RIAZ AHMAD & COMPANY
Chartered Accountants

HOUSE BUILDING FINANCE COMPANY LIMITED

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2012

NEXIA
INTERNATIONAL

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of HOUSE BUILDING FINANCE COMPANY LIMITED ("the Company") as at 31 December 2012 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the 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) Since the date of our appointment was subsequent to the reporting date, we could not perform necessary cutoff procedures and remained unable to observe the cash counting and physical verification of certain moveable assets of the Company at the year end;

(b) Bank reconciliation statements of various bank accounts include long outstanding debit and credit entries of Rupees 28.073 million and Rupees 17.436 million respectively which remained unidentified and unadjusted in the financial statements. The management did not provide us any satisfactory explanation regarding these unidentified entries. Further, out of fifty five (55) requests circularized to the banks, where the Company maintains its bank accounts, having balances aggregating to Rupees 211.146 million, we did not receive responses against twenty eight (28) requests from the banks with balances totaling to Rupees 109.666 million;

(c) The Company manages different databases for its customer portfolio through information system at head office and branches which is not integrated. On our test check of some of the partners' ledger accounts of advances at branches, we

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identified differences in principal outstanding and respective provision against non-performing advances, rental outstanding, group insurance premium outstanding and property insurance premium outstanding between database managed by the head office and database managed by branches. No exercise was conducted during the year by the management to reconcile, ascertain and adjust these differences in the books of account. Further, we were also not allowed to circularize direct balance confirmation letters to partners due to such differences. Furthermore, the income on advances booked in previous years amounting to Rupees 245.797 million was reversed in these financial statements. Such reversals arise on recurring basis due to erroneous recording of income owing to information system inefficiencies and posting errors;

(d) Provision against non-performing advances was not made as per Prudential Regulations for Consumer Financing. Classification of non-performing advances was determined by dividing total defaulted amount with amount of an installment to calculate overdue period instead of calculating exact overdue period from the due date. The partial amount of an overdue installment was also considered as full installment in aforesaid calculation. We also noted that the benefit of Forced Sale Value was not taken or less taken in some of the classified accounts while calculating provision against non-performing advances. During the year, the management did not carry out any exercise to ascertain and account for the effect of this practice on provision against non-performing advances, if any. Further, during last year an exercise was carried out to rectify the effects of flawed ascertainment of the provision against non-performing advances and an additional provision of Rupees 160.092 million was accounted for in the general ledger. However, the management did not post such provision in the respective partners' subsidiary ledger accounts so far.

(e) The management did not provide us proper justification and satisfactory explanation of placing following balances in Deferred Credits as disclosed in note 12.4 to the financial statements:

i. As previously required under the HBFC (Amendment) Ordinance, 2001, 'demand charges net of recovery expenses' amounting to Rupees 523.672 million were included in Deferred Credits to be used for charitable purpose. Accumulated donations paid till 31 December 2012 out of this were Rupees 105 million. Since the aforesaid ordinance is no more applicable on the Company, the accounting treatment of demand charges, recovery expenses and donations is not in accordance with the applicable approved accounting standards;

ii. Profit commission - net of death claims received from State Life Insurance Corporation (SLIC) amounting to Rupees 208.562 million accumulated up to 31 December 2009 was credited in Deferred Credits instead of profit and loss account when received. Receipts of profit commission from SLIC, subsequent to aforesaid date, are being offset against advances which at the reporting date aggregated to Rupees 124.421 million;

iii. Deferred credits include accumulated debit balance on account of expense provided for doubtful insurance receivable from partners amounting to Rupees 183.036 million which should have been charged to profit and loss account when created;

iv. Deferred credits include a credit balance of Rupees 52.503 million in respect of insurance premium received from unidentified partners. Further, it also includes a debit balance of Rupees 12.495 million on account of property insurance for which no information is available with the Company;

v. Deferred Credits have also been credited with accumulated profit allocation of Rupees 840.049 million up to the reporting date, which also includes current year's profit allocation of Rupees 124.594 million. In our view, these amounts should have been recognized in profit and loss account in the respective years.

Except for the effects of adjustments, if any, as might have been determined to be necessary, had we been able to satisfy ourselves in respect of the matters stated in the preceding paragraphs (a) to (e) we report that:

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

(g) in our opinion:

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

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

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

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

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

Emphasis of Matter

We also draw attention to the following matters:

(1) Note 1.1 to the financial statements state that the Company has not complied with the minimum capital requirement of Rupees 6,000 million set out by State Bank of Pakistan and also discloses endeavors being made to meet the minimum capital requirement and the exemption granted by State Bank of Pakistan to the Company in this regard.

(2) Note 11.1.1 to the financial statements discloses the overdue credit lines from State Bank of Pakistan and events subsequent to the reporting date relating to decision made on conversion of borrowings (credit lines) from State Bank of Pakistan along with markup payable into equity of the Company.

Our opinion is not further qualified in respect of these matters.

RIAZ AHMAD & COMPANY
Chartered Accountants

Name of engagement partner:
Muhammad Hamid Jan

Date: 22 APR 2016

KARACHI

HOUSE BUILDING FINANCE COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012

	Note	2012	2011
		--- Rupees in '000 ---	
ASSETS			
Cash and balances with treasury banks	4	63,943	57,803
Balances with other banks	5	168,310	448,761
Lendings to financial institutions	6	181,038	4,432
Investments - net	7	8,855,424	7,839,516
Advances - net	8	9,887,366	10,392,064
Operating fixed assets	9	263,500	214,516
Deferred tax assets		-	-
Other assets	10	503,681	329,620
		19,923,262	19,286,712
LIABILITIES			
Bills payable		-	-
Borrowings	11	11,695,300	11,992,300
Deposits and other accounts		-	-
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	12	5,683,114	4,530,138
		17,378,414	16,522,438
NET ASSETS		**2,544,848**	**2,764,274**
REPRESENTED BY			
Share capital	13	3,001,000	3,001,000
Reserves		620,610	620,610
Accumulated loss		(1,299,015)	(1,070,466)
		2,322,595	2,551,144
Advance against issue of capital	8.6	218,143	218,143
Surplus / (deficit) on revaluation of assets	14	4,110	(5,013)
		2,544,848	**2,764,274**
CONTINGENCIES AND COMMITMENTS	15		

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

MANAGING DIRECTOR　　DIRECTOR　　DIRECTOR　　DIRECTOR

HOUSE BUILDING FINANCE COMPANY LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011
		---- Rupees in '000 ----	
Rental / mark-up / return / interest earned	16	2,535,381	2,630,558
Rental / mark-up / return / interest expensed	17	(1,140,628)	(1,100,426)
Net rental / mark-up / interest income		1,394,753	1,530,132
Reversals of provision made against non performing advances	18	71,350	665,008
Reversal / (provision) for diminution in value of investments		68,895	(19,456)
(Provision) / reversal for diminution in value of lendings to financial institutions		(4,432)	3,324
Amount received from GoP against remission of advances to widows		-	865,074
		135,813	1,513,950
Reconciliation adjustments	19	-	4,691
Reversal due to relief package and reprocessing adjustments	20	(248,569)	(301,544)
Net rental / mark-up / interest income after provisions		1,281,997	2,747,229
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		-	-
Dividend income		-	-
Income from dealing in foreign currencies		-	-
Gain / (loss) on sale of securities		-	-
Unrealized gain / (loss) on revaluation of investment classified as held for trading		-	-
Other income	21	79,138	43,838
Total non-mark-up / interest income		79,138	43,838
		1,361,135	2,791,067
NON MARK-UP/INTEREST EXPENSES			
Administrative expenses	22	(1,542,624)	(1,410,732)
Voluntary Severance Scheme - net	23	-	(417,689)
Other provisions / write offs	24	817	(49,501)
Other charges	25	(8,913)	(7,040)
Total non-mark-up / interest expenses		(1,550,720)	(1,884,962)
		(189,585)	906,105
Share in results of an associate before taxation	7.8	-	-
(LOSS) / PROFIT BEFORE ALLOCATION FOR STATE BANK OF PAKISTAN SHARE		(189,585)	906,105
State Bank of Pakistan share of loss / (profit) on credit lines	26	1,290	(94,443)
(LOSS) / PROFIT BEFORE TAXATION		(188,295)	811,662
Taxation	27		
- Current			
- for the year		(40,215)	(112,885)
- prior year		(39)	(23,178)
- Deferred		-	-
		(40,254)	(136,063)
(LOSS) / PROFIT AFTER TAXATION		(228,549)	675,599
Basic & diluted (loss) / earnings per share - Rupees	28	(0.76)	2.25

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

MANAGING DIRECTOR DIRECTOR DIRECTOR DIRECTOR

HOUSE BUILDING FINANCE COMPANY LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	2011
	-- Rupees in '000 --	
(Loss) / profit for the year	(228,549)	675,599
Other comprehensive income	-	-
Total comprehensive (loss) / income for the year	(228,549)	675,599

Surplus / deficit on revaluation of 'available-for-sale' securities is presented in statement of financial position under a separate head below equity as "Surplus / (deficit) on revaluation of assets" in accordance with the requirements specified by the Companies Ordinance, 1984 and the State Bank of Pakistan vide its BSD Circular 20 dated August 04, 2000 and BSD Circular 10 dated July 13, 2004.

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

MANAGING DIRECTOR DIRECTOR DIRECTOR DIRECTOR

HOUSE BUILDING FINANCE COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	Share capital	Statutory reserve	Accumulated loss	Total
	----------	Rupees in '000	----------	
Balance at December 31, 2010	3,001,000	485,490	(1,610,945)	1,875,545
Comprehensive income for the year				
Profit after tax for the year ended December 31, 2011	-	-	675,599	675,599
Other comprehensive income	-	-	-	-
	-	-	675,599	675,599
Transfer to statutory reserve *	-	135,120	(135,120)	-
Balance at December 31, 2011	3,001,000	620,610	(1,070,466)	2,551,144
Comprehensive loss for the year				
Loss after tax for the year ended December 31, 2012	-	-	(228,549)	(228,549)
Other comprehensive income	-	-	-	-
	-	-	(228,549)	(228,549)
Transfer to statutory reserve	-	-	-	-
Balance at December 31, 2012	3,001,000	620,610	(1,299,015)	2,322,595

* This represents reserve created under BPD circular No. 15 of 2004 which requires the Company to credit to its reserve an amount not less than 20% of its after tax profit till such time the reserve equals the amount of paid-up capital. Thereafter, a sum not less than 5% of its after tax profit shall be credited to the said reserve.

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

MANAGING DIRECTOR   DIRECTOR   DIRECTOR   DIRECTOR

HOUSE BUILDING FINANCE COMPANY LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011
		------ Rupees in '000 ------	
A. CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / profit before taxation		(188,295)	811,662
Adjustments:			
Depreciation		24,040	24,195
Amortization of intangible assets		1,014	839
Gain on sale of operating fixed assets		(4,613)	(2,753)
Fixed assets adjustments		173	(4,724)
Provision / (reversal) of provision for dimunition in value of lending to financial institutions		4,432	(3,324)
(Reversal) / provision for dimunition in value of investments		(68,895)	19,456
Reversals of provision made against non performing advances		(71,350)	(665,008)
Reconciliation adjustments		-	(4,691)
Reversal of rental income		248,569	301,544
Provision against Gawadar Housing Project		-	50,470
Amount received from GoP against remission of advances to widows		-	(865,074)
Rental / mark-up / return / interest expensed		1,140,628	1,100,426
		1,273,998	(48,644)
		1,085,703	763,018
Decrease in operating assets			
Advances		327,479	658,156
Lending to financial institutions		(181,038)	990,116
Other assets excluding advance tax		9,672	830,742
		156,113	2,479,014
Increase / Decrease in operating liabilities			
Borrowings		(297,000)	(300,000)
Other liabilities		145,079	(249,821)
		(151,921)	(549,821)
Financial charges paid		(86,510)	(140,340)
Income tax paid		(271,927)	(113,994)
Net cash flows from operating activities		731,458	2,437,877
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(73,080)	(66,097)
Sale proceeds from disposal of operating fixed assets		5,201	3,215
Investments made-net		(937,890)	(2,024,206)
Net cash flows used in investing activities		(1,005,769)	(2,087,088)
C. CASH FLOWS FROM FINANCING ACTIVITIES		-	-
(Decrease) / increase in cash and cash equivalents		(274,311)	350,789
Cash and cash equivalents at beginning of the year		506,564	155,775
Cash and cash equivalents at end of the year	29	232,253	506,564

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

MANAGING DIRECTOR DIRECTOR DIRECTOR DIRECTOR

HOUSE BUILDING FINANCE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

1. STATUS AND NATURE OF BUSINESS

The House Building Finance Company Limited (the Company) is an unlisted public limited company incorporated in Pakistan on June 13, 2006 under the Companies Ordinance,1984. The registered office of the Company is situated at Finance and Trade Centre Building, Sharah-e-Faisal, Karachi, in the province of Sindh. Pursuant to a vesting order SRO.1/2007 dated July 25, 2007 issued by the Finance Division - Government of Pakistan effective from January 01, 2007, the Company had taken over all assets, running business, contracts, liabilities and proceedings of the House Building Finance Corporation (HBFC), established in 1952 under the House Building Finance Corporation Act 1952 (XVIII of 1952) by the Government of Pakistan from closing of the business on December 31, 2006.

The Company is designated as a financial institution by the Federal Government and is providing financing facilities for the construction, reconstruction, renovation and purchase of houses through a network of 48 district offices and 10 zonal offices throughout Pakistan including Azad Jammu and Kashmir. According to credit rating report dated July 23, 2012 of JCR-VIS, the long term and short term ratings of the Company are "A" and "A-2" respectively.

1.1 In accordance with BSD Circular No. 19 dated September 05, 2008 the minimum paid up capital requirement (free of losses) of the Company at December 31, 2009 and in future periods is Rs. 6 billion till further notification. The paid up capital of the Company (free of losses) as at December 31, 2012 is Rs. 2.323 billion. State Bank of Pakistan vide its letter No. BSD/BAID/659/2145/2012 dated February 16, 2012 has granted exemption to the Company from the minimum capital requirement till December 31, 2012 or completion of privatization / restructuring process, whichever is later. The Company is in process of financial restructuring and proposal in this regard was submitted to the Ministry of Finance and State Bank of Pakistan.

Subsequent to year end, a meeting has held on 11 July 2014 between the representatives of State Bank of Pakistan (SBP), Securities and Exchange Commission of Pakistan (SECP) and the Company under the chairmanship of the Finance Minister, Government of Pakistan, whereby it has been decided that the Company's total outstanding debt of Rs. 11.242 billion payable to SBP along with markup payable of Rs. 2.448 billion (i.e. aggregating to Rs. 13.690 billion) shall be converted into SBP's investment in the equity of the Company and the remaining portion of markup of Rupees 2 billion of outstanding markup as of June 30, 2014 will be paid up by the Company immediately. The decisions of the aforesaid meeting has been communicated to the Company by Finance Division, Government of Pakistan vide its notification No. F.1(2)IF-I/2011-Vol-II/1104 dated July 15, 2014 and No. F.6(9)-IF-III/2008 dated July 24, 2014 and the Company paid Rupees 2 billion in compliance with the directives on August 18, 2014.

In view of the above, the management of the Company is confident that the shortfall against minimum capital requirement is temporary and the Company will be in compliance with the minimum capital requirement and earning profits in the foreseeable future.

2. BASIS OF PRESENTATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan, the requirements of the Companies Ordinance, 1984 (the Ordinance) and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP) including BSD Circular No. 04 dated February 17, 2006. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984. In case requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 and directives issued by the SBP shall prevail.

The SBP through its BSD Circular Letter No. 11 dated September 11, 2002 has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' till further instructions. Further, according to the notification of SECP dated April 28, 2008, IFRS 7 'Financial Instruments: Disclosures' has not been made applicable for companies engaged in housing finance services. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

Requirements of Section 24(20)(d) of the House Building Finance Corporation (HBFC) Act, 1952 as amended by the HBFC (Amendment) Ordinance, 2001 and ratified by the Board of the Company in respect of demand charges have been followed.

2.2 Standards, amendments and interpretations to published approved accounting standards that are effective in the current year but not relevant to the Company or do not have material impact

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 01, 2012:

Standards/Interpretations

- IAS 34 - Interim Financial Reporting
- IAS 1 - Presentation of Financial Statements (Amendments)
- IFRIC 13 Customer Loyalty Programmes (Amendments)

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2012 but are considered not relevant or do not have a significant effect on the Bank's operations and therefore are not detailed in the financial statements.

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

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

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

IAS 19 Employee Benefits (amended 2011) - effective for annual periods beginning on or after January 01, 2013. The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognized immediately in other comprehensive income; to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. This change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19. The application of the amendments to IAS 19 would result in the recognition of cumulative unrecognized actuarial loss in other comprehensive income in the period of initial application. As at the reporting date such cumulative unrecognized actuarial loss amounted to Rs. 1,241.491 million.

There are other new and amended standards and interpretations that are mandatory for the Company's accounting periods beginning on or after January 1, 2013 but are considered not to be relevant or do not have any significant effect on the Company's operations and are therefore not detailed in these financial statements.

2.4 Basis of measurement

These financial statements have been prepared under the historical cost convention except that investments classified as held for trading and available-for-sale are measured at fair values, excluding investment in associate which is carried using equity method and staff retirement benefit schemes that are stated at the present value of the obligation.

2.5 Share based payments

On February 14, 2009, the Government of Pakistan launched a scheme called Benazir Employees' Stock Option Scheme ('BESOS') for the employees of state owned entities including House Building Finance Company Limited. Under the Scheme, a Trust is required to be formed.

HBFCL Employees Empowerment Trust was created by the GoP to be regulated by the Board of Trustees represented by the senior officers of Ministry of Finance, Government of Pakistan and the Company. In last year, the Securities & Exchange Commission of Pakistan on receiving representations from some of entities covered under the Scheme and after having consulted the Institute of Chartered Accountants of Pakistan has granted exemption to such entities from the application of IFRS 2 to the Scheme.

During the year, Ministry of Finance, Government of Pakistan, vide its letter No. F.12(2) IF-I/2009-1473 dated November 20, 2012 informed that the Cabinet Committee on Privatization in their meeting dated 08 November 2012 has excluded the banking sector including the Company from the purview of BESOS. Therefore, no actuarial valuation has been conducted for the year to ascertain unaccounted for staff costs on account of exemption from IFRS-2.

2.6 Accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. It also requires management to exercise judgment in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. 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 periods if the revision affects both current and future periods.

The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in application of accounting policies are as follows:

a. Classification of investments

In classifying investments as "held-for-trading" the Company has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements.

In classifying investments as "held-to-maturity" the Company follows the guidance provided in SBP circulars on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity.

The investments which are not classified as "held for trading" or "held to maturity" are classified as "available for sale".

b. Impairment of available-for-sale investments

The Company determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

c. Provision against non-performing advances and debt securities classified as investments

The Company regularly reviews its loan portfolio and debt securities classified as investments to assess the amount of non-performing loans and advances and debt securities and provision required there-against. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower, the forced sale value of securities and requirements of the Prudential Regulations are considered.

For portfolio impairment provision on consumer advances, the Company follows the general provision requirement set out in Prudential Regulations.

d. Income taxes

While making the estimates for income taxes currently payable by the Company, management looks at the current income tax laws and the decisions of appellate authorities on certain issues in the past. There are various matters where the Company's view differs with the view taken by the income tax department and such amounts are shown in note 27.1. In making provision for deferred taxes, estimates of the Company's future taxable profits and expected reversal of deductible temporary differences are taken into account.

e. Employees retirement benefit plans

The liabilities for employees retirement benefits are determined as per actuarial advice using the Projected Unit Credit Method. The actuarial advice involves assumptions about discount rates, expected rates of return on assets, future salary increases and future pension increases as disclosed in note 31. Changes in these assumptions in future years may affect the liability / asset under these plans in future years.

f. Operating assets, depreciation and amortization and residual values

Estimates with respect to residual values and useful lives and pattern of flow of economic benefits are based on the analysis of the management of the Company. Further, the Company reviews the value of assets for possible impairment on an annual basis. Any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with a corresponding effect on the depreciation charge and impairment.

2.7 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements have been presented in Pakistani Rupee, which is the Company's functional and presentation currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Bank balances

Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents include cash and balances with the SBP and other banks in current and deposit accounts.

Cash in transit

Collection in transit as at the reporting date received from the borrowers / partners at the branches is treated as cash in transit and included in the bank balances.

3.2 Lendings to / borrowings from financial institutions

The Company enters into transactions of borrowings (repos) from and lending (reverse repos) to financial institutions at contracted rates for a specified period of time. These are recorded as under:

Sale under repurchase obligations

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position and are measured in accordance with accounting policies for investment securities. The counterparty liability for amounts received under these agreements is included in borrowings from financial institutions. The difference between sale and repurchase price is treated as mark-up/return/interest expense and accrued over the term of the related repo agreement.

Purchase under resale obligations

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognized in the statement of financial position, as the Company does not obtain control over the securities. Amounts paid under these agreements are included in lendings to financial institutions. The difference between purchase and resale price is treated as mark-up/return/interest income and accrued over the term of the related reverse repo agreement.

Other lendings

Other lendings include term lendings and unsecured lendings to financial institutions. These are stated net of provision. Mark-up on such lendings is taken to profit and loss account on time proportionate basis using effective interest rate method except mark-up on impaired/delinquent lendings, which are recognized on receipt basis.

Other borrowings

These are recorded at the proceeds received. Mark-up on such borrowings is charged to the profit and loss account on time proportion basis using effective interest method.

3.3 Revenue recognition

Rentals / markup / return on **regular advances and investments** is recognized on time proportion basis. Mark up / return on classified advances and investments is recognized on receipt basis. Gains and losses on termination and documentation charges are recognized on receipt basis.

Additionally, under **Ghar Aasan Scheme**, income is recognized on the basis of share in rental income and share in appreciation in value of property.

Interest on housing finance under **interest bearing scheme** is not recognized since July, 2000 pursuant to the decision of the Honorable Supreme Court of Pakistan.

Income from sale of **housing projects** is recognized using stage of completion of contract.

Income on **deposits and investments other than equity instruments** is recognized on accrual basis.

Dividend income, except for dividend on investments in associates accounted for under equity method {Note 3.5(d)}, is recognized when the right to receive the dividend is established.

Gain and loss on **sale of investments** are recognized in the profit and loss account.

3.4 Advances

Housing finance advance

Advances are stated net of general and specific provisions.

The general and specific provisions are made in accordance with the requirements of the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and are charged to the profit and loss account.

Non-performing advances are written off only when all possible courses of action to achieve recovery have proved unsuccessful. The Company determines write-offs in accordance with the criteria prescribed by the SBP.

3.5 Investments

Investments of the Company, other than investment in associate, are classified as held for trading, held-to-maturity and available for sale.

(a) Held for trading

These are securities which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealer's margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

(b) Held-to-maturity

These are securities with fixed or determinable payments and fixed maturity in respect of which the Company has the positive intent and ability to hold to maturity.

(c) Available-for-sale

These are investments that do not fall under the "held for trading" or "held to maturity" categories.

Initial measurement

All "regular way" purchases and sales of investments are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of investments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Investments are initially recognized at fair value which, in the case of investments other than held-for-trading, includes transaction costs associated with the investments.

Subsequent measurement

Held for trading

These are measured at subsequent reporting dates at fair value. Gains and losses on re-measurement are included in the profit and loss account.

Held to maturity

These are measured at amortized cost using the effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts.

Available for sale

Quoted-securities classified as available-for-sale investments are measured at subsequent reporting dates at fair value. Any surplus / deficit arising thereon is kept in a separate account shown in the statement of financial position below equity and taken to the profit and loss account when actually realized upon disposal or when the investment is considered to be impaired.

Unquoted equity securities are valued at the lower of cost and break-up value. A decline in the carrying value is charged to the profit and loss account. The break-up value of these equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments in other unquoted securities are valued at cost less impairment losses.

Provision for diminution in the value of securities (except term finance certificates and sukuks) is made for impairment, if any. Provision for diminution in the value of term finance certificates is made as per the aging criteria prescribed by the Prudential Regulations issued by the SBP.

(d) Investment in associate

Investment in associate, where the Company has significant influence, is accounted for using equity method of accounting wherein the Company's share of underlying net assets of the investee is recognized as the carrying amount of such investment. Differences between the amount previously recognized and the amount calculated at each year end is recognized in the profit and loss account as share of profit or loss of associate. Distribution received out of such profits is credited to the carrying amount of investment in associate.

Gains and losses on disposal of investments are dealt with through the profit and loss account in the year in which they arise.

The carrying values of investments are reviewed for impairment at each reporting date. Where any such indications exist that the carrying values exceed the estimated recoverable amounts, provision for impairment is made through the profit and loss account.

3.6 Operating fixed assets
Tangible
Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses (if any). Cost of property and equipment consists of historical cost, borrowing cost pertaining to erection / construction period of qualifying assets and other directly attributable costs of bringing the asset to working condition. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Depreciation on property and equipment is charged to income using the 'Straight Line Method' over the useful life of the asset at the rates mentioned in note 9.2. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each reporting date. Depreciation charge commences from the month when the asset is available for use and continues till the month the asset is discontinued either through disposal or retirement.

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

Any gain or loss on disposal of the assets is included in the profit and loss account in the year of disposal.

Intangible

Intangible assets having finite useful life are stated at cost less accumulated amortization and impairment losses, if any. Intangible assets comprise of cost of computer software and patents, which are being amortized using the straight-line method over their useful lives as stated in note 9.3. Amortization is charged from the month of acquisition and up to the month of deletion. The useful lives and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

Costs associated with maintaining computer software are recognized as an expense when incurred.

Capital work-in-progress

Capital work-in-progress is stated at cost accumulated up to the reporting date and represents expenditure incurred on property and equipment in the course of construction / development. These expenditure are transferred to relevant category of property and equipment as and when the assets become available for use.

Impairment of non-financial assets

The carrying amount of assets are reviewed at each reporting date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The recoverable amount is higher of an asset's fair value less cost to sell and value in use. The resulting impairment loss is taken to profit and loss account.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit and loss account.

3.7 Taxation

Income tax expense comprises of current and deferred tax. Income tax expense is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current

Provision for current taxation is based on taxable income at the current rate of tax after taking into account applicable tax credits, rebates and exemptions available, if any. The charge for current tax also includes adjustments, where considered necessary, relating to prior years arising from assessments made during the year.

Deferred

Deferred tax is recognized using the liability method on all temporary differences, at the reporting date between the tax base of assets and liabilities and their carrying amounts for the financial reporting purposes. Deferred tax is calculated at the tax rates that are expected to apply when the differences are expected to reverse, based on the tax rates that have been enacted or substantially enacted at the reporting date.

Deferred tax liability is generally recognized for all taxable temporary differences. Deferred tax assets is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

The carrying amount of deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow whole or part of the asset to be recovered.

Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity, if any, in that case it is included in equity.

3.8 Employee benefits

a. Defined benefit plan

Pension Fund

The Company operates an approved funded pension scheme for all its employees who have been in full time employment for at least 10 years. The scheme provides pension based on the employees' last drawn pensionable salary. Contributions are made to the scheme on the basis of actuarial recommendation. The latest valuation was carried out at December 31, 2012 by actuary using the 'Projected Unit Credit' actuarial cost method, by applying the following significant assumptions, for actuarial valuation of the scheme and such valuation shall be valid for next three years:

	2012	2011
	Per annum	
Discount rate	11.50%	13%
Expected rate of return on investments/plan assets	11.50%	13%
Expected rate of increase in salary	10.50%	12%
Pension increase rate	9%	9%

A portion of the actuarial gains or losses is recognized if the net cumulative unrecognized actuarial gains or losses at the end of the previous year exceeds the "corridor" which is defined as the greater of:

- 10% of the present value of the defined benefit obligation at that date (before deducting plan assets) and;
- 10% of the fair value of the plan assets at that date.

Post retirement medical benefits

The Company provides post retirement medical facility to an employee in the following event:

- Retirement
- Death/Disability during or after service
- Early retirement from service

The Company's post retirement medical benefits' structure is as follows:

Executives / officers their spouse and dependent children	Entitlement
- for hospitalization	One gross pension
- for consultation/pathological test etc.	One gross pension
- for cost of medicine	One gross pension

Clerical staff	Entitlement
- for hospitalization	One gross pension
- for consultation/pathological test etc.	One gross pension
- for cost of medicine	Two gross pension

Non-clerical staff	Entitlement
- for hospitalization	One and half gross pension
- for consultation/pathological test etc.	One and half gross pension
- for cost of medicine	Three gross pension

Actuarial valuation of the scheme is carried out every year and the latest valuation was carried out at December 31, 2012 using 'Projected Unit Credit' actuarial cost method. Discount rate of 11.5% (2011: 13%) is used by the actuary for the valuation.

A portion of the actuarial gains or losses is recognized if the net cumulative unrecognized actuarial gains or losses at the end of the previous year exceeds the "corridor" which is 10% of the present value of the defined benefit obligation at that date.

b. Defined contribution plan

The Company also operates an approved non-contributory Provident Fund scheme for all its employees. Contributions are made to the Fund by the employees at the rate of 12 % of their basic salaries in accordance with the Fund's rules.

c. Employees' compensated absences

Employees of the Company are entitled to carry forward and accumulate their unavailed leaves. The rules of the leave encashment scheme state that the employee shall be entitled to get 50% of his balance subject to maximum of 180 days i.e. he is allowed to accumulate his balance upto 365 days. The employees can avail their leave balance in excess of 365 days at any time as the excess balance will not be encashed at retirement and will be lapsed. The Company provides for employees compensated absences on the basis of actuarial valuation in accordance with the requirements of IAS-19. Actuarial valuation of the scheme is carried out after every year and the latest valuation was carried out at December 31, 2012.

3.9 Foreign currency transactions and translations

Monetary assets and liabilities in foreign currency are translated into Pakistani Rupees at the applicable rate of exchange prevailing at the reporting date. Foreign currency transactions during the year are translated into Pakistani Rupee applying the exchange rate at the date of respective transactions. Gains and losses on translation are included in profit and loss account currently.

3.10 Financial instruments

Financial assets and liabilities

Financial instruments carried on the statement of financial position include cash and bank balances, lending's to financial institutions, investments, advances, certain receivables, borrowings from financial institutions, deposits and certain other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them. Financial assets are de-recognized when the contractual right to future cash flows from the asset expire or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognized when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial assets and liabilities is recognized in the profit and loss account of the current period.

Off setting

Financial assets and financial liabilities are only offset and the net amount is reported in the financial statements when there is a legally enforceable right to set-off the recognized amount and the Company intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

3.11 Provisions

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and are adjusted to reflect the current best estimate.

3.12 Borrowing costs

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

3.13 Earnings per share

The Company presents basic and diluted earnings per share (EPS). Basic EPS is calculated by dividing the profit or loss, as the case may be, attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. The Company does not account for the effect of potential ordinary shares while calculating dilutive loss per share in accordance with the requirements of the IAS 33 'Earnings per Share'.

3.14 Dividends and appropriation to reserves

Dividend and appropriation to reserves are recognized in the year in which these are approved, except for the appropriations required by the law, which are recorded in the period to which they pertain.

3.15 Demand charges

Demand charges (penalties) on late payment by the partners are credited to 'Deferred Credit' account. This amount is utilized for charity purposes after netting of recovery charges as approved by the Board.

	Note	2012	2011
		Rupees in '000	
4. CASH AND BALANCES WITH TREASURY BANKS			
State Bank of Pakistan			
Local currency current account	4.1	63,841	57,718
National Bank of Pakistan			
Local currency deposit account		102	85
		63,943	57,803

4.1 This represents the amount required to be maintained by the Company in accordance with the SBP's regulations and carries markup @ 0% (2011: 0%).

5. BALANCES WITH OTHER BANKS

	Note	2012	2011
		Rupees in '000	
In Pakistan - Local currency			
In transit		8,550	18,704
On deposit accounts	5.1	159,760	430,057
		168,310	448,761

5.1 These bank accounts carry mark-up at rates ranging from 6% to 9.25% (2011: 5% to 12.5%) per annum.

6. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2012	2011
Letters of placement	6.1	-	4,432
Repurchase agreement lending (Reverse Repo)	6.2	181,038	-
		181,038	4,432

6.1 Letters of placement

	Note	2012	2011
Trust Investment Bank Limited (TIBL)	6.1.1	5,909	5,909
First Dawood Investment Bank Limited (FDIBL)	6.1.2	75,000	75,000
		80,909	80,909
Less: Provision for placement with TIBL and FDIBL	6.1.3	(80,909)	(76,477)
		-	4,432

6.1.1 This represents clean placement made on November 17, 2008 for a period of 14 days at the mark up rate of 28% per annum. The transaction remained unsettled at maturity and rescheduling have been made twice, whereas, TIBL complied with the later arrangement till June 2011. During the year, mark-up accrued upto February 15, 2012 has been received. The Company has filed suit against TIBL in the banking court for the recovery of outstanding dues. The Company on prudent basis has maintained 100% provision against outstanding receivable as at December 31, 2012.

6.1.2 This represents clean placement made on September 12, 2008 for a period of 94 days at the mark-up rate of 17%. The transaction remained unsettled at maturity and consequently, the Company had filed suit against FDIBL for recovery of outstanding principal and obtained a decree on November 05, 2010. FDIBL has filed appeal against the judgment. As on December 31, 2012 the case is under execution process. However, the Company on prudent basis has made provision of full outstanding amount.

6.1.3 Particulars of provision

	2012	2011
	Rupees in '000	
Opening balance	76,477	79,801
Provision/ (reversal) during the year	4,432	(3,324)
Closing balance	80,909	76,477

6.2 Repurchase agreement lending (Reverse Repo)

	Note		
Pak Oman Investment Company Limited	6.2.1	181,038	-

6.2.1 This represents reverse repo lending at mark-up of 9.25% (2011: nil) per annum and it will mature on January 04, 2013.

6.2.2 Particulars of lending

In local currency	181,038	4,432
In foreign currency	-	-
	181,038	4,432

6.2.3 Securities held as collateral against lendings to financial institutions

	December 31, 2012			December 31, 2011		
	Held by Company	Further given as collateral	Total	Held by Company	Further given as collateral	Total
	----------Rupees in '000'----------					
Market Treasury Bills	181,038	-	181,038	-	-	-

7. INVESTMENTS

7.1 Investments by types

	Note	2012 Held by Company	2012 Given as collateral	2012 Total	2011 Held by Company	2011 Given as collateral	2011 Total
		<- - - - - - - -	- - - - - - - -	- - - - Rupees in '000	- - - - - - - -	- - - - - - - -	- - - - ->
Available-for-sale securities							
Market treasury bills	7.2.1	8,681,041	-	8,681,041	7,314,749	-	7,314,749
Unlisted ordinary shares	7.2.2	500	-	500	500	-	500
Listed sukuk bonds	7.3	72,027	-	72,027	77,682	-	77,682
		8.753,568	-	8,753,568	7,392,931	-	7,392,931
Held-to-maturity securities							
Unlisted sukuk bonds	7.3	86,200	-	86,200	125,520	-	125,520
Term finance certificates	7.4	148,723	-	148,723	148,400	-	148,400
Term deposit receipts	7.5	2,344	-	2,344	352,344	-	352,344
Certificates of investment	7.6	101,250	-	101,250	135,000	-	135,000
		338,517	-	338,517	761,264	-	761,264
Associate							
Takaful Pakistan Limited	7.8	35,506	-	35,506	35,506	-	35,506
Investments at cost		9,127,591	-	9,127,591	8,189,701	-	8,189,701
Less: Provision for diminution in value of investments	7.9	(240,771)	-	(240,771)	(309,666)	-	(309,666)
Impairment of investment in an associated undertaking - Takaful Pakistan Limited		(35,506)	-	(35,506)	(35,506)	-	(35,506)
Investments (net of provisions)		8,851,314	-	8,851,314	7,844,529	-	7,844,529
Surplus / (deficit) on revaluation of available for sale securities	14	4,110	-	4,110	(5,013)	-	(5.013)
Total investments		8,855,424	-	8,855,424	7,839,516	-	7,839,516

	Note	2012	2011
		Rupees in '000	
7.2 Investments by segments			
Federal Government securities			
Market treasury bills	7.2.1	8,681,041	7,314,749
Fully paid up ordinary shares			
Unlisted companies	7.2.2	500	500
Term finance certificates, debentures, bonds and participation term certificates			
Unlisted sukuk bonds	7.3	86,200	125,520
Listed sukuk bonds	7.3	72,027	77,682
Term finance certificates	7.4	148,723	148,400
Other investments			
Term deposit receipts	7.5	2,344	352,344
Certificates of investment - Bankers Equity Limited (BEL)	7.6	101,250	135,000
Investment in an associate	7.8	35,506	35,506
Total investment at cost		9,127,591	8,189,701
Less: Provision for diminution in value of investment	7.10	(240,771)	(309,666)
Less: Impairment in associate - Takaful Pakistan Limited		(35,506)	(35,506)
Investments (net of provisions)		8,851,314	7,844,529
Surplus / (deficit) on revaluation of available for sale securities		4,110	(5,013)
Total investments		8,855,424	7,839,516

7.2.1 Market treasury bills are eligible for discounting with the State Bank of Pakistan. These carry mark up from 9.28% to 11.88% (2011: 11.65% to 13.79%) and will mature upto May 30, 2013.

7.2.2 These represent investment in 66,125 (2011: 66,125) ordinary shares of Rs.10 each in Resource and Engineering Management Corporation Limited.

7.3 Particulars of investment in sukuk bonds

Name of issuer		Rating	Markup rate	Repayment	Total nominal value 2012	2011
					Rupees in '000	
Eden Housing Limited 40,000 (2011: 40,000) units Face value: Rs. 2,155 (2011: Rs. 3,138) each Maturity date: June 29, 2014 Chief Executive Officer: Mr. Muhammad Amjad	7.3.1	D	3 months KIBOR plus 2.50%	Quarterly	86,200	125,520
Maple Leaf Cement Factory Limited (MLCFL) 15,562 (2011: 15,562) units Face value: Rs.4,628 (2011: Rs. 4,992) each Maturity date: December 03, 2018 Chief Executive Officer: Mr. Tariq Sayeed Saigol	7.3.2	BB/B	3 months KIBOR plus 1%	Quarterly	72,027	77,682

7.3.1 According to the original terms of repayment, these sukuk bonds were to be repaid in eight half yearly installments starting from June 2009 and maturing upto December 2012 at markup of six months KIBOR plus 2.50%.

Eden Housing Limited (EHL) paid two installments of Rs.25 million each and then defaulted the repayment. On June 30, 2010, EHL entered into a restructuring arrangement according to which outstanding principal of Rs.150 million will be repaid on quarterly basis in the ratio of 10%, 25%, 30% and 35% in first, second, third and fourth year, respectively, with markup of KIBOR plus 2.5% for the first three years and KIBOR plus 3% in fourth year. EHL has complied the restructured arrangement till the reporting date. However, on prudent basis, the Company has made provision of 75% of the outstanding principal amount.

7.3.2 According to the original terms of repayment, this sukuk was to be repaid in eight equal half yearly installments at markup of six months KIBOR plus 1.70%, principal repayment starting from June 2009 and maturing upto December 2013.

MLCFL paid markup till May 2009 and defaulted the repayment of both principal and markup. On February 2010, MLCFL entered into a restructuring arrangement with the Company according to which Rs. 2.94 million of the outstanding markup from June 2009 to November 2009 has been paid and sukuk bonds have been issued for the remaining markup of Rs.2.81 million. According to the restructuring agreement, new issued sukuk bonds are repayable in bullet in two years at markup of three months KIBOR plus 1%, however, markup payment would be made on quarterly basis. The principal amount of Rs.75 million is payable in thirty six quarterly installments starting from March 2010 till December 2018.

Mark up from December 2009 to February 2011 aggregating to Rs. 12.634 million was not recognized in the books of account being doubtful of recovery. However, upon restructuring such amount was agreed to be converted into markup free debt except for token markup of 0.50% payable with installment. This markup free debt is to be paid in 24 equal quarterly installments starting from March 2012 till December 2017. The Company has also not accounted for this markup free debt in its books of account by crediting the income because of doubts on eventual recovery, and is accordingly kept in memorandum accounts. The recoveries actually made there-against are recognized as income on receipt basis. Markup from March to June 2011 amounting to Rs. 5.51 million was receivable upto September 2011. However, Rs. 3.32 million were received and the remaining balance of Rs. 2.19 million is deferred till December 2012. MLCFL paid all due markup as per restructuring. HBFCL filed a suit against AMZ Asset and Income Fund to recover the loss on acquisition of this sukuk amounting Rs. 15.157 million in the Banking Court. The management, on prudent basis, has provided full outstanding original principal amount against these sukuks.

7.4 These represent investment in 30,000 units of Rs. 5,000 each in Term Finance Certificates (TFCs) of Pak Libya Holding Company (Private) Limited costing Rs. 148.72 million having maturity on February 07, 2016 and fair value of Rs.150 million. These TFCs carry mark up at 6 months KIBOR plus 1.60% per annum payable semi annually whereas principal is payable semi annually commencing from August 07, 2013. The credit rating of company is AA-. The Deputy Managing Director of the Company is Mr. Khald S.T. Benrjoba.

	2012	2011
7.5 Particulars of term deposit receipts	**Rupees in '000**	
Commercial Banks		
National Bank of Pakistan	-	250,000
First Women Bank Limited	-	100,000
Investment Bank		
Asset Investment Bank Limited	2,344	2,344
	2,344	352,344

7.6 This represents placement in certificates of investment (COIs) of Rs.200 million for three years and Rs.25 million for three months made in 1996 and 1998 respectively. BEL defaulted the repayment and went under liquidation on April 18, 2001 and claims of BEL were placed before Honorable High Court of Sindh. Consequently, the Company had made provision of full amount. Upto December 31, 2012, the Company received Rs. 123.750 million (55%) of the invested amount on the directive of the Honorable High Court of Sindh.

	2012		2011	
	Rupees in '000		Rupees in '000	
	Amount	Rating	Amount	Rating
7.7 Quality of Available for Sale Securities				
Securities (At market value)				
Market Treasury Bills	8,685,151	Sovereign	7,309,736	Sovereign
Sukuks				
Listed sukuks - Maple Leaf Cement Factory Limited	-	BB/B	-	BB/B
Unlisted ordinary shares				
Resource and Engineering Management Corporation Limited	-	Unrated	-	Unrated
Total	8,685,151		7,309,736	

	Note	2012	2011
7.8 Investment in associate - Takaful Pakistan Limited			
Number of shares held		8,700,000	8,700,000
Cost of investment - Rupees in '000		87,000	87,000
Asset - Rupees in '000		500,156	488,902
Liabilities - Rupees in '000		366,077	354,454
Revenue - Rupees in '000		161,066	148,768
Profit after tax - Rupees in '000		8,810	3,907
Percentage of investment		29%	29%
Break up value per share - Rupees		4.78	4.48
Latest available financial statements - **unaudited**		Dec 31, 2012	Dec 31, 2011
Name of Chief Executive		Dr. Mumtaz A. Hashmi (Acting CEO)	Muhammad Umar (Acting CEO)
Place of incorporation		Pakistan	
Principal business		Takaful business	

	2012	2011
	Rupees in '000	
7.8.1 Carrying value of investment in an associate under equity method		
Carrying value of investment at January 01	-	-
Share in results of an associate before taxation	-	-
Share in charge for taxation	-	-
	-	-
Less: Impairment	-	-
Carrying value of investment at December 31	-	-
7.9 Particulars of provision		
Opening balance	309,666	290,210
Charge for the year	-	19,520
Reversal during the year	(68,895)	(64)
Closing balance	240,771	309,666

	Note	2012	2011
7.10 Particulars of provision in respect of type and segment		**Rupees in '000**	
Available-for-sale securities			
Unlisted ordinary shares		500	500
Listed sukuks - Maple Leaf Cement Factory Limited		72,027	77,682
Held-to-maturity securities			
Term deposit receipts - Asset Investment Bank Limited		2,344	2,344
Unlisted sukuks - Eden Housing Limited		64,650	94,140
Certificates of investment (COIs)- Bankers Equity Limited	7.6	101,250	135,000
		240,771	309,666

8. ADVANCES - Net

	Note	2012	2011
In Pakistan - Local currency			
Rental Sharing Schemes	8.2 & 8.3	2,272,660	2,614,314
Interest Bearing Schemes	8.4	109,534	110,366
Ghar Aasan Scheme	8.5	5,660,990	6,440,625
Pakistan Housing Authority (PHA)	8.6	218,143	218,143
Gawadar Employees Co-operative Housing Society (GECHS)	8.7	24,388	30,779
Shandar Ghar Scheme	8.8	1,694,817	2,154,826
Unearned income		(900,904)	(1,125,147)
		793,913	1,029,679
Financing facility for Small Builders	8.9	21,196	17,092
Ghar Aasan Flexi Scheme	8.10	3,630,053	2,739,876
Housing finance to employees	8.11	518,943	502,907
Partners' death claims		(124,421)	(17,785)
Transitory district bank accounts - net	8.12	(12,568)	7,883
Advances - gross		13,112,831	13,693,879
Provision for non-performing advances			
Specific provision			
Rental Sharing Schemes		2,177,479	2,474,952
Interest Bearing Schemes		109,534	110,366
Ghar Aasan Scheme		609,328	466,960
Gawadar Employees Co-operative Housing Society		24,388	30,779
Shandar Ghar Scheme		98,782	82,662
Financing facility for Small Builders		2,544	1,619
Ghar Aasan Flexi Scheme		124,050	44,416
General provision	8.13	79,360	90,061
	8.14.3	3,225,465	3,301,815
Advances - net of provision		9,887,366	10,392,064

8.1 **Particulars of advances (Gross)**	**2012**	**2011**
	Rupees in '000	
Short term (up to one year)	3,400,153	3,449,332
Long term (over one year)	9,712,678	10,244,547
	13,112,831	13,693,879

8.2 This represents advances under Profit & Loss Sharing Scheme, Simplified Scheme, New Simplified Scheme (NSS), Gothabad Scheme and loan to Brecast Industries (Pvt.) Limited. No additional disbursement of advance under these schemes has been made since the year 2000. Advances under NSS have been provided upto 97% (2011 : 93%) of the gross advance whereas advances under rest of the schemes are fully provided.

8.3 On November 23, 2012, the Executive Committee approved special relief package to mitigate the financial hardships of the borrowers. As per the relief package, which is valid upto March 31, 2013, on payment of the entire principal amount, insurance premium, legal/publication charges and 20 percent of demand charges, partners are entitled for waiver of outstanding mark-up and remaining portion of demand charges.

8.4 No new disbursement has been made under this scheme since the year 1979. In pursuance of the decision of the Honorable Supreme Court of Pakistan, the Company has not accrued interest on these advances since July 01, 2000. All advances under this category has been classified as "Loss" and fully provided.

8.5 This scheme was based on Diminishing Musharaka for construction, purchase of houses and replacement of existing housing advance obtained by applicants from another financial institutions - Balance Transfer Facility (BTF) with maximum financing limit of Rs.7.5 million. This advance is repayable by the partners in 36 to 240 monthly installments. The net annual rental income is 5% of the total assessed cost of the house, subject to upward revision of annual rent on cumulative basis at 25% after every 3 years. For disbursements after May 26, 2008, constant net annual rental income of 15.5% is charged on daily product basis on the value of outstanding units. In addition, the Company shares appreciation in the value of the house at rates ranging between 2.5% to 12.5% per annum assessed for various localities. New disbursement under this scheme has been discontinued from February 11, 2009. Provision has been made in accordance with the prudential regulations.

8.6 Ministry of Finance, Government of Pakistan (MoF) paid Rs. 44 million to the Company during 2009 and the remaining amount of Rs. 174.14 million during the year ended December 31, 2010 against outstanding amount of advance to PHA as the transaction was guaranteed by the Federal Government Guarantee. However, MoF through its letter No. F.10(4)IF-II/2000-594 dated April 17, 2010 instructed Ministry of Housing & Works (MoH&W) to pay this amount to the Company on behalf of PHA and necessary provision in this regard should be made in the Federal Budget. MoF in its letter further advised that the amount of Rs. 218.14 already paid to the Company be utilized for increase in the paid up capital. Accordingly, this amount has been disclosed as "Advance against issue of capital" in these financial statements. Based upon MoF's guarantee to pay the outstanding balance, no provision has been made against these advances.

8.7 As per the arrangement Gawader Employees' Co-operative Housing Society (GECHS) is required to adjust the principal amount of advance of Rs.47.50 million within thirty three months from December 26, 2006 through transfer of balance in each individual case of the allottees of house under Ghar Aasan Scheme and under Ghar Aasan Flexi Scheme after completion and handing over possession of houses. Until the transfer of advances to individuals, GECHS shall pay profit @ 13% per annum. Upto December 31, 2012, advances of Rs.23.217 million (2011 : Rs.16.72 million), were transferred to 73 (2011 : 56) individual cases: i.e., 60 cases (2011: 49) under Ghar Aasan Scheme, and 13 cases (2011: 7) under Ghar Aasan Flexi Scheme amounting to Rs.19.925 million (2011: 15.56 million) and Rs.3.29 million (2011: 1.16 million) respectively.

Final profit and loss sharing will be subject to final settlement of accounts which shall be made within three months of the completion of the project which will be audited by the person authorized by the Company. The advance is secured against mortgage of land. However, the Company has made provision of full amount on prudent basis.

8.8 Advances under Shandar Ghar Scheme for renovation of houses only with maximum financing limit of Rs.2.5 million are based on Murabaha approved by the Board of Directors on January 20, 2004 . The advance is repayable by the partners in 12 to 120 monthly installments. The Murahaba profit varies from 8% to 13.5% (2011 : 8% to 13.5%) per annum. New disbursement under this scheme has been discontinued from February 11, 2009. Provision has been made in accordance with the prudential regulations.

8.9 Advances under 'Finance facility for Small Builders' for construction of individual houses and apartments for sale to the general public with maximum financing limit of Rs.7.5 million is based on Musharaka financing approved by the Board of Directors in August 2007 . This advance is for a period of 12 to 18 months, extendable for further 3 months, to be repaid at the end of the tenor along with the profit ranging from 13% to 18% (2011 : 13% to 18%) per annum, or is transferable to the buyer of the house/apartment under Ghar Aasan Scheme. New disbursement under this scheme has been discontinued from November 17, 2009. Provision has been made in accordance with the prudential regulations.

8.10 Advances under Ghar Aasan Flexi Scheme for construction, renovation and purchase of house and replacement of existing housing facility – Balance Transfer Facilities (BTF) with maximum financing limit of Rs.10 million is based on Diminishing Musharaka. This advance is repayable by the partners in 36 to 240 monthly installments. The rental income for salaried person and business person is one year KIBOR with a spread of 3.25% and 3.50% respectively per annum.

There are two investments plans under this scheme: variable installment plan and fixed investment plan. New disbursement under variable installment plan has been discontinued effective from July 27, 2009. Provision has been made in accordance with the prudential regulations.

8.11 Housing advance is given to employees as per the terms of employment for purchase of land, renovation or construction of houses, at concessional rates. These advances are secured against the equitable mortgage of the property.

8.12 This net balance mainly includes unpresented cheques of disbursements and unidentified collections in bank accounts at district and zonal offices.

8.13 General provision against advances has been determined in accordance with the requirements of Prudential Regulations (R-4) issued by the State Bank of Pakistan on regular portfolio of consumer financing.

8.14 Advances include Rs. 7,734 million (2011: Rs.7,959 million) which have been placed under non-performing status as detailed below:

	2012								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees in '000								
Category of Classification									
Substandard	1,511,834	-	1,511.834	144,989	-	144.989	144,989	-	144,989
Doubtful	1,492,934	-	1,492,934	174,158	-	174.158	174,158	-	174,158
Loss	4,728,770	-	4,728,770	2,826,958	-	2,826,958	2.826,958	-	2,826,958
	7,733,538	-	7,733,538	3,146,105	-	3,146,105	3.146,105	-	3,146,105
General provision	-	-	-	79,360	-	79,360	79,360	-	79,360
	7,733,538	-	7,733,538	3,225,465	-	3,225,465	3,225,465	-	3,225,465

	2011								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees in '000								
Category of Classification									
Substandard	1,522,631	-	1,522,631	121,298	-	121,298	121,298	-	121,298
Doubtful	1,274,697	-	1,274,697	171,442	-	171,442	171,442	-	171,442
Loss	5,161,397	-	5,161,397	2,919,014	-	2,919,014	2,919,014	-	2,919,014
	7,958,725	-	7,958,725	3,211,754	-	3,211,754	3,211,754	-	3,211,754
General provision	-	-	-	90,061	-	90,061	90,061	-	90,061
	7,958,725	-	7,958,725	3,301,815	-	3,301,815	3,301,815	-	3,301,815

8.14.1 Particulars of provision against non-performing advances

		2012			2011		
		Specific	General	Total	Specific	General	Total
		Rupees in '000			Rupees in '000		
Opening balance		3,211,754	90,061	3,301,815	3,859,413	107,410	3,966,823
Charge for the year		239,046	-	239,046	28,403	-	28.403
Reversals		(299,695)	(10,701)	(310,396)	(632,246)	(17,349)	(649,595)
		(60,649)	(10,701)	(71,350)	(603,843)	(17,349)	(621,192)
Write offs	8.16	(5,000)	-	(5,000)	(43,816)	-	(43,816)
Closing balance		3,146,105	79,360	3,225,465	3,211,754	90,061	3,301,815

8.14.2 Non-performing advances are classified and disclosed in substandard, doubtful and loss category based on number of installments outstanding from the customers. The management is of the view that this is the appropriate method for ascertaining classification of advances.

8.14.3 The SBP vide BSD Circular No. 10 of 2009 dated October 20, 2009 had allowed banks/DFIs to avail benefit of forced sales value of collaterals mortgaged with them while determining provisioning requirement against non-performing financing. During the current year, SBP vide BSD Circular No.1 of 2011 dated October 21, 2011 has made certain amendments in the Prudential Regulations for Consumer Financing with respect to allowing additional benefit of forced sales value (FSV) of mortgage properties held as collateral against housing finances. According to the said circular, the impact on profitability due to availing FSV benefit shall not be available for payment of cash dividend or stock dividend. As at December 31, 2012 the Company has availed benefit of forced sales value amounting to Rs. 2,707 million (2011: Rs.2,943.06 million). Had FSV benefit of BSD Circular No.1 of 2011 not been taken, loss for the year before taxation would have been increased by Rs. 2,707 million.

	Note	2012	2011
		Rupees in 000	
8.15 Particulars of write offs			
Against provisions		5,000	43,816
Directly charged to profit and loss account		-	-
		5,000	43,816
Write offs Rs. 500,000 and above		630	17,965
Write offs below Rs. 500,000		4,370	25,851
	8.16	5,000	43,816

8.16 Relief to rehabilitate the economic life in Khyber Pakhtunkhwa, FATA and PATA - Claim for total write off loans in Dir lower & upper and Shangla Districts

State Bank of Pakistan (SBP) vide IH and SMEFD Circular No. 02 of 2012 dated February 28, 2012 has informed that Prime Minister has approved to extend the facility of writing off of total loans outstanding as on December 31, 2009 to the residents of Lower Dir, Upper Dir and Shangla Districts of Malakand Division under the fiscal relief to rehabilitate the economic life in Khyber Pakhtunkhwa, FATA and PATA. SBP directed the Banks, DFIs and MFBs to bear the cost of such write offs to the extent of amount held into provision against non performing advances and interest in the suspense account, while the rest of the cost (i.e. outstanding principal amount of performing and for NPL portfolio, non performing less provisioning amount) will be reimbursed by the Government of Pakistan as subsidy. SBP further directed to release all the securities / charges held against such advances and issue necessary clearance certificate to concerned borrowers soon after the receipt of funds from SBP.

During the year, the Company carried out exercise based on the criteria mentioned in the Circular and identified 96 partners of the said districts with principal outstanding of Rs. 6.96 million, provision for non-performing loans of Rs. 5.00 million and interest and other charges receivable of Rs. 10.33 million. Thus, the Company claimed and received Rs. 1.93 million from Government of Pakistan on April 19, 2012 and recorded the same in the books of account.

8.17 Particulars of loan and advances to Directors, Associated Companies, etc.

Debts due by directors, executives or other officers of the Company or any of them either severally or jointly with any other persons: -

	2012	2011
	Rupees in '000	
Balance at beginning of year	605,382	586,635
Loans granted during the year	121,936	132,007
Repayments / adjustments	(102,486)	(113,260)
Balance at end of year	624,832	605,382

8.18 There were no debts given to any companies or firms in which the directors of the Company are interested as directors, partners or in case of private companies, as members during the year.

		Note	2012	2011
			------ Rupees in '000 ------	
9.	**OPERATING FIXED ASSETS**			
	Capital work-in-progress	9.1	144,301	77,454
	Property and equipment	9.2	116,236	135,229
	Intangible assets	9.3	2,963	1,833
			263,500	214,516
9.1	**Capital work-in-progress**			
	Civil works		144,064	77,217
	Software designing and development		237	237
			144,301	77,454

9.2 Property & equipment

	Freehold land	Office premises	Furniture and fixtures	Electrical installations	Office equipment	Computer equipment	Motor vehicles	Total
As at January 01, 2011								
Cost	11,640	80,729	79,440	41,390	38,448	109,389	64,921	425,957
Accumulated depreciation	-	(43,930)	(20,815)	(21,508)	(21,031)	(107,456)	(61,634)	(276,374)
Net book value	11,640	36,799	58,625	19,882	17,417	1,933	3,287	149,583
Year ended December 31, 2011								
Opening net book value	11,640	36,799	58,625	19,882	17,417	1,933	3,287	149,583
Additions	-	219	1,026	1,187	1,175	1,839	133	5,579
Disposals								
Cost	-	-	(139)	-	(201)	(199)	(3,649)	(4,188)
Depreciation	-	-	120	-	189	199	3,218	3,726
	-	-	(19)	-	(12)	-	(431)	(462)
Adjustment								
Cost	-	-	(41)	(5)	2,521	2	404	2,881
Depreciation	-	(73)	(362)	176	(558)	2,768	(108)	1,843
	-	(73)	(403)	171	1,963	2,770	296	4,724
Depreciation Charge	-	(4,043)	(7,822)	(2,898)	(5,079)	(3,194)	(1,159)	(24,195)
Closing net book value	11,640	32,902	51,407	18,342	15,464	3,348	2,126	135,229
As at December 31, 2011								
Cost	11,640	80,948	80,286	42,572	41,943	111,031	61,809	430,229
Accumulated Depreciation	-	(48,046)	(28,879)	(24,230)	(26,479)	(107,683)	(59,683)	(295,000)
Net book value	11,640	32,902	51,407	18,342	15,464	3,348	2,126	135,229
Year ended December 31, 2012								
Opening net book value	11,640	32,902	51,407	18,342	15,464	3,348	2,126	135,229
Additions	-	-	44	9	1,307	4,435	-	5,795
Disposals								
Cost	-	-	-	-	(47)	(63)	(3,927)	(4,037)
Depreciation	-	-	-	-	34	36	3,379	3,449
	-	-	-	-	(13)	(27)	(548)	(588)
Adjustments (9.2.1)								
Cost	-	-	-	-	-	-	(44)	(44)
Depreciation	-	-	-	-	-	-	(116)	(116)
	-	-	-	-	-	-	(160)	(160)
Depreciation Charge	-	(4,047)	(7,899)	(2,958)	(5,038)	(3,512)	(586)	(24,040)
Closing net book value	11,640	28,855	43,552	15,393	11,720	4,244	832	116,236
As at December 31, 2012								
Cost	11,640	80,948	80,330	42,581	43,203	115,403	57,838	431,943
Accumulated Depreciation	-	(52,093)	(36,778)	(27,188)	(31,483)	(111,159)	(57,006)	(315,707)
Net book value	11,640	28,855	43,552	15,393	11,720	4,244	832	116,236
Annual rate of depreciation (%)	-	5	10	10	15 - 33.33	33.33	20	

9.2.1 This represents adjustments in order to reconcile assets as per subsidiary and general ledger.

9.2.2 The gross carrying value of fully depreciated assets still in use amounted to Rs. 242 million (2011: 183.91) million

9.2.3 Disposal of operating fixed assets

Particulars	Cost	Net book value	Sale proceeds	Gain on disposal	Mode of disposal	Particular of buyers
	----------Rupees in '000					
Items having cost less than one million rupees or book value less than two hundred and fifty thousand rupees						
Computer Equipment	63	26	26	-	Settlement	Ex-employee
Office equipment	47	14	15	1	Settlement	Ex-employee
Motor Vehicles						
- Suzuki cultus - AMH 814	595	-	404	404	Auction	Mr. Muhammad Waheed Khan
- Suzuki hiroof - GP 6048	461	-	327	327	Auction	Mr. Muhammad Nafees
- Suzuki hiroof - CN 8597	461	-	411	411	Auction	Mr. M. Yameen
- Honda CD 70 - KCS 5116	30	-	10	10	Auction	Mr. Muhammad Nafees
- Honda CD 70 - KCS 5118	30	-	8	8	Auction	Mr. Salman Saghir
Items having cost more than one million rupees or book value more than two hundred and fifty thousand						
Motor Vehicles						
- Hino truck - GA 4857	1,175	274	2,000	1,726	Auction	Mr. Muhammad Aamir
- Hino truck - GA 4858	1,175	274	2,000	1,726	Auction	Mr. Muhammad Aamir
2012	4,037	588	5,201	4,613		
2011	4,188	462	3,215	2,753		

	Note	2012	2011
		Rupees in '000	
9.3 Intangibles			
Net carrying value			
Balance at beginning of the year		1,833	833
Additions at cost		2,152	1,839
Adjustments (9.2.1)		(13)	-
Amortisation charge for the year	9.3.1	(1,009)	(839)
Balance at end of year		2,963	1,833
Gross carrying value			
Cost		9,551	7,412
Accumulated amortization		(6,588)	(5,579)
Net book value		2,963	1,833

9.3.1 The cost is being amortized over a period of 3 years.

10. OTHER ASSETS

	Note	2012	2011
Income/mark-up accrued in local currency			
Investments		10,694	14,482
Advances		53,650	21,512
Advance for purchase of land - housing projects	10.1	50,470	50,470
Advances, deposits, advance rent and other prepayments		110,753	109,760
Advance Financial Relief to Employees		43,831	-
Advance taxation (payments less provisions)	10.2	262,989	79,255
Other receivable against advances		21,764	19,499
Receivable from pension fund	31.2	-	85,112
Assets acquired from Pakistan Refugees Rehabilitation Finance Corporation (PRRFC)	10.3	-	-
		554,151	380,090
Less: Provision held against other assets	10.1.1	(50,470)	(50,470)
		503,681	329,620

10.1 It represents an advance payment of 25% of the cost of two pieces of land measuring 163 acres situated in Gawadar.made in 2007. The Company intended to construct low cost houses on this land to promote affordable housing facilities to low income groups of the residents of Gawadar. However, there has been no further development in this regard during last four years and the chances of obtaining these plots of land are remote. Therefore, the management on prudent basis, has made provision against doubtful recovery of this amount.

	Note	2012	2011
10.1.1 Particulars of provision against other assets		**Rupees in '000**	
Balance at beginning of the year		50,470	-
Charge for the year		-	50,470
Balance at end of the year		50,470	50,470

10.2 This include advance tax of Rs.418.422 (2011: Rs. 4.511.71) million which is net off with the provision for tax of Rs.155.433 (2011: Rs. 4.432.46) million.

10.3 As directed vide SRO 499(1)/80 dated May 13. 1980 by Finance Division - Government of Pakistan. the Company (formerly HBFC) took over assets and liabilities of PRRFC. Further. as per the directive of the Government of Pakistan all assets and liabilities are shown distinctively as below. However. the Company does not have any control over these assets and liabilities.

	2012	2011
	Rupees in '000	
Pakistan Refugees Rehabilitation Finance Company		
Assets		
Fixed assets	1	1
Cash and bank balances	518	518
Investments	253	253
Loans and advances	16,583	16.583
Inter-centre adjustment	2,432	2.432
Other receivables	1.992	1.992
Sundry debtors	200	200
Advances. deposits and prepayments	227	227
	22.206	22.206
Provision for bad and doubtful debts	(2.579)	(2.579)
	19.627	19.627
Liabilities		
Sundry creditors	93	93
Accrued expenses	38	38
Return on capital	7.371	7.371
Other liabilities	129	129
	7.631	7.631
Net assets	11.996	11.996
REPRESENTED BY		
Capital	16.000	16.000
Accumulated loss	(4.004)	(4.004)
	11.996	11.996

11. BORROWINGS

	Note	2012	2011
In Pakistan - local currency	11.1	11.695.300	11.992.300
Outside Pakistan - foreign currency		-	-
		11.695.300	11.992.300

11.1 Detail of borrowings

	Note	2012	2011
Secured			
Borrowings from State Bank of Pakistan - PLS credit lines	11.1.1	11.242.300	11.242.300
Sukuk bonds	11.1.2	453.000	750.000
		11.695.300	11.992.300

11.1.1 The credit lines from SBP are secured by certificates issued by the Company under House Building Finance Corporation (Issue and Redemption of Certificates) Rules. 1982 that are guaranteed by the Government of Pakistan (GoP).

The credit lines are repayable as follows and are on profit and loss sharing basis as mentioned in note 26:

Credit line number	Amount of credit lines	Repayment due on	Status
	Rupees in '000		
58	1,400,000	June 25, 2006	Due
59	1,833,000	September 07, 2007	Due
60	1,850,000	June 30, 2008	Due
61	2,406,000	August 08, 2008	Due
62	2,200,000	November 10, 2010	Due
63	1,053,300	July 12, 2011	Due
64	500,000	February 26, 2012	Due
	11,242,300		

As per the above schedule, credit line Nos. 58 to 64 were payable on respective repayment date, but were not paid. In pursuance of Company's request, the SBP through its letter no. SMED Refinance 900/06-2071 dated September 02, 2006 advised the Company to repay the credit lines as per the schedule and claimed markup @ 9.5% for utilization of the said amount after the due date till the date of their payment. Currently, negotiation with SBP for rescheduling of the borrowing and waiver of mark-up are in process. However, as a matter of prudence, the management has made accrual of entire amount of markup on overdue credit lines @ 9.5% per annum. Subsequent to period end, it has been decided between the representatives of SBP, SECP and the Company to convert the Company's total outstanding debt of Rupees 11.242 billion payable along with markup payable of Rupees 2.448 billion (aggregately Rupees 13.69 billion) in the equity of the Company, morefully explained in Note 1.1.

	Note	2012	2011
		Rupees in '000	
11.1.2 Sukuk certificates - Secured			
Balance as at January 01		750,000	1,050,000
Redemption during the year		(297,000)	(300,000)
Closing balance as at December 31		453,000	750,000
Redemptions			
Not later than one year		303,000	300,000
Later than one year and less than five years		150,000	450,000
Balance as at December 31		453,000	750,000

11.1.2. Sukuk certificates - Secured

Sukuk certificates represents three million certificates issued to various banks and other financial institutions under musharaka arrangement. The face value of each Sukuk certificate is Rs. 5,000. These certificates are secured against first charge created by way of hypothecation over specific assets with 25% security margin and are subject to mark-up rate of average six months KIBOR plus 1% per annum. Rentals including redemption of principal are payable on six monthly basis between November 2009 to May 2014.

Trustee

In order to protect the interest of the certificate holders, a non-banking finance company (First Dawood Investment Bank Limited) has been appointed as a trustee under the trust deed dated April 11, 2008. In case the Company defaults on any of its obligation, the trustee may enforce the Company's obligation in accordance with the terms of the trust deed.

	Note	2012	2011
		Rupees in '000	
12. OTHER LIABILITIES			
Mark-up / return / interest payable on borrowings			
- in local currency	12.1	7,692	14,325
Accrued expenses		248,197	198,894
Payable to pension fund	31.2	18,847	-
Post retirement medical benefits payable	31.2	678,276	566,929
Employees' compensated absences payable		449,774	357,366
Refundable to customers against advances		17,830	45,138
Payable to SBP	12.2	2,897,082	1,837,621
Insurance premium payable	12.3	11,478	62,363
Deferred credits	12.4	1,324,255	1,185,474
Reimbursement of claims by Government of Pakistan	12.5	579	219,400
Salary compensation and benevolent fund			
payable to VSS optees		11,645	32,103
Retention money payable		5,339	3,879
Application fee- Gawadar Project		3,887	3,915
Agents' security deposit		985	1,185
Others		7,248	1,546
		5,683,114	4,530,138

12.1 This represents mark-up accrued on sukuk issued to various financial institutions as mentioned in note 11.1.2.

12.2	Payable to SBP		2012	2011
			---- Rupees in '000 ----	
	Balance at January 1		1,837,621	775,296
	Share of (loss)/profit	26.1	(1,290)	94,443
			1,836,331	869,739
	Less: Markup accrued on SBP credit lines	11.1.1	1,060,751	967,882
	Balance at December 31		2,897,082	1,837,621
	Free reserves	12.2.2	(1,299,015)	(1,070,466)

12.2.1 The term of agreement(s) in respect of various credit lines provided by the SBP stipulate that the funds made available to the Company shall be used exclusively to finance housing activity on the basis of partnership in profit and loss and surplus funds, if any, shall be invested with prior consultation with SBP. Over years, the funds made available by SBP for various terms have been rolled over and in consequence, have become part of the overall funds of the Company. While the Company has allocated to the SBP profits on year to year basis emanating from its housing finance activities, however no profit had been allocated for income earned from investment activities carried out from the overall surplus funds available with the Company from time to time. As a result of negotiations with SBP on the issue, SBP vide its letter No. BPD (pu-47)/900/(14170) /5687/2002 dated October 07, 2002 restricted its claim in respect of share of profit from the invested surplus funds effective from grant of approval by SBP vide letter No. BPD (pu-47)/900(20182)/1124/2002 dated June 26, 2002. Accordingly, share of profit payable to SBP on surplus funds has been accrued after June 26, 2002. However, after the repayment of SBP credit line number 56 the funds made available by SBP has equaled the amount of investments in housing finance. Thus, the allocation of profit to SBP on surplus funds is no more effective from May 04, 2004 as communicated to SBP through letter No. HBFC / HOK / CM / (TRY) / SBP / 2004/2362 dated June 28, 2004 and agreed by SBP through letter No. BPD (PV-47) / 900/FB/(28880)/04-15507 dated December 09, 2004, and accordingly no profit has been accrued thereafter.

The Company has been computing the share of SBP by allocating total income earned related to profit and loss sharing schemes and income related to other operations is allocated to the Company. Similarly other expenses are also allocated in relation to the income. Whereas, the administrative expenses and other charges were being apportioned in the ratio 98:02 between SBP and the Company.

SBP vide its letter No. BPRD(RPD-01)/2010-5414 dated August 06, 2010 communicated its working for SBP's share in the profit and loss of the Company for the years ended December 31, 2007 and 2008. The basis of the working was that SBP is entitled for share of allocated income and expenses of the Company in the ratio of active credit lines and overdue credit lines. Further, for the year 2009 and onwards SBP directed that the Company's activities under other operations have been increasing for which allocation of administrative expenses under profit and loss sharing schemes and other operations should be allocated as per their weight in total average earning assets.

12.2.2 The terms of agreement between SBP and the Company for credit lines provided by SBP stipulates that in case of net loss, SBP will share the loss, net of free reserves and credit balances, if any, in the profit and loss account of the Company in the same ratio as for sharing profits.

12.3 Monthly insurance premium is payable to State Life Insurance Corporation of Pakistan (SLIC) against the insurance of outstanding dues from the partners in case of their death or total disablement and insurance premium payable to Takaful Pakistan Limited against insurance of mortgage property. The amount of these premiums are recoverable from partners in their monthly installments

12.4	Deferred credits	Note	2012	2011
			---- Rupees in '000 ----	
	Demand charges - net of recovery expenses			
	Demand charges recovered	12.4.1 & 12.4.5	625,149	615,303
	Less: Recovery charges paid at December 31			
	Balance at January 01		(100,640)	(81,482)
	Expense for the year		(837)	(19,158)
	Balance at December 31		(101,477)	(100,640)
			523,672	514,663
	Profit/commission received from State Life Insurance Corporation - net of death claims	12.4.2	208,562	208,562
	Provision against insurance receivable from partners		(183,036)	(190,714)
			25,526	17,848
	Unidentifiable insurance premium contribution received from borrowers / partners during prior years	12.4.3	52,503	52,503
	Property insurance		(12,495)	(12,495)
			40,008	40,008
	Profit received on investment from deferred credits	12.4.4 & 12.4.5	840,049	715,455
			1,429,255	1,287,974
	Donations	12.4.6	(105,000)	(102,500)
			1,324,255	1,185,474

12.4.1 This represents demand charges recovered after June 30, 2000 net of recovery expenses, transferred to this account in accordance with the requirement of section 24(20)(d) of the House Building Finance Corporation (HBFC) Act, 1952 as amended by the HBFC (Amendment) Ordinance, 2001. The Board of Directors has approved that this amount will be used for meeting recovery expenses and for charitable purposes.

12.4.2 According to the agreement with SLIC, death claims lodged after the profit / commission distribution will be adjusted by the Company through profit / commission charged to deferred credit account.

12.4.3 This represents amount received in prior years' on account of Group Insurance Premium from individual borrowers / partners on account of rate differences. As at December 31, 2000 these amounts were pending allocation to individual partners / borrowers. Due to non-availability of the relevant records, these amounts have been transferred to this account after approval of the Board of Directors of the Company and will be used for relief of widows, orphans and incapacitated partners which are not covered by any other relief package or group insurance policy.

12.4.4 This represents investment income allocation against the income earned up to the current year by the Company in respect of the items reflected in the deferred credit account using average yield.

12.4.5 Movement in demand charges and profit received

	Demand Charges - net of recovery expenses		Profit received on investment from deferred credit	
	2012	2011	2012	2011
	Rupees in '000			
Balance as at January 01	615,303	567,488	715,455	529,304
Profit credited during the year	-	-	124,594	186,151
Demand charges recovered	9,846	47,815	-	-
Balance as at December 31	625,149	615,303	840,049	715,455

12.4.6 During the year donation of Rs. 2.5 million is paid to IBA Endowment Fund, in 2011 Rs. 2.5 million was paid to Sindh Institute of Urology and Transplantation (SIUT) and in 2010, Rs. 100 million were donated to Prime Minister Flood Relief Fund.

12.5 Federal Government paid Rupees 912.803 million to the Company during the years 2009 and 2010 for adjusting the outstanding advances of partners' at earthquake affected areas. Based upon an independent study, the Company adjusted advances of 4,400 partners amounting to Rupees 694.018 million during the preceding year, against which the amount claimed from Federal Government was Rupees 724.683 million. After such adjustment, the Company refunded the unutilized remaining balance of Rupees 218.784 million to the Federal Government.

13. SHARE CAPITAL

13.1 Authorized Capital

2012	2011		2012	2011
Number of Shares			Rupees in '000	
600,000,000	600,000,000	Ordinary shares of Rs.10/- each	6,000,000	6,000,000

13.2 Issued, subscribed and paid up capital

2012	2011		2012	2011
		Ordinary shares of Rs 10 each:		
6	6	- Fully paid in cash	-	-
300,000,000	300,000,000	- Issued for consideration other than cash	3,000,000	3,000,000
100,000	100,000	- Shares issued for consideration on cash	1,000	1,000
300,100,006	300,100,006		3,001,000	3,001,000
		Pattern of share holding:		
187,562,506	187,562,506	- Federal Government	1,875,625	1,875,625
112,537,500	112,537,500	- State Bank of Pakistan	1,125,375	1,125,375
300,100,006	300,100,006		3,001,000	3,001,000

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13.3 As at December 31, 2012, the Company has equity of Rs. 2,322.595 million against the minimum required equity of Rs. 6 billion as prescribed by the SBP for DFIs through BSD Circular No.19 dated September 05, 2008. The management of the Company is considering various alternatives to meet the capital requirement. In this regard, several meetings were held with the Ministry of Finance, Government of Pakistan and SBP to inject further capital and to convert overdue SBP credit lines into equity as stated in Note 1.1.

14. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS

	Note	2012	2011
		Rupees in '000	
Available-for-sale securities			
Government securities	14.1	4,110	(5,013)

14.1 Movement of surplus / (deficit) on revaluation of assets

Opening balance	(5,013)	(18,759)
Surplus during the year	9,123	13,746
Closing balance	4,110	(5,013)

15. CONTINGENCIES AND COMMITMENTS

15.1 Contingencies

Claims not acknowledged as debt	47,990	47,990

In the year 1995, the Company had entered into an agreement with a courier service company. Subsequently, due to unsatisfactory service by the courier service company, the Company terminated the contract. The courier service company claimed indemnity of loss of Rs.39.89 million and filed a suit for recovery from the Company which is pending in the High Court of Sindh. The legal advisor of the Company is confident that the Company has a strong case and no economic outflow is expected.

In the year 2008, the Company entered into an agreement with a hospital in Karachi for providing medical facilitates / treatment to employees of the Company and their dependents. The said hospital lodged a claim of Rs.8.10 million against the Company which include bills of the persons who were not referred by the Company to the said hospital, as these were neither the Company's employees nor their dependents. Currently, the case is pending for adjudication at Honorable Sindh High Court. The legal advisor of the Company is confident that the Company has a strong case and no economic outflow is expected.

15.2 Commitments	Note	2012	2011
		Rupees in '000	
Land for Housing projects-Gawadar	10.1	149,700	149,700
Land for Gawadar office		9,750	9,750
Loans sanctioned but not disbursed		80,542	62,527
Rental due under operating lease agreements in respect of vehicles			
Not later than one year		4,588	6,896
Later than one year but not later than five years		7,166	9,148
Design, supervision and construction contract for Islamabad project		169,900	177,507
Equity investment in Pakistan Mortgage Refinance Company		200,000	200,000

16. RENTAL/MARK-UP/RETURN/INTEREST EARNED

On advances to customers	1,643,331	1,816,450
On investments in securities:		
Available for sale	759,785	603,299
Held to maturity	44,286	49,347
On deposits with financial institutions	31,271	18,236
On securities purchased under resale agreements	55,828	140,381
On clean lending	880	2,845
	2,535,381	2,630,558

17. RENTAL/MARK-UP/RETURN/INTEREST EXPENSED

Markup on sukuk certificates		79,877	132,544
Markup on SBP credit lines	11.1.1	1,060,751	967,882
		1,140,628	1,100,426

18. REVERSALS OF PROVISION MADE AGAINST NON - PERFORMING ADVANCES

Reversal of provision against advances	8.14.1 & 20.2	71,350	665,008

19. RECONCILIATION ADJUSTMENTS

Tagged accounts settled	19.1	-	(4,691)

19.1 This represents adjustment made in head office records for accounts closed at district offices while balance appearing at head office records.

		Note	2012	2011
			Rupees in '000	
20.	**REVERSAL DUE TO RELIEF PACKAGE AND REPROCESSING ADJUSTMENTS**			
	Relief package and settlement scheme	20.1	2,772	17,680
	Reprocessing and closing adjustment of housing finance	20.2	245,797	283,864
			248,569	301,544

20.1 This represents reversal of rental income which was credited to profit and loss account in previous years. This reversal has been made as a result of relief package and settlement scheme announced by the Board of Directors as explained fully in Note 8.3 to the financial statements.

20.2 This represents reversal of income recognized in previous years based on reconciliations of collection and disbursement. Corresponding figures has been revised by adjustment against 'Reversal of provision made on non-performing advances' amounting to Rs. 43.816 million for better presentation. In previous years. "Provision for non-performing advances' was reversed against advances written-off and such write-off was expensed out separately under this head of account instead of adjusting against the provision.

		Note	2012	2011
21.	**OTHER INCOME**		Rupees in '000	
	Inspection and application fee		14,227	16,182
	Gain on sale of operating fixed assets	9.2.3	4,613	2,753
	Miscellaneous		60,298	24,903
			79,138	43,838
22.	**ADMINISTRATIVE EXPENSES**			
	Salaries, allowances, etc.		798,821	892,533
	Charge for defined benefit plan - pension	31.2	221,308	209,176
	Post retirement medical benefits		124,440	104,021
	Employees' compensated absences		98,423	90
	Repairs and maintenance		36,570	40,724
	Legal and professional		19,778	30,440
	Rent, taxes, insurance, electricity, etc.		31,660	30,493
	Stationery and printing		11,528	13,851
	Advertisement and publicity		9,771	22,622
	Auditors' remuneration	22.1	2,735	2,960
	Depreciation	9.2	24,040	24,195
	Amortization of intangible assets	9.4	1,014	839
	Traveling and conveyance		13,364	15,237
	Postage and telephone		13,744	12,173
	Entertainment		1,588	2,719
	Security guard charges		2,325	2,035
	Subscription and publication		711	836
	Commission against recoveries		372	1,685
	Others		130,432	4,103
			1,542,624	1,410,732
22.1	**Auditors' remuneration**			
	Audit fee		1,100	1,100
	Half yearly review		385	385
	Special certification, internal control over financial reporting, other reviews and sundry advisory fee		1,250	1,250
	Out-of-pocket expenses		-	225
			2,735	2,960
23.	**VOLUNTARY SEVERANCE SCHEME (VSS) - net**			
	Salary compensation		-	117,689
	Charge for defined benefit plan - pension		-	-
	Post retirement medical benefits		-	-
	Employees' compensated absences		-	-
	Benevolent fund		-	-
	Voluntary Severance Scheme -gross		-	117,689
	Amount receivable from Government for VSS charged off		-	300,000
			-	417,689
	Less: Government grant		-	-
	Voluntary Severance Scheme -net		-	417,689
24.	**OTHER PROVISIONS**			
	Provision against Gawadar Land		-	50,470
	Doubtful receivable of insurance premium from partners		(817)	(969)
			(817)	49,501
25.	**OTHER CHARGES**			
	Penalty imposed by State Bank of Pakistan		534	355
	Commission and bank charges		8,379	6,685
			8,913	7,040

26. SBP SHARE OF PROFIT

26.1 Allocation of income / expenses to Interest Bearing Scheme and PLS Scheme

	December 31, 2012			December 31, 2011		
	Total	Relating to PLS schemes	Relating to other operations	Total	Relating to PLS schemes	Relating to other operations
	<----------	----------	---------- Rupees '000'	----------	----------	---------->
				------ Restated	------	------
Rental/Mark-up/Return/Interest earned						
On loans and advances to customers	1,643,331	1,643,331	-	1,816,450	1,816,450	-
On investments in securities:						
Available for sale	759,785	-	759,785	603,299	-	603,299
Held to maturity	44,286	-	44,286	49,347	-	49,347
On deposits with financial institutions	31,271	-	31,271	18,236	-	18,236
On securities purchased under resale agreements	55,828	-	55,828	140,381	-	140,381
On clean lending	880	-	880	2,845	-	2,845
	2,535,381	1,643,331	892,050	2,630,558	1,816,450	814,108
Rental/Mark-Up/Return/Interest expensed						
Markup on SBP credit lines	(1,060,751)	(1,039,536)	(21,215)	(967,882)	(948,524)	(19,358)
On sukkuk	(79,877)	-	(79,877)	(132,544)	-	(132,544)
	(1,140,628)	(1,039,536)	(101,092)	(1,100,426)	(948,524)	(151,902)
Net mark-up / interest income	1,394,753	603,795	790,958	1,530,132	867,926	662,206
Reversal / (provisions) made against non performing advances	71,350	71,350	-	665,008	665,008	-
Reversal made for diminution in value of investments	68,895	-	68,895	(19,456)	-	(19,456)
Provision for diminution in value of lendings to financial institutions	(4,432)	-	(4,432)	3,324	-	3,324
Reconciliation adjustments	-	-	-	4,691	4,691	-
Amount received from GoP against remission of advances to widows				865,074	865,074	-
Reversal of rental income due to relief package	(248,569)	(248,569)	-	(301,544)	(301,544)	-
Net mark-up / interest income after provisions and relief package	1,281,997	426,576	855,421	2,747,229	2,101,155	646,074
Non mark-up / interest income						
Inspection and application fee	14,227	14,227	-	16,182	16,182	-
Gain on sale of fixed assets	4,613	-	4,613	2,753	-	2,753
Miscellaneous	60,298	-	60,298	24,903	-	24,903
	79,138	14,227	64,911	43,838	16,182	27,656
	1,361,135	440,803	920,332	2,791,067	2,117,337	673,730
Non Mark-Up/interest expenses						
Administrative expenses	(1,542,624)	(828,543)	(714,080)	(1,410,732)	(813,287)	(597,445)
VSS loss - net	-	-	-	(417,689)	(240,798)	(176,891)
Other provisions / write offs	817	817	-	(49,501)	(49,501)	-
Other charges	(8,913)	(8,735)	(178)	(7,040)	(6,899)	(141)
Total non-markup/interest expenses	(1,550,720)	(836,462)	(714,258)	(1,884,962)	(1,110,485)	(774,477)
Operating (loss) / profit for the year	(189,585)	(395,659)	206,074	906,105	1,006,852	(100,747)
Share in results of associate before taxation	-	-	-	-	-	-
(Loss) / profit for the year before SBP share	(189,585)	(395,659)	206,074	906,105	1,006,852	(100,747)
Share of State Bank of Pakistan		(395,659)			1,006,852	
Less: share of free reserves and credit balance						
Credit balance		206,074			-	
(Loss) / profit from PLS schemes available for sharing		(189,585)			1,006,852	
SBP's share		0.68%			9.38%	
Share of State Bank of Pakistan in Profit		(1,290)			94,443	

26.2 The Company apportioned rental/markup income for sharing with SBP into income earned related to profit and loss sharing schemes and income related to other operations. Other expenses and other income are apportioned on the same basis except for interest on SBP credit lines and other charges which are apportioned in the ratio 98:02; and administrative expenses which are allocated as per weightage in total average earning assets as advised by the SBP. SBP is entitled for share of net profit/loss related to profit and loss sharing schemes worked out as above in the ratio of active credit lines and overdue credit lines.

Interest earned on Interest Bearing Schemes are allocated completely to other operations.

In case of net loss, SBP will share the loss, net of free reserves and credit balances, if any, in the profit and loss account of the Company in the same ratio as for sharing profits.

27. TAXATION

	2012	2011
	Rupees in '000	
Current - for the year		
Company	40,215	112,885
Associate	-	-
	40,215	112,885
Current - for prior year		
Company	39	23,178
Deferred - for the year		
Company	-	-
Associate	-	-
	-	-
	40,254	136,063
Relationship between tax expense and accounting profit / (loss)		
Accounting (loss) / profit before taxation	(188,295)	811,662
Tax on Accounting (loss) / profit @ 35% (2011: 35%)	(65,903)	284,082
Tax Effects of:		
- expenses that are not deductible / deductable for determining taxable profit	106,118	110,853
- prior year charge	39	23,178
- adjustment of accumulated tax losses	-	(282,050)
	40,254	136,063

27.1 The taxation officer while assessing the taxable income for the tax years 2008 and 2009 has disallowed certain expenses on account of interest on loans to directors, executives & officers, administrative expenses pertaining to dividend income and capital gain on bonus units of mutual funds, reconciliation adjustments, interest on IDA loan, provision for doubtful insurance premium and provision of non performing loan under SBP share aggregating to Rs 1,225.550 million. Further, demand charges, excess insurance premium contribution and commission under Group Insurance Policy aggregating to Rs. 116.363 million were added, thus additional demands of Rs. 259.90 million and Rs. 105.89 million for tax year 2008 and 2009 respectively were created. The Company has filed appeals with CIT (Appeals) against the said orders. Apart from this, an appeal before Honorable High Court is filed by the Company for adjudication on the issue of invoking section 122(5A) of Income Tax Ordinance, 2001, without the approval of the concerned Commissioner, the decision of which is pending for adjudication. No provision has been made in these financial statements in this regard as the management is confident that ultimate outcome will be in favour of the Company. However, subsequent to the year, Commissioner Inland Revenue, in his order dated March 05, 2013 has annulled various add backs of Rs. 747.647 million and Rs. 195.123 million for the tax years 2008 and 2009 respectively.

The taxation officer while assessing taxable income for the tax years 2006 and 2007 has disallowed certain expenses on account of initial depreciation, demand charges, retirement benefits, suspension of income and written-off loans, etc. and created an additional demand of Rs. 20.28 million and Rs. 39.71 million, respectively. The Company has filed appeals with CIT(Appeals) against the said orders. The CIT (A) in its order dated June 11, 2010 has confirmed the action of taxation officer on account of initial depreciation, demand charges, etc. and directed him to rectify his order in respect of suspended income and writing off of income to PASMIC in tax year 2007 after verifying the documents available with the Company. The Company had filed an appeal with the Appellate Tribunal Inland Revenue (ATIR) against the order passed by CIT (A). No provision has been made in the financial statements in this regard as the management is confident that ultimate outcome of the appeals in question will be in favour of the Company.

During the preceding year, taxation officer while assessing the taxable income for the tax year 2006 has disallowed the share of loss of State Bank of Pakistan (SBP) amounting to Rs. 145.620 million and added the same to the taxable income under section 122(5A) of the Income Tax Ordinance, 2001, thus created an additional demand of Rs. 51.747 million. The Company has filed appeal with CIT (Appeals) against the said order. No provision has been made in these financial statements in this regard as the management is confident that ultimate outcome will be in favour of the Company. However, subsequent to the year, Commissioner Inland Revenue, in his order dated March 05, 2013 has annulled this add back.

Taxation officer while assessing the taxable income for the tax year 2005 has disallowed the share of loss of State Bank of Pakistan (SBP) amounting to Rs. 1,276.323 million and added the same to the taxable income under section 122(5A) of the Income Tax Ordinance, 2001, thus created an additional demand of Rs. 448.03 million. The Company has filed appeal with CIT (Appeals) against the said order. Apart from this, an appeal before Honorable High Court is filed by the Company for adjudication on the issue of invoking section 122(5A) of Income Tax Ordinance, 2001, without the approval of the concerned Commissioner, the decision of which is pending for adjudication. No provision has been made in these financial statements in this regard as the management is confident that ultimate outcome will be in favour of the Company. However, subsequent to the year, Commissioner Inland Revenue, in his order dated March 05, 2013 has annulled this add back.

The income tax assessment year 2001-2002 and tax year 2003 are pending at appellate forums. However, as a matter of prudence sufficient tax provision has been made in the books of accounts.

27.2 The Company has net deductible temporary difference on which deferred tax asset of Rs. 418.298 million arises. However, the management is of the view that the Company would not be able to generate sufficient taxable profits in foreseeable future to utilize deferred tax asset unless restructuring of the Company is completed for which proposal is pending with the Federal Government. In the absence of any time frame for restructuring of the Company, future cash flow projections cannot be prepared, accordingly, the Company has not recognized deferred tax asset in these financial statements.

28. BASIC & DILUTED (LOSS) / EARNINGS PER SHARE

(Loss) / profit for the year	**Rupees in '000**	(228,549)	675,599
Weighted average number of ordinary shares	**Numbers**	300,100,006	300,100,006
Basic / diluted (loss) / earnings per share - Rupee		(0.76)	2.25

28.1 Diluted earnings per share has not been presented as the Company does not have any convertible instruments in issue at December 31, 2012 and 2011 which would have any effect on the earnings per share if the option to convert is exercised.

29. CASH AND CASH EQUIVALENTS

Cash and balance with treasury banks	4	63,943	57,803
Balance with other banks	5	168,310	448,761
		232,253	506,564

30. STAFF STRENGTH

Permanent	779	801
Temporary / on contractual basis	19	25
	798	826

31. DEFINED BENEFIT PLAN

31.1 Principal actuarial assumptions

The 'Projected Unit Credit' actuarial cost method, using the following significant assumptions, are used by the actuary for the valuation:

	2012	2011
	Pension fund	
Discount rate	11.5 % per annum	13 % per annum
Expected rate of return on investments / plan assets	11.5 % per annum	13 % per annum
Expected rate of increase in salary	10.5 % per annum	12 % per annum
Pension increase rate	9 % per annum	9 % per annum

31.2 **Movement in payable to defined benefit plan**

	Post retirement			
	Pension fund		Medical benefits	
	2012	2011	2012	2011
	Rupees in 000			
Opening net liability	(85,112)	(22,746)	566,929	513,959
Expense for the year	221,711	209,176	124,440	104,021
Benefit payments	(117,752)	(271,542)	(13,093)	(51,051)
Contribution during the year	-	-	-	-
Balance at December 31	18,847	(85,112)	678,276	566,929

31.3 **Reconciliation of payable to defined benefit plan**

	Post retirement			
	Pension fund		Medical benefits	
	2012	2011	2012	2011
	Rupees in 000			
Present value of defined benefit obligation	3,140,200	2,620,728	1,003,934	738,826
Fair value of plan assets	(2,205,520)	(1,887,567)	-	-
Deficit	934,680	733,161	1,003,934	738,826
Unrecognized actuarial loss	(915,833)	(818,273)	(325,658)	(171,897)
Net liability at December 31	18,847	(85,112)	678,276	566,929

31.4 **Charge for defined benefit plan**

Current service cost	78,434	69,844	19,443	15,537
Interest cost	333,041	310,918	95,196	82,992
Expected return on plan assets	(245,384)	(221,081)	-	-
	166,091	159,682	114,639	98,529
Amortization of actuarial losses	55,620	49,494	9,801	5,492
	221,711	209,176	124,440	104,021

	2012	2011
	Rupees in '000	
31.5 Actual return on plan assets		
Pension fund	317,953	233,519

31.6 **Composition of Fair Value of Plan Assets**

	2012	2011	2012	2011
Pension Fund	Rupees in '000		% age	
Government Bonds and TFC's	1,955,760	1,886,884	88.68	99.96
Bank Balances	249,760	683	11.32	0.04
	2,205,520	1,887,567	100.00	100.00

31.7 The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the reporting date. Expected return on equity investments reflect long-term real rates of return experienced in the market.

31.8 **Five year's data on surplus / deficit of the plan and actuarial adjustments**

	2012	2011	2010	2009	2008
	Rupees in 000				
Pension Fund					
Present value of defined benefit obligation	3,140,201	2,620,728	2,417,489	2,085,972	1,889,013
Fair value of plan assets	(2,205,520)	(1,887,567)	(1,654,048)	(1,376,148)	(1,232,536)
Deficit	934,681	733,161	763,441	709,824	656,477
Actuarial (gain) / loss on obligation	225,750	94,017	989,519	(4,575)	(215,425)
Actuarial (loss)/gains on plan assets	(72,569)	(12,438)	(35,239)	78,943	(29,734)

31.9 **Post Employment Medical Contribution**

	2012	2011	2010	2009	2008
Present value of defined benefit obligation	1,003,934	738,826	638,194	547,389	507,654
Actuarial loss / (gain) on obligation	163,563	53,154	225,831	(39,380)	(133,040)

32. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Managing Director		Directors		Executives	
	2012	2011	2012	2011	2012	2011
	Rupees in '000					
Directors fees	-	-	260	961	-	-
Managerial remuneration	4,415	10,085	-	-	31,437	47,250
Rent and house maintenance	2,052	2,894	-	-	17,834	22,557
Utilities	654	793	-	-	1,458	1,920
Medical	95	254	-	-	6,341	2,001
Charge for defined benefit plan	-	-	-	-	31,165	8,796
Others	4,616	7,257	-	-	12,735	14,617
	11,832	21,283	260	961	100,970	97,141
Number of persons	1	1	4	4	21	27

32.1 Executive means employee, other than the Chief Executive and Directors, whose basic salary exceed five hundred thousand rupees in a financial year.

32.2 The Company also provides free use of the Company maintained car to Managing Director and Executives in accordance with their entitlements.

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments other than those classified as held to maturity is based on quoted market price. Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for non-performing advances has been calculated in accordance with the Company's accounting policy as stated in note 3.4 to these financial statements.

The repricing profile, effective rates and maturity are stated in note 36.3.1 and 36.4.1.

The management is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short term in nature or in the case of customer advances are frequently repriced.

34. RELATED PARTY TRANSACTIONS

Related parties comprise associated undertaking, retirement benefit plans, directors and key management personnel of the Company. These transactions were made on substantially the same commercial terms as those prevailing at the time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. There were no transactions with the key management personnel other than those under the terms of their employment. Details of transactions with the related parties other than those which have been disclosed elsewhere in these financial statements, are as follows:

Relationship	Nature of Transaction	2012	2011
		Rupees in '000	
Associated undertaking			
Takaful Pakistan Limited	Insurance premium paid	7,007	583
	Insurance claims received	6,711	555
Key management personnel	Proceeds from disposal of operating fixed assets	41	17
	Loans and advances	17,879	29,660
Retirement benefits plans	Pension fund	-	8,796
	Post retirement medical benefits	7,494	3,873

The related party status of outstanding receivables and payables as at December 31, 2012 are included in respective notes to the financial statements.

Remuneration to key management personnel is disclosed in Note 32 to these financial statements.

35. CAPITAL ADEQUACY

35.1 Scope of Applications

The Basel II Framework as prescribed by the SBP is applicable to the Company in the assessment of its capital adequacy requirement.

35.2 Capital Structure

The Company's regulatory capital is divided into two tiers:

Tier 1, which include share capital, retained earnings, general reserves and unappropriated profits after deductions for intangibles.

Tier 2, which include general provision or reserve for loan losses (up to maximum of 1.25% of risk weighted assets), reserve on revaluation of fixed assets and equity investments (up to 45% of the balance in the related revaluation reserve).

Tier 3 Capital has also been prescribed by the SBP for managing market risk; however the Company does not have any Tier 3 capital.

	2012	2011
	Rupees in '000	
Tier I Capital		
Shareholders equity	3,001,000	3,001,000
Reserves	620,610	620,610
Accumulated losses	(1,299,015)	(1,070,466)
Less: Intangible assets	(2,963)	(2,070)
Surplus / (deficit) on account of revaluation of investments held in AFS category	4,110	(5,013)
Other deductions	-	-
Total Tier I Capital	**2,323,742**	**2,544,061**
Tier II Capital		
Subordinated Debt (upto 50% of total Tier I Capital)	-	-
General Provisions subject to 1.25% of Total Risk Weighted Assets	79,360	90,061
Revaluation Reserve	-	-
Other deductions	-	-
Total Tier II Capital	**79,360**	**90,061**
Tier III Capital	-	-
Total Regulatory Capital Base	2,403,102	2,634,122

35.3 Capital Adequacy

Objectives of Managing Capital

The Company's objectives when managing capital are:

- To develop systems and procedures for accurate measurement of the risks to identify deviation from approved risk parameters.
- To maintain a strong capital base to support the development of its business.
- To achieve low overall cost of capital with appropriate mix of capital elements.

Externally Imposed Capital Requirements

In order to strengthen the solvency of Development Financial Institutions (DFIs), SBP through its BSD Circular No. 19 of 2008 dated September 5, 2008 has asked to raise their minimum paid up capital to Rs. 6 billion up to December 31, 2009. However, there is a shortfall of Rs. 3.677 billion in minimum capital requirement. The Company has approached its shareholders i.e. Ministry of Finance and State Bank of Pakistan, to inject the required capital to meet the shortfall which is under consideration (Note 1.1).

The State Bank of Pakistan vide its letter No. BSD/BAID/659/2145/2012 dated February 16, 2012 has granted exemption to the Company to comply with the minimum capital requirement till December 31, 2012 or completion of privatization / restructuring process, whichever is later.

SBP through its BSD Circular No. 07 of 2009 dated April 15, 2009 has also asked to achieve the minimum Capital Adequacy Ratio (CAR) of 10%. The capital adequacy ratio (CAR) of the Company stands at 23% of its risk weighted exposures as at December 31, 2012. The Company has maintained capital adequacy ratio well above 10%. Morefully explained in Note 1.1, subsequent to year end, it has been decided between the representatives of SBP, SECP and the Company to convert the Company's total outstanding debt of Rupees 11.242 billion payable along with markup payable of Rupees 2.448 billion (aggregately Rupees 13.69 billion) in the equity of the Company.

35.4 Risk-Weighted Exposures

		2012		2011	
		Capital Requirements	Risk Weighted Assets	Capital Requirements	Risk Weighted Assets
		Rupees in '000		Rupees in '000	
Credit Risk					
Portfolios subject to standardized approach (Simple or Comprehensive)		776,405	7,764,052	582,160	5,821,604
Market Risk					
Capital requirement for portfolios subject to standardized approach					
Interest rate risk		15,101	188,763	22,066	275,820
Equity position risk etc.					
Operational Risk					
Capital Requirement for operational risks		199,683	2,496,042	188,092	2,351,145
			10,448,858		**8,448,569**
Capital Adequacy Ratio					
Total regulatory capital held	(a)		2,403,102		2,634,122
Total Risk Weighted Assets	(b)		10,448,858		8,448,569
Capital Adequacy Ratio	(a) / (b)		**23.00%**		**31.18%**

36. RISK MANAGEMENT

Financial Institutions are exposed to various risks in pursuit of their business objectives. The nature and complexity of these risks has rapidly changed over time. The failure to adequately manage these risks not only results in business losses but also places hurdles in achieving strategic objectives. Consequently, a solid and vigorous risk management framework in the organization is required.

The Company's risk Management Policy is in line with the Risk Management Guidelines of State Bank of Pakistan and Basel II Accord. The Risk Management Policy is approved by the Board of Directors.

The risk management policies and procedures cover all activities of the Company including credit evaluation, treasury and investment operations. The basic principles employed in formulation of the above policies and procedures involves identification, measurement, monitoring and controlling risks to ensure that: -

- The Company's risk exposure is within the limits established by the Board of Directors.
- Risk taking decisions are in line with the business strategy and objectives of the Company.
- The expected payoffs compensate the risks taken by the company.

Risk profile of the Company

The key risks are credit risk, liquidity risk, market risk and operational risk.

Risk Structures and Responsibilities

Organizational framework for Risk Management includes the following :

The Board of Directors is responsible for overall supervision of the risk management process. A Board Risk Management Committee was formed to regularly review risk related activities of the organization. The Board Risk Management Committee is responsible to establish and implement risk management framework of the Company. Nonetheless, since the board of the Company is now required to be re-constituted, the committee will also be re-constituted accordingly. Individual risks are reviewed and controlled by various committees at management level like ALCO and Credit Committee.

Risk Management Department is responsible for coordinating all the risk management activities of the Company. It ensure that risks remain within the boundaries as defined by the Board, comply with the risk parameters and prudential limits and work out remedial measures. The core function is to identify, measure, monitor and report key risks to which company may be exposed. It works in close coordination with all the functions and business units that are involved in risk taking.

Risk Management department undertakes the following activities on regular basis utilizing the overall risk framework: -

- Formulate policies and guidelines for managing all risk categories.
- Develop systems and procedures. These systems and procedures should be capable of accurate measurement of the risks to identify deviation from approved risk parameters.
- Facilitate introduction and implementation of prudent practices for risk management.
- Facilitate management in business decisions by providing analytical and conceptual risk reviews
- Communicate and liaise with other functions and business units in carrying out risk reviews, analysis and mitigation activities.

36.1 Credit Risk

Credit risk is the risk that a customer or counterparty may not settle an obligation for full value, either when due or at any time thereafter. This risk arises from the potential that a customer or counterparty's willingness to meet an obligation or its ability to meet such an obligation is impaired, resulting in an economic loss to the Company.

Housing Finance is the core function of the Company and credit risk is the major risk faced by the Company. Credit risk is incurred mainly in the following two areas of its operations: -

- In its credit operations, where it provides housing finance to retail or wholesale clients; and
- In treasury operations where credit risk is incurred with counterparties in its investments in financial markets and instruments.

Overall credit risk is monitored by Credit Committee at Head Office, which reviews and recommends improvements in credit policies and monitors portfolio behavior. To further strengthen credit risk management and credit setup, proper delegation of credit decisions at committee level with appropriate approving limits has been made.

Following measures have been applied to govern credit policy of the Company: -

- Lending process and decision is based on a full appreciation of the risks inherent in the

Management monitors credit portfolio through MIS reports.

- Stress testing for individual credits and the overall credit portfolio under adverse changes in the conditions / environment in which the borrowers operate.
- The Company has instituted an effective system for monitoring servicing of its performing credit portfolio and collection of non performing portfolio.
- The Company creates loan loss provisions against non-performing advances in accordance with Prudential Regulations issued by SBP.

36.1.1 Credit Risk Mitigation

It is the Company's policy to reduce or mitigate credit risk on credit facilities or exposures, by securing these with collaterals. To correctly assess the extent to which the collateral mitigates the credit risk the collateral must be valued according to a specified valuation method, documented and monitored.

In this regard following steps have been taken: -

- Outsourcing of property title verification.
- Outsourcing of borrower income verification.
- Outsourcing of property valuation.

Credit Risk is also mitigated through a set up of sub credit committee at Zonal and Regional level for credit approvals depending upon the level of risk assumed. Overall credit risk is monitored by central credit committee which reviews and recommends improvements in credit policies and monitors portfolio behavior.

To strengthen credit risk management and to fulfill SBP requirements, the company is working to develop and implement internal credit risk rating system for its entire credit portfolio.

Collateral & Security

Collateral is an important mitigant of credit risk. All the residential mortgages are collateralized. Valuation of the collateral is taken within agreed parameters. The legal mechanism by which collaterals is pledged and the Company's procedures ensure that the Company has clear rights over the collaterals and may liquidate, retain or take legal possession of it in a timely manner in the event of default.

Insurance Cover

- Every borrower and guarantor is insured for life and disability for repayment of the balance amount of the loans.
- Every property taken as collateral is insured.

Credit Concentration Risk

Concentration of credit risk (whether on and off Balance Sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristic that would cause their ability to meet contractual obligations to be affected in a similar way by changes in economic or the conditions. This is managed through counterparties limits.

36.1.2 Segmental information

Segmental Information is presented in respect of the class of business and geographical distribution of Advances, Deposits, Contingencies and Commitments.

36.1.2.1 **Segments by class of business**

Housing finance	2012					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
Individuals	12,854,842	98.03	-	-	-	-
Others	257,989	1.97	-	-	669,636	100.00
	13,112,831	100	-	-	669,636	100.00

Housing finance	2011					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
Individuals	13,429,499	98.07	-	-	-	-
Others	264,380	1.93	-	-	600,991	100.00
	13,693,879	100	-	-	600,991	100.00

36.1.2.2 **Segment by sector**

	2012					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
Public / Government	249,359	1.90	-	-	200,000	29.87
Private	12,863,472	98.10	-	-	469,636	70.13
	13,112,831	100.00	-	-	669,636	100.00

	2011					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
Public / Government	255,750	1.87	-	-	200,000	33.28
Private	13,438,129	98.13	-	-	400,991	66.72
	13,693,879	100.00	-	-	600,991	100.00

36.1.2.3 **Details of non-performing advances and specific provisions by class of business segment**

	2012		2011	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	--------- Rupees in '000 ---------			
Individuals	7,693,692	3,106,259	7,912,488	3,165,517
Others	39,846	39,846	46,237	46,237
	7,733,538	3,146,105	7,958,725	3,211,754

36.1.2.4 **Details of non-performing advances and specific provisions by sector**

Public/ Government	31,216	31,216	37,606	37,606
Private	7,702,322	3,114,889	7,921,019	3,174,148
	7,733,538	3,146,105	7,958,625	3,211,754

36.1.2.5 **Geographical segment analysis**

	(Loss) / profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-------------- Rupees in '000 --------------			
2012				
Pakistan	(188,295)	19,923,262	2,544,848	669,636
2011				
Pakistan	811,662	19,286,712	2,764,274	663,518

36.2 **Credit Risk-General Disclosures Basel II Specific**

36.2.1 **Credit Risk - General Disclosures**

The Company has adopted the Standardized Approach of Basel II for weighting its Credit Risk Exposures.

36.2.2 **Credit Risk Disclosures for portfolio subject to the Standardized Approach -Basel II Specific**

Under Standardized approach, the capital requirement is based on the credit rating assigned to the counter parties by the External Credit Assessment Institution (ECAI) duly recognized by SBP for capital adequacy purposes. In this connection , the Company utilizes the credit rating assigned by recognized agencies such as PACRA and JCR-VIS.

Types of Exposures and ECAI's used
Current Year

Exposures	JCR-VIS	PACRA	Other (Specify)
Corporate	√	√	x
Banks	√	√	x
Sovereigns	x	x	x
SME's	x	x	x
Securitizations	x	x	x
Others (Specify)	x	x	x

36.2.3 For exposure amounts after risk mitigation subject to standardized approach, amount of Company outstanding (rated & unrated) in each risk bucket as well as those that are deducted are as follows: -

Credit Exposures subject to Standardized approach
Current Year

Exposures	Rating Category #	Amount Outstanding	Deduction CRM	Net Amount
Corporate	2 to 6	22,774	-	22,774
Banks	1 & 3	368,634	144,830	223,804
Sovereigns etc.	-	63,942	-	63,942
Unrated		10,886,742	-	10,886,742
		11,342,092	144,830	11,197,262

CRM = Credit Risk Mitigation

36.2.4 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approaches-Basel II Specific

The Company has adopted Simple Approach of Credit Risk Mitigation for the Banking Book. For instance where the Company's exposure on an obligor is secured by collateral that conforms with the eligibility criteria under the Simple Approach of CRM, then the Company reduces its exposure under that particular transaction by taking into account the risk mitigating effect of the collateral for the calculation of capital requirement. i.e. risk weight of the collateral instrument securing the exposure is substituted for the risk weight of the counterparty. In order to obtain the credit risk mitigation benefit, the Company uses realizable value of eligible collaterals to the extent of 80% of outstanding exposure.

36.2.5 Equity position risk in the banking book-Basel II Specific

At present the Company has no investment position in equity holdings.

36.3 Market Risk

Market Risk Management is the risk that the value of on and off - balance sheet positions of the Company will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads and / or commodity prices resulting in a loss to earnings and capital.

The Company is exposed only to interest rate risk in its banking and trading book. Foreign exchange risk and equity price risk is not applicable to the Company.

The organization set up for Market Risk Management in the Company is as under: -

- The Board of Directors
- The Board Risk Management Committee (BRMC)
- The Asset-Liability Management Committee (ALCO); and
- Middle Office

36.3.1 Responsibilities of ALCO

Responsibilities of ALCO with regard to market risk management aspects include:

- Assess the Company's current balance sheet position.
- Review the appropriateness of the existing strategies.
- Develop asset and liability strategies.
- Set the quantifiable targets to achieve the asset liability strategies.
- Product pricing for borrowing and advances.
- Decide on desired maturity profile and mix of incremental assets and liabilities.
- Review liquidity & funding plans for the Company.

36.3.2 Responsibilities of Middle Office

The middle office performs treasury and market risk management activities. It is responsible for verification of all the deals made by front office and monitoring of portfolio position. It is responsible for review of treasury policy, process and involve in research. It works for measurement, modeling, mitigating, and reporting of interest rate risk and liquidity risk.

36.3.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

36.3.3.1 Yield / interest rate risk

Yield / interest rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market yield / interest rates. Sensitivity to yield / interest rate risk arises from mismatches of financial assets and financial liabilities that mature or reprice in a given period. The Company manages these mismatches through matching the repricing of assets and liabilities and off-balance sheet instruments. The Company is exposed to yield / interest risk in respect of the following: -

	2012											
	Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk									Non-interest bearing financial instruments
			Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
			Rupees in '000									
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks		63,943	-	-	-	-	-	-	-	-	-	63,943
Balances with other banks	6.00% - 9.25%	168,310	168,310	-	-	-	-	-	-	-	-	-
Lending to financial institutions	9.25%	181,038	181,038	-	-	-	-	-	-	-	-	-
Investments	9.27% - 16.04%	8,855,424	126,001	6,793,844	1,665,847	29,990	33,740	8,204	172,648	25,150	-	-
Advances - net	5% -19%	9,887,366	1,129,387	135,822	200,549	396,892	782,220	748,233	1,478,000	2,544,654	2,471,609	-
Other assets		129,939	-	-	-	-	-	-	-	-	-	129,939
		19,286,020	1,604,736	6,929,666	1,866,396	426,882	815,960	756,437	1,650,648	2,569,804	2,471,609	193,882
Liabilities												
Bills payable		-	-	-	-	-	-	-	-	-	-	-
Borrowings	9.50% - 14.59%	11,695,300	11,242,300	-	153,000	150,000	150,000		-	-	-	
Deposits and other accounts		-	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		4,536,217	-	-	-	-	-	-	-	-	-	4,536,217
		16,231,517	11,242,300	-	153,000	150,000	150,000	-	-	-	-	4,536,217
On-balance sheet gap		3,054,503	(9,637,564)	6,929,666	1,713,396	276,882	665,960	756,437	1,650,648	2,569,804	2,471,609	(4,342,335)
Off-balance sheet financial instruments												
Forward Lending												
Forward borrowings												
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			(9,637,564)	6,929,666	1,713,396	276,882	665,960	756,437	1,650,648	2,569,804	2,471,609	(4,342,335)
Cumulative Yield/Interest Risk Sensitivity Gap			(9,637,564)	(2,707,898)	(994,502)	(717,620)	(51,660)	704,777	2,355,425	4,925,229	7,396,838	3,054,503

	Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk — Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-interest bearing financial instruments
			2011									
			Rupees in '000									
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks		57,803	-	-	-	-	-	-	-	-	-	57,803
Balances with other banks	12.83% to 13.12%	448,761	430,077	-	-	-	-	-	-	-	-	18,684
Lending to financial institutions	12.60%-13.12%	4,432	4,432	-	-	-	-	-	-	-	-	-
Investments	12.17% - 13.20%	7,839,516	1,469,357	2,409,109	3,085,581	708,389	37,190	56,520	73,370	-	-	-
Advances - net	5% -19%	10,392,064	1,072,190	144,340	218,530	404,057	783,312	794,348	1,528,388	2,763,139	2,683,760	-
Other assets		160,915	-	-	-	-	-	-	-	-	-	160,915
		18,903,491	2,976,056	2,553,449	3,304,111	1,112,446	820,502	850,868	1,601,758	2,763,139	2,683,760	237,402
Liabilities												
Bills payable		-	-	-	-	-	-	-	-	-	-	-
Borrowings	9.5% - 14.24%	11,992,300	10,742,300	-	150,000	150,000	300,000	150,000	-	-	-	500,000
Deposits and other accounts		-	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		3,125,264	-	-	-	-	-	-	-	-	-	3,125,264
		15,117,564	10,742,300	-	150,000	150,000	300,000	150,000	-	-	-	3,625,264
On-balance sheet gap		3,785,927	(7,766,244)	2,553,449	3,154,111	962,446	520,502	700,868	1,601,758	2,763,139	2,683,760	(3,387,862)
Off-balance sheet financial instruments												
Forward Lending												
Forward borrowings												
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			(7,766,244)	2,553,449	3,154,111	962,446	520,502	700,868	1,601,758	2,763,139	2,683,760	(3,387,862)
Cumulative Yield/Interest Risk Sensitivity Gap			(7,766,244)	(5,212,795)	(2,058,684)	(1,096,238)	(575,736)	125,132	1,726,890	4,490,029	7,173,789	3,785,927

36.3.3.2 **Reconciliation of Assets and Liabilities exposed to Yield/Interest Rate Risk with Total Assets and Liabilities**

	December 31 2012	December 31 2011
	Rupees in '000	
Total financial assets as per note 36.3.3.1	19,286,020	18,903,491
Operating fixed assets	263,500	214,516
Other assets	373,742	168,705
Total assets as per balance sheet	19,923,262	19,286,712
Total financial liabilities as per note 36.3.3.1	16,231,517	15,117,564
Other liabilities	1,146,897	1,404,874
	17,378,414	16,522,438

36.4 **Liquidity Risk**

Liquidity risk is the risk caused, among others by the inability of the Company to settle liabilities at due date. Objectives of the Company's liquidity management is to ensure that the Company is able to honor all its financial commitments on an ongoing basis without (i) effecting the Company's cost of funds (ii) adversely effecting ability to raise funds and (iii) resorting to sale of assets.

Asset and Liability Committee (ALCO), Treasury, Finance Division and Risk Management Department each have a role in management of liquidity risk.

The management in year 2008 has floated Sukuk Certificates worth Rs. 1.5 billion which were fully subscribed indicating Company's strength/ability to raise funds from the market in case of need.

36.4.1 **Maturities of Assets and Liabilities**

	2012									
	Total	Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	Rupees in '000									
Assets										
Cash and balances with treasury banks	63,943	63,943	-	-	-	-	-	-	-	-
Balances with other banks	168,310	168,310	-	-	-	-	-	-	-	-
Lendings to financial institutions	181,038	181,038	-	-	-	-	-	-	-	-
Investments	8,855,424	126,001	6,793,844	1,665,847	29,990	33,740	8,204	172,648	25,150	-
Advances - net	9,887,366	1,129,387	135,822	200,549	396,892	782,220	748,233	1,478,000	2,544,654	2,471,609
Operating fixed assets	263,500	975	1,950	2,924	150,150	11,697	11,700	21,269	36,768	26,067
Other assets	503,681	3,153	26,016	9,483	7,563	253,965	203,501	-	-	-
	19,923,262	1,672,807	6,957,632	1,878,803	584,595	1,081,622	971,638	1,671,917	2,606,572	2,497,676
Liabilities										
Bills payable	-	-	-	-	-	-	-	-	-	-
Borrowings from financial institutions	11,695,300	11,242,300	-	153,000	150,000	150,000		-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	5,683,114	3,178,522	78,400	139,536	209,696	546,444	756,078	751,918	22,520	-
	17,378,414	14,420,822	78,400	292,536	359,696	696,444	756,078	751,918	22,520	-
Net assets / (liabilities)	2,544,848	(12,748,015)	6,879,232	1,586,267	224,899	385,178	215,560	919,999	2,584,052	2,497,676
Share capital	3,001,000									
Reserves	620,610									
Accumulated loss	(1,299,015)									
Surplus on revaluation of assets	4,110									
Advance against issue of capital	218,143									
	2,544,848									

Information relating to above disclosure is not available through system, therefore is based on management best estimate.

	2011									
	Total	Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	Rupees in '000									
Assets										
Cash and balances with treasury banks	57,803	57,803	-	-	-	-	-	-	-	-
Balances with other banks	448,761	448,761	-	-	-	-	-	-	-	-
Lendings to financial institutions	4,432	4,432	-	-	-	-	-	-	-	-
Investments	7,839,516	1,469,357	2,409,109	3,085,581	708,389	37,190	56,520	73,370	-	-
Advances - net	10,392,064	1,072,190	144,340	218,530	404,057	783,312	794,348	1,528,388	2,763,139	2,683,760
Operating fixed assets	214,516	1,097	2,195	3,292	84,038	13,168	13,173	24,840	44,621	28,092
Other assets	329,620	41,011	216,837	71,772	-	-	-	-	-	-
	19,286,713	3,094,651	2,772,481	3,379,175	1,196,484	833,670	864,041	1,626,598	2,807,760	2,711,852
Liabilities										
Bills payable	-									
Borrowings from financial institutions	11,992,300	10,742,300	500,000	150,000	150,000	300,000	150,000	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	4,530,138	1,051,185	2,150,043	219,400	153,616	955,894	-	-	-	-
	16,522,438	11,793,485	2,650,043	369,400	303,616	1,255,894	150,000	-	-	-
Net assets / (liabilities)	2,764,274	(8,698,834)	122,438	3,009,775	892,868	(422,224)	714,041	1,626,598	2,807,760	2,711,852
Share capital	3,001,000									
Reserves	620,610									
Accumulated loss	(1,070,466)									
Surplus on revaluation of assets	(5,013)									
Advance against issue of capital	218,143									
	2,764,274									

Some assets/ liabilities of the Company do not have contractual maturity date. The period in which these assets/ liabilities are assumed to mature are on the basis of expected date on which the assets/ liabilities will be realized/ settled.

* The Asset / Liability mismatch in first category of above table has been arisen due to classification of overdue amount of SBP credit lines amounting to Rs.11,242 (2010: Rs. 9,689) million. The amount of SBP credit line Rs. 11,242.3 million is under active consideration of Government of Pakistan and State Bank of Pakistan as mentioned in note 1 to these financial statements.

Information relating to above disclosure is not available through system, therefore is based on management best estimate.

36.5 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, including system conversions and integration, and external events. Operational risk exists in all products and business activities because of the nature, volume and complexity of the operations.

The Company seeks to manage the operational risk from two perspectives, first by way of ensuring compliance of standard operating procedures including defined processes for prevention and detection of any fraud and forgery, and work place safety and security and second through contingency planning to ensure continuity of business. Policies and procedures in shape of manuals covering all functions are duly approved by the Board and implemented in the Company. Primarily operational risk is continuously reviewed by the Management.

Moreover Internal Audit, Compliance and Risk Management functions are involved in monitoring, mitigation and control of operational risk.

36.5.1 Operational Risk Disclosures-Basel II Specific

The Company is currently using the Basic Indicator approach to calculate the capital charge for Operational Risk as per Basel II regulatory framework. The Company's operational risk management framework has been developed to create an environment within which operational risk can be identified, measured, managed and monitored in a consistent manner.

37. CORRESPONDING FIGURES

There were no major account balances reclassified or rearranged during the year. However, the adjustment to "Reversal of provision against non-performing advances" and "Reversal due to relief package and reprocessing adjustments" has been disclosed in Note 20.2 to these financial statements.

38. DATE OF AUTHORIZATION

These financial statements were approved and authorized for issue on _____________ by the Board of Directors of the Company.

39. GENERAL

39.1 Figures have been rounded-off to the nearest thousand rupees except stated otherwise.

39.2 Captions as prescribed in BSD circular No. 4 dated February 17, 2006 issued by the State Bank of Pakistan in respect of which no amounts are outstanding have not been reproduced in these financial statements except for in the balance sheet and the profit and loss account.

MANAGING DIRECTOR	DIRECTOR	DIRECTOR	DIRECTOR