,900,049	56,649,944	273,549,993
Gross investment in leases		606,877,217	170,207,034	777,084,251	589,453,676	107,562,350	697,016,026
Unearned lease income		(27,662,431)	(13,407,649)	(41,070,080)	(13,355,593)	(8,782,529)	(22,138,122)
Mark-up held in suspense		(57,549,785)	-	(57,549,785)	(57,717,015)	-	(57,717,015)
		(85,212,216)	(13,407,649)	(98,619,865)	(71,072,608)	(8,782,529)	(79,855,137)
		521,665,001	156,799,385	678,464,386	518,381,068	98,779,821	617,160,889
Provision for potential lease losses	11.1.3	(157,379,125)	(1,911,985)	(159,291,110)	(157,284,366)	-	(157,284,366)
Net investment in finance leases		364,285,876	154,887,400	519,173,276	361,096,702	98,779,821	459,876,523

The Internal Rate of Return (IRR) on lease contract receivable ranges from 10% to 29.1% per annum (2013: 9.5% to 24% per annum).

11.1.1 This includes a lease receivable of Rs. 8.371 million, restored as a result of the order of the Supreme Court of Pakistan dated 03 January 2014. The said order cancelled the previous settlement of the lease through sale of underlying mortgaged property. A liability of Rs. 9.819 million has also been recorded towards the buyer of the property. The amount of Rs. 9.819 million has been subsequently deposited with the additional registrar of Sindh High Court in respect of said liability.

11.1.2 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. 253.720 million (2013: Rs. 240.233 million).

11.1.3 Provision for potential lease losses

Balance at beginning of the year

Provision for the year

Reversals for the year

Balance at end of the year

	2014 Rupees	2013 Rupees
Balance at beginning of the year	157,284,366	158,149,910
Provision for the year	9,001,370	5,699,706
Reversals for the year	(6,994,626)	(6,565,250)
	2,006,744	(865,544)
Balance at end of the year	159,291,110	157,284,366
Security deposits against assets acquired under lease arrangements	775,100	441,500
Other deposits	768,222	785,222
Prepayments	83,332	333,333
	1,626,654	1,560,055
Property and equipment	10,428,865	14,160,058
Intangible assets	37,480	46,081
	10,466,345	14,206,139

12. LONG TERM DEPOSITS AND PREPAYMENTS

Security deposits against assets acquired under lease arrangements

Other deposits

Prepayments

13. FIXED ASSETS

Property and equipment

Intangible assets

13.1

13.2

Notes to the Financial Statements

For the year ended 31, December 2014

13.1 Property and Equipment

	COST		ACCUMULATED DEPRECIATION		Net book value as at 31 December 2014	Depreciation rate % per annum
	As at 1 January 2014	As at 31 December 2014	As at 1 January 2014	For the year/ (on disposals) As at 31 December 2014		
	2014					
	(Rupees)					
Owned						
Office premises	15,064,190	-	4,128,083	753,211 (1,570,014)**	3,311,280	5
Building improvements	702,734	122,127	701,135	38,913	740,048	33.33
Furniture and fixtures	1,682,416	-	1,597,475	29,852	1,627,327	20
Office equipment and others	1,020,312	89,777	937,868	28,157	966,025	15
Computers	1,343,585	78,050	1,266,609	55,612	1,322,221	33.33
Vehicles	4,024,145	-	3,690,197	147,363 407,167 * (489,291)	3,755,436	20
	23,837,382	289,954 (723,961)	12,321,367	1,053,108 (489,291)	11,722,337	
Leased						
Vehicles	3,380,500	2,143,000 (698,000) *	736,457	896,383 (407,167) *	1,225,673	20
	27,217,882	2,432,954 (723,961)	13,057,824	1,949,491 (489,291)	12,948,010	
					10,428,865	

* Represents assets transferred from leased asset to owned assets

** Represents assets transferred to 'Held for Sale'. Refer note 8.

Notes to the Financial Statements

For the year ended 31, December 2014

	2013					Depreciation rate % per annum	
	COST		ACCUMULATED DEPRECIATION		Net book value as at 31 December 2013		
	As at 1 January 2013	As at 31 December 2013	As at 1 January 2013	For the year/ (on disposals)	As at 31 December 2013		
Owned							
Office premises	22,064,190	15,064,190	4,162,382	1,074,039 (1,108,338)	4,128,083	5	
Building improvements	702,734	702,734	697,969	3,166	701,135	33.33	
Furniture and fixtures	1,682,416	1,682,416	1,556,799	40,676	1,597,475	20	
Office equipment and others	1,011,487	1,020,312	904,406	33,462	937,868	15	
Computers	1,281,926	1,343,585	1,247,670	18,939	1,266,609	33.33	
Vehicles	3,293,890	4,024,145	3,291,701	3,640 (751,593) 1,146,449 *	3,690,197	20	
	30,036,643	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	769,309 (325,733) (1,146,449) *	736,457	2,644,043	20
	34,063,398	1,846,484 (8,692,000)	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 2014

13.1.2 Particulars of disposal of Fixed Assets

Particulars	Cost	WDV	Sale proceeds	Gain on disposal	Mode of	Particulars of buyers
	----- (Rupees) -----					
Owned Vehicles						
Motor cycle (KDN - 7534)	37,206	-	11,000	11,000	Tender	Mr. Abdul Rasheed
Suzuki Alto (AUP 273)	686,755	234,670	234,670	-	Terms of employment	Employee - Mr Younus
31 December 2014	723,961	234,670	245,670	11,000		
31 December 2013	8,692,000	6,506,336	8,192,400	1,686,064		

13.2 Intangible Assets

	2014						Net book value as at 31 December 2014	Amortisation rate % per annum
	COST			ACCUMULATED AMORTISATION				
	As at 1 January 2014	Additions / (Disposals)	As at 31 December 2014	As at 1 January 2014	For the year	As at 31 December 2014		
----- (Rupees) -----								
Software licenses and licenses	786,830	20,312	807,142	740,749	28,913	769,662	37,480	33.33

	2013						Net book value as at 31 December 2013	Amortisation rate % per annum
	COST			ACCUMULATED AMORTISATION				
	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

Notes to the Financial Statements

For the year ended 31, December 2014

	Note	2014 Rupees	2013 Rupees
14. ACCRUED AND OTHER LIABILITIES			
Accrued liabilities		688,681	675,905
Rentals received in advance		289,425	1,503,900
Payable on maturity of leases		200,000	599,726
Insurance payable		3,772,997	3,194,674
Payable to SME Bank Limited - holding company		-	228,842
Unclaimed dividend		20,629	20,629
Payable to Staff Provident Fund		90,685	3,488
Others	11.1.1	10,591,708	612,914
		15,654,125	6,840,078
15. ACCRUED MARK-UP ON BORROWINGS			
Interest accrued on :			
- Long term finances		458,252	375,900
- Short term borrowings	15.1	1,923,780	265,757
- Certificates of investment		-	3,217
		2,382,032	644,874
15.1 The amount represents accrued interest payable to the holding company.			
16. SHORT TERM BORROWING			
The Company has a running finance facility available from the holding company amounting to Rs. 180 million (2013: Rs.90 million) at mark-up rates ranging between 13.49% to 13.96% (2013: 13.49% to 15.42%) 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.			
17. CERTIFICATES OF INVESTMENT			
Certificates of Investment		-	200,000
18. CURRENT MATURITY OF NON-CURRENT LIABILITIES			
Long term finances	19	1,265,489	3,057,259
Liabilities against assets subject to finance lease	20	1,198,836	1,030,501
Long term deposits	11.1	206,168,322	216,900,049
		208,632,647	220,987,809

Notes to the Financial Statements

For the year ended 31, December 2014

	Note	2014 Rupees	2013 Rupees
19. LONG TERM FINANCES - secured			
National Energy Conservation Centre	19.1	1,265,489	3,780,839
Current maturity		(1,265,489)	(3,057,259)
		-	<u>723,580</u>

19.1 This represents balance due against financing facilities amounting to Rs. 7.3 million from National Energy Conservation Centre (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.

20. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2014			2013		
	Minimum lease payments	Financial charges for future period (Rupees)	Principal outstanding	Minimum lease payments	Financial charges for future period (Rupees)	Principal outstanding
Payable not later than one year	1,463,193	264,357	1,198,836	1,256,742	226,241	1,030,501
Payable later than one year but not later than five years	2,082,955	108,700	1,974,255	1,527,363	122,872	1,404,491
	<u>3,546,148</u>	<u>373,057</u>	<u>3,173,091</u>	<u>2,784,105</u>	<u>349,113</u>	<u>2,434,992</u>

20.1 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 (2013: 14.39% to 23% per annum). These finance lease arrangements will mature in the year 2015 to 2017. 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.

21. 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 27 (2013:18).

Principal actuarial assumptions

The latest actuarial valuation of the gratuity scheme was carried out on 31 December 2014 by Nauman Associates using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme:

Notes to the Financial Statements

For the year ended 31, December 2014

	2014 Rupees	2013 Rupees
Valuation Discount rate	11.25%	13.00%
Expected long term rate of increase in salary level	11.25%	13.00%

Demographic assumptions

	SLIC (2001- 2005)	SLIC
Mortality rate (2001- 2005)		
Employee turnover rate	Moderate	Moderate

	2014 Rupees	2013 Rupees
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21.1 Liability in balance sheet

Present value of defined benefit obligation	<u>4,606,467</u>	<u>3,674,069</u>
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21.2 Movement in liability during the year

Opening balance	3,674,069	3,365,393
Charged to profit and loss account	1,069,380	895,250
Remeasurements chargeable in other comprehensive income	35,412	513,101
Benefits paid during the year	(172,394)	(1,099,675)
Closing balance	<u>4,606,467</u>	<u>3,674,069</u>

21.3 Reconciliation of the present value of defined benefit obligations

Present value of obligations as at 1 January	3,674,069	3,365,393
Current service cost	622,457	491,403
Interest cost	446,923	403,847
Benefits paid during the year	(172,394)	(1,099,675)
Remeasurements loss / (gain) chargeable in other comprehensive income	35,412	513,101
Present value of obligations as at 31 December	<u>4,606,467</u>	<u>3,674,069</u>

21.4 Charge for the year

Current services cost	622,457	491,403
Interest cost	446,923	403,847
	<u>1,069,380</u>	<u>895,250</u>

21.5 Re-measurements recognised in other comprehensive income

Actuarial losses / (gains) on obligation		
Experience adjustment	35,412	513,101
Total re-measurements recognised in other comprehensive income	<u>35,412</u>	<u>513,101</u>

Notes to the Financial Statements

For the year ended 31, December 2014

21.6 Expected accrual of expenses in respect of defined benefit scheme in the next financial year on the advice of the actuary is Rs. 1.111 million.

21.7 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	4,606,467	11%
1% increase	3,847,762	12%
1% Decrease	4,846,409	10%
Salary increase rate effect		
Original liability	4,606,467	11%
1% increase	4,848,863	12%
1% Decrease	3,837,150	10%

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.

21.8 Maturity profile

The weighted average duration of the obligation (in years)

2014	2013
<u>12</u>	<u>11</u>

22. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2014 (Number of shares)	2013		2014 Rupees	2013 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
<u>32,000,000</u>	<u>32,000,000</u>		<u>320,000,000</u>	<u>320,000,000</u>

22.1 At 31 December 2014 SME Bank Limited (holding company) and its nominees hold 73.14% (2013: 73.14%) of ordinary shares of Rs. 10 each.

Notes to the Financial Statements

For the year ended 31, December 2014

		2014 Rupees	2013 Rupees
23. COMMITMENTS			
Lease disbursements	23.1	<u>11,000,000</u>	<u>13,000,000</u>
23.1	This represents those leases which have been approved by the Company as at the year end.		
24. INCOME FROM LEASING OPERATIONS			
	Note	2014 Rupees	2013 Rupees
Leases			
Income from finance lease operations		<u>34,869,679</u>	20,573,150
Gain on termination of leases		<u>72,815</u>	109,709
		<u>34,942,494</u>	20,682,859
Income on finances and loans to customers		<u>11,120,446</u>	5,521,634
		<u>46,062,940</u>	26,204,493
25. PROFIT ON BANK ACCOUNTS / RETURN ON INVESTMENTS			
Mark-up on government securities		<u>13,672</u>	178,010
Profit on bank accounts		<u>61,384</u>	245,611
		<u>75,056</u>	423,621
26. OTHER INCOME			
Income from financial assets			
Mark-up on loans to employees		<u>70,700</u>	77,735
Income from non-financial assets			
Gain / (loss) on disposal of fixed assets		<u>11,000</u>	1,686,064
		<u>81,700</u>	1,763,799
27. ADMINISTRATIVE & OPERATING EXPENSES			
Salaries, allowances and other benefits	27.1 & 27.2	<u>22,027,740</u>	15,032,173
Directors' fee	27.3	<u>444,000</u>	290,000
Rent		<u>2,110,728</u>	2,253,129
Electricity, gas and water		<u>1,139,764</u>	705,167
Telephone and postage		<u>1,027,110</u>	906,580
Repairs and maintenance		<u>519,391</u>	459,977
Books and periodicals		<u>39,577</u>	29,341
Fees and subscriptions		<u>20,894</u>	34,384
Vehicle running		<u>458,965</u>	298,999
Advertising		<u>179,799</u>	49,800
Training and development		<u>45,000</u>	29,000
Travelling, conveyance and entertainment		<u>1,947,578</u>	1,372,706
Printing and stationery		<u>769,871</u>	760,646
Auditors' remuneration	27.4	<u>539,000</u>	516,900
Depreciation and amortisation	13	<u>1,978,404</u>	1,962,290
Legal and professional		<u>2,965,888</u>	3,020,404
Insurance		<u>970,817</u>	1,029,514
Miscellaneous		<u>760,712</u>	665,355
		<u>37,945,238</u>	29,416,365

Notes to the Financial Statements

For the year ended 31, December 2014

27.1 Salaries allowances and other benefits include Rs. 1.069 million (2013: Rs.0.895 million) in respect of staff gratuity scheme and Rs. 0.429 million (2013: Rs. 0.327 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. 0.969 million (2013: Rs. 0.108 million)

27.2 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:

	2014		2013	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees)			
Managerial remuneration	2,329,032	3,194,957	617,645	1,621,608
Housing and utilities	931,613	1,277,977	339,707	717,018
Provident fund	-	234,316	-	133,260
Medical and other perquisites	232,903	319,486	92,649	169,158
Leave fare assistance	300,000	-	-	-
Gratuity	300,000	214,524	-	168,754
Leave encashment	150,000	160,893	-	205,850
Others	-	-	-	38,616
	<u>4,243,548</u>	<u>5,402,153</u>	<u>1,050,001</u>	<u>3,054,264</u>
Number of persons	<u>1</u>	<u>7</u>	<u>1</u>	<u>4</u>

27.2.1 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.

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

27.4 Auditors' remuneration

	2014 Rupees	2013 Rupees
Annual audit	250,000	250,000
Half yearly review	100,000	100,000
Other certifications	50,000	50,000
Out of pocket expenses	139,000	116,900
	<u>539,000</u>	<u>516,900</u>

28. FINANCE COST

Mark-up on:

- Long term finance
- Short term borrowings
- Certificates of investment

Lease finance charges
Bank charges

	2014 Rupees	2013 Rupees
	96,774	283,475
	15,864,547	6,037,655
	20,243	533,876
	<u>15,981,564</u>	<u>6,855,006</u>
	383,649	267,411
	170,107	240,058
	<u>16,535,320</u>	<u>7,362,475</u>

Notes to the Financial Statements

For the year ended 31, December 2014

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

	2014 Rupees	2013 Rupees
Long term finance	-	17,494
Short term borrowings	15,864,547	6,037,655
	<u>15,864,547</u>	<u>6,055,149</u>

29. TAXATION

29.1 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).

29.2 Current status of tax assessments

The income tax assessments of the Company have deemed to be finalised up to and including Tax year 2014, except for Tax year 2011 and 2012, which has been selected for audit.

In respect of Tax year 2011, the Company has submitted in this respect all the requisite documents / information with the tax authority. However, the Honourable 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.

In respect of Tax year 2012, the tax authorities have served order under section 122(1) read with section 177(1) and 214C of the Income Tax Ordinance, 2001 disallowing expenses relating to depreciation allowance, markup on loan to employees and financial cost and creating tax demand of Rs. 3.8 million. The Company has filed an appeal before the Commissioner Inland Revenue (Appeals-II) against the said order and the case has not yet been fixed for hearing.

29.3 Deferred tax liabilities / (assets) - net

Deductible temporary differences

	2014 Rupees	2013 Rupees
Carried forward losses	(97,843,537)	(89,211,679)
Provisions against potential lease losses & long term finances and loans	(57,520,462)	(56,478,441)
Liabilities against gratuity expense	(1,612,263)	(1,285,924)
	<u>(156,976,262)</u>	<u>(146,976,044)</u>

Taxable temporary differences

	2014 Rupees	2013 Rupees
Net investment in lease	68,632,999	15,732,722
Liabilities against assets subject to finance lease	1,259,938	73,167
Accelerated tax depreciation on fixed assets	520,845	2,185,542
	<u>70,413,782</u>	<u>17,991,431</u>
	<u>(86,562,480)</u>	<u>(128,984,613)</u>

29.3.1 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. 86.562 million (2013: Rs. 128.984 million) has not been recognised as the Company does not foresee future taxable profits against which unused tax losses will be utilised.

30. LOSS PER SHARE - BASIC AND DILUTED

	2014 Rupees	2013 Rupees
Loss after taxation attributable to ordinary shareholders	(11,045,508)	(7,717,268)
	<u>(11,045,508)</u>	<u>(7,717,268)</u>
	(Number of shares)	
Weighted average number of outstanding ordinary shares	32,000,000	32,000,000
	<u>32,000,000</u>	<u>32,000,000</u>
	(Rupees)	
Loss per share - basic and diluted	(0.35)	(0.24)
	<u>(0.35)</u>	<u>(0.24)</u>

Notes to the Financial Statements

For the year ended 31, December 2014

30.1 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.

31. TRANSACTIONS WITH RELATED PARTIES

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

	2014		2013	
	Key management personnel	SME Bank Limited (Holding Company)	Key management personnel	SME Bank Limited (Holding Company)
Borrowings				
Balance as at 1 January	-	37,534,120	-	58,138,470
Borrowings during the year	-	126,540,120	-	-
Repayments during the year	-	(8,754,163)	-	(20,604,350)
Balance as at year end	-	155,320,077	-	37,534,120
Loans and advances				
Balance as at 1 January	-	-	190,000	-
Advances given during the year	-	-	228,000	-
Repayments during the year	-	-	(418,000)	-
Balance as at year end	-	-	-	-

Balances

(Payable) / receivable from Staff Provident Fund

2014 Rupees	2013 Rupees
-------------	-------------

(90,685)	(3,488)
----------	---------

Transactions during the year

Mark-up expense against borrowings from holding company
Disposal of Motor Vehicle to the Chief Financial Officer- Sales proceeds
Rent expense
Key management remuneration
Post retirement benefits
Staff Provident Fund - Company's contribution

15,864,547	6,055,149
-	285,600
325,608	514,876
4,243,548	1,848,000
300,000	76,000
28,372	36,480

2014 (Unaudited) Rupees	2013 (Audited) Rupees
-------------------------	-----------------------

5,205,604	4,075,786
4,013,897	3,687,548
77.11%	90.47%
4,440,687	4,025,010

32. PROVIDENT FUND

Size of the fund (Net Assets)
Cost of Investment made
Percentage of investment made
Fair value of investments

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 2014

	Note	2014 Rupees	2013 Rupees
33. CASH AND CASH EQUIVALENTS			
Cash and bank balances	4	5,520,170	6,033,050
Short term borrowings	16	(155,320,077)	(37,534,120)
		<u>(149,799,907)</u>	<u>(31,501,070)</u>

34. 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.

34.1 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.

34.2 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.

34.2.1 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.

34.2.2 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 2014 is as follows:

Notes to the Financial Statements

For the year ended 31, December 2014

	2014		2013	
	Balance sheet	Maximum exposure	Balance sheet	Maximum exposure
	----- (Rupees) -----			
Bank balances	5,497,075	5,430,567	6,033,050	5,979,471
Investments	3,209,123	3,209,123	3,987,699	1,987,699
Advances	2,129,255	2,129,255	1,282,930	1,282,930
Accrued interest on working capital loans	1,391,293	-	132,771	132,771
Net investment in finance lease	519,173,276	519,173,276	459,876,523	459,876,523
Long term finances and loans	109,905,004	109,905,004	52,877,285	52,877,285
Short term and long term deposits	2,609,050	2,609,050	3,688,235	1,436,122
	643,914,076	642,456,275	527,878,493	523,572,801

34.2.3 Credit ratings and Collaterals

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

	2014	2013
Ratings		
A1+	7.51%	71.65%
A-1+	74.59%	-
A-3	17.36%	28.30%
Others	0.54%	0.05%
	100%	100%

34.2.4 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 2014 against them are as follows:

	Net Exposure	Lower of collateral and gross exposure
Lease Finance		
- Regular	244,470,842	244,470,842
- Non Performing net of provision	274,702,434	274,702,434
	519,173,276	519,173,276
Working Capital Finance		
- Regular	78,682,315	78,682,315
- Non Performing net of provision	30,011,270	30,011,270
	108,693,585	108,693,585

Notes to the Financial Statements

For the year ended 31, December 2014

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.

34.2.5 Impairment losses and past due balances

	2014			
	Total	Loans and receivables	Net investment in finance lease	Impairment recognised
	------(Rupees)-----			
Not past due	325,065,142	78,682,315	246,382,827	-
1 - 179 days	3,369,415	105,889	3,263,526	-
180 days - 1 year	12,165,911	2,399,799	9,766,112	-
More than 1 year	451,610,571	32,558,650	419,051,921	(164,344,178)
	<u>792,211,039</u>	<u>113,746,653</u>	<u>678,464,386</u>	<u>(164,344,178)</u>

	2013			
	Total	Loans and receivables	Net investment in finance lease	Impairment recognised
	------(Rupees)-----			
Not past due	166,022,807	18,738,343	147,284,464	-
1 - 179 days	19,522,890	1,010,699	18,512,191	-
180 days - 1 year	8,709,973	686,965	8,023,008	-
More than 1 year	479,012,902	35,671,676	443,341,226	(162,021,729)
	<u>673,268,572</u>	<u>56,107,683</u>	<u>617,160,889</u>	<u>(162,021,729)</u>

34.2.6 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 2014

Details of Composition of finance lease and finances and loan portfolio of the company are given below:

Category	2014		2013	
	Rupees	Percentage	Rupees	Percentage
Cargo Carriers	55,150,877	5.95%	48,935,942	6.40%
Chemicals & Pharma	47,434,661	5.12%	30,978,112	4.05%
Communication	6,802,623	0.73%	7,573,931	0.99%
Construction And Building Products	27,199,149	2.93%	31,361,502	4.10%
Education	20,689,196	2.23%	13,576,316	1.78%
Engineering	23,372,245	2.52%	13,591,605	1.78%
Entertainment	60,469,756	6.52%	33,444,874	4.37%
Film Processing	65,731,842	7.09%	72,298,273	9.45%
Fisheries	1,285,857	0.14%	1,285,857	0.17%
Food & Beverages	60,287,732	6.51%	53,067,164	6.94%
Furniture	551,872	0.06%	551,872	0.07%
Textile & Garments	125,097,826	13.50%	91,083,662	11.91%
Gems & Jewellery	14,482,865	1.56%	2,202,865	0.29%
Health Care	49,169,081	5.31%	36,008,823	4.71%
Leather & Tannery	15,631,112	1.69%	134,425	0.02%
Miscellaneous	82,993,536	8.96%	63,523,739	8.31%
Oil & Gas	54,241,067	5.85%	34,369,515	4.49%
Rubber & Plastic	26,578,473	2.87%	30,310,156	3.96%
Printing & Packaging	57,318,637	6.18%	80,165,138	10.48%
Public Transport Services	132,284,584	14.27%	120,354,898	15.74%
Grand Total	926,772,991	100.00%	764,818,669	100.00%

34.3 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.

34.3.1 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.

34.3.2 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 2014

Liabilities

Accrued and other liabilities
Short term borrowings
Certificates of investment -
unsecured
Long term finances - secured
Long term deposits
Liabilities against asset subject
to finance lease

	2014			
	Total	Contractual cash flow	Upto one year	More than one year
	----- (Rupees) -----			
Accrued and other liabilities	15,654,125	15,654,125	15,654,125	-
Short term borrowings	155,320,077	155,320,077	155,320,077	-
Certificates of investment - unsecured	-	-	-	-
Long term finances - secured	1,265,489	1,265,489	1,265,489	-
Long term deposits	272,140,223	272,140,223	206,168,322	65,971,901
Liabilities against asset subject to finance lease	3,173,091	3,546,148	1,463,193	2,082,955
	447,553,005	447,926,062	379,871,206	68,054,856

Liabilities

Trade and other payables
Short term borrowings
Certificates of investment -
unsecured
Long term finances - secured
Long term deposits
Liabilities against asset subject
to finance lease

	2013			
	Total	Contractual cash flow	Upto one year	More than one year
	----- (Rupees) -----			
Trade and other payables	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	3,780,839	3,780,839	3,057,259	723,580
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
	324,340,022	324,958,109	266,057,222	58,900,887

34.4 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.

34.4.1 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 2014

34.4.2 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	
	2014 (Rupees)	2013 (Rupees)
Fixed rate instruments		
Financial assets		
Investments	-	2,000,000
Net investments in finance lease	519,173,276	459,876,523
Long term finance and loans	109,905,004	52,877,285
	<u>629,078,280</u>	<u>514,753,808</u>
Financial liabilities		
Certificates of investments	-	200,000
Long term finance	1,265,489	3,780,839
Liabilities against assets subject to finance lease	3,173,091	2,434,992
	<u>4,438,580</u>	<u>6,415,831</u>
Variable rate instruments		
Financial assets		
Bank balances - Saving Accounts	145,541	2,578,803
	<u>145,541</u>	<u>2,578,803</u>
Financial liabilities		
Short term borrowings	155,320,077	37,534,120
	<u>155,320,077</u>	<u>37,534,120</u>

34.4.3 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.

34.4.4 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. 1.551 million (2013: Rs.0.349 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 2013.

The sensitivity analysis prepared as of 31 December 2014 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.

34.4.5 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 2014

	Effective mark-up / interest / profit rate	2014			
		Total	Exposed to mark-up / interest / profit rate risk		
			Upto three months	More than three months and upto one year	More than one year
	%	------(Rupees)-----			
Financial assets					
Cash and bank balances	6 - 7	145,541	145,541	-	-
Investments	11.60 - 14.2	-	-	-	-
Long term finances and loans	5 - 25.44	109,905,004	41,995,925	58,239,992	9,669,087
Net investment in finance lease	9.5 - 25.11	519,173,276	348,764,114	87,826,683	82,582,479
Total financial assets as on 31 December 2014		629,223,821	390,905,580	146,066,675	92,251,566
Financial liabilities					
Short term borrowings	13.44 - 13.96	155,320,077	-	155,320,077	-
Certificates of investment	10.5 - 14	-	-	-	-
Long term finances	5	1,265,489	595,500	669,989	-
Liabilities against asset subject to finance lease	21.53 - 23	3,173,091	350,000	1,050,000	1,773,091
Total financial liabilities as on 31 December 2014		159,758,657	945,500	157,040,066	1,773,091
On balance sheet gap		469,465,164	389,960,080	(10,973,391)	90,478,475
Total interest rate sensitivity gap		469,465,164	389,960,080	378,986,689	469,465,164

	Effective yield / interest / rate %	2013			
		Total	Exposed to yield / interest risk		
			Upto three months	More than three months and upto one year	More than one year
	%	------(Rupees)-----			
Financial assets					
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

Notes to the Financial Statements

For the year ended 31, December 2014

34.5 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Company is not exposed to equity securities price risk as the Company does not hold any equity securities as at 31 December 2014.

A change in one percent increase / decrease in the price of such certificates as on 31 December 2014, with all other variables held constant, the equity of the Company for the year would have been higher / lower by Rs. 32,091 (2013: Rs. 13,094).

35. CAPITAL RISK MANAGEMENT

35.1 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.

35.2 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:

	2014 Rupees	2013 Rupees
Total debt	1,265,489	22,833,702
Total equity	<u>188,445,084</u>	<u>208,201,549</u>
Total capital employed	<u>189,710,573</u>	<u>231,035,251</u>
Gearing ratio	<u>0.67%</u>	<u>9.88%</u>

35.3 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.

36. 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 2014

31 December 2014	Level 1	Level 2	Level 3	Total
Available-for-sale investments				
Government Securities - Special saving certificates	-	-	-	-
Units of Open end Mutual Fund	3,209,123	-	-	3,209,123
	3,209,123	-	-	3,209,123

31 December 2013	Level 1	Level 2	Level 3	Total
Available-for-sale investments				
Government Securities - Special saving certificates	-	2,500,000	-	2,500,000
Units of Close end Mutual Fund	1,987,699	-	-	1,309,433
	1,987,699	2,500,000	-	3,809,433

37. 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.

	2014				Total
	Finance lease	Loans and receivables	Investment	Others	
	----- (Rupees) -----				
Segment revenue	34,942,494	11,120,446	88,622	143,084	46,219,696
Segment profit	32,935,750	10,804,741	13,672	143,084	43,897,247
Segment result					43,897,247
Unallocated cost					
Finance cost					16,535,320
Administrative and operating expenses					37,945,238
					54,480,558
Loss before tax					(10,583,311)
Taxation					(462,197)
Loss after tax					(11,045,508)
Other information					
Segment assets	519,173,276	108,693,585	3,209,123	-	631,075,984
Unallocated assets				27,307,518	27,307,518
Total assets					658,383,502
Segment liabilities	276,402,645	-	-	-	276,402,645
Unallocated liabilities				191,506,650	191,506,650
Total liabilities					467,909,295
Net assets					190,474,207
Capital expenditure	-	-	-	310,266	310,266

Notes to the Financial Statements

For the year ended 31, December 2014

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

37.2 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.

	2013				Total
	Finance lease	Loans and receivables	Investment	Others	
	----- (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

38. NUMBER OF EMPLOYEES

The number of employees as on the year end were 41 and average number of employees during the year were 40

39. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on March 04, 2015 by the Board of Directors of the Company.



Mian Tahir Bashir
Director



Masrur Zulfiqar Ali
Chief Executive Officer

Pattern of Shareholding

As at December 31, 2014

Shareholding		No of Shareholders	Total Shares Held	Percentage %
From	To			
1	-	14	143	-
101	-	195	97,387	0.00
501	-	38	37,425	0.00
1,001	-	41	117,492	0.00
5,001	-	3	26,999	0.00
10,001	-	2	25,500	0.08
15,001	-	2	40,000	0.00
20,001	-	1	22,500	0.07
25,001	-	1	30,000	0.09
45,001	-	3	146,000	0.46
50,001	-	2	105,525	0.33
150,001	-	1	155,000	0.48
220,001	-	1	225,000	0.70
410,001	-	2	820,318	2.56
450,001	-	1	453,000	1.42
600,001	-	1	604,575	1.89
900,001	-	2	1,802,700	5.63
1,230,001	-	1	1,230,477	3.85
1,295,001	-	1	1,298,500	4.06
1,355,001	-	1	1,356,261	4.24
23,405,001	-	1	23,405,198	0.73
		314	32,000,000	100.00

Categories of Shareholders

As at December 31, 2014

Category No.	Categories of	Numbers of Share Held	Category wise No. of Shareholders	Category wise Share Held	Percentage %
1	Individuals		286	849,073	2.65%
2	Joint Stock Companies		12	1,876,560	5.86%
3	Banks, NBFCs, DFIs, Takaful, Pension Funds		5	27,061,525	84.57%
5	Leasing Companies / Modarabas and Mutual Funds		2	1,960,836	6.13%
7	Insurance Companies		1	155,000	0.48%
8	Others		1	46,000	0.14%
9	Executives		1	51,000	0.16%
10	Directors, CEO, their spouses and minor Children		6	6	0.00%
	Mr. Ihsan-ul-Haq Khan	1			0%
	Mrs. Mehnaz Kaludi	1			0%
	Mr. Ali A. Rahim	1			0%
	Mr. Junaid Mohmand	1			0%
	Mian Tahir Bashir	1			0%
	Mr. Atiq-ur-Rehman	1			0%
		Total	314	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 13th Annual General Meeting of the Company to be held on April 24, 2015 and at any adjournment thereof.

Signed this _____ of _____ 2015.
(day) (date, month)

Signature of Member: _____

Folio Number: _____

Number of shares held : _____

Witnesses:

1. _____
2. _____

Please affix
Revenue Stamp

Signature and Company Seal

1. A member entitled to attend and vote at a General meeting is entitled to appoint a Proxy to attend and vote instead of him / her.
2. The instrument appointing a Proxy shall be in writing under the hand of the appointer or of his / her attorney duly authorized in writing, if the appointer is a corporation, under its common seal or the hand of an officer or attorney duly authorized. A Proxy need 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.)