RIAZ AHMAD & COMPANY
Chartered Accountants

HOUSE BUILDING FINANCE COMPANY LIMITED

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2014

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 2014 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the 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) Bank reconciliation statements of various bank accounts include long outstanding debit and credit entries of Rupees 11.081 million and Rupees 28.243 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 six (56) requests circularized to the banks, where the Company maintains its bank accounts, having balances aggregating to Rupees 322.178 million, we did not receive responses against forty four (44) requests from the banks with balances totaling to Rupees 232.334 million;

(b) The outstanding balance of 'advances-net' as disclosed in note 8 to the financial statements is not in agreement with underlying subsidiary records at Head Office. There was a difference of Rupees 3.959 million in outstanding principal at 31 December 2014. Further, the income on advances booked in previous years amounting to Rupees 28.658 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;

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(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 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;

(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 the year ended 31 December 2011 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; and

(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 543.433 million were included in Deferred Credits to be used for charitable purpose. Accumulated donations paid till 31 December 2014 out of this were Rupees 105 million. Since the aforesaid ordinance is no more applicable to 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 151.976 million;

iii. Deferred credits include accumulated debit balance on account of expense provided for doubtful insurance receivable from partners amounting to Rupees 251.159 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 1,066.167 million up to the reporting date, which also includes current year's profit allocation of Rupees 111.885 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 position, 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 31December 2013 and of the profit, its comprehensive income, 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 draw attention to note 1.1 to the financial statements which states 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 the decision made on conversion of borrowings (credit lines) from State Bank of Pakistan (SBP) (Note 11.1.1) along with markup payable into equity of the Company. Our opinion is not further qualified in respect of this matter.

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, 2014

	Note	2014	2013
		---- Rupees in '000 ----	
ASSETS			
Cash and balances with treasury banks	4	70,155	80,564
Balances with other banks	5	244,608	226,912
Lendings to financial institutions	6	2,006,302	2,439,321
Investments - net	7	7,145,567	8,033,214
Advances - net	8	10,423,729	9,700,151
Operating fixed assets	9	362,572	344,400
Deferred tax assets	25.2	544,578	321,245
Other assets	10	635,161	506,895
		21,432,672	21,652,702
LIABILITIES			
Bills payable		-	-
Borrowings	11	11,242,300	11,392,300
Deposits and other accounts		-	-
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	12	7,965,974	7,887,394
		19,208,274	19,279,694
NET ASSETS		**2,224,398**	**2,373,008**
REPRESENTED BY			
Share capital	13	3,001,000	3,001,000
Reserves		743,439	713,005
Accumulated loss		(1,864,143)	(1,552,348)
		1,880,296	2,161,657
Advance against issue of capital	8.6	218,143	218,143
Surplus / (deficit) on revaluation of assets	14	125,959	(6,792)
		2,224,398	**2,373,008**
CONTINGENCIES AND COMMITMENTS	15		

The annexed notes from 1 to 37 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, 2014

	Note	2014	2013
		Rupees in '000	
Rental / mark-up / return / interest earned	16	2,644,721	2,778,190
Rental / mark-up / return / interest expensed	17	(1,073,546)	(1,102,481)
Net rental / mark-up / interest income		1,571,175	1,675,709
Reversals of provision made against non performing advances	18	174,278	378,076
Reversal of provision for diminution in value of investments		27,770	77,316
Provision for diminution in value of lendings to financial institutions		-	-
		202,048	455,392
Reconciliation adjustments	19	266	3,160
Reversal due to relief package and reprocessing adjustments	20	(65,645)	(351,354)
Net rental / mark-up / interest income after provisions		1,707,844	1,782,907
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	53,608	52,818
Total non-mark-up / interest income		53,608	52,818
		1,761,452	1,835,725
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	22	(1,494,239)	(1,323,782)
Other provisions / write offs	23	19	(13,360)
Other charges	24	(10,239)	(11,557)
Total non-mark-up / interest expenses		(1,504,459)	(1,348,699)
		256,993	487,026
Share in results of an associate before taxation	7.8	-	-
PROFIT BEFORE ALLOCATION FOR STATE BANK OF PAKISTAN SHARE		256,993	487,026
State Bank of Pakistan share of loss on credit lines	12.2.2	47,842	-
		304,835	487,026
PROFIT BEFORE TAXATION			
Taxation	25		
- Current			
- for the year		(152,667)	(104,917)
- prior year		-	-
- Deferred		-	-
		(152,667)	(104,917)
PROFIT AFTER TAXATION		152,168	382,109
Basic & diluted earnings per share - Rupees	26	0.51	1.27

The annexed notes from 1 to 37 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, 2014

	2014	2013
	------- Rupees in '000 -----	
Profit for the year	152,168	382,109
Other comprehensive income	-	-
Items that will not be reclassified to profit and loss		
- Remeasurement of defined benefit obligations	(656,862)	378,048
- Deferred tax on remeasurement of defined benefit obligations	223,333	(128,536)
Items that may be reclassified subsequently to profit and loss	-	-
	(433,529)	249,512
Total comprehensive income for the year	(281,361)	631,621

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 37 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, 2014

	Share capital	Statutory reserve	Accumulated loss	Total
	Rupees in '000			
Balance at December 31, 2012	3,001,000	636,583	(2,107,547)	1,530,036
Comprehensive income for the year				
Profit after tax for the year ended December 31, 2013	-	-	382,109	382,109
Other comprehensive income	-	-	249,512	249,512
	-	-	631,621	631,621
Transfer to statutory reserve *	-	76,422	(76,422)	-
Balance at December 31, 2013	3,001,000	713,005	(1,552,348)	2,161,657
Comprehensive income for the year				
Profit after tax for the year ended December 31, 2014	-	-	152,168	152,168
Other comprehensive income	-	-	(433,529)	(433,529)
	-	-	(281,361)	(281,361)
Transfer to statutory reserve *	-	30,434	(30,434)	-
Balance at December 31, 2014	3,001,000	743,439	(1,864,143)	1,880,296

* 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 37 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, 2014

	Note	2014	2013
		------ Rupees in '000 ------	
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		256,993	487,026
Adjustments:			
Depreciation		21,810	22,780
Amortization of intangible assets		294	630
Gain on sale of operating fixed assets		(1,013)	(1,625)
Fixed assets adjustments		-	13
Reversal of provision for dimunition in value of investments		(27,770)	(77,316)
Reversals of provision made against non performing advances		(174,278)	(378,076)
Reconciliation adjustments		(266)	(3,160)
Reversal of rental income		65,645	351,354
Rental / mark-up / return / interest expensed		1,073,546	1,102,481
		957,968	1,017,081
		1,214,961	1,504,108
(Increase) / decrease in operating assets			
Advances		(614,579)	217,097
Lending to financial institutions		433,019	(2,258,283)
Other assets excluding advance tax		81,651	48,638
		(100,009)	(1,992,548)
Increase / (decrease) in operating liabilities			
Borrowings		(150,000)	(303,000)
Other liabilities		119,046	268,074
		(30,954)	(34,926)
Financial charges paid		(2,053,370)	(39,747)
Income tax paid		(32,246)	(166,595)
Net cash used in operating activities		(1,001,618)	(729,709)
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(40,281)	(85,317)
Sale proceeds from disposal of operating fixed assets		1,018	1,625
Investments made-net		1,048,168	888,624
Net cash flows from investing activities		1,008,905	804,932
C. CASH FLOWS FROM FINANCING ACTIVITIES		-	-
Increase in cash and cash equivalents		7,286	75,223
Cash and cash equivalents at beginning of the year		307,477	232,253
Cash and cash equivalents at end of the year	27	314,763	307,476

The annexed notes from 1 to 37 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, 2014

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 46 district offices and 10 zonal offices throughout Pakistan including Azad Jammu and Kashmir. According to credit rating report dated July 12, 2014 of JCR-VIS, the long term and short term ratings of the Company are "A" and "A2" 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, 2014 is Rs. 1.880 billion. State Bank of Pakistan vide its letter No. BSD/BAID/659/2145/2012 dated February 16, 2012 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.

During the year, a meeting has held on 11 July 2014 between the representatives of the SBP, Securities and Exchange Commission of Pakistan 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.

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.

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 the directives issued under the Companies Ordinance, 1984 and directives issued by 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 of approved accounting standards are effective for accounting periods beginning on or after January 01, 2014:

The Company has adopted the following revised standards, amendments and interpretations of IFRSs which become effective during the current year:

IAS - 32	- Financial Instruments: Presentation - (Amendment) - Offsetting Financial Assets and Financial Liabilities
IAS - 36	- Impairment of Assets - (Amendment) - Recoverable Amount Disclosure for Non-Financial Assets
IFRIC - 21	- Levies

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 01, 2014 but are considered not relevant or do not have a significant effect on the Company's operations and therefore are not detailed in these financial statements.

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods on or after January 01, 2015.

	Effective date (accounting 'periods beginning on or after)
- IAS 27 -' Separate Financial Statements (Amendment)'	01 January 2015
- IFRS 10 ' Consolidation Financial Statements '	01 January 2015
- IFRS 11 ' Joint Arrangements '	01 January 2015
- IFRS 12 ' Disclosure of interest in other entities'	01 January 2015
- IFRS 13 -' Fair Value Measurement'	01 January 2015

There are other new and amended standards and interpretations that are mandatory for the Company's accounting periods beginning on or after January 01, 2015 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.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

	Effective date (accounting 'periods beginning on or after)
- IFRS 9 -' Financial Instruments: Classification and Measurement	01 January 2018
- IFRS 14 -' Regulatory Deferral Accounts	01 January 2016
- IFRS 15 -' Revenue from Contracts with Customers'	01 January 2017

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 **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. 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 29. 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 value**

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.

2.6 **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 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 on 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 charged 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 associated, 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 associated undertaking.

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 balance sheet 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 balance sheet 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 9.3.1 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 balance sheet 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, 2014 by actuary using the 'Projected Unit Credit' actuarial cost method, by applying the following significant assumptions, for actuarial valuation of the scheme:

	2014 Per annum	2013 Per annum
Discount rate	11.75%	13.00%
Expected rate of return on investments/plan assets	11.75%	13.00%
Expected rate of increase in salary	11.75%	13.00%
Pension increase rate	9.25%	10.50%

Post retirement medical benefits

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

- 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, 2014 using 'Projected Unit Credit' actuarial cost method. Discount rate of 11.75% is used by the actuary for the valuation.

The actuarial gains / losses on re-measurement of defined benefit obligations are recognized in the other comprehensive income.

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, 2014.

3.9 **Foreign currency transactions and translations**

Monetary assets and liabilities in foreign currency are translated into 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 balance sheet 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 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	2014	2013
			Rupees in '000	
4.	**CASH AND BALANCES WITH TREASURY BANKS**			
	State Bank of Pakistan			
	Local currency current account	4.1	70,062	80,460
	National Bank of Pakistan			
	Local currency deposit account		93	104
			70,155	80,564

4.1 This represents the amount required to be maintained by the Company in accordance with the SBP's regulations and carries markup @ 0% (2013: 0%).

5. BALANCES WITH OTHER BANKS

	Note	2014	2013
		Rupees in '000	
In Pakistan - Local currency			
In transit		-	26,495
On deposit accounts	5.1	244,608	200,417
		244,608	226,912

5.1 These bank accounts carry mark-up at rates ranging from 6% to 9.25% (2013: 6% to 10.75%) per annum.

6. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2014	2013
Letters of placement	6.1	-	100,000
Repurchase agreement lending (Reverse Repo)	6.2	2,006,302	2,339,321
		2,006,302	2,439,321

6.1 Letters of placement

	Note	2014	2013
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
NIB Bank Limited (NIB)		-	100,000
		80,909	180,909
Less: Provision for placement with TIBL and FDIBL	6.1.3	(80,909)	(80,909)
		-	100,000

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. 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. 2014.

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, 2014 the case was under execution process. However, the Company on prudent basis has made provision of full outstanding amount. An appeal filed by FDIBL is pending in Supreme Court of Pakistan.

	2014	2013
	Rupees in '000	
6.1.3 Particulars of provision		
Opening balance	80,909	80,909
Provision made during the year	-	-
Closing balance	80,909	80,909

6.2 Repurchase agreement lending (Reverse Repo)

	2014	2013
Saudi Pak Industrial and Agricultural Company Limited	190,714	-
Pak Iran Investment Company Limited	402,244	-
Pak Oman Investment Company Limited	1,011,100	985,739
NIB Bank Limited	-	967,734
Pak Libya Holding Company (Pvt.) Limited	402,244	385,848
	2,006,302	2,339,321

6.2.1 These represent reverse repo lending at mark-up ranging from 6.75% to 10.50% (2013: 9.77 to 9.85%) per annum and it will mature upto January 22, 2015.

6.2.2 Particulars of lending

	2014	2013
In local currency	2,006,302	2,339.321
In foreign currency	-	-
	2,006.302	2,339.321

6.2.3 Securities held as collateral against lendings to financial institutions

	December 31, 2014			December 31, 2013		
	Held by Company	Further given as collateral	Total	Held by Company	Further given as collateral	Total
	Rupees in '000'					
Pakistan Investment Bonds	2,006,302	-	2,006,302	1,953,473	-	1,953,473
Market Treasury Bills	-	-	-	385,848	-	385,848
	2,006,302	-	2,006,302	2,339,321	-	2,339,321

7. INVESTMENTS

	Note	2014 Held by Company	2014 Given as collateral	2014 Total	2013 Held by Company	2013 Given as collateral	2013 Total
		-----------------------	-Rupees in '000	-----------------------			
7.1 Investments by types							
Available-for-sale securities							
Market treasury bills	7.2.1	3,328,219	-	3,328,219	7,906,070	-	7,906,070
Pakistan Investment Bonds	7.2.2	3,510,028	-	3,510,028	-	-	-
GoP Ijarah Sukuk	7.2.3	100,284	-	100,284	-	-	-
Unlisted ordinary shares	7.2.4	500	-	500	500	-	500
Listed sukuk bonds	7.3	45,661	-	45,661	63,591	-	63,591
		6,984,692	-	6,984,692	7,970,161	-	7,970,161
Held-to-maturity securities							
Unlisted sukuk bonds	7.3	26,240	-	26,240	39,360	-	39,360
Term finance certificates	7.4	74,517	-	74,517	124,096	-	124,096
Term deposit receipts	7.5	2,344	-	2,344	2,344	-	2,344
Certificates of investment	7.6	67,500	-	67,500	67,500	-	67,500
		170,601	-	170,601	233,300	-	233,300
Associate							-
Takaful Pakistan Limited	7.8	35,506	-	35,506	35,506	-	35,506
Investments at cost		7,190,799	-	7,190,799	8,238,967	-	8,238,967
Less: Provision for diminution in value of investments	7.9	(135,685)	-	(135,685)	(163,455)	-	(163,455)
Impairment of investment in an associated undertaking - Takaful Pakistan Limited		(35,506)	-	(35,506)	(35,506)	-	(35,506)
Investments (net of provisions)		7,019,608	-	7,019,608	8,040,006	-	8,040,006
Surplus / (deficit) on revaluation of available for sale securities	14	125,959	-	125,959	(6,792)	-	(6,792)
Total investments		7,145,567	-	7,145,567	8,033,214	-	8,033,214

	Note	2014	2013
		Rupees in '000	
7.2 Investments by segments			
Federal Government securities			
Market treasury bills	7.2.1	3,328,219	7,906,070
Pakistan Investment Bonds	7.2.2	3,510,028	-
GoP Ijarah Sukuk	7.2.3	100,284	-
Fully paid up ordinary shares			
Unlisted companies	7.2.4	500	500
Term finance certificates, debentures, bonds and participation term certificates			
Unlisted sukuk bonds	7.3	26,240	39,360
Listed sukuk bonds	7.3	45,661	63,591
Term finance certificates	7.4	74,517	124,096
Other investments			
Term deposit receipts	7.5	2,344	2,344
Certificates of investment - Bankers Equity Limited (BEL)	7.6	67,500	67,500
Investment in an associate	7.8	35,506	35,506
Total investment at cost		7,190,799	8,238,967
Less: Provision for diminution in value of investment	7.10	(135,685)	(163,455)
Less: Impairment in associate - Takaful Pakistan Limited		(35,506)	(35,506)
Investments (net of provisions)		7,019,608	8,040,006
Surplus / (deficit) on revaluation of available for sale securities		125,959	(6,792)
Total investments		7,145,567	8,033,214

7.2.1 Market treasury bills are eligible for discounting with the State Bank of Pakistan. These carry mark up from 9.48% to 9.99% (2013: 9.32% to 9.96%) and will mature upto November 26, 2015.

7.2.2 These represents investment in Pakistan Investment Bonds (PIBs) carrying markup of 11.25% per annum and will mature upto July 18, 2016.

7.2.3 These represents investment in Government of Pakistan (GOP) Ijarah Sukuk carrying markup of 9.9763% per annum and will mature upto November 21, 2015.

7.2.4 These represent investment in 66,125 (2013: 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 2014	2013
					Rupees in '000	
Eden Housing Limited 40,000 (2013: 40,000) units Face value, Rs. 656 each (2013: Rs. 984) Maturity date: December 29, 2015 Chief Executive Officer: Mr. Muhammad Amjad	7.3.1	D	3 months KIBOR plus 3.00%	Quarterly	26,240	39,360
Maple Leaf Cement Factory Limited (MLCFL) 15,562 (2013: 15,562) units Face value: Rs. 2,934 each (2013: Rs. 4,086) Maturity date: December 03, 2018 Chief Executive Officer: Mr. Tariq Sayeed Saigol	7.3.2	BB/B	3 months KIBOR plus 1%	Quarterly	45,661	63,591

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 is non-compliant with the restructured arrangement on the reporting date and has requested for further restructuring. Therefore, 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 was deferred till December 2012. MLCFL paid all due markup as per restructuring. PBFCL 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. 124.096 million having maturity on February 07, 2016 and fair value of Rs. 124.634 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.

			2014	2013
7.5	**Particulars of term deposit receipts (TDRs)**	Note	Rupees in '000	
	Investment Bank			
	Asset Investment Bank Limited		2,344	2,344

7.6 This represents balance of placement in certificates of investment (COIs) of Rs. 200 million for three years and Rs. 25 million for three months in 1996 and 1998 respectively (aggregately Rs. 225 million). 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, 2013, the Company received Rs. 157.5 million (70%) of the invested amount on the directive of the Honorable High Court of Sindh.

	2014 Rupees in '000 Amount	2014 Rating	2013 Rupees in '000 Amount	2013 Rating
7.7 Quality of Available for Sale Securities				
Securities (At market value)				
Market Treasury Bills	3,454,178	Sovereign	7,899,278	Sovereign
Pakistan Investment Bonds (PIBs)	3,510,028	Sovereign	-	-
GOP Ijarah Sukuk	100,284	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	7,064,490		7,899,278	

7.8 Investment in associate - Takaful Pakistan Limited Company

	2014	2013 Restated
Number of shares held	8,700,000	8,700,000
Cost of investment - Rupees in '000	87,000	87,000
Assets - Rupees in '000	577,176	519,153
Liabilities - Rupees in '000	425,264	357,109
Revenue - Rupees in '000	183,381	175,275
Profit after tax - Rupees in '000	5,632	15,527
Percentage of investment	29%	29%
Break up value per share - Rupees	5.06	5.23
Latest available financial statements	Dec 31, 2014	Dec 31, 2013
Name of Chief Executive	Dr. Syed Arif Hussain (CEO)	Dr. Mumtaz A. Hashmi (Acting CEO)
Place of incorporation	Pakistan	
Principal business	Takaful business	

7.8.1 Carrying value of investment in an associate under equity method

	2014 Rupees in '000	2013 Rupees in '000
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

	2014	2013
Opening balance	163,455	240,771
Reversal during the year	(27,770)	(77,316)
Closing balance	135,685	163,455

			2014	2013
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		45,661	63,591
	Held-to-maturity securities			
	Term deposit receipts - Asset Investment Bank Limited		2,344	2,344
	Unlisted sukuks - Eden Housing Limited		19,680	29,520
	Certificates of investment (COIs) - Bankers Equity Limited		67,500	67,500
			135,685	163,455

			2014	2013
8.	**ADVANCES - Net**			
	In Pakistan - Local currency			
	Rental Sharing Schemes	8.2 & 8.3	1,735,832	1,826,105
	Interest Bearing Schemes	8.4	107,042	107,820
	Ghar Aasan Scheme	8.5	4,241,120	4,834,697
	Pakistan Housing Authority (PHA)	8.6	218,143	218,143
	Gawadar Employees Co-operative Housing Society (GECHS)	8.7	20,182	20,182
	Shandar Ghar Scheme	8.8	868,007	1,214,709
	Unearned income		(451,949)	(635,736)
			416,058	578,973
	Financing facility for Small Builders	8.9	7,116	11,167
	Ghar Aasan Flexi Scheme	8.10	5,972,006	4,590,648
	Bisma & Saima Projects	8.11	74,802	29,091
	Housing finance to employees	8.12	462,371	507,612
	Partners' death claims		(151,976)	(133,357)
	Transitory district bank accounts - net	8.13	(8,856)	(43,541)
	Advances - gross		13,096,840	12,547,540
	Provision for non-performing advances			
	Specific provision			
	Rental Sharing Schemes		1,701,990	1,785,740
	Interest Bearing Schemes		107,042	107,820
	Ghar Aasan Scheme		538,913	554,249
	Gawadar Employees Co-operative Housing Society		20,182	20,182
	Shandar Ghar Scheme		93,741	86,953
	Financing facility for Small Builders		6,268	1,725
	Ghar Aasan Flexi Scheme		83,890	199,730
	General provision	8.14	121,085	90,990
			2,673,111	2,847,389
	Advances - net of provision		10,423,729	9,700,151

		2014	2013
8.1	**Particulars of advances (Gross)**		
	Short term (up to one year)	3,311,793	3,221,521
	Long term (over one year)	9,785,047	9,326,019
		13,096,840	12,547,540

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 2000. Advances under NSS have been provided upto 97% (2013 : 96%) 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 hardship of the borrowers. As per the relief package, which was valid upto March 31, 2013, on payment of the entire principle amount, insurance premium, legal / publication charges and 20 percent of demand charges, partners are entitled for waiver of outstanding mark-up and remaining 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. 218.143 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, 2014, advances of Rs. 27.318 million (2013 : Rs. 27.318 million), were transferred to 82 (2013 : 82) individual cases: i.e., 67 cases (2013: 67) under Ghar Aasan Scheme, and 15 cases (2013: 15) under Ghar Aasan Flexi Scheme amounting to Rs. 21.941 million (2013: 21.941 million) and Rs. 5.377 million (2013: 5.377 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% (2013 : 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% (2013 : 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% (2013: 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 Advances under 'Saima and Bisma Project' for construction of individual houses and apartments with maximum financing limit of Rs. 10 million is based on Musharaka financing. This advance is for a period 12 to 18 months and profit is calculated on the basis of 2 years fixed KIBOR rate. The payment of installments is commenced from the next month of the completion of construction of houses and apartments.

8.12 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.

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

8.14 General provision against advances has been determined in accordance with the requirements of Prudential Regulations for Housing Finance (Regulation HF-9) issued by the State Bank of Pakistan on regular portfolio of consumer financing.

8.15 Advances include Rs. 4,825 million (2013: Rs.6,434 million) which have been placed under non-performing status as detailed below:

	2014								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
				Rupees in '000					
Category of Classification									
OAEM	864,566	-	864,566	-	-	-	-	-	
Substandard	781,815	-	781,815	14,827	-	14,827	14,827	-	14,827
Doubtful	732,697	-	732,697	10,755	-	10,755	10,755	-	10,755
Loss	3,363,000	-	3,363,000	2,526,444	-	2,526,444	2,526,444	-	2,526,444
	5,742,078	-	5,742,078	2,552,026	-	2,552,026	2,552,026	-	2,552,026
General provision	-	-	-	121,085	-	121,085	121,085	-	121,085
	5,742,078	-	5,742,078	2,673,111	-	2,673,111	2,673,111	-	2,673,111

	2013								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
				Rupees in '000					
Category of Classification									
Substandard	1,182,982	-	1,182,982	99,260	-	99,260	99,260	-	99,260
Doubtful	1,051,477	-	1,051,477	114,144	-	114,144	114,144	-	114,144
Loss	4,199,767	-	4,199,767	2,542,995	-	2,542,995	2,542,995	-	2,542,995
	6,434,226	-	6,434,226	2,756,399	-	2,756,399	2,756,399	-	2,756,399
General provision	-	-	-	90,990	-	90,990	90,990	-	90,990
	6,434,226	-	6,434,226	2,847,389	-	2,847,389	2,847,389	-	2,847,389

8.15.1 Particulars of provision against non-performing advances

		2014			2013		
		Specific	General	Total	Specific	General	Total
		Rupees in '000			Rupees in '000		
Opening balance		2,756,399	90,990	2,847,389	3,146,105	79,360	3,225,465
Charge for the year		43,009	30,095	73,104	69,388	11,630	81,018
Reversals		(247,382)	-	(247,382)	(458,383)	-	(458,383)
		(204,373)	30,095	(174,278)	(388,995)	11,630	(377,365)
Write offs	8.16	-			(711)	-	(711)
Closing balance		2,552,026	121,085	2,673,111	2,756,399	90,990	2,847,389

8.15.2 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.

8.15.3 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. Further, SBP vide BSD Circular No.1 of 2011 dated October 21, 2011 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, 2014 the Company has availed benefit of forced sales value amounting to Rs. 19.031 million (2013: Rs. 2,397 million). Had FSV benefit of IH&SMEFD Circular No.04 of 2014 not been taken, profit for the year before taxation would have been decreased by Rs. 19,031 million.

	2014	2013
	Rupees in 000	
8.16 Particulars of write offs		
Against provisions	-	712
Directly charged to profit and loss account	-	-
	-	712
Write offs Rs. 500.000 and above	-	-
Write offs below Rs. 500.000	-	712
	-	712

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: -

	2014	2013
	Rupees in '000	
Balance at beginning of year	658,549	624,832
Loans granted during the year	92,484	143,471
Repayments / adjustments	(123,931)	(109,754)
Balance at end of year	627,102	658,549

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	2014	2013
9. OPERATING FIXED ASSETS		Rupees in '000	
Capital work-in-progress	9.1	278,072	245,501
Property and equipment	9.2	82,238	96,536
Intangible assets	9.3	2,262	2,363
		362,572	344,400
9.1 Capital work-in-progress			
Civil works		277,457	244,886
Software designing and development		615	615
		278,072	245,501

9.2 Property & equipment

	Freehold land	Office premises	Furniture and fixtures	Electrical installations	Office equipment	Computer equipment	Motor vehicles	Total
As at January 01, 2013								
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
Year ended December 31, 2013								
Opening net book value	11,640	28,855	43,552	15,393	11,720	4,244	832	116,236
Additions	-	-	419	-	578	2,096	-	3,093
Disposals								
Cost	-	-	-	-	(356)	-	(2,300)	(2,656)
Depreciation	-	-	-	-	356	-	2,300	2,656
	-	-	-	-	-	-	-	-
Adjustments (9.2.1)	-	-	-	-	-	(13)	-	(13)
Depreciation Charge	-	(4,047)	(7,779)	(2,959)	(4,680)	(2,885)	(430)	(22,780)
Closing net book value	11,640	24,808	36,192	12,434	7,618	3,442	402	96,536
As at December 31, 2013								
Cost	11,640	80,948	80,749	42,581	43,425	117,486	55,538	432,367
Accumulated Depreciation	-	(56,140)	(44,557)	(30,147)	(35,807)	(114,044)	(55,136)	(335,831)
Net book value	11,640	24,808	36,192	12,434	7,618	3,442	402	96,536
Year ended December 31, 2014								
Opening net book value	11,640	24,808	36,192	12,434	7,618	3,442	402	96,536
Additions	-	-	259	-	4,595	2,443	220	7,517
Disposals								
Cost	-	-	(73)	-	(395)	(136)	(2,290)	(2,894)
Depreciation	-	-	73	-	390	136	2,290	2,889
	-	-	-	-	(5)	-	-	(5)
Depreciation charge	-	(4,047)	(7,745)	(2,959)	(3,903)	(3,009)	(147)	(21,810)
Closing net book value	11,640	20,761	28,706	9,475	8,305	2,876	475	82,238
As at December 31, 2014								
Cost	11,640	80,948	80,935	42,581	47,625	119,793	53,468	436,990
Accumulated Depreciation	-	(60,187)	(52,229)	(33,106)	(39,320)	(116,917)	(52,993)	(354,752)
Net book value	11,640	20,761	28,706	9,475	8,305	2,876	475	82,238
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 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						
Furniture & Fixture	73	-	29	29	Auction	Multiple Parties
Computer Equipment	136	-	52	52	Auction	Multiple Parties
Office Equipment	329	-	-	-	Auction	Multiple Parties
Mobile Phones	66	5	5	-	Settlement	Ex CFO & Ex AVP
Motor Vehicles						
Suzuki Bolan (GA-4113)	367	-	131	131	Auction	Aijaz Sirkhali
Suzuki Bolan (GP-5035)	367	-	246	246	Auction	Azeemullah
Suzuki Bolan (GP-0031)	367	-	218	218	Auction	Azeemullah
Suzuki Bolan (GP-7005)	367	-	229	229	Auction	Azeemullah
Yamaha yb-100 (KAV-5826)	71	-	7	7	Auction	Syed Asghar Ali
Yamaha yb-100 (KAV-5795)	71	-	7	7	Auction	Syed Asghar Ali
Yamaha yb-100 (KAV-5789)	71	-	7	7	Auction	Syed Asghar Ali
Yamaha yb-100 (KAV-5825)	71	-	7	7	Auction	Syed Asghar Ali
Yamaha yb-100 (KAV-5785)	71	-	7	7	Auction	Syed Asghar Ali
Yamaha yb-100 (KAV-5791)	71	-	7	7	Auction	Syed Asghar Ali
Yamaha yb-100 (KAV-5828)	71	-	7	7	Auction	Syed Asghar Ali
Yamaha yb-100 (KAV-5824)	71	-	7	7	Auction	Syed Asghar Ali
Honda CD-70 (KCV-7783)	72	-	8	8	Auction	Syed Asghar Ali
Honda CD-70 (KAK-1024)	38	-	8	8	Auction	Syed Asghar Ali
Honda CD-70 (KAK-1035)	38	-	8	8	Auction	Syed Asghar Ali
Honda CD-70 (KAD-7980)	38	-	8	8	Auction	Syed Asghar Ali
Honda CD-70 (QAF-6192)	30	-	10	10	Auction	Syed Asghar Ali
Honda CD-70 (HCL-73)	38	-	10	10	Auction	Sardar Ali
2014	2,894	5	1,018	1,013		
2013	2,656	-	1,625	1,625		

		Note	2014	2013
			Rupees in '000	
9.3	**Intangibles**			
	Net carrying value			
	Balance at beginning of the year		2,363	2,963
	Additions at cost		193	30
	Amortization charge for the year	9.3.1	(294)	(630)
	Balance at end of year		2,262	2,363
	Gross carrying value			
	Cost		9,774	9,581
	Accumulated amortization		(7,512)	(7,218)
	Net book value		2,262	2,363

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

		Note	2014	2013
10.	OTHER ASSETS			
	Income/mark-up accrued in local currency			
	Investments		187,165	7,105
	Advances		42,263	32,816
	Advance for purchase of land - housing projects	10.1	50,470	50,469
	Advances, deposits, advance rent and other prepayments		174,394	157,461
	Advance Financial Relief to Employees		130,436	89,789
	Advance taxation (payments less provisions)	10.2 & 12	80,890	201,311
	Other receivable against advances		20,013	18,414
	Assets acquired from Pakistan Refugees Rehabilitation Finance Corporation (PRRFC)	10.3	-	-
			685,631	557,365
	Less: Provision held against other assets	10.1.1	(50,470)	(50,470)
			635,161	506,895

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 the last five 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.

		2014	2013
10.1.1	**Particulars of provision against other assets**		
	Balance at beginning of the year	50,470	50,470
	Charge for the year	-	-
	Balance at end of the year	50,470	50,470

10.2 This include advance tax of Rs. 493.908 (2013: Rs. 461.662) million which is net off with the provision for tax of Rs. 590.688 (2013: Rs. 260.35) million.

10.3 As directed vide SRO 490(I)/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.

	Note	2014	2013
		Rupees in '000	
Pakistan Refugees Rehabilitation Finance Company Assets			
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	2014	2013
In Pakistan - local currency	11.1	11,242,300	11,392,300
Outside Pakistan - foreign currency		-	-
		11,242,300	11,392,300

11.1 Detail of borrowings

Secured			
Borrowings from State Bank of Pakistan - PLS credit lines	11.1.1	11,242,300	11,242,300
Sukuk bonds	11.1.2	-	150,000
		11,242,300	11,392,300

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:

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. During the year, a meeting was held on 11 July 2014 between the representatives of the SBP, Securities and Exchange Commission of Pakistan 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 8, 201 (Note 1.1).

		Note	2014	2013
11.1.2	**Sukuk certificates - Secured**		Rupees in '000	
	Balance as at January 01		150,000	453,000
	Redemption during the year		(150,000)	(303,000)
	Closing balance as at December 31		-	150,000
	Redemptions			
	Not later than one year		-	150,000
	Later than one year and less than five years		-	-
	Balance as at December 31		-	150,000

12. OTHER LIABILITIES

	Note	2014	2013
Mark-up / return / interest payable on borrowings			
- in local currency	12.1	58	2,408
Accrued expenses		247,989	230,480
Payable to pension fund	29.2	1,842,450	837,504
Payable to post retirement medical benefits	29.2	791,891	939,992
Payable against employees' compensated absences	29.10	522,231	434,903
Refundable to customers against advances		15,228	15,924
Payable to SBP	12.2	2,985,722	3,965,546
Insurance premium payable	12.3	38,754	58,223
Deferred credits	12.4	1,502,011	1,383,827
Reimbursement of claims by Government of Pakistan	12.5	579	579
Retention money payable		11,009	10,103
Application fee- Gawadar Project		3,881	3,884
Agents' deposit money		385	585
Others		3,785	3,436
		7,965,974	7,887,394

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**

	Note	2014	2013
Balance at January 1		3,965,546	2,897,527
Add: Markup accrued on SBP credit lines	11.1.1	1,068,018	1,068,019
Less: Prior years' adjustment	12.2.2	(47,842)	-
		4,985,722	3,965,546
Less Repayment		(2,000,000)	-
Balance at December 31		2,985,722	3,965,546

12.2.1 No profit and loss sharing is made in the year 2014 as all credit lines became over due in the year 2012 and hence markup was charged thereon However, pursuant to SBP instructions, adjustments made after approval of restructuring plan (note 1.1) are reversed

12.2.2 This represents prior years adjustment of SBP's share of profit / loss on credit lines on reconciliation of records with SBP during the year.

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.

		Note	2014	2013
			Rupees in '000	
12.4	**Deferred credits**			
	Demand charges - net of recovery expenses	12.4.1 & 12.4.2	543,433	537,213
	Profit/commission received from State Life Insurance Corporation - net of death claims	12.4.3	208,562	208,562
	Provision against insurance receivable from partners		(251,159)	(251,238)
			(42,597)	(42,676)
	Unidentifiable insurance premium contribution received from borrowers / partners during prior years	12.4.4	52,503	52,503
	Property insurance		(12,495)	(12,495)
			40,008	40,008
	Profit received on investment from deferred credits	12.4.5	1,066,167	954,282
			1,607,011	1,488,827
	Donations	12.4.6	(105,000)	(105,000)
			1,502,011	1,383,827
12.4.1	**Demand charges - net of recovery expenses**			
	Demand charges recovered		650,271	641,802
	Less: Recovery charges paid at December 31			
	Balance at January 01		(104,589)	(101,477)
	Expense for the year		(2,249)	(3,112)
	Balance at December 31		(106,838)	(104,589)
			543,433	537,213

12.4.2 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.

12.4.3 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.

12.4.4 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.

12.4.5 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.

12.4.6 In 2012 donation of Rs. 2.5 million were 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.

13. SHARE CAPITAL

13.1 Authorized Capital

2014	2013		2014	2013
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, subscrib Issued, subscribed and paid up capital**

2014	2013		2014	2013
Number of Shares			Rupees in '000	
		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 in 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

13.3 As at December 31, 2014, the Company has equity of Rs. 1.702 billion 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. State Bank of Pakistan vide its letter No. BSD/BAID/659/2145/2012 dated February 16, 2012 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

During the year, it has been agreed that SBP's credit lines (principal amount) alongwith the markup thereon will be converted to SBP's investment in the equity of the Company (Note 1.1).

14. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS	Note	2014	2013
		Rupees in '000	
Available-for-sale securities			
Government securities	14.1	125,959	(6,792)

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

	2014	2013
Opening balance	(6,792)	4,110
Surplus / (deficit) during the year	132,751	(10,902)
Closing balance	125,959	(6,792)

15. CONTINGENCIES AND COMMITMENTS

15.1 **Contingencies**

	2014	2013
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.

		Note	2014	2013
			Rupees in '000	
15.2	Commitments			
	Land for Housing projects-Gawadar		149,700	149,700
	Land for Gawadar office		9,750	9,750
	Loans sanctioned but not disbursed		228,105	137,510
	Rental due under operating lease agreements in respect of vehicles:			
	Not later than one year		2,226	3,368
	Later than one year but not later than five years		1,317	3,613
	Design, supervision and construction contract for islamabad project		55,580	87,800
	Equity investment in Pakistan Mortgage Refinance Company		200,000	200,000

		Note	2014	2013
16.	RENTAL/MARK-UP/RETURN/INTEREST EARNED			
	On advances to customers		1,672,242	1,907,467
	On investments in securities:			
	Available for sale		699,549	685,812
	Held to maturity		10,994	22,853
	On deposits with financial institutions		16,001	12,319
	On securities purchased under resale agreements		243,794	146,584
	On clean lending		2,141	3,155
			2,644,721	2,778,190
17.	RENTAL/MARK-UP/RETURN/INTEREST EXPENSED			
	Markup on sukuk certificates		5,527	34,462
	Markup on SBP credit lines	12.2	1,068,019	1,068,019
			1,073,546	1,102,481
18.	REVERSALS OF PROVISION MADE AGAINST NON - PERFORMING ADVANCES			
	Reversal of provision against advances- net	8.15.1	174,278	378,076
19.	RECONCILIATION ADJUSTMENTS			
	Tagged accounts settled	19.1	266	3,160

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

		Note	2014	2013
20.	REVERSAL DUE TO RELIEF PACKAGE AND REPROCESSING ADJUSTMENTS			
	Relief package and settlement scheme	20.1	36,987	262,044
	Reprocessing and closing adjustment	20.2	28,658	89,310
			65,645	351,354

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

		Note	2014	2013
			Rupees in '000	
21.	OTHER INCOME			
	Inspection and application fee		16,893	11,222
	Gain on sale of operating fixed assets	9.2.2.	1,013	1,625
	Miscellaneous		35,702	39,971
			53,608	52,818

22. ADMINISTRATIVE EXPENSES	Note	2014 Rupees in '000	2013 Rupees in '000
Salaries, allowances, etc.		841,351	831,908
Charge for defined benefit plan - pension	29.2	201,378	204,494
Post retirement medical benefits	29.2	132,338	140,462
Employees' compensated absences	29.10	90,898	(9,862)
Repairs and maintenance		35,518	34,063
Legal and professional		67,387	15,212
Rent, taxes, insurance, electricity, etc.		40,008	33,337
Stationery and printing		9,803	11,211
Advertisement and publicity		14,751	3,967
Auditors' remuneration	22.1	2,735	2,735
Depreciation	9.2	21,810	22,780
Amortization of intangible assets	9.3	294	630
Traveling and conveyance		9,328	10,227
Postage and telephone		15,196	15,148
Entertainment		3,170	1,342
Security guard charges		2,577	2,176
Subscription and publication		177	390
Commission against recoveries		461	2
Others		5,059	3,560
		1,494,239	1,323,782

22.1 Auditors' remuneration

	2014	2013
Audit fee	1,100	1,100
Half yearly review	385	385
other reviews and sundry advisory fee	1,250	1,250
	2,735	2,735

23. OTHER PROVISIONS

	2014	2013
Doubtful receivable of insurance premium from partners	(19)	13,360

24. OTHER CHARGES

	2014	2013
Penalty imposed by State Bank of Pakistan	3,077	4,129
Commission and bank charges	7,162	7,428
	10,239	11,557

25. TAXATION	2014 Rupees in '000	2013 Rupees in '000
Current - for the year		
Company	152,667	104,917
Associate	-	-
	152,667	104,917
For prior years		
Company	-	-
Deferred - for the year		
Company	-	-
Associate	-	-
	-	-
	152,667	104,917

	2014	2013
	Rupees in '000	
Relationship between tax expense and accounting profit / (loss)		
Accounting profit before taxation	256,993	487,026
Tax on Accounting profit @ 33% (2013: 34%)	84,808	165,589
Tax Effects of:		
- expenses that are not deductible / deductable for determining taxable profit	67,859	(60,672)
- prior year charge	-	-
- prior year restatement effect	-	-
	152,667	104,917

25.1 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.

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.

25.2 The Company has net deductible temporary differences on which deferred tax asset of Rs. 2,495.309 million arises. Deferred tax asset as at 31 December 2014 to the extent of Rs. 1,950.731 million has not been recognized as the Company is uncertain about the timing and extent of future taxable profits against which such benefits can be utilized. However, deferred tax asset of Rupees 544.578 million arising on net actuarial loss on staff retirement benefit recognized directly on other comprehensive income has been accounted for in these financial statements which will also be reversed in other comprehensive income.

26. BASIC & DILUTED EARNINGS PER SHARE

		2014	2013
Profit for the year	(Rupees in '000)	152,168	382,109
Weighted average number of ordinary shares	(Number)	300,100,006	300,100,006
Basic / diluted earnings per share - Rupee		0.51	1.27

26.1 Diluted earnings per share has not been presented as the Company does not have any convertible instruments in issue at December 31 2014 and 2013 which would have any effect on the earnings per share if the option to convert is exercised.

27. CASH AND CASH EQUIVALENTS

	Note	2014	2013
		Rupees in '000	
Cash and balance with treasury banks	4	70,155	80,564
Balance with other banks	5	244,608	226,912
		314,763	307,476

	2014	2013
28. STAFF STRENGTH	Rupees in '000	
As at year-end		
Permanent	737	754
Contractual basis	9	10
	746	764
Average during the year		
Permanent	-	767
Contractual basis	-	15
	-	782

29. DEFINED BENEFIT PLAN

29.1 Principal actuarial assumptions

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

	2014	2013
	----Pension fund----	
Discount rate	11.75 % per annum	13 % per annum
Expected rate of return on investments / plan assets	11.75 % per annum	13 % per annum
Expected rate of increase in salary	11.75 % per annum	13 % per annum
Pension increase rate	9.25 % per annum	10.5 % per annum

29.2 Movement in payable to defined benefit plan

	Post retirement			
	Pension fund		Medical benefits	
	2014	2013	2014	2013
	---Rupees in 000---			
Opening net liability	837,504	934,681	939,992	1,003,934
Expense for the year	201,378	204,494	132,338	140,462
Benefit payments	(118,527)	(113,250)	(15,206)	(14,777)
Other Comprehensive Income	922,095	(188,421)	(265,233)	(189,627)
Balance at December 31	1,842,450	837,504	791,891	939,992

29.3 Reconciliation of payable to defined benefit plan

	Post retirement			
	Pension fund		Medical benefits	
	2014	2013	2014	2013
	---Rupees in 000---			
Present value of defined benefit obligation	4,559,651	3,237,201	791,891	939,992
Fair value of plan assets	(2,717,200)	(2,399,696)	-	-
Net liability at December 31	1,842,451	837,505	791,891	939,992

	Post retirement			
	Pension fund		Medical benefits	
	2014	2013	2014	2013
	---Rupees in 000---			
29.4 Charge for defined benefit plan				
Current service cost	100,207	103,518	25,113	25,859
Net Interest	101,171	100,976	107,225	114,603
	201,378	204,494	132,338	140,462

	2014	2013
	Rupees in '000	
29.5 Actual return on plan assets		
Pension fund	317,504	194,176

29.6 Composition of Fair Value of Plan Assets

	2014	2013	2014	2013
	Rupees in '000		% age	
Pension Fund				
Government Bonds and TFC's	2,716,942	2,138,272	99.99	89.11
Bank Balances	258	261,220	0.01	10.89
	2,717,200	2,399,492	100.00	100.00

29.7 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.

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

	2010	2011		2013	2014
	<------------------		Rupees in 000		------------------>
Pension Fund					
Present value of defined benefit obligation	2,417,489	2,620,728	3,140,201	3,237,201	4,559,651
Fair value of plan assets	(1,654,048)	(1,887,567)	(2,205,520)	(2,399,696)	(2,717,200)
Deficit	763,441	733,161	934,681	837,505	1,842,451
Actuarial (gain) / loss on obligation	(927,638)	(247,879)	225,750	94,017	989,519
Actuarial (loss)/gains on plan assets	5,543	59,458	(72,569)	(12,438)	(35,239)

29.9 Post Employment Medical Contribution

Present value of defined benefit obligation	791,891	939,992	1,003,934	738,826	638,194
Actuarial (gain) / loss on obligation	(265,233)	(189,627)	165,563	53,154	225,831

29.10 Compensated Absences

Movement in payable to defined benefit plan

Opening net liability	434,903	449,774
Expense for the year	90,898	(9,862)
Benefit payments	(3,570)	(5,009)
Balance at December 31	522,231	434,903

30. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Managing Director		Directors		Executives	
	2014	2013	2014	2013	2014	2013
	<--------------------		Rupees in '000		--------------------	-->
Directors Fees	-	-	230	-	-	-
Managerial remuneration	2,851	-	-	-	20,219	19,305
Rent and house maintenance	1,710	-	-	-	14,475	12,743
Utilities	239	-	-	-	1,174	1,273
Medical	236	-	-	-	3,649	3,980
Charge for defined benefit plan	1,466	-	-	-	12,594	12,742
Others	1,540	-	104	-	14,557	18,926
	8,042	-	334	-	66,668	68,969
Number of persons	1	-	7	-	22	21

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

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

31. 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 34.3.1 and 34.4.1.

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.

32. 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	2014	2013
		Rupees in '000	
Associated undertaking			
Takaful Pakistan Limited	Insurance premium paid	9,226	8,963
	Insurance claims received	-	40
Key management personnel	Proceeds from disposal of operating fixed assets	5	86
	Loans and advances	66,278	67,225
Retirement benefits plans	Pension fund	7,896	6,996
	Post retirement medical benefits	3,789	3,848

The related party status of outstanding receivables and payables as at December 31, 2014 are included in respective notes to the financial statements.

Remuneration to key management personnel is disclosed in Note 30 to these financial statements.

33. CAPITAL ADEQUACY

State Bank of Pakistan (SBP) requires Banks/DFIs to maintain regulatory capital for credit, market and operational risks which should atleast be equal to 10% of total risk weighted assets. As per SBP BPRD Circular no 06 dated August 15, 2013 wherein SBP has asked banks/DFIs to implement Basel III reforms issued by the Basel Committee on Banking Supervision (BCBS) to further strengthen the capital related rules. The Company has implemented Basel III framework in the light of SBP instructions. The Company monitors its capital adequacy ratio and endeavors to maintain it at a level sufficiently higher than the minimum regulatory requirement. The Company calculates capital requirement as per Basel III regulatory framework. using the Standardized Approach for Credit Risk and Market Risk whereas Basic Indicator Approach for Operational Risk.

Objectives of Capital Management

The capital management objectives of the Company are as follows:
- To maintain sufficient capital to support overall business strategy, expansion and growth;
- To integrate capital allocation decisions with the strategic and financial planning process;
- To meet the regulatory capital adequacy ratios as defined by SBP;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide adequate return to shareholders; and
- To have a prudent buffer to protect the Company under different economic and stress scenarios caused by unexpected and unforeseeable events.

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 (free of losses) up to December 31, 2009. However, there is a shortfall of Rs. 4.12 billion in minimum capital requirement. In order to meet the shortfall, the Company has approached its shareholders i.e. Ministry of Finance and State Bank of Pakistan, to inject the required capital, the eventual outcome of which has been disclosed in Note 1.1

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 22.57% of its risk weighted exposures as at December 31. 2014. The Company has maintained capital adequacy ratio well above 10%.

The capital adequacy ratio of the Company was subject to the Basel III capital adequacy guidelines stipulated by the State Bank of Pakistan through its circular BPRD Circular No. 06 of 2013 dated August 15, 2013.

These instructions are effective from December 31, 2013 in a phased manner with full implementation intended by December 31, 2019.

Under Basel III guidelines banks / DFIs are required to maintain the following ratios on an ongoing basis:

Phase-in arrangement and full implementation of the minimum capital requirements:

S.No.	Ratio	2013	2014	2015	2016	2017	2018	2019
1	CET-1	5.00%	5.50%	6.00%	6.00%	6.00%	6.00%	6.00%
2	ADT-1	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
3	TIER-1	6.50%	7.00%	7.50%	7.50%	7.50%	7.50%	7.50%
4	Total Capital	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
5	CCB	-	-	0.25%	0.65%	1.28%	1.90%	2.50%
6	Total Capital plus CCB	10.00%	10.00%	10.25%	10.65%	11.28%	11.90%	12.50%

The Company's regulatory capital under Basel III framework is analyzed in following terms:

1. Tier 1 Capital (going-concern capital)
   i. Common Equity Tier 1 (CET 1)
   ii. Additional Tier 1 (AT1)
2. Tier 2 Capital (gone-concern capital)

Common Equity Tier 1 (CET1)

Common Equity Tier 1 capital consist sum of the following items:

i. Fully paid up (common shares) capital / assigned capital.
ii. Balance in share premium account
iii. Reserve for Issue of Bonus Shares
iv. General/ Statutory Reserves as disclosed on the balance-sheet
v. Minority Interest (In case of consolidation)
vi. Up-appropriated / un remitted profits (net of accumulated losses, if any)
vii. Less regulatory adjustments applicable of CET1 as specified in Basel III

Additional Tier 1 Capital (AT1)

Additional Tier capital shall consist of the following items:

i. Instruments issued by banks that meet the qualifying criteria for AT1 as specified in Basel III
ii. Share premium resulting from the issuance of AT instruments.
iii. Minority interest i.e. AT1 issued by consolidated parties to third parties.
iv. Less regulatory adjustments applicable on AT1 as specified in Basel III

Tier 2 Capital (Gone Concern Capital or Supplementary Capital)

The Tier 2 capital (or gone concern capital) shall include the following elements:

i. Subordinated debt/instruments (meeting eligibility criteria as specified in Basel III)
ii. Share premium resulting from the issue of instruments included in Tier 2.
iii. Minority Interest i.e. Tier -2 issued by consolidated subsidiaries to third partied as specified in Basel III
iv. Revaluation reserves (net of deficits, if any)
v. General provisions or general Reserves for loan losses
vi. Foreign Exchange Translation Reserves
vii. Undisclosed Reserves
viii Less regulatory adjustments applicable on Tier -2 capital as specified in Basel III

33.1 CAPITAL STRUCTURE

			2014	2013
			Rupees in '000	
	Common Equity Tier 1 Capital (CET 1): Instruments & Reserves			
1.	Fully Paid-up Capital / Capital deposited with SBP		3,001,000	3,001,000
2.	Balance in Share Premium Account		-	-
3.	Reserve for issue of Bonus Shares		-	-
4.	General / Statutory Reserves (as disclosed on Balance Sheet)		743,439	713,005
5.	Unappropriated / unremitted profits - net of accumulated losses, if any (losses as negative number)		(1,864,143)	(1,552,348)
7.	Minority Interests arising from CET1 capital instruments issued to third party by consolidated company subsidiaries (from "Consolidation sheet")		-	-
8.	**CET 1 before Regulatory Adjustments**		1,880,296	2,161,657
9.	Total Regulatory Adjustment applied to CET 1	33.1.1	66,393	9,155
10.	Common Equity Tier 1	(a a	1,813,903	2,152,502
	Additional Tier 1 (AT 1) Capital			
11.	Qualifying Additional Tier-1 instruments plus any related share premium		-	-
12.	of which: Classified as equity		-	-
13.	of which: Classified as liabilities		-	-
14.	Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT1 - from "Consolidation sheet")		-	-
15.	**AT1 before Regulatory Adjustments**		-	-
16.	Total of Regulatory Adjustment applied to AT1 capital	33.1.2	-	-
17.	**Additional Tier 1 Capital recognized for Capital Adequacy**	b	-	-
18.	**Tier 1 Capital (CET 1 + Admissible AT 1)**	(c = a+b)	1,313,903	2,152,502
	Tier 2 Capital			
19.	Qualifying (Basel III) Tier 2 capital instruments		-	-
20.	Capital instruments subject to phase out from tier 2		-	-
21.	Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)		-	-
22.	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets		121,085	90,990
23.	Revaluation Reserves (deficit) / surplus on AFS		125,959	-
24.	**T2 before regulatory adjustments**		247,044	90,990
25.	Amount of Regulatory Adjustment applied to T2 capital	33.1.3	-	-
26.	**Tier 2 Capital (T2) after regulatory adjustment**		247,044	90,990
27.	Tier 2 Capital (T2) recognized for capital adequacy		247,044	90,990
28.	Excess Additional Tier 1 Capital recognized in Tier 2 Capital		-	-
29.	**Total Tier 2 Capital admissible for Capital Adequacy**	d	247,044	90,990
	TOTAL CAPITAL (T1 + admissible T2)	e= (c+d)	2,060,947	2,243,492

			2014	2013
			Rupees in '000	
30.	Total Risk Weighted Assets	(i)	10,729,214	10,681,366
31.	Total Credit Risk Weighted Assets		6,991,705	7,876,937
32.	Total Market Risk Weighted Assets		797,853	188,763
33.	Total Operational Risk Weighted Assets		2,939,656	2,615,666
34.	**Capital Adequacy Ratios (in percentage of Risk Weighted Assets)**			
35.	CET1 to total RWA	(a/i)	16.91%	20.15%
36.	Tier-1 capital to total RWA	(c/i)	16.91%	20.15%
37.	Total capital to RWA	(e/i)	19.21%	21.00%
38.	**Limits (Maxima/ Minima)**			
39.	CET1 to total RWA		5.00%	-
40.	ADT1 to total RWA		1.50%	-
41.	Tier-1 capital to total RWA		6.50%	-
42.	Tier-2 capital to total RWA		3.50%	-
43.	Total capital to RWA		10.00%	10.00%
44.	Capital Conservation Buffer		-	-
45.	Total capital plus CCB		10.00%	10.00%

REGULATORY ADJUSTMENST

		2014	Amount subject to Pre-Basel III	2013
		Rupees in '000		
33.1.1	**Common Equity Tier 1 Capital (CET 1): Regulatory Adjustments**			
1.	Goodwill (net of any associated deferred tax liability)	-		-
2.	All other intangibles (net of any associated deferred tax liability)	2,262		2,363
3.	Shortfall in provisions required against classified assets (without considering any tax impact)	-		-
4.	Deferred tax assets (net of any associated deferred tax liability) excluding DTAs arising from temporary differences such as allowance for credit losses	-		-
5.	Defined benefit pension fund assets (net of any associated deferred tax liability)	-		-
6.	Reciprocal cross holdings in CET1 capital instruments of banking, financial, and insurance entities	-		-
7.	Cash flow hedge reserve	-		-
8.	Investment in own shares / CET1 instruments	-		-
9.	Any increase in equity capital resulting from a securitization transaction	-		-
10.	Capital shortfall of regulated subsidiaries	-		-
11.	Deficit on account of revaluation from Company's holdings of property / AFS	-		6,792
12.	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the company does not own more than 10% of the issued share capital (amount above 10% threshold)	-		-
13.	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-		-
14.	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	64,131	320,657	-
15.	Amount exceeding 15% threshold (significant Investments and DTA)	-		-
16.	National specific regulatory adjustments applied to CET1 capital	-		-
17.	Investment in TFCs of other banks exceeding the prescribed limit	-		-
18.	Any other deduction specified by SBP	-		-
19.	Adjustment to CET1 to cover shortfall in AT1 adjustments	-		-
20.	**Total Regulatory Adjustment applied to CET 1**	66,393		9,155

		2014	Amount subject to Pre-Basel III	2013
			Rupees in '000	

33.1.2 Additional Tier 1 (AT 1) Capital: Regulatory Adjustment

		2014	Amount subject to Pre-Basel III	2013
21.	Investment in mutual funds exceeding the prescribed limit (SBP Specific	-		-
22.	Investment in own AT1 capital instruments	-		-
23.	Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial, and insurance entities	-		-
24.	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the company does not own more than 10% of the issued share capital (amount above 10% threshold)	-		-
25.	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-		-
26.	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital	-		-
27.	Adjustment to AT1 to cover shortfall in T2 adjustments	-		-
28.	Total of Regulatory Adjustment applied to AT1 capital	-		-

33.1.3 Tier 2 (T2) Capital: Regulatory Adjustment

		2014	Amount subject to Pre-Basel III	2013
29.	Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-		-
30.	Reciprocal cross holdings in Tier 2 instruments	-		-
31.	Investment in own Tier 2 capital instrument	-		-
32.	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the company does not own more than 10% of the issued share capital (amount above 10% threshold)	-		-
33.	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-		-
34.	Amount of Regulatory Adjustment applied to T2 capital	-		-

33.2 CAPITAL STRUCTURE RECONCILIATION

STEP 1

	Balance Sheet as in the published financial statements	Under Regulatory scope
	2014	2014
ASSETS	Rupees in '000	
Cash and balances with treasury banks	70,155	70,155
Balances with other banks	244,608	244,608
Lendings to financial institutions	2,006,302	2,006,302
Investments - net	7,145,567	7,145,567
Advances - net	10,423,729	10,423,729
Operating fixed assets	362,572	362,572
Deferred tax asset	544,578	544,578
Other assets	635,161	635,161
	21,432,672	21,432,672

	Balance Sheet as in the published financial statements	Under Regulatory scope
	2014	2014
	Rupees in '000	
LIABILITIES		
Bills payable	-	-
Borrowings	11,242,300	11,392,300
Deposits and other accounts	-	-
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
Other liabilities	7,965,974	7,965,974
	19,208,274	19,358,274
NET ASSETS	2,224,398	2,074,398
REPRESENTED BY		
Share capital	3,001,000	3,001,000
Reserves	743,439	743,439
Accumulated loss	(1,864,143)	(1,864,143)
	1,880,296	1,880,296
Advance against issue of capital	218,143	218,143
Surplus on revaluation of assets	125,959	125,959
	2,224,398	2,224,398

STEP 2

	Balance Sheet as in the published financial statements	Under regulatory scope	Reference
	2014		
	Rupees in '000		
ASSETS			
Cash and balances with treasury banks	70,155	70,155	
Balances with other banks	244,608	244,608	
Lendings to financial institutions	2,006,302	2,006,302	
Investments - net	7,145,567	7,145,567	
of which: Non significant capital investment in capital of other financial institution exceeding 10% threshold	-	-	a
of which: Non significant capital investment in financial sector entities exceeding regulatory threshold	-	-	b
of which: Mutual Fund exceeding regulatory threshold	-	-	c
of which: reciprocal crossholding of capital instrument	-	-	d
of which others	7,145,567	7,145,567	e
Advances	10,423,729	10,423,729	
of which: Shortfall in provision / excess of EL amount over eligible provision under IRB	-	-	f
of which: General provision reflected in Tier 2 Capital	121,085	121,085	g
Operating fixed assets	362,572	362,572	
of which: Intangibles	2,262	2,262	h
Deferred Tax Assets	544,578	544,578	
of which: DTA that rely on future profitability excluding those arising from temporary differences	-	-	
of which: DTA arising from temporary differences exceeding regulatory threshold	544,578	544,578	i
Other assets	635,161	635,161	
TOTAL ASSETS	21,432,672	21,432,672	

	Balance Sheet as in the published financial statements	Under regulatory scope	Reference
	2014		
	Rupees in 000		
LIABILITIES			
Bills payable	-	-	
Borrowings	11,242,300	11,242,300	
Deposits and other accounts	-	-	
Sub-ordinated loans	-	-	
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	-	-	
Other liabilities	7,965,974	7,965,974	
	19,208,274	19,208,274	
NET ASSETS	2,224,398	2,224,398	
Share capital	3,001,000	3,001,000	
of which: amount eligible for CET 1	3,001,000	3,001,000	j
of which: amount eligible for AT 1	-	-	k
Reserves	743,439	743,439	
of which: amount eligible for CET 1	743,439	743,439	l
of which: amount eligible for Tier 2	-	-	m
Accumulated loss	(1,864,143)	(1,864,143)	n
Minority Interest			
of which: amount eligible for CET 1	-	-	o
of which: amount eligible for AT 1	-	-	p
of which: amount eligible for Tier 2	-	-	q
Advance against issue of capital	218,143	218,143	
Surplus on revaluation of assets	125,959	125,959	
of which Revaluation reserve on property	-	-	r
of which: unrealized Gain / Loss on AFS	125,959	125,959	s
In case of Deficit on revaluation (deduction from CET1)	-	-	t
	2,224,398	2,224,398	

STEP 3

	Component of regulatory capital reported by Company	Source based on reference number from Step 2
Common Equity Tier 1 Capital (CET 1): Instruments & Reserves		
Fully Paid-up Capital/ Capital deposited with SBP	3,001,000	j
Balance in Share Premium Account	-	
Reserve for issue of Bonus Shares	-	
General/ Statutory Reserves (as disclosed on Balance Sheet)	743,439	l
Gain/(Losses) on derivatives held as Cash Flow Hedge	-	
Unappropriated/unremitted profits - net of accumulated losses, if any (losses as negative number)	(1,864,143)	n
Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (from "Consolidation sheet")	-	
CET 1 before Regulatory Adjustments	1,880,296	

	Component of regulatory capital reported by Company	Source based on reference number from Step 2
Common Equity Tier 1 Capital (CET 1): Regulatory Adjustments		
Goodwill (net of any associated deferred tax liability)	-	
All other intangibles (net of any associated deferred tax liability)	2,262	h
Shortfall in provisions required against classified assets (without considering any tax impact)	-	f
Deferred tax assets (net of any associated deferred tax liability) excluding DTAs arising from temporary differences such as allowance for credit losses	-	
Defined benefit pension fund assets (net of any associated deferred tax liability)	-	
Reciprocal cross holdings in CET1 capital instruments of banking, financial, and insurance entities	-	d
Cash flow hedge reserve	-	
Investment in own shares/ CET1 instruments	-	
Any increase in equity capital resulting from a securitization transaction	-	
Capital shortfall of regulated subsidiaries	-	
Deficit on account of revaluation from Company's holdings of property/ AFS	-	t
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the company does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	64,131	i
Amount exceeding 15% threshold (significant Investments and DTA)	-	
National specific regulatory adjustments applied to CET1 capital	-	
Investment in TFCs of other banks exceeding the prescribed limit	-	
Any other deduction specified by SBP	-	
Adjustment to CET1 to cover shortfall in AT1 adjustments	-	
Total Regulatory Adjustment applied to CET 1	66,393	
Common Equity Tier 1 (a a	1,813,903	
Additional Tier 1 (AT 1) Capital		
Qualifying Additional Tier-1 instruments plus any related share premium	-	
of which: Classified as equity	-	k
of which: Classified as liabilities	-	
Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT1 - from "Consolidation sheet")	-	
AT1 before Regulatory Adjustments	-	

	Component of regulatory capital reported by Company	Source based on reference number from Step 2
Additional Tier 1 (AT 1) Capital: Regulatory Adjustment		
Investment in mutual funds exceeding the prescribed limit (SBP Specific	-	e
Investment in own AT1 capital instruments	-	
Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial, and insurance entities	-	
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the company does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital	-	
Adjustment to AT1 to cover shortfall in T2 adjustments	-	
Total of Regulatory Adjustment applied to AT1 capital	-	
Additional Tier 1 Capital recognized for Capital Adequacy b	-	
Tier 1 Capital (CET 1 + Admissible AT 1) (c = a+b)	1,813,903	

	Component of regulatory capital reported by Company	Source based on reference number from Step 2
Tier 2 Capital		
Qualifying (Basel III) Tier 2 capital instruments	-	
Capital instruments subject to phase out from tier 2	-	
Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	
General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	121,085	g
Revaluation Reserves Surplus on AFS	125,959	s
T2 before regulatory adjustments	247,044	
Tier 2 (T2) Capital: Regulatory Adjustment		
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-	
Reciprocal cross holdings in Tier 2 instruments	-	
Investment in own Tier 2 capital instrument	-	
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the company does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
Amount of Regulatory Adjustment applied to T2 capital	-	
Tier 2 Capital (T2)		
Tier 2 Capital (T2) recognized for capital adequacy	247,044	
Excess Additional Tier 1 Capital recognized in Tier 2 Capital	-	
Total Tier 2 Capital admissible for Capital Adequacy (d)	247,044	
TOTAL CAPITAL (T1 + admissible T2) e= (c+d)	2,060,947	

33.3 Capital Adequacy

The risk weighted assets to capital ratio , calculated in accordance with the State Bank of Pakistan's guidelines on Capital Adequacy was as follows:

	Capital Requirement		Risk Weighted Assets	
	2014	2013	2014	2013
	Rupees in '000			
Credit Risk				
-On Balance Sheet				
Corporate Portfolio	656	2,277	6,560	22,774
Banks/DFIs	13,404	4,476	134,037	44,761
Public Sector Entities	-	-	-	-
Sovereign / Cash & Cash Equivalent	-	-	-	-
Loans secured against residential property	289,514	188,275	2,895,144	1,882,753
Retail	1,987	641	19,871	6,413
Past due Loans	196,207	428,599	1,962,069	4,285,993
Operating Fixed Asset	35,970	26,028	359,695	260,281
Other Assets	89,315	61,001	893,153	610,015
Listed Equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in the company book.	7,804	15,406	78,041	154,056
	634,857	726,704	6,348,570	7,267,045
-Off Balance Sheet				
Non Market related exposures	64,314	60,989	643,135	609,892
Total Credit Risk	699,171	787,693	6,991,705	7,876,937

	Capital Requirement		Risk Weighted Assets	
	2014	2013	2014	2013
	Rupees in '000			
Market Risk				
Interest Rate Risk	79,785	18,876	797,853	188,763
	79,785	18,876	797,853	188,763
Operation Risk	293,966	261,567	2,939,656	2,615,666
	1,072,921	1,068,136	10,729,214	10,681,365

		2013	2012
		Rupees '000	
Capital Adequacy Ratio			
Total eligible regulatory capital held	e	2,060,947	2,243,492
Total Risk Weighted Assets	i	10,729,214	10,681,366
Capital Adequacy Ratio	(e/i)	19.21%	21.00%

34. 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 has been 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. Individual risks are reviewed and controlled by various committees at management level like ALCO and Credit Committee.

Risk Management Department is responsible for coordinating and implementing 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 risk reviews.
- Communicate and liaise with other functions and business units in carrying out risk reviews, analysis and mitigation activities

34.1 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 transaction.

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.

34.1.1 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

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 is the risk related to the degree of diversification in the credit portfolio, i.e. the risk inherent in doing business with large customers or not being equally exposed across borrower types and geographical regions. The concentration risk can arise in loan book as well as investment book.

34.1.1 Segmental information

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

34.1.1.1 Segments by class of business

Housing finance	2014					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
Individuals	12,842,687	98.06	-	-	-	-
Others	254,153	1.94	-	-	694,668	100.00
	13,096,840	100.00	-	-	694,668	100.00

	2013					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
Individuals	12,293,757	97.98	-	-	-	-
Others	253,783	2.02	-	-	639,731	100.00
	12,547,540	100.00	-	-	639,731	100.00

34.1.1.2 Segment by sector

	2014					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
Public / Government	245,523	1.95	-	-	200,000	28.79
Private	12,851,317	98.13	-	-	494,668	71.21
	13,096,840	100.00	-	-	694,668	100.00

	2013					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
Public / Government	245,153	1.95	-	-	200,000	31.26
Private	12,302,387	98.05	-	-	439,731	68.74
	12,547,540	100.00	-	-	639,731	100.00

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

	2014		2013	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	<- - - - - - - - - Rupees in '000 - - - - - - - - ->			
Individuals	4,789,357	2,516,384	6,398,586	2,720,759
Others	35,640	35,640	35,640	35,640
	4,824,997	2,552,024	6,434,226	2,756,399

34.1.1.4 Details of non-performing advances and specific provisions by sector

	2014		2013	
Public/ Government	27,010	27,010	27,010	27,010
Private	4,797,987	2,525,014	6,407,216	2,729,389
	4,824,997	2,552,024	6,434,226	2,756,399

34.1.1.5 Geographical segment analysis

	Profit / (loss) before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	<- - - - - - - - - - - - - - Rupees in '000 - - - - - - - - - - - - - ->			
2014				
Pakistan	256,993	21,432,672	2,224,398	694,668
2013				
Pakistan	487,026	21,652,702	2,373,008	639,731

34.2 Credit Risk-General Disclosures Basel II Specific

34.2.1 Credit Risk - General Disclosures

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

34.2.2 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 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

34.2.3 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	11,064	-	11,064
Banks	1 & 3	2,663,488	1,871,457	792,023
Sovereigns etc.	-	80,564	-	80,564
Unrated		10,978,269	-	10,978,269
		13,733,385	1,871,457	11,861,920

CRM - Credit Risk Mitigation

34.2.4 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. In 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.

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

At present Company has no investment position in equity holdings.

34.3 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

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

34.3.1 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.

34.3.2 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.

34.3.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

34.3.3.1 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 -

	2014											
	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		70,155	-	-	-	-	-	-	-	-	-	70,155
Balances with other banks	5.00% - 12.5%	244,608	244,608	-	-	-	-	-	-	-	-	
Lending to financial institutions	13.87%-15.2%	2,006,302	2,006,302	-	-	-	-	-	-	-	-	-
Investments	11.65% - 16.04%	7,145,567	106,200	343,081	825,185	2,166,130	3,703,841	433	697	-	-	-
Advances - net	5% -19%	10,423,729	1,032,663	149,277	228,077	469,465	944,027	935,233	1,672,859	3,257,862	1,734,266	-
Other assets		403,822	-	-	-	-	-	-		-		403,822
		20,294,183	3,389,773	492,358	1,053,262	2,635,595	4,647,868	935,666	1,673,556	3,257,862	1,734,266	473,977
Liabilities												
Bills payable		-	-	-	-	-	-	-	-	-	-	-
Borrowings	9.50% - 14.59%	11,242,300	11,242,300	-	-	-	-		-	-	-	
Deposits and other accounts		-	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		5,347,800	-	-	-	-	-	-	-	-	-	5,347,800
		16,590,100	11,242,300	-	-	-	-	-	-	-	-	5,347,800
On-balance sheet gap		3,704,083	(7,852,527)	492,358	1,053,262	2,635,595	4,647,868	935,666	1,673,556	3,257,862	1,734,266	(4,873,823)
Off-balance sheet financial instruments												
Forward Lending												
Forward borrowings												
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			(7,852,527)	492,358	1,053,262	2,635,595	4,647,868	935,666	1,673,556	3,257,862	1,734,266	(4,873,823)
Cumulative Yield/Interest Risk Sensitivity Gap			(7,852,527)	(7,360,169)	(6,306,907)	(3,671,312)	976,556	1,912,222	3,585,778	6,843,640	8,577,906	3,704,083

	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
		2013										
			Rupees in '000									
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks		80,564	-	-	-	-	-	-	-	-	-	80,564
Balances with other banks	5.00% - 12.5%	226,912	226,912	-	-	-	-	-	-	-	-	-
Lending to financial institutions	13.87%-15.2%	2,439,321	100,000	2,339,321	-	-	-	-	-	-	-	-
Investments	11.65% - 16.04%	8,033,214	5,605	7,899,985	707	177	387	124,571	1,782	-	-	-
Advances - net	5% -19%	9,700,151	1,927,740	172 357	216,151	439,991	869,689	827,248	1,452,083	2,471,738	1,323,154	-
Other assets		287,171	-	-	-	-	-	-	-	-	-	287,171
		20,767,333	2,260,257	10,411,663	216,858	440,168	870,076	951,819	1,453,865	2,471,738	1,323,154	367,735
Liabilities												
Bills payable		-	-	-	-	-	-	-	-	-	-	-
Borrowings	9.50% - 14.59%	11,392,300	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		5,674,995	-	-	-	-	-	-	-	-	-	5,674,995
		17,067,295	11,242,300	-	153,000	150,000	150,000	-	-	-	-	5,674,995
On-balance sheet gap		3,700,038	(8,982,043)	10,411,663	63,858	290,168	720,076	951,819	1,453,865	2,471,738	1,323,154	(5,307,260)
Off-balance sheet financial instruments												
Forward Lending												
Forward borrowings												
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			(8,982,043)	10,411,663	63,858	290,168	720,076	951,819	1,453,865	2,471,738	1,323,154	(5,307,260)
Cumulative Yield/Interest Risk Sensitivity Gap			(8,982,043)	1,429,620	1,493,478	1,783,646	2,503,722	3,455,541	4,909,406	7,381,144	8,704,298	3,397,038

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

	December 31 2014	December 31 2013
	Rupees in '000	
Total financial assets as per note 34.3.3.1	20,294,183	20,767,333
Operating fixed assets	362,572	344,400
Deferred tax assets	544,578	321,245
Other assets	231,339	219,724
Total assets as per balance sheet	21,432,672	21,652,702
Total financial liabilities as per note 34.3.3.1	16,590,100	17,067,295
Other liabilities	2,618,174	2,212,399
	19,208,274	19,279,694

34.4 Liquidity Risk

Liquidity risk is the risk caused, among others by the inability of the Company to settle liabilities at due date. Objectives of our 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.

34.4.1 Maturities of Assets and Liabilities

		2014								
	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	70,155	70,155	-	-	-	-	-	-	-	-
Balances with other banks	244,608	244,608	-	-	-	-	-	-	-	-
Lendings to financial institutions	2,006,302	2,006,302	-	-	-	-	-	-	-	-
Investments	7,145,567	104,326	343,081	825,185	2,166,130	3,705,715	433	697	-	-
Advances - net	10,423,729	1,032,663	149,277	228,077	469,465	944,027	899,312	1,708,780	3,257,862	1,734,266
Operating fixed assets	362,572	684	1,367	2,051	281,241	8,205	8,204	14,944	23,855	22,021
Deferred tax assets	544,578	-	-	64,249	64,249	94,835	94,835	97,912	128,498	-
Other assets	635,161	3,224	189,165	106,475	22,703	83,955	62,263	27,323	53,308	5,855
	21,432,672	3,461,961	682,890	1,226,037	3,003,788	4,836,737	1,065,047	1,849,656	3,463,523	1,762,142
Liabilities										
Bills payable	-	-	-	-	-	-	-	-	-	-
Borrowings from financial institutions	11,242,300	11,242,300	-	-	-	-	-	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	7,965,974	3,057,729	70,040	136,033	340,697	1,125,794	1,077,347	1,909,767	345,348	
	19,208,274	14,300,029	70,040	136,033	340,697	1,125,794	1,077,347	1,909,767	345,348	-
Net assets / (liabilities)	2,224,398	(10,838,068)	612,850	1,090,004	2,663,091	3,710,943	(12,300)	(60,111)	3,118,175	1,762,142
Share capital	3,001,000									
Reserves	743,439									
Accumulated loss	(1,864,143)									
Surplus on revaluation of assets	125,959									
Advance against issue of capital	218,143									
	2,224,398									

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

	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
	2013									
	< - - - Rupees in '000 - - - >									
Assets										
Cash and balances with treasury banks	80,564	80,561	-	-	-	-	-	-		-
Balances with other banks	226,912	226,912	-	-	-	-	-	-	-	-
Lendings to financial institutions	2,439,321	2,439,321	-	-	-	-	-	-	-	-
Investments	8,033,214	5,605	7,899,985	707	177	387	124,571	1,782	-	-
Advances - net	9,700,151	1,927,740	172,357	216,151	439,991	869,689	827,248	1,452,083	2,471,738	1,323,154
Operating fixed assets	344,400	770	1,543	2,311	250,124	9,246	9,245	16,954	30,159	24,048
Deferred tax assets	321,245	-	-	-	64,249	64,249	64,249	64,249	64,249	-
Other assets	506,895	4,100	158,545	12,046	27,408	220,461	131,758	52,577	-	-
	21,652,702	4,685,009	8,232,430	231,215	781,949	1,164,032	1,157,071	1,587,645	2,566,146	1,347,202
Liabilities										
	-	-	-	-	-	-	-	-	-	-
Bills payable	11,392,300	11,242,300	-	150,000	-	-		-	-	-
Borrowings from financial institutions	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other liabilities	7,887,394	4,426,608	67,431	126,358	208,924	849,427	768,945	1,395,452	44,249	-
	19,279,694	15,668,908	67,431	276,358	208,924	849,427	768,945	1,395,452	44,249	-
Net assets / (liabilities)	2,373,008	(10,983,899)	8,164,999	(45,143)	573,025	314,605	388,126	192,193	2,521,897	1,347,202
Share capital	3,001,000									
Reserves	713,005									
Accumulated loss	(1,552,348)									
Deficit on revaluation of assets	(6,792)									
Advance against issue of capital	218,143									
	2,373,008									

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. 11,242.5 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.

34.4.2 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.

35. CORRESPONDING FIGURES

There were no major account balances reclassified or rearranged during the year.

36. DATE OF AUTHORIZATION

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

37. GENERAL

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

37.2 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