

*Annual Report
2017*



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



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

Mission Statement

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

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

Vision Statement

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



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(A subsidiary of SME Bank Ltd.)

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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

Office No. 805, 8th Floor, Al-Hafeez Heights,
65-D-A, Sir Syed/Ghalib Road, Gulberg III, Lahore.
Phone: 042-35750149, 35751660
Fax: 042-35751661

ISLAMABAD

Office No. 15, 2nd Floor, Rehmat Centre, I-8 Markaz.
Phone: 051-9257524, Fax: 051-9257520

SIALKOT

Chowk Shahab 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

Corporate Information

BOARD OF DIRECTORS

Ms. Mehnaz Saleem - Chairperson
Mr. Ihsan ul Haq Khan
Mr. Bilal Mustafa
Mir Javed Hashmat - CEO
Mr. Mohammad Farrukh Mansoor Malik
Mr. Ateeq Ur Rehman
Mr. Dilshad Ali Ahmad

CHIEF EXECUTIVE OFFICER

Mir Javed Hashmat

AUDIT COMMITTEE

Mr. Ateeq Ur Rehman - Chairman
Mr. Mohammad Farrukh Mansoor Malik - Member
Mr. Bilal Mustafa - Member
Mr. Naeem-ul-Hasan - Committee Secretary

RISK MANAGEMENT COMMITTEE

Mr. Dilshad Ali Ahmad - Chairman
Mr. Ateeq-ur-Rehman - Member
Ms. Mehnaz Saleem - Member
Mr. Naeem-ul-Hasan - Secretary

HUMAN RESOURCE COMMITTEE

Mr. Bilal Mustafa - Chairman
Mr. Dilshad Ali Ahmad - Member
Mir Javed Hashmat - Member
Mr. Ateeq-ur-Rehman - Member
Ms. Mehnaz Saleem - Member
Mr. Adnan Sajar - Committee Secretary



Corporate Information

COMPANY SECRETARY & CFO

Liaquat Ali

EXTERNAL AUDITORS

Grant Thornton Anjum Rahman
Chartered Accountants

INTERNAL AUDITOR

Mr. Naeem-ul-Hasan

TAX CONSULTANT

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

LEGAL ADVISOR

Mohsin Tayebaly & Company,
Advocate & Legal Consultant

CREDIT RATING

Long-term: B + 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, Shakra-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 16th Annual General Meeting

Notice is hereby given that the sixteenth Annual General Meeting of the shareholders of **SME Leasing Limited** (the Company) will be held at Hotel Crown Plaza, Islamabad on Wednesday, April 25, 2018 at 11:00 am to transact the following business:

ORDINARY BUSINESS.

1. To confirm the minutes of the 15th Annual General Meeting of the Company held on April 25, 2017.
2. To receive, consider and adopt the audited Financial Statements of the Company for the year ended December 31, 2017 together with the Directors' and Auditors' Reports thereon.
3. To appoint auditors for the year ending December 31, 2018 and fix their remuneration. The Board of Directors has recommended appointment of M/s. Grant Thornton Anjum Rahman Chartered Accountants as auditors of the Company, for the year ending December 31, 2018.
4. To transact any other business with the permission of the Chair.

By Order of the Board



Liquat Ali
Company Secretary

Karachi: March 30, 2018

Notes:

1. The Register of the members of the Company will remain closed from April 18, 2018 to April 25, 2018 (both days inclusive).
2. A member entitled to attend and vote at the meeting is entitled to appoint another member as proxy to attend, speak and vote in the meeting. Proxies in order to be effective must be received by the company at the main office situated at Office No: 304,3rd Floor, Business Arcade, Shahrah-e-Faisal, Karachi not less than 48 hours before the time of holding the meeting.
3. An instrument appointing proxy and the Power of Attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney, in order to be valid must be deposited at the main office of the company not less than 48 hours before the time of the meeting.
4. CDC account holders will further have to follow the under mentioned guidelines as laid down by the Securities and Exchange Commission of Pakistan

For attending the meeting.

- In case of individuals, the account holder or sub - account holder shall authenticate his/her identity by showing his/her original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting. The shareholders registered on CDS are also requested to bring their participants I.D. numbers and account numbers in CDS.
- In case of a corporate entity, the Board of Directors' resolution /power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of meeting.

For appointing proxies.

- In case of individuals, the account holder or sub - account holder and /or the person whose securities are in group account and their registration details are uploaded as per the regulations, shall submit the proxy form as per the above requirements.
 - The proxy shall be witnessed by two persons whose names, address and CNIC numbers shall be mentioned on the form.
 - Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
 - The proxy shall produce his/her original CNIC or original passport at the time of the meeting.
 - In case of corporate entity, the Board of Directors resolution /power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) along with the proxy form for the meeting.
5. Shareholders are requested to notify the change of their address, if any, at our main office at Office No. 304, 3rd Floor, Business Arcade, Shahra-e-Faisal, Karachi.
6. If the company receives consent from members holding at least 10% shareholding residing at a geographical location to participate in the meeting through video link facility, the company will arrange video link facility in that city. Members holding requisite shareholding should send a duly signed request at least 7 days before the meeting to the Main office of the company at Office No. 304, 3rd Floor, Business Arcade, Shahra-e-Faisal, Karachi.
7. The annual report 2017 has been dispatched at the registered address of all the members. For future, as allowed under S.E.C.P. Notification S.R.O.787(1)/2014, the annual report will be dispatched at the email address of those members who have provided their email address and consent to receive the annual report electronically. For this purpose, a standard request form is available at the company's web site www.smelease.com.

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, 2017.

The Company

SME Leasing Limited ("SLL") was incorporated in Pakistan in July 2002 and acquired the status of listed company in December 2006. SLL is a subsidiary of SME Bank Limited which holds 73.14% of the company's shares. The company is licensed to carry out leasing business as a Non-Banking Finance Company (NBFC) under the Non-Banking Finance Companies Rules issued by SECP.

The core objective of the company is to extend lease and working capital financing facilities to small and medium enterprises of the country.

Operational Review

The working environment remained challenging resulting from funding constraints and tough competition with squeezing margins. During the year the company remained focused on its strategy of recoveries from its portfolio and writing new good quality leases. Total recoveries aggregated Rs.117million whereas new leases of Rs. 104 million were written during the year. The Company has exercised a very cautious approach in its new business with the objective of minimum risk of default. We are pleased to inform that the default ratio in the new business written in last 2.5 years has remained below 1% .

The company has also been managing its expenses in order to curtail its losses to the minimum possible.

Financial Review

	2017 Rupees	2016 Rupees
Gross revenue	27,362,682	37,415,117
Operating Expenses	(50,866,026)	(51,335,889)
Profit/(Loss) before provisions	(23,503,344)	(13,920,772)
Reversal of provisions (Net)	1,326,448	863,862
Profit/(Loss) before taxation	(22,176,896)	(13,056,910)
Taxation:	(333,598)	(325,312)
(Loss) after taxation	(22,510,494)	(13,382,222)
Earnings/(loss) per share - basic and diluted	(0.70)	(0.42)

The revenue from operations declined compared to last year because of maturing leases .The pace of writing new leases was slow in the first half of the year which picked up in the 2nd half and the full impact of new business on the revenues will be reflected in the coming quarters. The decline in other revenue is on account of non-recurring gain on disposal of fixed assets recorded last year. Administrative expenses recorded increase of 6% on account of inflationary increase in salaries, rentals and also due to tariff revision of utilities. The financial charges however reduced compared to last year. Total expenses recorded a marginal decrease.

Economic review

Despite of numerous challenges the economic indicators have shown improvement during the current financial year. Going forward the economy is projected to grow at a faster pace.

External sectors remained under pressure, however recently some signs of improvements seen resulting from increase in exports .The oil prices have shown increase .Going forward, growth in exports and workers remittances shall help ease the pressure on the balance of payments.

Despite of the economic growth, the leasing sector have been facing financial stress in the form of liquidity, unwillingness from commercial banks to lend credit at flexible terms and escalating cost of doing business. Commercial banks are still reluctant in taking exposure on the NBFIs sector. SLL is closely working on the options for resource mobilization to improve liquidity position of the company.

Dividend

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

Minimum equity requirements

Your company being a non-deposit taking entity is fully compliant with the minimum capital requirement of Rs 50 million imposed by SECP.

Future Prospects

In the absence of access to funds from the market other than the line available from the parent bank, the company is solely relying on the internal cash generation through recovery measures which can help us in bringing a steady improvement in the years to come. The management is also working on various funding options from the market based on our past performance and future prospects.

The shareholders are informed that the process of privatization of our parent company "SME Bank" is progressing .Upon successful completion of privatization of the parent company, the majority shareholding in our company will be taken over by the acquirer of SME Bank. This is likely to result in advantage to all the stakeholders .

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, as far as possible within our limited resources .

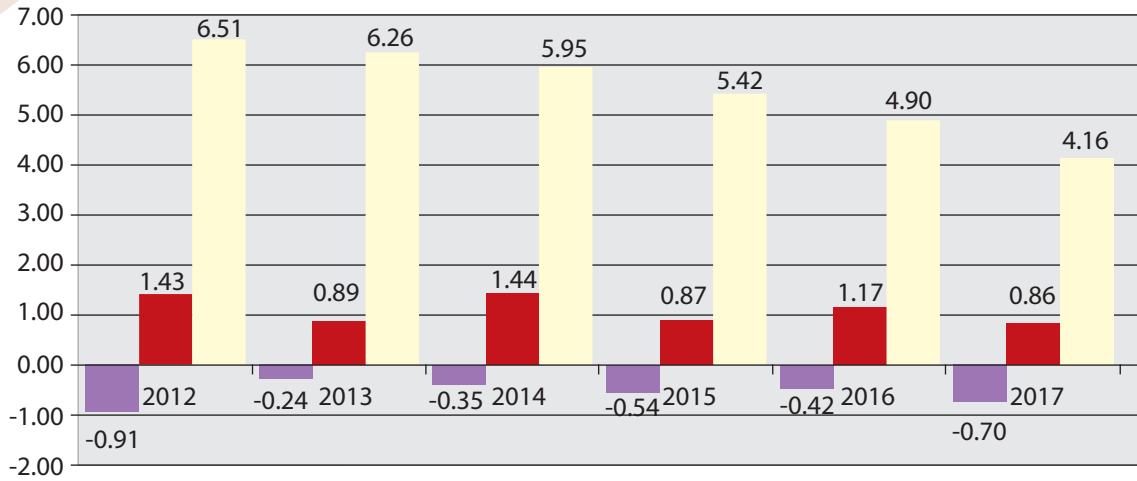
Board of Directors

During the year, Mr.Muhammad Farrukh Mansoor Malik was appointed as a non -executive director . Four meetings of the Board of Directors and Board Audit Committee were held during the year . Detail of the attendance by each member of the Board and Audit Committee are as follows:

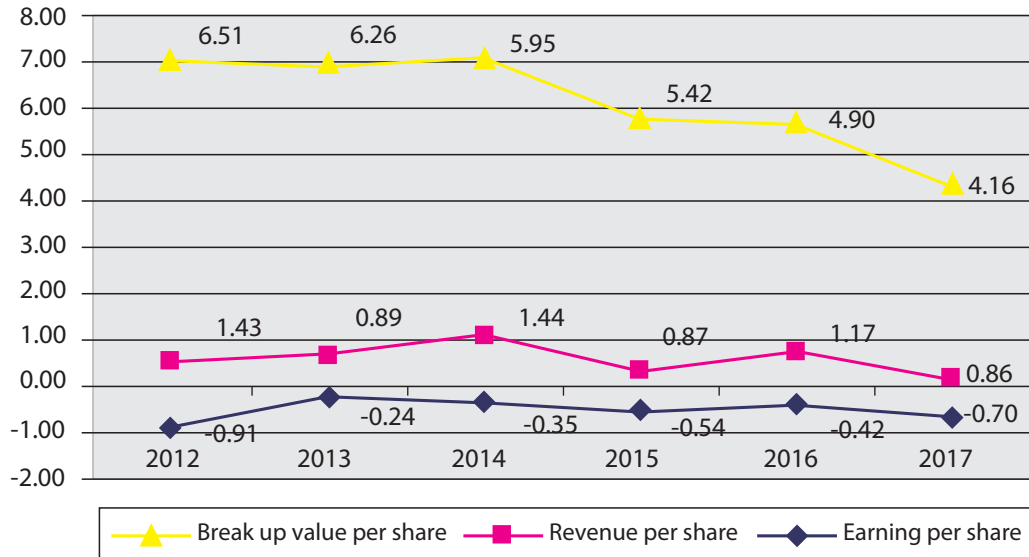
Board of Directors Meetings

Director	Meetings attended	Director	Meetings attended
Mr. Ihsan-ul-Haq Khan	4		
Mr. Dilshad Ali Ahmad	4	Mr. Ateeq Ur Rehman	4
Mr. Muhammad Farrukh Mansoor Malik	3	Ms. Mehnaz Saleem	4
Mr. Bilal Mustafa	4	Mir Javed Hashmat	4

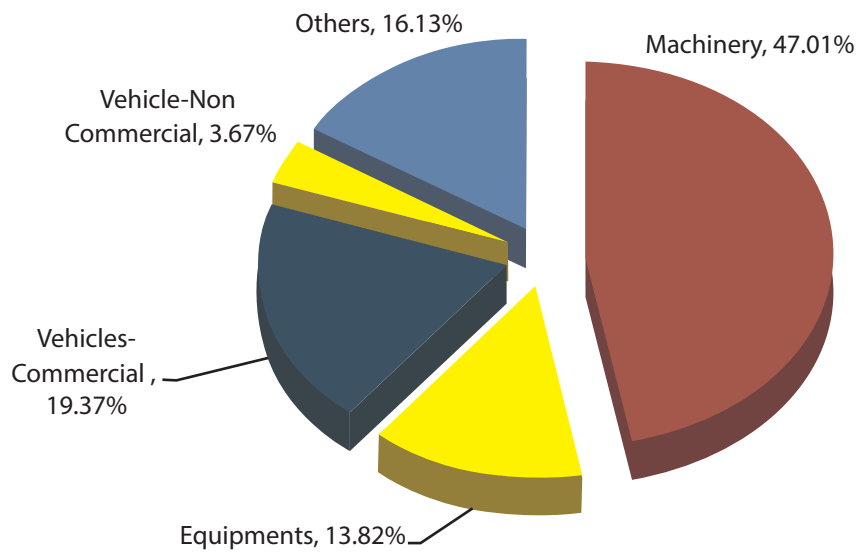
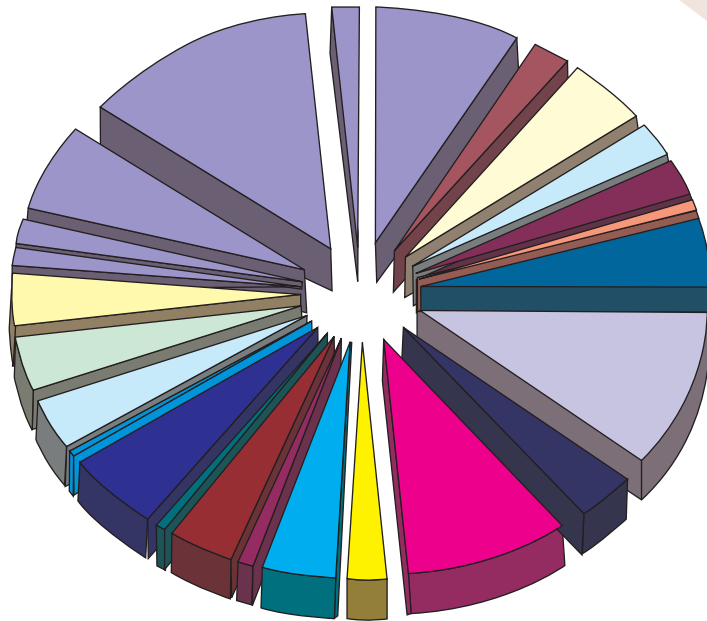
Key Ratios



Key Ratios



■ CARGO CARRIERS	8.08%
■ CHEMICALS	2.13%
■ COMMUNICATION	4.59%
■ CONFECTIONARY	2.34%
■ CONSTRUCTION AND BUILDING PRODUCTS	2.52%
■ DATES	0.75%
■ EDUCATION	4.70%
■ ENGINEERING	10.87%
■ ENTERTAINMENT	3.38%
■ FILM PROCESSING	9.3%
■ FISHERIES	2.14%
■ FOOD AND BEVERAGES	4.14%
■ FURNITURE	0.84%
■ GARMENTS	3.63%
■ GEMS & JEWELERY	0.58%
■ HEALTH CARE	5.38%
■ LEATHER & TANNERY	0.32%
■ MISCELLANEOUS	3.45%
■ OIL & GAS	3.72%
■ RUBBER	3.55%
■ PHARMA	1.2%
■ PLASTIC	1.63%
■ PRINTING & PACKAGING	6.00%
■ PUBLIC TRANSPORT SERVICES	13.28%
■ TEXTILE	1.47%



Audit Committee Meetings

Director	Meetings attended	Director	Meetings attended
Mr. Ateeq Ur Rehman	4		
Mr. Muhammad Farrukh Mansoor Malik	3	Mr. Bilal Mustafa	4

Leave of absence was granted to the Director 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 SLL'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;
- vii) 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.
- viii) 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;
- ix) 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;

- x) Key operating and financial data for last six years in summarized form is included in the Annual report.
- xi) The value of investments of recognized provident fund as at December 31, 2017, was Rs 4.57 million (un-audited) and as at December 31, 2016, was Rs 3.99 million (Audited).
- xii) 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

PACRA has maintained its previous ratings as at 30th June 2017 as under:

- Long term entity rating to B+ (B positive)
- Short term to B with stable outlook.

The ratings as at 31st December 2017 are currently in progress

Parent Company

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

Auditors

The present auditors M/s Grant Thornton Anjum Rahman & Co, Chartered Accountants, retire and being eligible, have offered themselves for re-appointment for the year ending December 31, 2018. On the proposal of Board Audit Committee, the Board recommends the appointment of M/s Grant Thornton Anjum Rahman & Company, Chartered Accountant, as statutory auditors of the company for the year 2018.

Pattern of Shareholding

The pattern of shareholding of the Company as on December 31, 2017, is annexed with this report.

Acknowledgement

We take this opportunity to place on record our appreciation to the Securities and Exchange Commission of Pakistan, Pakistan 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 Saleem
Chairperson

Dated: January 29, 2018

ڈائریکٹرز رپورٹ

ایس ایم ای لیزنگ لمیٹڈ کے بورڈ آف ڈائریکٹرز 31 دسمبر 2017ء کو ختم ہونے والے سال کیلئے سالانہ آڈٹ شدہ مالیاتی حسابات آپ کے سامنے پیش کر رہے ہیں۔

کمپنی کا تعارف:

ایس ایم ای لیزنگ لمیٹڈ (ایس ایل ایل) جس کا قیام پاکستان میں جولائی 2002ء میں ہوا اور دسمبر 2006ء میں یہ ترقی کی منازل طے کرتے ہوئے لمیٹڈ کمپنی کی فہرست میں شامل ہو گئی۔ ایس ایل ایل جو کہ ایس ایم ای بینک سے الحاق شدہ ہے جس میں کمپنی کے 73.14% شیئرز ہیں۔ کمپنی لیزنگ کاروبار بطور نان بینکنگ فنانس کمپنی (این بی ایف سی) کو چلانے کی حامل لائسنس ہے اور یہ کاروبار ایس ایم ای سی پی کی جانب سے جاری کردہ نان بینکنگ فنانس کمپنیز رولز کے تحت ہے۔

کمپنی کے اہم مقاصد میں اس ملک میں چھوٹے اور متوسط انٹرنیشنل پرائز کو لیز اور رکنگ کیپٹل فنانسنگ کی سہولیات فراہم کرنا شامل ہے۔

عملی جائزہ:

فنڈنگ اور دیگر مشکلات کے نتیجے میں اور کام کے ماحول کے چیلنج کے باوجود آپ کی کمپنی نے قرضہ جات اور لیزرز سے ریکوری حاصل کرنے اور نئی لیز لکھنے کی اپنی حکمت عملی پر مسلسل عملدرآمد کیا۔ دوران سال ان ریکوریز کے نتیجے میں پورٹ فولیو سے ملے 117 ملین روپے جبکہ نئی لیزرز سے 104 ملین روپے تحریر میں لائی گئی تھی۔ کمپنی نے ڈیفالٹ کے کم از کم خطرے کے مقصد کے ساتھ اپنے نئے کاروبار میں بہت محتاط نقطہ نظر کا استعمال کیا ہے۔ ہم مطمئن ہیں کہ گزشتہ 2.5 سالوں میں تحریر کئے گئے نئے کاروبار میں ڈیفالٹ کا تناسب 1% ہے۔

کمپنی نے اپنے اخراجات کو کم سے کم اور ممکنہ طور پر اس کے نقصان کو کم کرنے کا انتظام بھی کیا ہے۔

مالیاتی جائزہ:

2016 روپے	2017 روپے	
37,415,117	27,362,682	کل آمدنی
(51,335,889)	(50,866,026)	عملی اخراجات
(13,920,772)	(23,503,344)	نفع/(نقصان)
863,862	1,326,448	پروویژن
(13,056,910)	(22,176,896)	ٹیکس سے قبل نفع/(نقصان)
(325,312)	(333,598)	ٹیکسیشن
(13,382,222)	(22,510,494)	خسارہ بعد از ٹیکس
(0.42)	(0.70)	فی شیئر آمدنی/(خسارہ)۔ بنیادی اور اجمالی

آمدنی میں پچھلے سال سے کمی ہوئی ہے جس کی وجہ بنیادی طور پر لیز میں کمی ہے۔ نئے کاروبار کا آمدنی پر اثر اگلے سال سے ہوگا اس لئے کہ زیادہ تر کاروبار سال کے دوسرے حصہ میں ہوا ہے۔ دیگر آمدنی میں کمی اس لئے نظر آرہی ہے کہ پچھلے سال انسٹومنٹ کے بچنے سے منافع ہوا تھا جو اس سال نہیں ہے۔ اخراجات میں تقریباً 6 فیصد کا اضافہ ہوا لیکن مکمل اخراجات میں کمی واقع ہوئی۔

اقتصادی جائزہ:

موجودہ مالیاتی سال میں پاکستان کی اقتصادی حالت مستقل طور پر ترقی کی جانب ہے اور اقتصادی حالت توقع کے مطابق ہے۔ کئی اقتصادی ماہرین نے موجودہ مالیاتی سال کے دوران بہتری کا اشارہ دیا ہے۔

بیرونی سیکٹر دباؤ کا شکار رہا۔ حال ہی میں ورکرز کی ریٹنس اور بیرونی تجارت میں اضافہ سے کچھ بہتری نظر آئی ہے آگے چل کر ان دو وجوہات کی وجہ سے مزید بہتری کا امکان ہے۔

ملک میں اقتصادی ترقی کے باوجود لیزنگ کمپنیاں لیکوئڈٹی، کمرشل بینک سے عدم رضامندی کے سبب دباؤ کا شکار ہیں۔ کمرشل بینک اب تک این بی ایف آئی سیکٹر پر اعتبار کرنے پر رضامند نہیں ہے۔ ایس ایل ایل جو کہ موہیلانزیشن ذرائع کے لئے کام کر رہی ہے اور مستقل طور پر سرمایہ فراہم کرنے والوں کے ساتھ بات چیت کر رہی ہے تاکہ ان چیلنجز کا مقابلہ کیا جاسکے اور کمپنی کی لیکوئڈٹی پوزیشن کو بھی بہتر بنا سکے۔

ڈویڈنڈ:

بورڈ نے کمپنی کو خسارہ ہونے کی وجہ سے زیر نظر سال کیلئے کسی بھی ڈویڈنڈ کی سفارش نہیں کی ہے۔

کم از کم لیکوئٹی کی ضروریات:

آپ کی کمپنی نان ڈپازٹ کمپنی کی حیثیت سے ایس ای سی پی کی جانب سے سرمایہ کی کم سے کم ضروریات 50 ملین روپے پر مکمل عمل پیرا ہے۔

مستقبل کا نظریہ:

کمپنی ریکوری کے ذریعہ حاصل ہونے والے لیکوئٹی کو نئے کاروبار میں لگا رہی ہے اس کے علاوہ کمپنی کی کوشش ہے کہ نئی کریڈٹ لائن حاصل ہو جائیں۔ اسکے علاوہ ہماری الحاق شدہ کمپنی ایس ای پی کی پرائیویٹائزیشن کا کام جاری ہے۔ بینک کی پرائیویٹائزیشن کے کمپنی پر اچھے اثرات ہو سکتے ہیں۔

ہیومن ریسورسز:

انتظامیہ ماہر ہیومن ریسورسز کے کردار اور اس کی ضرورت کو مکمل طور پر سمجھتی ہے جو کہ کاروبار کے بہتر نتائج حاصل کرنے کے لئے ضروری ہے۔ ہیومن ریسورسز داخلی اور خارجی ٹریننگ پروگرام کے توسط سے عملدرآمد کیا جا رہا ہے تاکہ ہیومن ریسورس کی ترقی میں اضافہ ہو۔

بورڈ آف ڈائریکٹرز:

دوران سال جناب محمد فرخ منصور ملک کا تقرر بطور غیر ایگزیکٹو ڈائریکٹر کیا گیا ہے۔ دوران ال بورڈ آف ڈائریکٹرز اور آڈٹ کمیٹی کی چار میٹنگز منعقد ہوئیں۔

بورڈ اور آڈٹ کمیٹی کے ہر ممبر کی شرکت کی تفصیل درج ذیل ہے:-

بورڈ آف ڈائریکٹرز کی میٹنگ:

میٹنگ میں شرکت کی تعداد	ڈائریکٹرز	میٹنگ میں شرکت کی تعداد	ڈائریکٹرز
4	جناب عتیق الرحمن	4	جناب احسان الحق خان
4	محترمہ مہناز سلیم	4	جناب دلشاد علی احمد
4	میر جاوید حسنت	3	جناب محمد فرخ منصور ملک
		4	جناب بلال مصطفیٰ

آڈٹ کمیٹی کی میٹنگ:

میٹنگ میں شرکت کی تعداد	ڈائریکٹرز	میٹنگ میں شرکت کی تعداد	ڈائریکٹرز
4	جناب بلال مصطفیٰ	4	جناب عتیق الرحمن
		3	جناب محمد فرخ منصور ملک

میٹنگ میں شرکت نہ کرنے والے ڈائریکٹران کو چھٹی دی گئی تھی۔

کارپوریٹ گورننس - پبلک سیلکمپنیز:

بورڈ آف ڈائریکٹرز نے اس بات کا اعادہ کیا ہے کہ کارپوریٹ گورننس کے معیار کو مزید بہتر کیا جائے۔ کمپنی نے پبلک سیلکمپنیز کیلئے کارپوریٹ گورننس کے کوڈ پر بھی عملدرآمد کیا ہے۔ اس سلسلے میں جائزہ کی رپورٹ اور کارپوریٹ گورننس کوڈ پر مشتمل آڈیٹرز کی رپورٹ اس رپورٹ کے ساتھ منسلک ہے۔

کاروباری اصول:

کمپنی کا ضابطہ اخلاق کمپنی کے تمام ملازمین کیلئے تشکیل دیا گیا ہے تاکہ وہ عزت و احترام اور ایمانداری سے بہتر ماحول میں کارکردگی کا مظاہرہ کر سکیں اور کاروباری اصول پر نافذ العمل قوانین کے تحت عملدرآمد کر سکیں۔

ڈائریکٹرز کا اقرار نامہ:

کمپنی کا بورڈ جو کہ اپنی ذمہ داریوں کو اچھی طرح سے سمجھتا ہے اور کارپوریٹ گورننس کے کوڈ کے تحت ہے، اس سلسلے میں قواعد کی تفصیلات اور پبلک سیلکمپنیز (کارپوریٹ گورننس) رولز 2013ء جس کا اجراء سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان نے کیا ہے اور درج ذیل ایس ایم ای ایل کا اقرار نامہ جو کہ کارپوریٹ گورننس کے اعلیٰ معیار کے تحت ہے اور مستقل بہتری کیلئے ہے۔

- ۱- کارپوریٹ گورننس کے متعلقہ اصولوں پر پورا عملدرآمد کیا جا رہا ہے اور وہ رول جس پر عملدرآمد نہیں کیا جا رہا ہے اس کی شناخت کر دی گئی ہے اور اس پر عملدرآمد نہ کرنے کے اسباب بھی بیان کئے گئے ہیں۔
- ۲- مالیاتی حسابات کو ایس ایم ای لیڈنگ لمیٹڈ کی انتظامیہ نے تیار کئے ہیں اور ان حسابات کے امور، اس کے آپریشنز کے نتائج، کمیشن فلو، آمدنی اور ایکویٹی میں تبدیلی سے متعلق حسابات مکمل اور شفاف پیش کئے گئے ہیں۔
- ۳- کمپنی کی بکس آف اکاؤنٹ کو درست رکھنے کا اہتمام کیا گیا ہے۔
- ۴- مناسب اکاؤنٹنگ کی پالیسیز پر بھی عملدرآمد کیا گیا ہے جس میں مالیاتی حسابات اور اکاؤنٹنگ کے تخمینہ کی بنیاد صحیح فیصلے پر ہے۔
- ۵- انٹرنیشنل اکاؤنٹنگ اسٹینڈرڈز جن کا اطلاق پاکستان میں ہے، جو کہ مالیاتی حسابات کی تیاری کیلئے استعمال کئے گئے ہیں۔
- ۶- کمپنی کا داخلی کنٹرول سسٹم مضبوط ہے اور اس پر موثر طور پر عملدرآمد کیا جاتا ہے اور اس کی نگرانی کی جاتی ہے۔
- ۷- بورڈ کے غیر ایگزیکٹو ممبران کی تنخواہوں کو مقرر نہیں کیا گیا ہے اور انہیں ہر مینٹنگ میں شرکت کیلئے مقرر کردہ فیس دی جاتی ہے۔ مذکورہ فیس کا فیصلہ بورڈ کے تمام ممبران مشترکہ طور پر کرتے ہیں۔
- ۸- کمپنی کے کاروباری معاملات کو جاری رکھنے کی اہلیت پر کسی قسم کے کوئی شبہات نہیں ہیں جسے مالیاتی حسابات کے تحریر کردہ نوٹ نمبر 1.2 میں شامل کیا گیا ہے۔
- ۹- کارپوریٹ گورننس کی بہترین پریکٹس سے کوئی اخراج نہیں کیا گیا ہے جس کی تفصیلات کارپوریٹ گورننس کے پبلک سیکٹر کوڈ میں موجود ہے۔
- ۱۰- اہم امور اور گزشتہ چھ سالوں کا مالیاتی ڈیٹا سالانہ رپورٹ میں شامل ہے۔
- ۱۱- سرمایہ کاری کی ویلیو کے حوالے سے پروویڈنٹ فنڈ 31 دسمبر 2017ء کو مبلغ 4.57 ملین روپے (غیر آڈٹ شدہ) اور 31 دسمبر 2016ء کو مبلغ 3.99 ملین روپے (آڈٹ شدہ) تھا۔
- ۱۲- ڈائریکٹر، چیف ایگزیکٹو، چیف فنانشل آفیسر/کمپنی سیکریٹری ان کی زوجات اور چھوٹے بچوں نے دوران سال کمپنی کے شیئرز میں کوئی تجارت نہیں کی۔

کریڈٹ کی ریٹنگ:

پی اے سی آرا نے 30 جون 2017ء میں اپنی گزشتہ ریٹنگ کو برقرار رکھا ہے جو کہ درج ذیل ہے:

- ☆ بنیادی طویل مدتی ریٹنگ B+ (B شیت)
- ☆ مختصر مدتی ریٹنگ B مستحکم نظریہ کے ساتھ۔
- ☆ دسمبر 2017ء کی ریٹنگ پر کام جاری ہے۔

متعلقہ کمپنی:

ایس ایم ای بینک لمیٹڈ اور اس کے نامزدگان کمپنی میں 73.14% شیئر کے حامل ہیں۔

آڈیٹرز:

کمپنی کے موجودہ آڈیٹر میسرز گرانٹ تھورنٹن انجم رحمان اینڈ کمپنی، چارٹرڈ اکاؤنٹینٹس جو کہ ریٹائر ہوئے اور انہوں نے 31 دسمبر 2018ء کیلئے اپنے آپ کو دوبارہ تقرری کیلئے پیش کیا۔ بورڈ آڈٹ کمیٹی کی تجویز پر بورڈ نے میسرز گرانٹ تھورنٹن انجم رحمان اینڈ کمپنی، چارٹرڈ اکاؤنٹینٹس کی تقرری برائے سال 2018ء کی سفارش کی ہے۔

شیئر ہولڈنگ کی ساخت:

مورخہ 31 دسمبر 2017ء کی شیئر ہولڈنگ کی ساخت جو کارپوریٹ گورننس کو درکار ہے وہ اس رپورٹ کے آخر میں منسلک ہے۔

اظہار تشکر:

ہمیں یہ موقع حاصل ہوا ہے کہ ہم سیکورٹیز اینڈ اینڈریج کمیٹی آف پاکستان، پاکستان اسٹاک ایکسچینج اور دیگر اتھارٹیز اور قرض فراہم کرنے والے مالیاتی اداروں سے اظہار تشکر کر سکیں کیونکہ انہوں نے مستقل طور پر پیشہ ورانہ مدد فراہم کی ہے اس کے علاوہ ہم شیئر ہولڈرز کے بھی ہم پر مکمل اعتماد کرنے پر مشکور ہیں۔

ہم اپنے اسٹاف سے بھی اظہار تشکر ریکارڈ پر لانا چاہتے ہیں جنہوں نے ہمارے ساتھ اس ادارے کی ترقی کے لئے نہایت جانفشانی اور محنت سے کام کیا۔

بتوسط بورڈ آف ڈائریکٹرز



مس مہتاب سلیم

چیئر پرسن

مورخہ: 29 جنوری 2018

Chairman's Review Report to the Shareholders

I am pleased to present my report to the shareholders on the performance of **SME Leasing Limited** during the year 2017

The global financial crisis in 2009 adversely impacted the SME Sector in Pakistan. Consequent to this position major portfolio of SME Leasing Limited (SMEL) comprising of small business groups and cottage industries were affected resulting in delayed repayments by the lessees / borrowers .Consequently , a number of leases /financing to these SMEs had to be classified This resulted in increase of losses since 2009 and major contributing factor in the erosion of the equity.. Furthermore, the company's performance was also affected due to non -availability of funds from the market at reasonable rates. Our only source for fresh business is from recycling recoveries and the running finance facility from SME Bank Limited.

The company remained focused on recoveries from both regular and irregular portfolio and utilizing these resources in writing fresh quality business. The Company is exercising a very cautious approach in building a fresh healthy performing and quality risk portfolio with negligible defaults. In 2017, the company has managed to produce cash inflow of Rs. 117 Million through recoveries and settlements including Rs 39 Million from non- performing portfolio and has written new business of Rs 104 Million.

There are following major mitigating factors and the management as also endorsed by the Board, consider that the company will be able to continue its operation as a going concern:

- The management of the company has prepared cash flow projections which reflect that based on financial support by the holding company, the company will be able to continue its operations in the foreseeable future;
- Concerted efforts are being made for the recovery of the non performing leases and loans and finances and recycle these in to good performing leases
- Efforts are being made by the management to reduce the overall cost of the company.

It may also be noted that the privatization Board has approved privatization of our major shareholder SME Bank Limited and the privatization process is currently underway. The position with regards to the post privatization scenario for the company is likely to have a positive impact on the future projections of the company.

Effectiveness of the Board:

The Board and Audit committees have met four times during the year .The Risk Committee met twice whereas the Human Resource and Remuneration Committee had one meeting during the year. The committees operated under their terms of reference approved by the Board. The performance of the Board was evaluated as required under the Regulations. The Board consider that it has effectively played its oversight function operating through the various meetings held during the year.

Mehnaz Saleem
Chairperson

Karachi: 29th January, 2018

Financial Highlights

(Rupees in 000)

Balance Sheet	2017	2016	2015	2014	2013	2012
Paid-up Capital	320,000	320,000	320,000	320,000	320,000	320,000
Total Equity	133,251	156,956	173,373	190,474	200,334	207,886
Gross Lease Receivable	609,310	632,010	676,450	777,084	697,016	718,133
Net Investment in Lease	323,886	342,510	443,243	519,173	459,877	481,606
Long-Term Liabilities	212,158	204,736	58,533	72,553	62,452	64,013
Current Liabilities	132,236	142,075	335,336	395,357	279,299	315,155
Current Assets	81,973	82,160	447,217	427,864	421,028	472,700
Total Assets	477,644	503,767	567,241	658,384	542,085	587,054

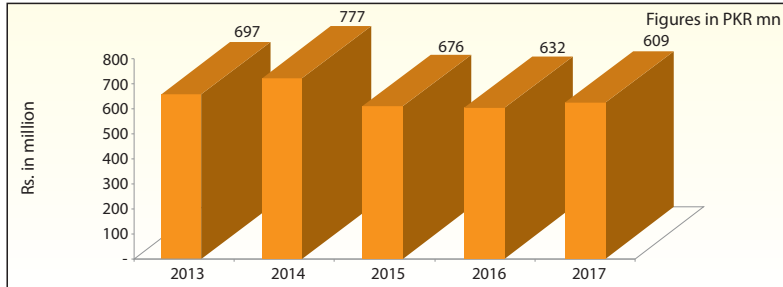
(Rupees in 000)

Income Statement	2017	2016	2015	2014	2013	2012
Lease Income	26,671	32,531	27,700	46,063	26,204	44,906
Total Revenue	27,363	37,415	27,889	46,220	28,392	45,827
Financial Charges	10,318	13,225	17,665	16,535	7,362	20,764
Administrative Expenses	40,548	38,111	38,378	37,945	29,416	40,555
Provisions	(1,326)	(864)	(5,975)	2,322	(954)	13,366
Total Expenses	50,866	51,336	50,068	56,803	35,824	74,685
(Loss) Before Taxation	(22,177)	(13,057)	(21,106)	(10,583)	(7,433)	(28,859)
(Loss) After Taxation	(22,510)	(13,382)	(17,312)	(11,046)	(7,717)	(29,088)

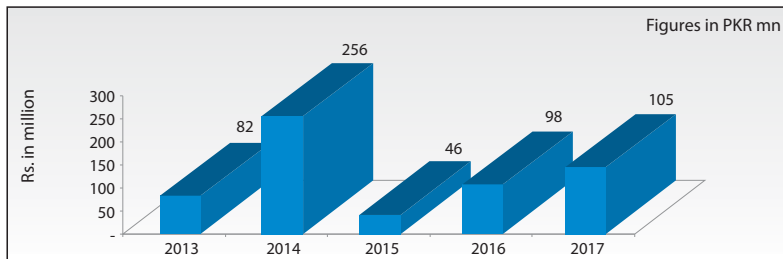
Financial Indicators	2017	2016	2015	2014	2013	2012
Breakup Value (Rs per share)	4.16	4.90	5.42	5.95	6.26	6.51
Current Ratio (X)	0.62	0.58	1.33	1.08	1.51	1.50
Earning Per Share (Rs.)	(0.70)	(0.42)	(0.54)	(0.35)	(0.24)	(0.91)
Financial Charges to Total Exps (%)	20.28	25.76	35.28	29.11	20.55	27.80
Financial Charges to Total Revenue (%)	37.71	35.35	63.34	35.78	25.93	45.31
Income Expense Ratio (Times)	0.52	0.63	0.55	0.81	0.73	0.60
Net Profit Margin (%)	(82.27)	(35.77)	(62.07)	(23.90)	(27.18)	(63.47)
Return on Average Equity (%)	(15.51)	(8.10)	(9.52)	(5.65)	(3.78)	(13.06)
Return to Shareholders (%)	-	-	-	-	-	-
Revenue Per Share (Rs.)	0.86	1.17	0.87	1.44	0.89	1.43

Financial Highlights and Charts

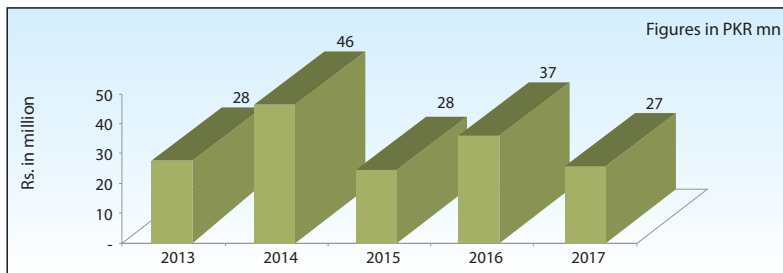
Gross Lease Receivables



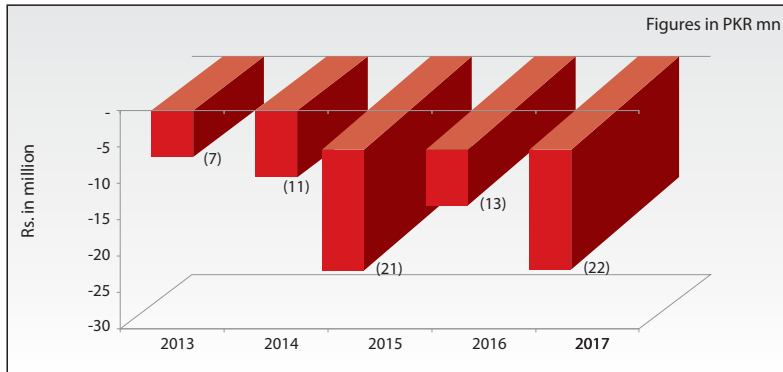
Disbursements



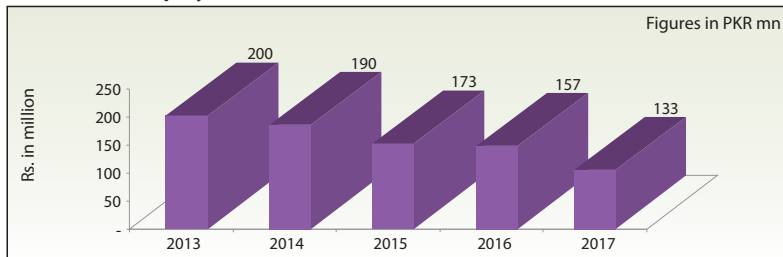
Total Revenue



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 out perform 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 Schedule I

Name of Company: **SME Leasing Limited**

Name of Ministry: **Ministry of Finance**

For the year ended: **Dec 31, 2017**

- 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	Remarks																					
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 31 December 2017 the Board includes:	3(2)	✓																								
	<table border="1"> <thead> <tr> <th>Category</th> <th>Names</th> <th>Date of Appointment</th> </tr> </thead> <tbody> <tr> <td rowspan="3">Independent Directors</td> <td>Mr. Ateeq ur Rehman</td> <td>23-07-2015</td> </tr> <tr> <td>Ms. Mehnaz Saleem</td> <td>23-07-2015</td> </tr> <tr> <td>Mr. Bilal Mustafa</td> <td>13-10-2016</td> </tr> <tr> <td>Executive Director</td> <td>Mr. Mir Javed Hashmat</td> <td>23-07-2015</td> </tr> <tr> <td rowspan="4">Non-Executive Directors</td> <td>Mr. Ihsan ul Haq Khan</td> <td>23-07-2015</td> </tr> <tr> <td>Mr. Dilshad Ali Ahmad</td> <td>23-07-2015</td> </tr> <tr> <td>Mr. Muhammad Farrukh</td> <td>16-01-2017</td> </tr> <tr> <td>Mansoor Malik</td> <td></td> </tr> </tbody> </table>	Category	Names	Date of Appointment	Independent Directors	Mr. Ateeq ur Rehman	23-07-2015	Ms. Mehnaz Saleem	23-07-2015	Mr. Bilal Mustafa	13-10-2016	Executive Director	Mr. Mir Javed Hashmat	23-07-2015	Non-Executive Directors	Mr. Ihsan ul Haq Khan	23-07-2015	Mr. Dilshad Ali Ahmad	23-07-2015	Mr. Muhammad Farrukh	16-01-2017	Mansoor Malik					
Category	Names	Date of Appointment																									
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	Mansoor Malik																										
3.	A casual vacancy occurring on the board was filled up by the directors within ninety days.	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)	✓			Ms. Mehnaz Saleem being independent director was elected as Chairman in the 58th Board Meeting.																					
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	Remarks
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)	✓			Code of Conduct is disseminated through their website and also published in financial statements.
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 anti-corruption 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 investigating 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 a good sold by the Company as a public service obligation, and has 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.	The board has carried out performance evaluation of its members, including the chairman and the chief executive, on the basis of a process, based on specified criteria, developed by it. The board has also monitored and assessed the performance of senior management annually.	8	✓			
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	✓			

S. No.	Provision of the Rules	Rule no.	Y	N	N/A	Remarks																		
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.	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="236 891 948 1458"> <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. Bilal Mustafa Mr.Muhammad Farrukh Mansoor Malik</td> <td>Mr Ateeq-ur-Rehman</td> </tr> <tr> <td>Risk Management Committee</td> <td>Mr. Dilshad Ali Ahmad Mr. Ateeq ur Rehman Ms. Mehnaz Saleem</td> <td>Mr. Dilshad Ali Ahmad</td> </tr> <tr> <td>Human Resource Committee</td> <td>Mr. Bilal Mustafa Mr. Dilshad Ali Ahmad Mir Javed Hashmat Mr.Ateeq-ur-Rehman Ms.Mehnaz saleem</td> <td>Bilal Mustafa</td> </tr> <tr> <td>Procurement Committee</td> <td>-</td> <td>-</td> </tr> <tr> <td>Nomination Committee</td> <td>-</td> <td>-</td> </tr> </tbody> </table>	Committee	Number of members	Name of Chair	Audit Committee	Mr. Ateeq ur Rehman Mr. Bilal Mustafa Mr.Muhammad Farrukh Mansoor Malik	Mr Ateeq-ur-Rehman	Risk Management Committee	Mr. Dilshad Ali Ahmad Mr. Ateeq ur Rehman Ms. Mehnaz Saleem	Mr. Dilshad Ali Ahmad	Human Resource Committee	Mr. Bilal Mustafa Mr. Dilshad Ali Ahmad Mir Javed Hashmat Mr.Ateeq-ur-Rehman Ms.Mehnaz saleem	Bilal Mustafa	Procurement Committee	-	-	Nomination Committee	-	-	12		✓		The CEO evaluated that at present the Company is involved in very limited procurement of day to day items so Board Procurement Committee is not needed. The Board will be directly looking after procurement matters and all transactions in excess of Rs 1 million will be brought to the Board for approval.
Committee	Number of members	Name of Chair																						
Audit Committee	Mr. Ateeq ur Rehman Mr. Bilal Mustafa Mr.Muhammad Farrukh Mansoor Malik	Mr Ateeq-ur-Rehman																						
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Procurement Committee	-	-																						
Nomination Committee	-	-																						
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 Companies Act and the Rules and fully describes the salient matters required to be disclosed.	17	✓																					
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	✓																					

S. No.	Provision of the Rules	Rule no.	Y	N	N/A	Remarks												
28.	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: <table border="1" data-bbox="236 750 946 1075"> <thead> <tr> <th>Name of Member</th> <th>Category</th> <th>Professional Background</th> </tr> </thead> <tbody> <tr> <td>Mr. Ateeq ur Rehman</td> <td>Chairman</td> <td>Businessman/ Member of KCC</td> </tr> <tr> <td>Mr Bilal Mustafa</td> <td>Member</td> <td>A Banker .Last position held: Chief Executive Officer, President and Director of KASB Group</td> </tr> <tr> <td>Mr.Mohammad Farrukh Mansoor Malik</td> <td>Member</td> <td>A chartered Accountant having varied experience</td> </tr> </tbody> </table> The chief executive and chairman of the Board are not members of the audit committee.	Name of Member	Category	Professional Background	Mr. Ateeq ur Rehman	Chairman	Businessman/ Member of KCC	Mr Bilal Mustafa	Member	A Banker .Last position held: Chief Executive Officer, President and Director of KASB Group	Mr.Mohammad Farrukh Mansoor Malik	Member	A chartered Accountant having varied experience	21	✓			
Name of Member	Category	Professional Background																
Mr. Ateeq ur Rehman	Chairman	Businessman/ Member of KCC																
Mr Bilal Mustafa	Member	A Banker .Last position held: Chief Executive Officer, President and Director of KASB Group																
Mr.Mohammad Farrukh Mansoor Malik	Member	A chartered Accountant having varied experience																
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	✓															
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

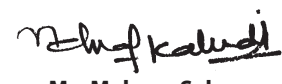
With the Public Sector Companies (Corporate Governance) Rules, 2013

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. The board has set up an effective internal audit function however, qualification criteria for internal auditor is not met for which Company has obtained exemption from SECP.
4. 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.
5. 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.
6. 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.
7. Material/price sensitive information has been disseminated among all market participants at once through stock exchanges.
8. We confirm that all other material principles contained in the CCG have been complied with.



Mir Javed Hashmat
Chief Executive Officer



Ms. Mehnaz Saleem
Chairperson

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 (the Company) for the year ended December 31, 2017 to comply with the requirements of Listing Regulation of Pakistan 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 Rules 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 requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval 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.

Moreover, the Public Sector Companies (Corporate Governance) Rules 2013, requires the Board to ensure compliance with the law as well as the Bank's internal rules and procedures relating to procurement, tender verification, purchasing and technical standards when dealing with suppliers of goods and services in accordance with Public Procurement Regulatory Authority Rules. We hereby only performed our procedures to client's compliance with above mentioned rules on a test basis as a part of our audit of the financial statements of the Company.

Based on our review, nothing has come to our attention which causes us to believe that the 'Statement of Compliance' does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Codes as applicable to the Company for the year ended December 31, 2017 except for the non-compliance of serial no. 22 as explained in the enclosed Statement of Compliance.

Other matter

Since the guidelines were amended by SECP on 29th January 2018 as Public Sector Companies (Corporate Governance Compliance) Guidelines, 2018, therefore the Statement of Compliance prepared by the management is in accordance with the Public Sector Companies (Corporate Governance Compliance) Guidelines, 2013.



Grant Thornton Anjum Rahman
Chartered Accountants
Muhammad Shaukat Naseeb
Engagement Partner

Dated: **January 29, 2018**
Karachi

Auditors' Report to the Members

We have audited the annexed statement balance sheet of SME Leasing Limited (the Company) as at December 31, 2017 and the related profit and loss account, statement of comprehensive income, statement of cash flows and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements'), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with the 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, balance sheet, profit and loss account, statement of comprehensive income, statement of cash flows and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2017 and of the loss, its comprehensive loss, its cash flows and changes in equity for the year then ended; and

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

We draw attention to the note 1.2 to the financial statements which states that the Company incurred loss of Rs. 22.510 million (2016: Rs. 13.382 million) for the year ended December 31, 2017, resulting in accumulated loss of Rs. 235.216 million (2016: Rs. 211.511 million) as at balance sheet date and as of that date the Company's current liabilities exceed its current assets by Rs. 50.273 million (2016: Rs. 59.915 million). These conditions, along with other matters as set forth in the above referred note; indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not qualified in respect of above matters.



Grant Thornton Anjum Rahman
Chartered Accountants
Muhammad Shaukat Naseeb
Engagement Partner

Dated: **February 7, 2018**
Karachi

Balance Sheet

As at 31, December 2017

	Note	31 December 2017	31 December 2016
----- (Rupees) -----			
ASSETS			
Current assets			
Cash and bank balances	5	1,902,743	2,519,445
Advances	6	2,803,744	2,668,119
Deposits, prepayments and other receivables	7	956,092	1,543,998
Accrued interest on loan		9,337	3,752
Current maturity of non current assets	8	76,300,747	75,424,525
Total current assets		81,972,663	82,159,839
Non-current assets			
Long term finances and loans	9	64,098,814	69,285,407
Net investment in leases	10	323,885,669	342,509,622
Long-term deposits and prepayments	11	1,186,898	1,164,435
Fixed assets	12	6,500,443	8,647,726
Total non-current assets		395,671,824	421,607,190
Total assets		477,644,487	503,767,029
LIABILITIES			
Current liabilities			
Accrued and other payables	13	3,697,937	4,166,310
Mark-up accrued on borrowings	14	918,407	959,922
Short term borrowings	15	110,351,822	104,838,931
Current maturity of non current liabilities	16	6,673,233	21,806,739
Provision for compensated absences	17	2,379,069	2,102,277
Taxation net		8,215,355	8,200,925
Total current liabilities		132,235,823	142,075,104
Non-current liabilities			
Long-term deposits	10	205,246,756	199,583,501
Deferred liabilities	18	6,911,306	5,152,857
Total non-current liabilities		212,158,062	204,736,358
Total liabilities		344,393,885	346,811,462
NET ASSETS		133,250,602	156,955,567
FINANCED BY			
Authorized share capital			
100,000,000 (2016: 100,000,000) ordinary shares of Rs. 10 each		1,000,000,000	1,000,000,000
Issued, subscribed and paid-up share capital	19	320,000,000	320,000,000
Reserves		48,466,329	48,466,329
Accumulated loss		(235,215,727)	(211,510,762)
Total shareholder's equity		133,250,602	156,955,567
Contingencies and commitments	20		

The annexed notes from 1 to 36 form an integral part of these financial statements.



Mir Javed Hashmat
Chief Executive Officer



Liaquat Ali
Chief Financial Officer



Dilshad Ali Ahmad
Director

Profit and Loss Account

For the year ended 31, December 2017

	Note	2017 Rupees	2016 Rupees
REVENUE			
Income from leasing operations	21	26,671,176	32,531,160
Other operating income			
Profit on bank account/return on investment	22	4,154	1,790,051
Other income	23	687,352	3,093,906
		691,506	4,883,957
Total Revenue		27,362,682	37,415,117
EXPENSES			
Administrative	24	40,548,391	38,111,121
Finance cost	25	10,317,635	13,224,768
Total expenses		50,866,026	51,335,889
Operating loss before provisions		(23,503,344)	(13,920,772)
PROVISIONS			
Provision for potential lease losses	10.4	(3,065,489)	(4,473,394)
Provision for loans and receivables	9.4	1,739,041	3,609,532
Total provisions		(1,326,448)	(863,862)
LOSS BEFORE TAXATION		(22,176,896)	(13,056,910)
Taxation			
- Current	26	(333,598)	(325,312)
LOSS AFTER TAX		(22,510,494)	(13,382,222)
Loss per share-basic and diluted	27	(0.70)	(0.42)

The annexed notes from 1 to 36 form an integral part of these financial statements.



Mir Javed Hashmat
Chief Executive Officer



Liaquat Ali
Chief Financial Officer



Dilshad Ali Ahmad
Director

Statement of Comprehensive Income

For the year ended 31, December 2017

	Note	2017 Rupees	2016 Rupees
Loss after taxation		(22,510,494)	(13,382,222)
Other Comprehensive income			
Items to be reclassified to profit or loss in subsequent years			
Surplus on revaluation of available-for-sale investment - net		-	-
Actuarial (loss)/ gain on defined benefit obligation	18	(1,194,471) (1,194,471)	67,827 67,827
Items not to be reclassified to profit or loss in subsequent years		-	-
Total comprehensive loss for the year		(23,704,965)	(13,314,395)

The annexed notes from 1 to 36 form an integral part of these financial statements.



Mir Javed Hashmat
Chief Executive Officer



Liaquat Ali
Chief Financial Officer



Dilshad Ali Ahmad
Director

Statement of Cash Flows

For the year ended 31, December 2017

	Note	2017 Rupees	2016 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(22,176,896)	(13,056,910)
Adjustment for:			
Depreciation	24	1,750,080	1,928,441
Gratuity expense	18.2	1,200,314	1,190,713
Finance Cost	25	10,306,292	13,106,021
Profit on bank accounts/ return on investments		(128,999)	(66,060)
Gain on disposal of available for sale investment	22	-	(1,569,478)
Dividend	22	-	(196,624)
Financial charges on leased assets	25	11,343	118,747
Gain on disposal of property and equipment	23	(545,867)	(3,051,795)
Provision for other receivable		-	630,770
Provision for potential lease losses	10.4	(3,065,489)	(4,473,394)
Provision for loans and receivables	9.4	1,739,041	3,609,532
		11,266,715	11,226,873
Operating loss before working capital changes		(10,910,181)	(1,830,037)
Movement in working capital			
(Increase) / decrease in operating assets			
Accrued interest on loan		(5,585)	10,091
Net investment in lease		20,167,640	40,783,976
Finances and loans		3,932,525	14,828,512
Deposits, prepayments & other receivables		587,906	(1,618,216)
Long-term deposits and prepayments		(22,463)	378,887
Advances		(135,625)	(184,025)
		24,524,398	54,199,225
(Decrease) / increase in operating liabilities			
Accrued and other payables		(468,373)	(1,900,433)
Provision for compensated absences		276,792	1,032,376
		(191,581)	(868,057)
Cash generated from operations		13,422,636	51,501,131
Financial charges paid		(10,194,779)	(13,317,528)
Interest income received		134,756	66,060
Gratuity paid		(636,336)	(860,734)
Taxes paid		(319,168)	(311,101)
Long term deposits paid/ (used-in)		(8,868,945)	(20,652,659)
		(19,884,472)	(35,075,962)
Net cash from operating activities		(6,461,836)	16,425,169
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		(111,129)	(1,280,792)
Proceeds from disposal of fixed Assets		1,056,021	384,000
Proceeds from asset held for sale		-	6,650,000
Proceeds from disposal of investment available for sale		-	2,749,479
Dividend income		-	196,624
		944,892	8,699,311
Net cash from investing activities		944,892	8,699,311
CASH FLOW FROM FINANCING ACTIVITIES			
Lease rentals paid		(612,649)	(1,492,651)
Net cash from financing activities		(612,649)	(1,492,651)
Net decrease in cash and cash equivalents		(6,129,593)	23,631,829
Cash and cash equivalents at beginning of the year		(102,319,486)	(125,951,315)
Cash and cash equivalents at end of the year	30	(108,449,079)	(102,319,486)

The annexed notes from 1 to 36 form an integral part of these financial statements.



Mir Javed Hashmat
Chief Executive Officer



Liaquat Ali
Chief Financial Officer



Dilshad Ali Ahmad
Director

Statement of Changes in Equity

For the year ended 31, December 2017

	Capital reserves		Revenue reserves			Total shareholder equity	
	Issued, subscribed and paid-up capital	Share premium	Statutory reserve	Reserve against future losses	Accumulated loss		Surplus / (deficit) on revaluation of available-for-sale investments
----- (Rupees) -----							
Balance as at January 01, 2016	320,000,000	10,000,000	28,019,277	10,447,052	(198,196,367)	3,103,091	173,373,053
Total Comprehensive income for the year ended December 31, 2016							
Loss for the year after taxation	-	-	-	-	(13,382,222)	-	(13,382,222)
Other comprehensive income							
Surplus on revaluation of available-for-sale investments - Net	-	-	-	-	-	(3,103,091)	(3,103,091)
Actuarial gain on obligation	-	-	-	-	67,827	-	67,827
Balance as at December 31, 2016	<u>320,000,000</u>	<u>10,000,000</u>	<u>28,019,277</u>	<u>10,447,052</u>	<u>(211,510,762)</u>	<u>-</u>	<u>156,955,567</u>
Balance as at January 01, 2017	320,000,000	10,000,000	28,019,277	10,447,052	(211,510,762)	-	156,955,567
Total Comprehensive income for the year ended December 31, 2017							
Loss for the year after taxation	-	-	-	-	(22,510,494)	-	(22,510,494)
Other comprehensive income							
Actuarial loss on obligation	-	-	-	-	(1,194,471)	-	(1,194,471)
Balance as at December 31, 2017	<u>320,000,000</u>	<u>10,000,000</u>	<u>28,019,277</u>	<u>10,447,052</u>	<u>(235,215,727)</u>	<u>-</u>	<u>133,250,602</u>

The annexed notes from 1 to 36 form an integral part of these financial statements.



Mir Javed Hashmat
Chief Executive Officer



Liaquat Ali
Chief Financial Officer



Dilshad Ali Ahmad
Director

Notes to the Financial Statements

For the year ended 31, December 2017

1 LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** SME Leasing Limited (the Company) was incorporated in Pakistan on July 12, 2002 as an unlisted public company and acquired the status of a listed company on December 13, 2006. The Company is a subsidiary of SME Bank Limited (the Holding Company), who holds 73.14% (December 31, 2016: 73.14%) of the Company's shares. At the time of incorporation, the Company was a wholly owned subsidiary of SME Bank Limited, whereby under an arrangement the assets and liabilities of the leasing division of SME Bank Limited were transferred to the Company on January 28, 2003. The Company is listed on Pakistan Stock Exchange formerly Lahore Stock Exchange and its registered office is situated at 56-F, Nazim-ul-Din Road F-6/1, Blue Area, Islamabad. The core objective of the Company is to extend lease and working capital financing facilities to small and medium enterprises of the country. The Company obtained license of non deposit taking NBFC and as per section 4(Schedule I) of NBFC Regulations 2008, a non deposit taking NBFC shall have minimum equity of Rs 50 million. The Company being non deposit taking NBFC has complied with said requirement of NBFC Regulations 2008. The PACRA Credit Rating Agency has assigned a long term rating of B+ (2016: BB+) and a short-term rating of B (2016: B) to the Company in the month of July 2017.
- 1.2** The Company has been incurring losses since year ended December 31, 2009 which has resulted in erosion of equity. During the year ended December 31, 2017, the Company has incurred a loss of Rs. 22.510 million (2016: Rs. 13.382 million) which has further increased accumulated losses to Rs. 235.215 million (2016: Rs. 211.511 million) as at the year end. Further, the net assets of the Company amounting to Rs. 133.251 million (2016: Rs. 156.956 million) includes non-performing leases and loans and finances, net of provisions of Rs. 142.755 million (2016: Rs. 163.531 million).

Further the Company is dependent on the running finance facility granted by the holding 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 holding company has applied and obtained relaxation of the aforesaid requirement in respect of its financing to the Company by State Bank of Pakistan, which will expire on June 2018.

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

- The Holding Company has granted a short term running finance facility to the Company amounting to Rs. 150 million (facility renewed on April 19, 2017) out of which Rs. 110.352 million has been utilized as at December 31, 2017 (2016: Rs. 104.838 million). The said facility can be extended to the extent of Rs. 300 million as per the stand-by agreement for finance facility. Holding company has applied 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. Further, holding company has been in the list of privatization by Government of Pakistan. Upon successful completion of privatization of the parent company, the majority shareholding in SME Leasing Limited will be taken over by the acquirer of SME Bank.
- 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. 39.588 million (2016: Rs. 54.104 million) has been recovered.
- Efforts are also being made by the management to reduce the overall cost of the Company.

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.

Notes to the Financial Statements

For the year ended 31, December 2017

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

The Companies Ordinance, 1984 was repealed by enactment of the Companies Act, 2017 (the Act) on May 30, 2017. However, as allowed by Securities & Exchange Commission of Pakistan (the Commission) vide its Circular No. 17 of 2017 dated July 20, 2017, companies whose financial year closes on or before June 30, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. In continuation to the above mentioned Circular, the Commission in view of the difficulties faced by the companies to comply with the provisions of the Act has advised vide Circular No. 23/2017 dated October 04, 2017 that the companies whose financial year closes on or before December 31, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. Therefore, these financial statements for the year ended December 31, 2017 have been prepared in accordance with the requirements of the International Financial Reporting Standards and provisions of and directives issued under the Companies Ordinance, 1984. In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 shall prevail.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that defined benefit liability which is carried at present value. These financial statements are prepared on accrual and cash basis of accounting.

2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is the Company's functional and presentation currency. The figures are rounded off to the nearest rupee.

2.4 Critical accounting 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 associated assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The judgments, estimates and associated assumptions are based on historical experiences, current trends and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the estimates.

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

The significant judgments made by the management in applying the accounting policies and the key sources of estimating uncertainty were the same as those applied to financial statements for the year ended December 31, 2016.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the following:

Notes to the Financial Statements

For the year ended 31, December 2017

- Provision for current and deferred taxation and recognition and measurement of deferred tax assets and liabilities (notes 4.14 and 26).
- Classification and provision of net investment in finance lease and loans and finances (notes 4.6,4.7, 9 and 10).
- Determination and measurement of useful life and residual value of operating fixed assets (note 4.2 and 12).
- Staff retirement benefits (note 4.5 and 18).
- Staff compensated absences (note 17).

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS TO APPROVED ACCOUNTING STANDARDS

3.1 Standards, amendments and interpretations to the published standards that are relevant to the Company and adopted in the current year

The Company has adopted the following new standards, amendments to published standards and interpretations of IFRSs which became effective during the current year.

Standard or Interpretation	Effective Date
IAS 7 - Disclosure Initiative (Amendments to IAS 7)	January 1, 2017
IAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)	January 1, 2017
IFRS 12 - Annual Improvements to IFRS 2014-2016	January 1, 2017

Adoption of the above revisions, amendments and interpretations of the standards have no significant effect on the amounts for the year ended December 31, 2016 and 2017.

3.2 Standards, amendments to published standards and interpretations that are effective but not relevant

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 01, 2017 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations and are therefore not presented here.

3.3 Standards, amendments and interpretations to the published standards that are relevant but not yet effective and not early adopted by the Company

The following new standards, amendments to published standards and interpretations would be effective from the dates mentioned below against the respective standard or interpretation.

Standard or Interpretation	Effective Date
IFRS 1 and IAS 28 - Annual Improvements to IFRSs 2014-2016	January 1, 2018
IFRS 16 - Leases	January 1, 2019
IFRS 15 - Revenue from Contracts with Customers	July 1, 2018
IFRS 9 - Financial Instruments	July 1, 2018
IFRIC 23 - Uncertainty over Income Tax Treatments	January 1, 2019
Annual Improvements to IFRSs 2015 - 2017 Cycle	January 1, 2019
IFRS 9 - Prepayment Features with Negative Compensation (Amendments to IFRS 9)	January 1, 2019

The Company is in the process of assessing the impact of these Standards, amendments and interpretations to the published standards on the financial statements of the Company.

Notes to the Financial Statements

For the year ended 31, December 2017

3.4 Standards, amendments and interpretations to the published standards that are not yet notified by the Securities and Exchange Commission of Pakistan (SECP)

Following new standards have been issued by the International Accounting Standards Board (IASB) which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard or Interpretation	IASB effective date (Annual periods beginning on or after)
IFRS 14 - Regulatory Deferral Accounts	January 1, 2016
IFRS 16 - Leases	January 1, 2019
IFRS 17 - Insurance Contracts	January 1, 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied in preparation of these financial statements, unless otherwise stated.

4.1 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.

4.2 Fixed assets

4.2.1 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 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 recognized 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.

4.2.2 Intangible

These are stated at cost less accumulated amortization and impairment losses, if any. Amortization is charged using the straight line method over its estimated useful life at the rate specified in note 12.3 after taking into account residual value, if any. The residual values, useful lives and amortization methods are reviewed and adjusted, if appropriate at each balance sheet date.

Amortization on additions is charged from the month the assets are put to use while no amortization 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.

Notes to the Financial Statements

For the year ended 31, December 2017

4.3 Assets acquired 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.

4.4 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 recognized in profit or loss account.

4.5 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 % of basic salary. The contributions are recognized as employee benefit expense when they become due.

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

Employees' compensated absences

The Company accounts for its liability towards accumulating compensated absences, when the employees render service that increase their entitlement to future compensated absences.

Defined benefit plan

The Company operates an unapproved and unfunded gratuity scheme covering all of its permanent employees who have completed the qualifying period under the scheme. The scheme is administered by the trustees and contributions therein are made in accordance with the actuarial recommendations.

The valuation in this regard is carried out at each year end, using the Projected Unit Credit Method for the valuation of the scheme. Remeasurement of the defined benefit liability, which comprises of actuarial gains and losses are recognized immediately in other comprehensive income based on actuarial gains and losses.

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.

4.6 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 derecognized and the present value of the lease receivable is recognized on the balance sheet. The difference between the gross lease receivables and the present value of the lease receivables is recognized as unearned finance income. A receivable is recognized at an amount equal to the present value of the minimum lease payments under the lease agreements, including guaranteed residual value, if any.

Notes to the Financial Statements

For the year ended 31, December 2017

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 recognized 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

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

4.7 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.

4.8 Financial assets and liabilities

All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument and derecognized 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, long term finances and loans, net investment in finance leases, deposits and other receivables.

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

4.9 Investments

All investments are initially recognized 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 recognized 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 premeasured 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 recognized directly in equity. Gains or losses on revaluation of available-for-sale investments are recognized 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 account.

All investments classified as available-for-sale are initially recognized 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.

Notes to the Financial Statements

For the year ended 31, December 2017

Subsequently, these are measured at amortized 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 amortized 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.

4.10 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 recognized at fair value plus any related transaction costs directly attributable to the acquisition. Subsequent to initial recognition, they are carried at amortized cost.

4.11 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 recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the profit and loss account.

4.12 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently premeasured 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 recognized in the profit and loss account.

4.13 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 recognized amount and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

4.14 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 realization 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 recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Notes to the Financial Statements

For the year ended 31, December 2017

4.15 Provisions

A provision is recognized 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.

4.16 Long term finances

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

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

4.17 Revenue recognition

- The Company follows the finance lease method in accounting for the recognition of lease income. Under this method, the unearned lease income i.e. the excess of gross lease rentals and the estimated residual value over the cost of the leased assets is deferred and taken to income over the term of the lease contract, so as to produce a systematic return on the net investment in finance lease. Unrealized 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 realized.
- Income on investments is accounted for on accrual basis.
- Dividend income is recognized when the right to receive the dividend is established.
- Income on loans and finances is accounted for on accrual basis using effective interest method.
- Unrealized lease income and unrealized 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.

4.18 Earnings / (loss) per share

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

4.19 Dividend distribution and transfer between reserves

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

4.20 Capital and Revenue reserves

Share premium

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

Notes to the Financial Statements

For the year ended 31, December 2017

Statutory reserves

In accordance with the requirements of the NBFC Regulations, an amount of not less than 20 % 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 (2016: 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 recognized as an appropriation of retained earnings. Any credits resulting from reduction of such amounts result in an increase in unappropriated profit and are not included in the determination of profit and loss for the period. The amount to be set aside against future losses is determined at the rate of 0.5 % 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 December 31, 2017.

4.21 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting structure. Management monitors operating results of its business units separately for the purpose of making decisions regarding resources allocation and performance assessment. Segment results, assets and liabilities include item directly attributable to segment as well as those that can be allocated on a reasonable basis.

	Note	2017 Rupees	2016 Rupees
5 CASH AND BANK BALANCES			
Balances with State Bank of Pakistan in current account		21,642	23,431
Balances with banks:			
- in current accounts	5.1	1,733,001	2,300,218
- in saving accounts	5.2	81,688	139,384
Cash in hand		66,412	56,412
		1,902,743	2,519,445

5.1 These include balance with related party amounting to Rs. 0.056 million (2016: Rs. 0.210 million)

5.2 These carry profit rate of 3.5% per annum (2016: 4% per annum)

	Note	2017 Rupees	2016 Rupees
6 ADVANCES - considered good			
Advances to:			
- employees	6.1	805,048	719,487
- others		1,998,696	1,948,632
		2,803,744	2,668,119

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

Notes to the Financial Statements

For the year ended 31, December 2017

	Note	2017 Rupees	2016 Rupees
7 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Security deposits against assets acquired under - lease arrangements		-	428,600
Prepayments		847,129	1,070,812
Advance payment to provident fund		43,963	-
Other receivable		1,769,706	1,749,292
		<u>2,660,798</u>	<u>3,248,704</u>
Less: Provision for other receivables	7.1	<u>(1,704,706)</u>	<u>(1,704,706)</u>
		<u>956,092</u>	<u>1,543,998</u>
7.1 Provision for other receivables			
Balance at the beginning of the year		1,704,706	1,073,936
Provision for the year		-	630,770
Balance at the end of the year		<u>1,704,706</u>	<u>1,704,706</u>
8 CURRENT MATURITY OF NON CURRENT ASSET			
Current portion of:			
- Long term finances and loans	9	10,517,139	11,002,112
- Net investment in finance leases	10	65,783,608	64,422,413
		<u>76,300,747</u>	<u>75,424,525</u>
9 LONG TERM FINANCES AND LOANS - Secured			
Related parties - considered good - employees	9.1 & 9.2	1,884,251	1,361,073
Others			
Customers			
- considered good	9.3	18,135,402	17,873,824
- considered doubtful		65,384,674	70,101,955
		83,520,076	87,975,779
Less: Provision for doubtful finances and loans - net	9.4	(10,788,374)	(9,049,333)
		<u>72,731,702</u>	<u>78,926,446</u>
		74,615,953	80,287,519
Less: Current maturity			
Related parties - employees		(390,984)	(250,000)
Other than related parties - customers		(10,126,155)	(10,752,112)
		<u>(10,517,139)</u>	<u>(11,002,112)</u>
	9.5	<u>64,098,814</u>	<u>69,285,407</u>
9.1 Movement in loan to employees			
Opening balance at the beginning of the year		1,361,073	613,458
Disbursements		523,178	963,500
Repayments		-	(215,885)
Closing balance at the end of the year		<u>1,884,251</u>	<u>1,361,073</u>

Notes to the Financial Statements

For the year ended 31, December 2017

9.2 These represent housing loans and car 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 favor of the Company. Car loans are secured by the title of car in the Company's name. These loans carry mark-up at 5% to 7% (2016: 5% to 7%) per annum.

9.3 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 9.5% to 27% (2016: 11.5% to 27.02%) per annum.

9.4 Provision for doubtful finances and loans - net

Balance at the beginning of the year
Provision for the year
Reversal for the year

Balance at the end of the year

Note	2017 Rupees	2016 Rupees
	9,049,333	5,439,801
	2,201,274	3,740,916
	(462,233)	(131,384)
	1,739,041	3,609,532
	10,788,374	9,049,333

9.5 This includes non performing loans of Rs. 54.601 million (2016: Rs. 62.032 million)

10 NET INVESTMENT IN FINANCE LEASES

Net investment in finance leases
Current portion shown under current assets

Note	2017 Rupees	2016 Rupees
10.1	389,669,277	406,932,035
	(65,783,608)	(64,422,413)
	323,885,669	342,509,622

10.1 Net investment in finance leases

	2017			2016		
	Total	One to five year	Not later than five year	Total	One to five year	Not later than five year
----- (Rupees) -----						
Minimum Lease payments	397,763,577	325,363,245	72,400,332	411,595,179	356,671,501	54,923,678
Add : Residual Value of Leased Assets 10.2	211,546,756	205,246,756	6,300,000	220,415,701	199,583,501	20,832,200
Gross Investment in Leases	609,310,333	530,610,001	78,700,332	632,010,880	556,255,002	75,755,878
Unearned lease Income	(20,861,514)	(7,944,790)	(12,916,724)	(19,615,984)	(8,282,519)	(11,333,465)
Markup held in Suspense Account	(53,389,040)	(53,389,040)	-	(57,006,870)	(57,006,870)	-
	(74,250,554)	(61,333,830)	(12,916,724)	(76,622,854)	(65,289,389)	(11,333,465)
	535,059,779	469,276,171	65,783,608	555,388,026	490,965,613	64,422,413
Provision for potential lease losses 10.4	(145,390,502)	(145,390,502)	-	(148,455,991)	(148,455,991)	-
Net Investment in Finance leases	389,669,277	323,885,669	65,783,608	406,932,035	342,509,622	64,422,413

Notes to the Financial Statements

For the year ended 31, December 2017

10.1.1 The internal rate of return (IRR) on lease contract receivable ranges from 9.5% to 27.02% per annum (2016: 8.42% to 28.01% per annum).

10.1.2 This include amount receivable in respect of non performing leases of Rs. 236.198 million (2016: Rs. 263.436 million)

10.2 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. 139.817 million (2016: Rs. 147.31 million).

Based on the NBFC Regulation, the aggregate net exposure in finance lease against which income suspension is required amounted to Rs. 152.253 million (2016: Rs. 250.01 million).

10.3 Lease rentals received during the year aggregate to Rs. 117.180 million (2016: Rs. 145.305 million). Lease disbursed during the year amounts to Rs. 74.558 million (2016: Rs. 80.226 million).

	Note	2017 Rupees	2016 Rupees
10.4 Provision for potential lease losses			
Balance at the beginning of the year		148,455,991	152,929,385
Provision for the year		4,425,231	1,205,348
Reversed during the year	10.4.1	(7,490,720)	(5,678,742)
Net charge		(3,065,489)	(4,473,394)
Balance at the end of the year		145,390,502	148,455,991

10.4.1 This includes amount written off amounting to Rs. Nil (2016: Rs. 248,876).

	Note	2017 Rupees	2016 Rupees
11 LONG TERM DEPOSITS AND PREPAYMENTS			
Other deposits		782,222	782,222
Prepayments		404,676	382,213
		1,186,898	1,164,435
12 FIXED ASSETS			
Property and equipment	12.1	6,189,293	8,100,442
Intangible assets	12.3	311,150	547,284
		6,500,443	8,647,726

Notes to the Financial Statements

For the year ended 31, December 2017

12.1 Property and Equipment

	COST			Depreciation Rate %	ACCUMULATED DEPRECIATION				BOOK VALUE		
	As at 1 January 2017	Additions/ Transfer	Deletion		As at Dec 31, 2017	As at January 1, 2017	For the year	On disposal		Transfer	As at Dec 31, 2017
Owned											
Furniture and fixtures	1,508,383	88,495	-	1,596,878	20	935,003	146,047	-	-	1,081,050	515,828
Office equipment	1,179,864	-	-	1,179,864	15	818,568	80,685	-	-	899,253	280,611
Building improvements	750,933	-	-	750,933	33.33	747,533	3,400	-	-	750,933	-
Office premises	9,514,190	-	-	9,514,190	5	4,262,708	475,710	-	-	4,738,418	4,775,772
Computers	1,429,436	22,634	-	1,452,070	33.33	1,204,127	123,020	-	-	1,327,147	124,923
Owned Vehicles	5,618,150	2,143,000	(1,664,100)	6,097,050	20	4,916,658	575,633	(1,153,467)	1,266,067	5,604,891	492,159
Leased											
Vehicles	2,143,000	-	(2,143,000)	-	20	1,158,917	107,150	-	(1,266,067)	-	-
	22,143,956	2,254,129	(3,807,100)	20,590,985		14,043,514	1,511,645	(1,153,467)	-	14,401,692	6,189,293

Notes to the Financial Statements

For the year ended 31, December 2017

	COST			Depreciation Rate	ACCUMULATED DEPRECIATION					BOOK VALUE
	As at 1 January 2016	Additions/ Transfer	Deletion		As at January 1, 2016	For the year	On disposal	Transfer	As at Dec 31, 2016	
	----- (Rupees) -----			%	----- (Rupees) -----					
Owned										
Furniture and fixtures	1,814,214	468,700	(774,531)	20	1,655,631	53,903	(774,531)	-	935,003	573,380
Office equipment	1,329,903	18,810	(168,849)	15	903,084	82,114	(166,630)	-	818,568	361,296
Building improvements	784,969	-	(34,036)	33.33	740,860	40,709	(34,036)	-	747,533	3,400
Office premises	9,514,190	-	-	5	3,786,988	475,720	-	-	4,262,708	5,251,482
Computers	1,672,825	93,282	(336,671)	33.33	1,406,819	133,979	(336,671)	1,204,127	225,309	701,492
Owned Vehicles	4,250,184	1,732,500	(364,534)	20	3,956,369	198,699	(364,534)	1,126,124	4,916,658	
Leased										
Vehicles	19,366,285	2,313,292	(1,678,621)		12,449,751	985,124	(1,676,402)	1,126,124	12,884,597	7,116,359
	3,875,500	(1,732,500)	-	20	1,509,940	775,101	-	(1,126,124)	1,158,917	984,083
	23,241,785	580,792	(1,678,621)		13,959,691	1,760,225	(1,676,402)	-	14,043,514	8,100,442

Notes to the Financial Statements

For the year ended 31, December 2017

12.2 Particulars of disposal of property and equipment

Particulars	Cost	WDV	Sale proceeds	Gain on disposal	Mode of disposal	Particulars of buyers
Owned vehicles	570,100	-	400,000	400,000	Tender	Mr. Muneeb Suhail
Owned vehicles	1,094,000	510,533	656,400	145,867	Company policy	Mr. Osama Iqbal/Chief Financial Officer
December 31, 2017	<u>1,664,100</u>	<u>510,533</u>	<u>1,056,400</u>	<u>545,867</u>		
December 31, 2016	<u>1,678,617</u>	<u>2,219</u>	<u>384,000</u>	<u>381,781</u>		

12.3 Intangible Assets

	2017							
	Cost			Accumulated Amortisation			Net book value at December 31, 2017	Amortization rate (%)
	As at 1 January 2017	Additions	As at 31 December 2017	As at January 1, 2017	Charge for the year	As at 31 December 2017		
Software licenses and licenses	<u>1,507,142</u>	<u>-</u>	<u>1,507,142</u>	<u>959,858</u>	<u>236,134</u>	<u>1,195,992</u>	<u>311,150</u>	<u>33%</u>

	2016							
	Cost			Accumulated Amortisation			Net book value at December 31, 2016	Amortization rate (%)
	As at 1 January 2016	Additions	As at 31 December 2016	As at January 1, 2016	Charge for the year	As at 31 December 2016		
Software licenses and licenses	<u>807,142</u>	<u>700,000</u>	<u>1,507,142</u>	<u>791,642</u>	<u>168,216</u>	<u>959,858</u>	<u>547,284</u>	<u>33%</u>

Note	2017 Rupees	2016 Rupees
------	-------------	-------------

13 ACCRUED AND OTHERS PAYABLES

Accrued liabilities	479,059	505,935
Rentals received in advance	-	317,928
Payable on termination / maturity of leases	320,750	316,120
Insurance payable	2,380,823	2,683,735
Unclaimed dividend	20,629	20,629
Sales tax payable	2,360	-
Others	494,316	321,963
	<u>3,697,937</u>	<u>4,166,310</u>

Notes to the Financial Statements

For the year ended 31, December 2017

	Note	2017 Rupees	2016 Rupees
14 ACCRUED MARK-UP ON BORROWINGS			
Interest accrued on:			
- Short term borrowings	14.1	<u>918,407</u>	<u>959,922</u>

14.1 The amount represents accrued interest payable to the holding company.

15 SHORT TERM BORROWING

The Company has a running finance facility available from the holding company amounting to Rs. 150 million (2016: Rs.150 million) at mark-up rates ranging between 9.96% to 9.97% (2016: 9.96% to 10.71%) 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 (2016: Rs. 300 million) as per the stand-by agreement for finance facility.

16 CURRENT MATURITY OF NON-CURRENT LIABILITIES

	Note	2017 Rupees	2016 Rupees
Long term finance	16.1	<u>373,233</u>	373,233
Liabilities against assets subject to finance lease		-	601,306
Long term deposits	10.1	<u>6,300,000</u>	<u>20,832,200</u>
		<u>6,673,233</u>	<u>21,806,739</u>

16.1 This represents balance due against financing facilities amounting to Rs. 0.373 million (2016: Rs. 0.373 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.

17 PROVISION FOR COMPENSATED ABSENCES

Changes in present value of defined benefit obligations

	Note	2017 Rupees	2016 Rupees
Present value of defined benefit obligations- Opening		<u>2,102,277</u>	1,069,901
Current service cost		<u>856,037</u>	674,304
Past service cost (credit)		-	1,029,358
Interest cost on defined benefit obligation		<u>144,819</u>	66,808
Benefits paid		<u>(1,155,733)</u>	(803,641)
Remeasurement			
- Actuarial gains from changes in financial assumptions		<u>(3,799)</u>	-
- Experience adjustments		<u>435,468</u>	65,547
Present value of defined benefit obligations- Closing		<u>2,379,069</u>	<u>2,102,277</u>

Expenses to be charged to Profit and Loss account

	Note	2017 Rupees	2016 Rupees
Current service cost		<u>856,037</u>	674,304
Past service cost		-	1,029,358
Experience adjustments		<u>435,468</u>	65,547
Actuarial gains from changes in financial assumptions		<u>(3,799)</u>	-
Interest cost on defined benefit obligation		<u>144,819</u>	66,808
Expense chargeable to profit and loss account	24.1	<u>1,432,525</u>	<u>1,836,017</u>

Changes in net liability

	Note	2017 Rupees	2016 Rupees
Balance sheet liability- Opening		<u>2,102,277</u>	1,069,901
Expenses chargeable to Profit and loss account		<u>1,432,525</u>	1,836,017
Benefits paid		<u>(1,155,733)</u>	(803,641)
Balance sheet liability- Closing		<u>2,379,069</u>	<u>2,102,277</u>

Notes to the Financial Statements

For the year ended 31, December 2017

18 DEFERRED LIABILITIES

The Company operates an unapproved and unfunded gratuity scheme for all of its permanent employees. Number of employees covered under the scheme are 33 (2016: 28).

Principal actuarial assumptions

The latest actuarial valuation of the gratuity scheme was carried out on December 31, 2017 by Nauman Associates using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme:

		2017	2016
Valuation Discount rate		8.25%	9.50%
Expected long term rate of increase in salary level		8.25%	9.50%
18.1 Liability in balance sheet	Note	Rupees	Rupees
Present value of defined benefit obligation	18.2	<u>6,911,306</u>	<u>5,152,857</u>
18.2 Movement in liability during the year			
Balance as at January 01, 2017		5,152,857	4,890,705
Charged to profit and loss account		1,200,314	1,190,713
Remeasurements chargeable in other comprehensive income		1,194,471	(67,827)
Benefits paid during the year		(636,336)	(860,734)
Balance as at December 31, 2017		<u>6,911,306</u>	<u>5,152,857</u>
18.3 Reconciliation of the present value of defined benefit obligations			
Present value of obligations as at January 01, 2017		5,152,857	4,890,705
Current service cost		741,019	744,679
Interest cost		459,295	446,034
Benefits paid during the year		(636,336)	(860,734)
Remeasurements loss / (gain) chargeable in other comprehensive income		1,194,471	(67,827)
Present value of obligations as at December 31, 2017		<u>6,911,306</u>	<u>5,152,857</u>
18.4 Charge for the year			
Current services cost		741,019	744,679
Interest cost		459,295	446,034
		<u>1,200,314</u>	<u>1,190,713</u>
18.5 Re-measurements recognized in other comprehensive income			
Actuarial losses on obligation		(10,435)	(3,674)
Experience adjustment		1,204,906	(64,153)
Total re-measurements recognized in other comprehensive income		<u>1,194,471</u>	<u>(67,827)</u>

Notes to the Financial Statements

For the year ended 31, December 2017

18.6 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	6,911,306	8.3%
1% increase	6,359,977	9.3%
1% decrease	7,555,894	7.3%
Salary increase rate effect		
Original liability	6,911,306	8.3%
1% increase	7,558,397	9.3%
1% decrease	6,347,314	7.30%

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.

18.7 Maturity profile

The weighted average duration of the obligation (in years)

2017	2016
9	11

19 ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

2017 (Number of shares)	2016		2017 Rupees	2016 Rupees
10,100,000	10,100,000	Ordinary shares of Rs. 10 each issued as fully paid in cash	101,000,000	101,000,000
19,900,000	19,900,000	Ordinary shares of Rs. 10 each issued as fully paid for consideration other than cash	199,000,000	199,000,000
2,000,000	2,000,000	Ordinary shares of Rs 10 each issued as fully paid bonus shares	20,000,000	20,000,000
32,000,000	32,000,000		320,000,000	320,000,000

19.1 At December 31, 2017, The holding company and its nominees hold 73.14% (2016: 73.14%) ordinary shares of the Company.

20 CONTINGENCY AND COMMITMENTS

20.1 Contingencies

There are no contingencies as at year end except disclosed in Note 26.2 of the financial statements (2016: Nil)

Notes to the Financial Statements

For the year ended 31, December 2017

	Note	2017 Rupees	2016 Rupees
20.2 Commitments			
20.2.1 Lease disbursements	20.2.1	9,750,000	2,300,000
20.2.1.1 This represents those lease and finances which have been approved by the Company as at the year end.			
20.2.2 Commitments in respect of rent agreement are as follows:			
Not later than one year		2,177,549	1,981,474
Later than one year but not later than five years		684,342	622,125
		2,861,891	2,603,599
21 INCOME FROM OPERATIONS			
Leases			
Income from finance leases		21,883,371	23,066,962
Income on finances and loans to customers		4,787,805	9,464,198
		26,671,176	32,531,160
22 PROFIT ON BANK ACCOUNTS / RETURN ON INVESTMENTS			
Profit on redemption of Namco Mutual Fund		-	1,569,478
Profit on bank accounts		4,154	23,949
Dividend income		-	196,624
		4,154	1,790,051
23 OTHER INCOME			
Income from financial assets			
Mark-up on loans to employees		124,845	42,111
Income from non-financial assets			
Gain on disposal of fixed assets	12.2	545,867	3,051,795
Other income		16,640	-
		687,352	3,093,906
24 ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits	24.1	24,449,178	23,113,976
Directors' fee	24.3	765,000	450,000
Rent		3,001,764	2,608,283
Electricity, gas and water		1,030,929	957,054
Telephone and postage		762,157	891,216
Repairs and maintenance		487,388	503,857
Books and periodicals		33,410	31,758
Vehicle running		456,948	221,205
Advertising		246,550	233,623
Training and development		146,583	14,300
Travelling, conveyance and entertainment		1,424,057	1,078,632
Printing and stationery		948,269	740,157
Auditors' remuneration	24.4	485,000	467,325
Depreciation and amortization	12.1 & 12.3	1,750,080	1,928,441
Legal and professional		2,875,624	2,723,275
Insurance		915,213	877,347
Commission and brokerage charges		102,916	77,850
Provision for other receivable		-	630,770
Miscellaneous		667,325	562,052
		40,548,391	38,111,121

Notes to the Financial Statements

For the year ended 31, December 2017

	Note	2017 Rupees	2016 Rupees
24.1 Salaries allowance and other benefits include:			
Staff gratuity fund	18	1,200,314	1,190,713
Staff provident fund		574,748	591,606
Compensated absences	17	1,432,525	1,836,017

24.2 Remuneration of Chief Executive Officer, Directors and Executives

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

	2017		2016	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees)			
Managerial remuneration	2,640,000	2,733,930	2,590,000	3,573,430
Housing and utilities	1,320,000	1,366,965	1,080,000	1,445,537
Provident fund	-	218,714	-	284,652
Medical and other perquisites	264,000	273,393	259,000	374,831
Gratuity	352,000	254,165	352,000	323,140
Leave encashment	176,000	127,083	165,000	218,393
Leave fare assistance	352,000	-	330,000	-
Others	-	-	-	57,500
	5,104,000	4,974,250	4,776,000	6,277,483
Number of persons	1	4	1	7

The Chief Executive Officer and certain executives were also provided with free use of Company owned and maintained cars in accordance with their terms of employment.

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

	2017 Rupees	2016 Rupees
24.4 Auditors' remuneration		
Annual audit	250,000	250,000
Half yearly review	50,000	50,000
Other certifications	50,000	50,000
Out of pocket expenses	135,000	117,325
	485,000	467,325

25 FINANCE COST

	2017 Rupees	2016 Rupees
Mark-up on short term borrowings	10,153,264	13,010,647
Lease finance charges	11,343	118,747
Bank charges	153,028	95,374
	10,317,635	13,224,768

Notes to the Financial Statements

For the year ended 31, December 2017

26 TAXATION

26.1 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).

26.2 Current status of tax assessments

The income tax assessments of the Company for tax year 2012 has been selected for tax audit u/s 214 C 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 filed an appeal before the Commissioner Inland Revenue (Appeals-II) against the said order who decided all the issues in favor of the Company except for initial allowance on leased asset. Company has filed second appeal and the appeal has not yet been fixed for hearing.

In respect of minimum tax for the year ended December 31, 2015, the tax authorities have served order under section 124 of Income Tax Ordinance, 2001 for additional amount of minimum tax of Rs. 0.14 million payable due to restatement of turnover of the Company. The Company has filed application for rectification in the order on the issue of incorrect value of turnover for the purpose of charging minimum tax under section 113 and tax credit not allowed. No action has been taken by the tax officer yet.

26.3 Deferred tax asset of Rs. 100.677 million (2016: Rs. 96.159 million) has not been recognized as the Company does not foresee future taxable profits against which unused tax losses will be utilized.

27 LOSS PER SHARE - BASIC AND DILUTED

	2017 Rupees	2016 Rupees
Loss after taxation attributable to ordinary shareholders	<u>(22,510,494)</u>	<u>(13,382,222)</u>
	(Number of shares)	
Weighted average number of outstanding ordinary shares	<u>32,000,000</u>	<u>32,000,000</u>
	(Rupees)	
Loss per share - basic and diluted	<u>(0.70)</u>	<u>(0.42)</u>

27.1 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.

28 TRANSACTIONS WITH RELATED PARTIES

The related parties comprises of The Holding Company, key management personnel, non- executive directors and contributory employee plan:

Notes to the Financial Statements

For the year ended 31, December 2017

		2017 Rupees	2016 Rupees
Balances			
SME Bank Limited (holding company)			
Short term borrowing	15	<u>110,351,822</u>	<u>104,838,931</u>
Staff Provident Fund			
(Payable)/receivable from staff provident fund	7	<u>43,963</u>	<u>-</u>
Transactions			
SME Bank Limited (holding company)			
Mark up expense for the period	25	10,158,795	13,010,647
(Utilization)/Repayment of short term borrowing facility		(5,512,891)	(24,227,593)
Rent expense		423,288	425,000
Total rentals receivables (for the entire lease period)		-	-
Key management personnel			
Key management remuneration		6,503,388	6,381,780
Post retirement benefits		461,375	497,400
Staff Provident Fund			
Company's contribution towards provident fund		574,748	591,602
29 PROVIDENT FUND			
Size of the fund (Net assets)		4,614,643	4,255,720
Cost of Investment made		4,575,869	3,999,253
Percentage of investment made		99.16%	93.97%
Fair value of investments		4,590,796	4,164,395

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 218 of the Companies Act, 2017 and the rules formulated for this purpose.

	Note	2017 Rupees	2016 Rupees
30 CASH AND CASH EQUIVALENTS			
Cash and bank balances	5	1,902,743	2,519,445
Short term borrowings	15	<u>(110,351,822)</u>	<u>(104,838,931)</u>
		<u>(108,449,079)</u>	<u>(102,319,486)</u>

31 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.

Notes to the Financial Statements

For the year ended 31, December 2017

31.1 Risk management framework

Company's Board of directors has overall responsibility for the establishment and oversight of the Company's 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 analyze 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.

The Company's audit committee oversees how management monitor compliance with the Company's risk management policies and procedures, and review the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's audit committee is assisted in its oversight by internal audit. Internal audit undertakes both regular and adhoc reviews of risk management controls and procedures, the result of which are reported to the audit committee.

31.2 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.

31.2.1 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.

31.2.2 Exposure to credit risk

In summary, compared to the maximum amount included in the balance sheet, the maximum exposure to credit risk as at December 31, 2017 is as follows:

	2017		2016	
	Balance sheet	Maximum exposure	Balance sheet	Maximum exposure
	----- (Rupees) -----			
Bank balances	1,769,919	1,881,101	2,463,033	2,439,602
Advances	2,803,744	2,803,744	2,668,119	2,668,119
Accrued interest on working capital loans	9,337	-	3,752	-
Net investment in finance lease	389,669,277	389,669,277	406,932,035	406,932,035
Long term finances and loans	74,615,953	74,615,953	80,287,519	80,287,519
Short term and long term - deposits	2,142,990	2,142,990	2,531,514	2,531,514
	<u>471,011,220</u>	<u>471,113,065</u>	<u>494,885,972</u>	<u>494,858,789</u>

Notes to the Financial Statements

For the year ended 31, December 2017

31.2.3 Credit ratings and Collaterals

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

	2017	2016
Ratings		
A1+	4.84%	29.44%
A-1+	90.67%	70.56%
Others	4.49%	0.00%
	<u>100%</u>	<u>100%</u>

31.2.4 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 2017 against them are as follows:

	Net Exposure (Rupees)	Lower of collateral and gross exposure (Rupees)
Lease Finance		
- Regular	144,497,576	144,497,576
- Non Performing net of provision	245,171,701	245,171,701
	<u>389,669,277</u>	<u>389,669,277</u>
Working Capital Finance		
- Regular	18,212,233	18,212,233
- Non Performing net of provision	54,519,469	54,519,469
	<u>72,731,702</u>	<u>72,731,702</u>

Settlement risk

Settlement risk is the risk of loss due to the failure of an entity to honor 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.

Notes to the Financial Statements

For the year ended 31, December 2017

31.2.5 Impairment losses and past due balances

	2017			
	Total	Loans and receivables	Net investment in finance lease	Impairment recognised
	------(Rupees)-----			
Not past due	158,452,045	17,974,372	140,477,673	-
1 - 179 days	8,781,109	238,619	8,542,490	-
180 days - 1 year	9,476,514	-	9,476,514	-
More than 1 year	285,691,311	65,307,085	376,563,102	(156,178,876)
	<u>462,400,979</u>	<u>83,520,076</u>	<u>535,059,779</u>	<u>(156,178,876)</u>

	2016			
	Total	Loans and receivables	Net investment in finance lease	Impairment recognised
	------(Rupees)-----			
Not past due	115,955,066	17,630,587	98,324,479	-
1 - 179 days	53,013,277	264,285	52,748,992	-
180 days - 1 year	2,201,888	-	2,201,888	-
More than 1 year	315,922,884	70,080,907	402,112,667	(156,270,690)
	<u>487,093,115</u>	<u>87,975,779</u>	<u>555,388,026</u>	<u>(156,270,690)</u>

31.2.6 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 2017

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

Category	2017		2016	
	Rupees	Percentage	Rupees	Percentage
Cargo Carriers	57,941,411	8.08	28,855,377	3.87
Chemicals	15,270,451	2.13	10,131,737	1.36
Communication	32,915,215	4.59	6,802,623	0.91
Confectionary	16,783,257	2.34	10,440,318	1.40
Construction And Building Products	18,055,160	2.52	11,271,745	1.51
Dates	5,357,055	0.75	565,867	0.08
Education	33,737,331	4.70	24,560,264	3.29
Engineering	77,940,599	10.87	21,151,793	2.84
Entertainment	24,273,002	3.38	47,063,784	6.31
Film Processing	66,686,496	9.30	58,643,945	7.86
Fisheries	15,371,041	2.14	1,285,857	0.17
Food And Beverages	29,677,637	4.14	51,478,238	6.90
Furniture	5,998,129	0.84	1,971,122	0.26
Garments	26,028,752	3.63	45,408,420	6.09
Gems & Jeweler	4,151,522	0.58	13,917,062	1.87
Health Care	38,614,096	5.38	70,301,198	9.43
Leather & Tannery	2,319,558	0.32	15,364,218	2.06
Miscellaneous	24,753,223	3.45	65,080,809	8.73
Oil & Gas	26,645,421	3.72	49,338,622	6.62
Pharma	8,636,214	1.20	14,180,800	1.90
Plastic	11,660,678	1.63	14,571,380	1.95
Printing & Packaging	43,063,932	6.00	53,162,277	7.13
Public Transport Services	95,227,881	13.28	112,232,630	15.05
Rubber	25,485,294	3.55	230,036	0.03
Textile	10,570,723	1.47	17,731,083	2.38
	717,164,078	100	745,741,205	100

31.3 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.

31.3.1 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.

31.3.2 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 2017

	2017			
	Total	Contractual cash flow	Upto one year	More than one year
	(Rupees)			
Financial Liabilities				
Accrued and other liabilities	3,697,937	3,697,937	3,697,937	-
Short term borrowings	110,351,822	110,351,822	110,351,822	-
Long term finances - secured	373,233	373,233	373,233	-
Long term deposits	211,546,756	211,546,756	6,300,000	205,246,756
Markup accrued	918,407	918,407	918,407	-
	326,888,155	326,888,155	121,641,399	205,246,756

	2016			
	Total	Contractual cash flow	Upto one year	More than one year
	(Rupees)			
Financial Liabilities				
Accrued and other liabilities	4,166,310	4,166,310	4,166,310	-
Short term borrowings	104,838,931	104,838,931	104,838,931	-
Long term finances - secured	373,233	373,233	373,233	-
Long term deposits	220,415,701	220,415,701	189,101,696	31,314,005
Liabilities against asset subject to finance lease	601,306	607,199	607,199	-
Markup accrued	959,922	959,922	959,922	-
	331,355,403	331,361,296	300,047,291	31,314,005

31.4 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.

31.4.1 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 2017

31.4.2 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	
		2017 (Rupees)	2016 (Rupees)
Fixed rate instruments			
Financial assets			
Net investments in finance lease	9.5% to 27%	389,669,277	406,932,035
Long term finance and loans	9.5% to 27%	74,615,953	80,287,519
		464,285,230	487,219,554
Financial liabilities			
Long term finance	-	373,233	373,233
Liabilities against assets subject to finance lease	15.01%	-	601,306
		373,233	974,539
Variable rate instruments			
Financial assets			
Bank balances	3.50%	81,688	139,384
		81,688	139,384
Financial liabilities			
Short term borrowings	9.96% to 9.97%	110,351,822	104,838,931
		110,351,822	104,838,931

31.4.3 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.

31.4.4 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. 1.035 (2016:1.047 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 December 31, 2016.

The sensitivity analysis prepared as of December 31, 2017 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.

31.4.5 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 2017

		2017			
Effective mark-up / interest / profit rate	Total	Exposed to mark-up / interest / profit rate risk			
		Upto three months	More than three months and upto one year	More than one year	
%	------(Rupees)-----				
Financial assets					
Cash and bank balances	81,688	81,688	-	-	
Long term finances and loans	74,615,953	17,974,372	(5,963,966)	62,605,547	
Net investment in finance lease	389,669,277	140,477,673	(189,376,261)	438,567,865	
Total financial assets as on 31 December 2016	464,366,918	158,533,733	(195,340,227)	501,173,412	
Financial liabilities					
Short term borrowings	110,351,822	-	110,351,822	-	
Long term finances	373,233	373,233	-	-	
Total financial liabilities as on 31 December 2015	110,725,055	373,233	110,351,822	-	
On balance sheet gap	353,641,863	158,160,500	(305,692,049)	501,173,412	
Total interest rate sensitivity gap	353,641,863	158,160,500	(147,531,549)	353,641,863	

		2016			
Effective mark-up / interest / profit rate	Total	Exposed to mark-up / interest / profit rate risk			
		Upto three months	More than three months and upto one year	More than one year	
%	------(Rupees)-----				
Financial assets					
Cash and bank balances	139,384	139,384	-	-	
Long term finances and loans	80,287,519	57,870,383	15,164,186	7,252,950	
Net investment in finance lease	406,932,035	279,618,645	54,411,206	72,902,184	
Total financial assets as on December 31, 2016	487,358,938	337,628,412	69,575,392	80,155,134	
Financial liabilities					
Short term borrowings	104,838,931	-	104,838,931	-	
Long term finances	373,233	373,233	-	-	
Liabilities against asset subject to finance lease	601,306	28,360	572,946	-	
Total financial liabilities as on December 31, 2016	105,813,470	401,593	105,411,877	-	
On balance sheet gap	381,545,468	337,226,819	(35,836,485)	80,155,134	
Total interest rate sensitivity gap	381,545,468	337,226,819	301,390,334	381,545,468	

Notes to the Financial Statements

For the year ended 31, December 2017

31.5 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 December 31, 2017.

32 CAPITAL RISK MANAGEMENT

32.1 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.

32.2 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:

	2017 Rupees	2016 Rupees
Total debt	373,233	373,233
Total equity	<u>133,250,602</u>	<u>156,955,567</u>
Total capital employed	<u>133,623,835</u>	<u>157,328,800</u>
Gearing ratio	<u>0.28%</u>	<u>0.24%</u>

32.3 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.

32.4. Fair value and risk management

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value of underlying financial assets are determined based on requirements of Regulation 66 of Non-Banking Finance Companies and Notified Entities Regulations, 2008 and directives if any, issued by the Securities and Exchange Commission of Pakistan. Fair value of debt instruments other than Government Securities, which are unlisted or listed but not traded regularly on stock exchange be valued at rates notified by Mutual Funds Association of Pakistan. The fair value of financial assets traded in active market i.e. listed securities are based on the quoted market price at determined by stock exchange in accordance with its regulations.

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Level 1 — Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities.

Level 2 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable).

Level 3 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

As at 31 December 2017, the Fund held the following classes of financial instruments measured at fair value:

Notes to the Financial Statements

For the year ended 31, December 2017

31 December 2017	Note	Carrying amount		Fair value					
		Cash and cash equivalent	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value									
	5	1,902,743	-	-	1,902,743	-	-	-	-
	6	-	2,803,744	-	2,803,744	-	-	-	-
	7	-	956,092	-	956,092	-	-	-	-
	9	-	-	-	-	-	-	-	-
	10	-	74,615,953	-	74,615,953	-	-	-	-
		-	389,669,277	-	389,669,277	-	-	-	-
		1,902,743	468,045,066	-	469,947,809	-	-	-	-
Financial liabilities not measured at fair value									
	13	-	-	3,697,937	-	-	-	-	-
	14	-	-	918,407	-	-	-	-	-
	15	110,351,822	-	-	-	-	-	-	-
	17	-	-	2,379,069	-	-	-	-	-
	16	-	-	373,233	-	-	-	-	-
	10	-	-	205,246,756	-	-	-	-	-
	18	-	-	6,911,306	-	-	-	-	-
		110,351,822	-	219,526,708	-	-	-	-	-

32.5 The Company has not disclosed the fair values for these financial instruments, because their carrying amounts are reasonable approximation of fair value.

32.6 For financial instruments that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the year ended December 31, 2017, there were no transfers between Level 1, Level 2 or Level 3 of fair value measurements.

Notes to the Financial Statements

For the year ended 31, December 2017

	Note	Carrying amount		Fair value					
		Cash and cash equivalent	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2016									
Financial assets not measured at fair value									
Cash and bank balance	5	2,519,445	-	-	2,519,445	-	-	-	-
Advances	6	-	2,668,119	-	2,668,119	-	-	-	-
Deposits, prepayments and other receivables	7	-	1,543,998	-	1,543,998	-	-	-	-
Long term finances and loans and accrued interest thereon	9	-	80,287,519	-	80,287,519	-	-	-	-
Net investment in finance leases	10	-	406,932,035	-	406,932,035	-	-	-	-
		2,519,445	491,431,671	-	493,951,116	-	-	-	-
Financial liabilities not measured at fair value									
Accrued and other liabilities	13	-	-	4,166,310	4,166,310	-	-	-	-
Accrued mark-up on borrowings	14	-	-	959,922	959,922	-	-	-	-
Short term borrowings	15	104,838,931	-	-	104,838,931	-	-	-	-
Provision for compensated absences	17	-	-	2,102,277	2,102,277	-	-	-	-
Long term finances	16	-	-	373,233	373,233	-	-	-	-
Liabilities against assets subject to finance lease		-	-	601,306	601,306	-	-	-	-
Long term deposits	10	-	-	199,583,501	199,583,501	-	-	-	-
Deferred liabilities	18	-	-	5,152,857	5,152,857	-	-	-	-
		104,838,931	-	212,939,406	317,778,337	-	-	-	-

Notes to the Financial Statements

For the year ended 31, December 2017

33 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.

	2017				Total
	Finance lease	Loans and receivables	Investment	Others	
	(Rupees)				
Segment revenue	<u>21,883,371</u>	<u>4,787,805</u>	<u>4,154</u>	<u>687,352</u>	<u>27,362,682</u>
Segment profit	<u>24,948,860</u>	<u>3,048,764</u>	<u>4,154</u>	<u>687,352</u>	<u>28,689,130</u>
Segment result					<u>28,689,130</u>
Unallocated cost					
Finance cost					10,317,635
Administrative and operating expenses					40,548,391
					<u>50,866,026</u>
Loss before tax					(22,176,896)
Taxation					(333,598)
Loss after tax					<u>(22,510,494)</u>
Other information					
Segment assets	389,669,277	72,731,702	-	-	462,400,979
Unallocated assets				15,243,508	15,243,508
Total assets					<u>477,644,487</u>
Segment liabilities	214,248,329	-	-	-	214,248,329
Unallocated liabilities				130,145,556	130,145,556
Total liabilities					<u>344,393,885</u>
Net assets					<u>133,250,602</u>
Capital expenditure	-	-	-	111,129	111,129

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

33.2 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.

Notes to the Financial Statements

For the year ended 31, December 2017

	2016				Total
	Finance lease	Loans and receivables	Investment	Others	
	----- (Rupees) -----				
Segment revenue	<u>23,066,962</u>	<u>9,464,198</u>	<u>1,790,051</u>	<u>3,093,906</u>	<u>37,415,117</u>
Segment profit	<u>27,540,356</u>	<u>5,854,666</u>	<u>1,790,051</u>	<u>3,093,906</u>	<u>38,278,979</u>
Segment result					<u>38,278,979</u>
Unallocated cost					
Finance cost					13,224,768
Administrative and operating expenses					38,111,121
					<u>51,335,889</u>
Loss before tax					(13,056,910)
Taxation					(325,312)
Loss after tax					(13,382,222)
Other information					
Segment assets	406,932,035	78,926,446	-	-	485,858,481
Unallocated assets				17,908,548	17,908,548
Total assets					<u>503,767,029</u>
Segment liabilities	223,733,484	-	-	-	223,733,484
Unallocated liabilities				123,077,978	123,077,978
Total liabilities					<u>346,811,462</u>
Net assets					<u>156,955,567</u>
Capital expenditure	-	-	-	1,280,792	<u>1,280,792</u>

34 COMPARATIVE FIGURES

Comparative figures have been reclassified for the purposes of better comparison and presentation as follows:

Nature of reclassification	Note	Reclassification from	Reclassification to	Rupees in million
Net Investment in Leases	8 & 10	Current Maturity of Non Current Assets	Net Investment in Leases	263,436,478
Long Term Finances & Loans	8 & 9	Current Maturity of Non Current Assets	Long Term Finances & Loans	62,032,457
Long-term deposits	10 & 16	Current Maturity of Non Current Assets	Long-term deposits	168,269,496

Notes to the Financial Statements

For the year ended 31, December 2017

35 NUMBER OF EMPLOYEES

The number of employees as on the year end were 33 (2016: 38) and average number of employees during the year were 35 (2016: 40).

36 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on 29th January, 2018 by the Board of Directors of the Company.



Mir Javed Hashmat
Chief Executive Officer



Liaquat Ali
Chief Financial Officer



Dilshad Ali Ahmad
Director

Pattern of Shareholding

As at December 31, 2017

Shareholding		No of Shareholders	Total Shares Held	Percentage %
From	To			
1	100	19	150	0.00
101	500	205	101,657	0.32
501	1,000	46	45,401	0.14
1,001	5,000	62	181,909	0.57
5,001	10,000	19	146,499	0.46
10,001	15,000	4	53,500	0.17
15,001	20,000	3	60,000	0.19
20,001	25,000	2	49,000	0.15
25,001	30,000	1	30,000	0.09
45,001	50,000	1	46,000	0.14
50,001	55,000	2	105,525	0.33
55,001	60,000	2	118,000	0.37
60,001	65,000	1	62,000	0.19
65,001	70,000	1	69,500	0.22
95,001	100,000	2	200,000	0.63
100,001	105,000	1	104,500	0.33
150,001	155,000	1	155,000	0.48
195,001	200,000	1	200,000	0.63
210,001	215,000	1	215,000	0.67
410,001	415,000	1	410,159	1.28
425,001	430,000	1	428,000	1.34
450,001	455,000	1	453,525	1.42
550,001	555,000	1	550,500	1.72
910,001	915,000	1	910,477	2.85
1,295,001	1,300,000	1	1,298,500	4.06
2,595,001	2,600,000	1	2,600,000	8.13
23,405,001	23,410,000	1	23,405,198	73.14
		382	32,000,000	100

Categories of Shareholders

As at December 31, 2017

Categories of	Physical	CDC	Total	Percentage %
Directors, Chief Executive Officer, Their Spouses and Minor Children				
Directors				
Ms. Mehnaz Kaludi	1	-	1	0.00
Mr. Ateeq-ur-Rehman	1	-	1	0.00
Mr. Bilal Mustafa Siddiqui	1	-	1	0.00
Mr. Dilshad Ali Ahmad	1	-	1	0.00
Mr. Ihsan-ul-Haq Khan	1	-	1	0.00
Mr. Mir Javed Hashmat	1	-	1	0.00
Mr. Muhammad Farrukh Mansoor Malik	1	-	1	0.00
	7	-	7	0.00
Executives	-	51,000	51,000	0.16
Associated Companies, Undertakings & Related Parties				
SME Bank Limited	-	23,405,198	23,405,198	73.14
Banks, NBFCs, DFIs, Takaful, Pension Funds				
	-	2,423,977	2,423,977	7.57
Insurance Companies				
	-	155,000	155,000	0.48
Other Companies, Corporate Bodies, Trust etc.				
	46,000	1,209,702	1,255,702	3.92
General Public				
A. Local	137,000	4,572,116	4,709,116	14.72
	183,007	31,816,993	32,000,000	100.00
Shareholders More Than 5.00%				
SME Bank Limited			23,405,198	73.14
Ali Aslam Malik			2,600,000	8.13

Proxy Form

I/We _____
of _____ (full address)
being a member of SME Leasing Limited hereby appoint _____
of _____ (full address)
or failing him/her _____ (full address)
of _____ (full address)
as my / our Proxy to attend and vote for me / us and on my / our behalf at the 16th Annual General Meeting of the Company to be held on April 25, 2018 and at any adjournment thereof.

Signed this _____ of _____ 2018.
(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.)



SME Leasing Limited

(A subsidiary of SME Bank Ltd.)

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

www.smelease.com

CORPORATE