House Building Finance Company Limited

Financial Statements

For the year ended December 31, 2017

Deloitte.

Deloitte Yousuf Adil
Chartered Accountants
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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of **HOUSE BUILDING FINANCE COMPANY LIMITED** ("the Company") as at December 31, 2017 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 (here-in-after referred to as the 'financial statements') for the year then ended, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

b) in our opinion:

   i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the 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 December 31, 2017 and of the profit, comprehensive income, its cash flows and changes in equity for the year then ended; and

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

Deloitte Yousuf Adil

Chartered Accountants

Engagement Partner
Mushtaq Ali Hirani

Dated: 28 MAR 2018
Karachi

Member of
Deloitte Touche Tohmatsu Limited

HOUSE BUILDING FINANCE COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

	Note	2017	2016
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	5	53,531	121,378
Balances with other banks	6	771,582	650,310
Lending's to financial institutions	7	851,542	400,188
Investments - net	8	6,489,513	6,841,040
Advances - net	9	11,449,397	11,816,929
Operating fixed assets	10	292,715	315,461
Deferred tax assets	11	-	-
Other assets	12	421,793	761,165
		20,330,073	20,906,471
LIABILITIES			
Bills payable		-	-
Borrowings		-	-
Deposits and other accounts		-	-
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	13	5,300,971	6,587,429
		5,300,971	6,587,429
NET ASSETS		15,029,102	14,319,042
REPRESENTED BY			
Share capital	14	19,365,000	3,001,000
Reserves		1,037,680	713,662
Accumulated loss		(5,375,752)	(5,757,934)
		15,026,928	(2,043,272)
Conversion of liabilities into share capital	14	-	16,364,000
Surplus/ (deficit) on revaluation of assets	15	2,174	(1,686)
		15,029,102	14,319,042
CONTINGENCIES AND COMMITMENTS	16		

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

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J. Baird-AC

MANAGING DIRECTOR | DIRECTOR | DIRECTOR | DIRECTOR

HOUSE BUILDING FINANCE COMPANY LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	2017	2016
		(Rupees in '000)	
Rental / mark-up / return / interest income	17	2,268,561	2,606,851
Rental / mark-up / return / interest expense		-	(1,068,019)
Rental / mark-up / return / interest income - net		2,268,561	1,538,832
Reversal / (provision) against non-performing advances - net	9.16.1	655,502	(869,068)
Reversal of provision against lendings to financial institutions		1,114	17,619
Reversal of provision against diminution in value of investments - net	8.8	24,844	-
		681,460	(851,449)
Reconciliation adjustments	18	(75)	(847)
Relief package and reprocessing adjustments	19	(7,405)	(9,736)
Ghar Asaan Incentive Scheme	9.4	(86,468)	-
Write-off against advances	20	(598)	(805)
		2,855,475	675,995
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		-	-
Dividend income		-	-
Income from dealing in foreign currencies		-	-
(Loss)/gain on sale of securities		(487)	7,920
Unrealized gain / (loss) on revaluation of investment classified as held for trading		-	-
Other income	21	185,835	273,250
Total non-mark-up / interest income		185,348	281,170
		3,040,823	957,165
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	22	(1,017,816)	(1,758,099)
Other provisions	23	(2,488)	(32,367)
Other charges	24	(8,073)	(9,552)
Total non-mark-up / interest expenses		(1,028,377)	(1,800,018)
		2,012,446	(842,853)
Extra-ordinary/unusual items		-	-
Share of profit before taxation from an associate	8.7.1	1,430	6,986
PROFIT/(LOSS) BEFORE TAXATION		2,013,876	(835,867)
Taxation	25	(393,786)	(30,083)
PROFIT/(LOSS) AFTER TAXATION		1,620,090	(865,950)
Basic and diluted earnings per share - Rupees	26	1.16	(2.89)

The annexed notes 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, 2017

	Note	2017	2016
		------ (Rupees in '000) ------	
Profit/(loss) after tax for the year		1,620,090	(865,950)
Other comprehensive income			
Items not to be reclassified to profit and loss account in subsequent years			
- Actuarial loss on revaluation of defined benefit plan - net	29.3.2	(913,890)	(102,287)
Other comprehensive income transferred to equity		706,200	(968,237)
Components of other comprehensive income not reflected in equity			
- Surplus/ (deficit) on revaluation of 'available-for-sale securities'		2,174	(103,817)
Total comprehensive income for the year		708,374	(1,072,054)

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

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MANAGING DIRECTOR DIRECTOR DIRECTOR DIRECTOR

HOUSE BUILDING FINANCE COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017

	Share capital	Statutory reserve*	Accumulated loss	Total
	(Rupees in '000)			
Balance as at January 01, 2016	3,001,000	713,662	(4,789,697)	(1,075,035)
Comprehensive income for the year				
Loss after tax for the year	-	-	(865,950)	(865,950)
Other comprehensive income	-	-	(102,287)	(102,287)
	-	-	(968,237)	(968,237)
Transfer to statutory reserve *	-	-	-	-
Balance at December 31, 2016	3,001,000	713,662	(5,757,934)	(2,043,272)
Comprehensive income for the year				
Conversion of liability into share capital	16,364,000	-	-	16,364,000
Profit after tax for the year	-	-	1,620,090	1,620,090
Other comprehensive income	-	-	(913,890)	(913,890)
	-	-	706,200	706,200
Transfer to statutory reserve *	-	324,018	(324,018)	-
Balance at December 31, 2017	**19,365,000**	**1,037,680**	**(5,375,752)**	**15,026,928**

* 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 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, 2017

	Note	2017	2016
		(Rupees in '000)	
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		2,013,876	(835,867)
Adjustments			
Reversal / (provision) against non-performing advances - net		(655,502)	869,068
Reversal of provision against lendings to financial institutions		(1,114)	(17,619)
Reversal of provision against diminution in value of investments - net		(24,844)	-
Reconciliation adjustments		75	847
Relief package and reprocessing adjustments		7,405	9,891
Recovery of Pakistan Housing Authority (PHA) balance		-	(218,143)
Gain on disposal of operating fixed assets		(33)	(42,021)
Depreciation of property and equipment		31,361	30,595
Amortization of intangibles		331	371
Provision for advance against purchase of land - housing projects		-	3,345
Share of profit before taxation from an associate		(1,430)	(6,986)
Adjustments in cost and depreciation		-	28,741
		(643,751)	658,089
		1,370,125	(177,778)
Decrease / (increase) in operating assets			
Lending's to financial institutions		(451,354)	(382,569)
Advances - net		1,015,554	(1,183,829)
Other assets (excluding advance tax - net)		9,388	216,680
		573,588	(1,349,718)
(Decrease) / increase in operating liabilities			
Other liabilities		(2,200,348)	1,411,930
		(256,635)	
Income tax paid		(63,135)	(134,138)
Net cash used in operating activities		(319,770)	(249,704)
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Investments realized - net		382,109	791,289
Capital expenditure		(9,135)	(3,315)
Proceed from disposal of operating fixed assets		221	43,404
Net cash generated from investing activities		373,195	831,378
Increase in cash and cash equivalents (A+B)		53,425	581,674
Cash and cash equivalents at beginning of the year		771,688	190,014
Cash and cash equivalents at end of the year	27.	825,113	771,688

The annexed notes 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, 2017

1. STATUS AND NATURE OF BUSINESS

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.I/2007 dated July 25, 2007 issued by Finance Division - Government of Pakistan effective from January 1, 2007, the Company had taken over all assets, running business, contracts, liabilities and proceedings of the House Building Finance Corporation 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 and has also changed its name from House Building Finance Corporation Limited to House Building Finance Company Limited in 2010.

The Company is designated as a financial institution by the Federal Government and is providing financing facilities for the purchase, construction and renovation of houses through a network of 46 branches and 3 zonal offices throughout Pakistan including Azad Jammu and Kashmir. According to credit rating report dated June 23, 2017 of JCR-VIS Credit Rating Company Limited, the long term and short term ratings of the Company are "A" and "A-1".

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with the requirements of format prescribed by the State Bank of Pakistan (SBP) BSD Circular no. 04 dated February 17, 2006 as amended from time to time.

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan, the Banking Companies Ordinance, 1962, Companies Ordinance, 1984 and directives issued by the State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP). Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) as are notified under the Companies Ordinance,1984. In case requirements differ, provisions of the Banking Companies Ordinance, 1962, Companies Ordinance, 1984 and directives issued by the SBP and SECP shall prevail.

During the year, the Companies Act, 2017 was enacted on May 30, 2017 and same into force at once. Subsequently, Securities and Exchange Commission of Pakistan has notified through Circular no. 23 of October 04, 2017 that companies whose financial year closes on or before December 31, 2017 shall prepare their Financial Statements in accordance with the provisions of the repealed Companies Ordinance, 1984. Therefore, there financial statements have been prepared under Companies Ordinance, 1984.

The SBP through its BSD Circular no. 10 dated August 26, 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 the SECP dated April 28, 2008, International Financial Reporting Standard (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.

3.1 Standards, amendments and interpretations to approved accounting standards not yet effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, amendments and interpretations are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures:

Amendments/Interpretations	Effective date (accounting period beginning on or after)
IAS 7 'Statement of Cash Flows' - disclosure initiative (Amendments)	January 1, 2017
IAS 12 'Income Taxes' - Recognition of deferred tax assets for unrealized losses (Amendments)	January 1, 2017
New accounting standards / amendments and IFRS interpretations that are not yet effective	
IAS 40 'Investment Property' - Clarification on transfers of property to or from investment property (Amendments)	January 1, 2018
IFRS 2 'Share-Based Payment' - Clarification of the classification and measurement of share-based payment transactions (Amendments)	January 1, 2018
IFRIC 22 'Foreign Currency Transactions and Advance Consideration' - Provides guidance on transactions where consideration against non-monetary prepaid asset / deferred income is denominated in foreign currency	January 1, 2016
IFRIC 23 'Uncertainty over Income Tax Treatments': Clarifies the accounting treatment in relation to determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'.	January 1, 2019

Certain annual improvements have also been made to a number of IFRSs and IASs.

During the year, the Companies Act, 2017 (the new Companies Act) was enacted and promulgated by the SECP on May 30, 2017. However, SECP has notified through Circular No. 23 of October 4, 2017 that companies whose financial year closes on or before December 31, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. Accordingly, the Company shall prepare the financial statements for periods closing after December 31, 2017 in accordance with the provisions of the new Companies Act. The Company is currently in process of determining impact, if any, on future financial statements due to implementation of the Act.

Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

Standards

- IFRS 1 'First Time Adoption of International Financial Reporting Standards'
- IFRS 14 'Regulatory Deferral Accounts'
- IFRS 15 'Revenue from Contracts with Customers'
- IFRS 16 'Leases'

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3.2 Amendments to approved accounting standards which became effective during the year

The following amendments are effective for the current year. These amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures:

IAS 1 'Presentation of Financial Statements' - Disclosure initiative (Amendments)

IAS 16 'Property, Plant and Equipment and IAS 38 - Intangible Assets' - Clarification on acceptable methods of depreciation and amortization (Amendments)

IAS 16 'Property, Plant and Equipment and IAS 41 - Agriculture' - Bringing bearer plants in scope of IAS 16 (Amendments)

IAS 19 'Employee Benefits' - Clarification that the same currency bonds be used to determine the discount rate in which benefits are to be paid (Amendments)

IAS 27 (Revised 2011) 'Separate Financial Statements' - Use of equity method to account for investments in subsidiaries, joint ventures and associates in separate financial statements (Amendments)

IAS 34 'Interim Financial Reporting' - Clarification related to certain disclosures, i.e. if they are not included in the notes to interim financial statements and disclosed elsewhere should be cross referred (Amendments)

IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' - Clarification regarding changes in the method of disposal of an asset (Amendments)

IFRS 7 'Financial Instruments – Disclosures' - Disclosure requirements for servicing arrangements on continuing involvement in transferred financial assets (Amendments)

IFRS 10 - 'Consolidated Financial Statements', IFRS 12 - 'Disclosure of Interests in Other Entities' and IAS 28 (Revised 2011) - 'Investments in Associates and Joint Ventures' - Application of consolidation exception (Amendments)

IFRS 11 - 'Joint Arrangements' - Accounting for acquisitions of an interest in a joint operation (Amendments)

IFRS 13- Fair Value Measurement

3.3 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.

3.4 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.

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

a. Classification of investments

Held-for-trading

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.

Held-to-maturity

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 having fixed maturity. In making this judgment, the Company evaluates its intention and ability to hold such investments till maturity.

Available-for-sale

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

c. Provision against non-performing advances and investments

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

The Company determines that available-for-sale and held-to-maturity 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 market price (in case of listed securities). 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.

d. Operating assets, residual value, depreciation and amortization

Estimates with respect to residual values, 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 charged and impairment.

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.

3.5 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.

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4. 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:

4.1 Bank balances

Cash and cash equivalents

It is carried in the balance sheet at cost and for the purpose of cash flow statement, it consist of cash in hand and balances with the State Bank of Pakistan (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.

4.2 Lending's 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 is 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 lending's to financial institutions. The difference between purchase and resale price is treated as mark-up/return/interest income and is accrued over the term of the related reverse repo

Other lending's

These are secured and unsecured lending's to financial institutions. These are stated net of provision. Mark-up on such lending's is charged to profit and loss account on time proportionate basis using effective interest rate method except for mark-up on impaired/delinquent lending's, 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.

4.3 Revenue recognition

- Mark-up / return on **regular advances, and investments and deposits** is recognized on accrual time proportion basis. Mark -up / return on classified advances and investments is recognized on receipt basis.

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- Mark-up income on **Ghar Aasan Scheme** is recognized on the basis of share in rental income and share in appreciation in value of property.

- Mark-up income 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 houses under **housing projects** is recognized using stage of completion of contract.

- **Dividend income**, except for dividend on investment in associate i.e. accounted for under equity method, is recognized when the right to receive the dividend is established.

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

4.4 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.

4.5 Investments

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

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

(a) 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.

(b) Held-to-maturity

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

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(c) 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 as shown in the statement of financial position below equity and charged to the profit and loss account when actually realized upon disposal or when the investment is considered to be impaired.

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

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

(d) Investment in associate

Investment in associate, where the company has significant influence, is accounted for using equity method of accounting wherein the Company's share of underlying net assets of the investee company 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. Any 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.

4.6 Operating fixed assets

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 10.2. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each reported 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

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

Intangibles

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 amortized using the 'Straight Line Method' over their useful lives as stated in note 10.3 Amortization is charged from the month of acquisition and up to the month of deletion. The useful lives and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

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

Capital work-in-progress

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

Impairment of non-financial assets

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

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

4.7 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 reported 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 profit and loss account, except in the case of items credited or charged to equity, if any, in that case it is included in equity.

4.8 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.

Post retirement medical benefits

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

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

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 unveiled 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 every year and the latest valuation was carried out at December 31, 2016.

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d. Accounting policy - defined benefit plan

Actuarial gains and losses are recognized in other comprehensive income (OCI) in the periods in which they occur. Amounts recorded in the profit and loss account are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit obligation are recognized directly in other comprehensive income with no subsequent recycling through the profit and loss account.

4.9 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.

4.10 Financial instruments

Financial assets and liabilities

Financial instruments carried on the statement of financial position include cash and bank balances, lendings 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.

4.11 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.

4.12 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.

4.13 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.

4.14 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.

(initials)

4.15 **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	2017	2016
		(Rupees in '000)	
5. CASH AND BALANCES WITH TREASURY BANKS			
State Bank of Pakistan			
Local currency current account	5.1	53,462	121,300
National Bank of Pakistan			
Local currency deposit account	5.2	69	78
		53,531	121,378

5.1 This represents the amount required to be maintained by the Company in accordance with the SBP's regulations.

5.2 The bank account carry mark-up at rate 3.75% (2016: 4%) per annum.

6. BALANCES WITH OTHER BANKS

	Note	2017	2016
Local currency deposit accounts	6.1	271,582	400,310
Local currency term deposit receipt	6.2	500,000	250,000
		771,582	650,310

6.1 These bank accounts carry mark-up at rate ranging from 4% to 5.6% (2016: 4% to 6%) per annum.

6.2 These term deposit receipts carry mark-up at rate 6.50% (2016:6.50%) per annum and will be mature in 31 days.

	Note	2017	2016
		(Rupees in '000)	
7. LENDINGS TO FINANCIAL INSTITUTIONS			
Letters of placement	7.1	300,000	-
Repurchase agreement lending (Reverse Repo)	7.2	551,542	400,188
		851,542	400,188

7.1 **Letters of placement**

	Note	2017	2016
Pak Oman Investment Bank Limited (POIBL)	7.1.1	100,000	-
Pak Brunei Investment Company Limited (PBICL)	7.1.2	100,000	-
PAIR Investment Company Limited (PICL)	7.1.3	100,000	-
Trust Investment Bank Limited (TIBL)	7.1.4	5,909	5,909
First Dawood Investment Bank Limited (FDIBL)	7.1.5	56,266	57,381
		362,175	63,290
Less: Provision against letters of placement	7.1.6	(62,175)	(63,290)
		300,000	-

Mfh

7.1.1 This represents the clean placement made on December 15, 2017 for a period of 90 days at the mark-up rate of 6.15% per annum.

7.1.2 This represents the clean placement made on December 15, 2017 for a period of 90 days at the mark-up rate of 6.10% per annum

7.1.3 This represents the clean placement made on November 22, 2017 for a period of 56 days at the mark-up rate of 6.10% per annum

7.1.4 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 has been made twice. Mark-up accrued up to February 15, 2012 has been received. The Company filed a suit in the Banking Court for the recovery of outstanding principal along with mark-up. The Banking Court decreed the case in favor of the Company on October 12, 2015. Execution application has been filed by the Company with notice issued to TIBL for attachment of assets of TIBL. However, on prudent basis, Company has maintained 100% provision against outstanding receivable.

7.1.5 This represents clean placement made on September 12, 2008 for a period of 94 days at the mark-up rate of 17% per annum. The transaction remained unsettled at maturity and consequently the Company filed a suit in the Sindh High Court for the recovery of outstanding principal. However, the Company on prudent basis has maintained 100% provision against outstanding receivable amount in its books of accounts. The SHC decreed the case in favor of the Company on November 05, 2010. FDIBL has filed an appeal against the judgement of SHC in the Supreme Court of Pakistan, and the decision is pending. During the year, a sum of Rs. 1.114 million has been recovered.

	Note	2017	2016
		(Rupees in '000)	
7.1.6 Particulars of provision			
Opening balance		63,290	80,909
Provision made during the year		-	-
Provision reversed during the year		(1,114)	(17,619)
Closing balance		62,175	63,290

7.2 Repurchase agreement lending (Reverse Repo)

	Note	2017	2016
Pair Investment Company Limited		300,840	-
Pak Libya Holding Company (Pvt) Limited		250,702	-
Pak Oman Investment Company Limited		-	400,188
	7.2.2	551,542	400,188

7.2.1 Particulars of lendings

	2017	2016
In local currency	551,542	400,188

7.2.2 This reverse repo carry mark-up at rate of 6.03% per annum.

PMA

7.2.3 Securities held as collateral against lendings to financial institutions

	2017			2016		
	Held by Company	Further given as collateral	Total	Held by Company	Further given as collateral	Total
	(Rupees in '000')					
Pakistan Investment Bonds	551,542	-	551,542	400,188	-	400,188

8. INVESTMENTS - NET

	Note	2017			2016		
		Held by Company	Given as collateral	Total	Held by Company	Given as collateral	Total
		(Rupees in '000')					
8.1 Investments by types							
Available-for-sale securities							
Market Treasury Bills	8.2.1	6,124,240	-	6,124,240	6,485,165	-	6,485,165
Pakistan Investment Bonds	8.2.2	302,839	-	302,839	307,083	-	307,083
Unlisted Ordinary Shares	8.2.3	7,175	-	7,175	500	-	500
		6,434,254	-	6,434,254	6,792,748	-	6,792,748
Held-to-maturity securities							
Unlisted Sukuk Bonds	8.3	26,240	-	26,240	26,240	-	26,240
Term Deposit Receipts	8.4	2,344	-	2,344	2,344	-	2,344
Certificates of Investment	8.5	45,000	-	45,000	67,500	-	67,500
		73,584	-	73,584	96,084	-	96,084
							-
Investment in an associate							
Takaful Pakistan Limited	8.7.1	51,241	-	51,241	50,478	-	50,478
		6,559,079	-	6,559,079	6,939,310	-	6,939,310
Less: Provision for diminution in value of investment	8.8	(71,740)	-	(71,740)	(96,584)	-	(96,584)
Investments (net of provisions)		6,487,339	-	6,487,339	6,842,726	-	6,842,726
Surplus/(Deficit) on remeasurement of available-for-sale securities	15.	2,174	-	2,174	(1,686)	-	(1,686)
		6,489,513	-	6,489,513	6,841,040	-	6,841,040

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	Note	2017	2016
		(Rupees in '000)	
8.2 Investments by segments			
Government securities			
Market Treasury Bills	8.2.1	6,124,240	6,485,165
Pakistan Investment Bonds	8.2.2	302,839	307,083
Fully paid-up ordinary shares			
Unlisted Company	8.2.3	7,175	500
Term finance certificates, debentures, bonds and participation term certificates			
Unlisted Sukuk Bonds	8.3	26,240	26,240
Other investments			
Term Deposit Receipts	8.4	2,344	2,344
Certificates of Investment	8.5	45,000	67,500
Investment in an associate			
Takaful Pakistan Limited (TPL)	8.7.1	51,241	50,478
		6,559,079	6,939,310
Less: Provision for diminution in value of investment	8.8	(71,740)	(96,584)
Investments (net of provisions)		6,487,339	6,842,726
Surplus/(deficit) on remeasurement of available-for-sale securities	15.	2,174	(1,686)
Total investments		6,489,513	6,841,040

8.2.1 These carry yield at rates ranging from 5.99% to 6.039% (2016: 5.79 % to 6.19%).

8.2.2 These carry mark-up (coupon rate) at rates ranging from 8.75% to 9.25% (2016: 8.75% to 9.25%).

	Note	2017	2016
		(Rupees in '000)	
8.2.3 Unlisted ordinary shares			
Resource and Engineering Management Corporation Limited	8.2.3.1	500	500
Pakistan Mortgage Refinance Company Limited	8.2.3.2	6,675	-
		7,175	500

8.2.3.1 This represent investment in 66,125 ordinary shares of Rs.10 each in Resource and Engineering Management Corporation Limited. Full provision has been made against this investment.

8.2.3.2 This represents payment made for ordinary shares subscription against commitment to take shares for Rs.200 million of newly formed Pakistan Mortgage Refinance Company Limited. 667,500 shares transferred to the Company on February 13, 2017. The investment is carried at cost.

8.3 **Particulars of investment in sukuk bonds**

Name of issuer	Note	Rating	Mark-up rate	Total nominal value	
				2017	2016
				------ (Rupees in '000) ------	
Eden Housing Limited (EH	8.3.1	Unrated	3 months KIBOR plus 3%	**26,240**	26,240

40,000 certificates
Outstanding face value:
Rs. 656 each
Maturity date: June 29, 2014
Chief Executive Officer:
Mr. Muhammad Amjad

8.3.1 As per the original terms of repayment, these sukuk bonds were to be repaid in eight equal semi-annual installments starting from June 2009 till December 2012 along with mark-up 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 to be repaid on quarterly basis along with mark-up of KIBOR plus 2.5% and 3% for the first three years and fourth year, respectively. EHL defaulted for the two coupon mark-up due on March 29, 2014 and June 6, 2014 of Rs.13.120 million each. However, on prudent basis, the Company has maintained full provision of the outstanding principal amount.

8.4 This represents investment in term deposit receipts (TDRs) of Asset Investment Bank Limited (AIBL) for Rs.10 million on Sept 9, 1996 for one year. Up till May 20, 1999 AIBL have paid Rs. 7.656 million and remaining principal amount of Rs. 2.344 million is outstanding. Hence in January 2002, recovery suit was filed in Banking Court Karachi. Full provision had been made against these TDRs in previous years. However, subsequent to year end on January 18, 2018, the company has received 41,591 shares of MCB @ Rs 229.46 which amounts to 9.603 million. It includes the principal amount of Rs 2.344 million and mark up of Rs 7.259 million. Therefore, the provision has been reversed.

8.5 This represents investment in certificates of investment (COIs) of Rs. 200 million for three years and Rs. 25 million for three months in 1996 and 1998 respectively. Bankers Equity Limited (BEL) defaulted the repayment and went under liquidation on April 18, 2001, hence claims of BEL were placed before Sindh High Court (SHC). However, the Company on prudent basis had maintained 100% provision against outstanding principal amount. The Company has received Rs. 22.5 million during the year where as a cumulative sum of Rs. 180 million (80%) has been received uptill December 31, 2017 against invested amount, on the directive of SHC.

	2017		2016	
	— (Rupees in '000) —		— (Rupees in '000) —	
	Amount	Rating	Amount	Rating
8.6 Quality of available-for-sale securities - (at market value)				
Market Treasury Bills	**6,123,234**	**Sovereign**	6,478,964	Sovereign
Pakistan Investment Bonds (PIBs)	**306,019**	**Sovereign**	311,598	Sovereign
Unlisted Ordinary Shares				
Resource and Engineering Management Corporation Limited (fully provided)	-	**Unrated**	-	Unrated
Pakistan Mortgage Refinance Company	-	**Unrated**		
	6,429,253		6,790,562	

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	2017	2016
	--- (Rupees in '000) ---	

8.7 Investment in an associate - Takaful Pakistan Limited

	2017	2016
Place of incorporation **Pakistan**		
Principal business **Takaful**		
Number of shares held	8,699,500	8,699,500
Cost of investment - Rupees in '000	87,000	87,000
Assets - Rupees in '000	436,118	559,313
Liabilities - Rupees in '000	239,818	379,278
Net contribution revenue - Rupees in '000	137,693	239,063
Profit after tax - Rupees in '000	2,633	21,198
Percentage of investment	29%	29%
Break up value per share - Rupees	6.54	6.00
Earnings per share - basic and diluted	0.09	0.71
Latest available financial statements	Dec 31, 2017	Dec 31, 2016
Name of Chief Executive	Dr. Syed Tariq Husain (CEO)	Dr. Syed Tariq Husain (CEO)

	2017	2016
	--- (Rupees in '000) ---	

8.7.1 Carrying value of investment in an associate under equity method

	2017	2016
Carrying value of investment at beginning of the year	50,478	44,331
Share of profit before taxation from an associate	1,430	6,986
Share of taxation from associate	(667)	(839)
Carrying value of investment at end of the year	51,241	50,478

8.8 Particulars of provision

	2017	2016
Balance at beginning of the year	96,584	96,584
Charge for the year	-	-
Reversal during the year	(24,844)	-
Balance at end of the year	71,740	96,584

8.9 Particulars of provision in respect of types and segment

	2017	2016
Available-for-sale securities		
Unlisted ordinary shares - Resource and Engineering Management Corporation Limited	500	500
Held-to-maturity securities		
Unlisted sukuks bonds - Eden Housing Limited	26,240	26,240
Term deposit receipts - Asset Investment Bank Limited	-	2,344
Certificates of investment - Bankers Equity Limited	45,000	67,500
	71,740	96,584

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9	ADVANCES - NET	Note	2017	2016
			--- (Rupees in '000) ---	
	In Pakistan - local currency			
	Rental Sharing Schemes	9.2	1,576,963	1,648,634
	Interest Bearing Schemes	9.3	103,714	106,913
	Ghar Aasan Scheme	9.4	2,468,170	3,093,853
	Gwadar Employees Co-operative Housing Society (GECHS)	9.5	11,268	11,369
	Shandar Ghar Scheme	9.6	480,286	547,132
	Unearned income		(288,614)	(319,564)
			191,672	227,568
	Financing facility for Small Builders	9.7	1,990	2,207
	Ghar Aasan Flexi Scheme	9.8	10,065,232	10,326,665
	Bisma & Saima Projects	9.9	40,944	50,443
	New Small Builders Scheme	9.10	60,255	86,875
	Housing finance to employees	9.11	337,003	447,253
	Partners' death claims	9.12	-	(110,199)
	Transitory district bank accounts - net	9.13	45,043	33,707
	Advances - gross		14,902,254	15,925,288
	Provision for non-performing advances			
	Specific provision			
	Rental Sharing Schemes	9.2	1,509,898	1,608,105
	Interest Bearing Schemes	9.3	103,714	106,913
	Ghar Aasan Scheme	9.4	956,865	1,443,525
	Gwadar Employees Co-operative Housing Society	9.5	11,268	11,369
	Shandar Ghar Scheme	9.6	159,915	183,323
	Financing facility for Small Builders	9.7	1,990	2,207
	Ghar Aasan Flexi Scheme	9.8	567,690	598,478
	Housing finance to employees	9.11	5,550	5,550
			3,316,890	3,959,470
	General provision	9.14	135,967	148,889
			(3,452,857)	(4,108,359)
	Advances - net of provision		11,449,397	11,816,929

9.1	**Particulars of advances (gross)**	2017	2016
	Short term (up to one year)	3,146,503	3,153,074
	Long term (over one year)	11,755,751	12,772,214
		14,902,254	15,925,288

9.2 This represents advances under Profit & Loss Sharing Scheme, Simplified Scheme, New Simplified Scheme (NSS), Gothabad Scheme and loan to Precast Industries (Pvt.) Limited. No additional disbursement of advance under these schemes has been made since 2000. Advances under NSS have been provided upto 93% (December 31, 2016: 98%) of the gross advance whereas advances under rest of the schemes are fully provided.

9.3 No new disbursement has been made under this scheme since the year 1979. In pursuance to 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 have been classified as "Loss" and fully provided.

9.4 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.

During the year management has introduced the Ghar Asaan Incentive Scheme after approval of the Board of Directors (BoD) in their meeting held on May 02, 2017. Under the scheme ,appreciation rate, as explained above, was replaced with fixed rental charge at the rate of 10% with equal monthly instalments since from inception of advance. Under the scheme, customers who have opted the facility may settle/regularise their advances after payment of due amounts based on revised terms. The scheme was initially offered uptill 30 September 2017 which has been extended to June 30, 2018 by BoD. Out of 20,000 customers, 2,203 customers have availed the scheme out of which 1,318 customers have settled their advances and 885 customers have regularised their advances.

9.5 As per the arrangement Gwadar 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, 2017, advances of Rs.Nil (2016: 36.1 million) were transferred to individual cases.

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.

9.6 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% (2016: 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.

9.7 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 tenure along with the profit ranging from 13% to 18% (2016 : 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

9.8 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 3.5% (2016: 3.25% and 3.5%) respectively per annum.

There are two installment 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.

9.9 Advances under 'Bisma and Saima 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. Provision has been made in accordance with the prudential regulations.

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9.10 This Scheme was introduced to facilitate the small contractors / individuals who are in business of selling and / or building houses and / or flats.Maximum financing limit is Rs. 10 million with the tenure of 12 to 24 months. Provision has been made in accordance with the prudential regulations.

9.11 Housing advance is given to employees as per the terms of employment for purchase of land, renovation or construction of houses, at 3% (2016: 3%) rate. Provision has been made in accordance with the prudential regulations.

9.12 This represents the insurance claims received from State Life Insurance Corporation of Pakistan (SLICP) on behalf of the partners' passed away. Subsequently this will be paid to respective partners' heirs.

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

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

9.15 Advances include Rs. 6,666 million (2016: Rs. 6,736 million) which have been placed under non-performing status as detailed below:

	2017								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000')								
Category of Classification									
Other Assets Especially Mentioned (OAEM)	927,205	-	927,205	-	-	-	-	-	-
Substandard	908,348	-	908,348	179,232	-	179,232	179,232	-	179,232
Doubtful	1,067,365	-	1,067,365	235,552	-	235,552	235,552	-	235,552
Loss	3,763,538	-	3,763,538	2,902,106	-	2,902,106	2,902,106	-	2,902,106
	6,666,456	-	6,666,456	3,316,890	-	3,316,890	3,316,890	-	3,316,890
General provision	-	-	-	135,967	-	135,967	135,967	-	135,967
	6,666,456	-	**6,666,456**	**3,452,857**	-	**3,452,857**	**3,452,857**	-	**3,452,857**

	2016								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000')								
Category of Classification									
Other Assets Especially Mentioned (OAEM)	1,158,209	-	1,158,209	-	-	-	-	-	-
Substandard	1,032,307	-	1,032,307	217,679	-	217,679	217,679	-	217,679
Doubtful	731,769	-	731,769	206,596	-	206,596	206,596	-	206,596
Loss	3,813,414	-	3,813,414	3,535,195	-	3,535,195	3,535,195	-	3,535,195
	6,735,699	-	6,735,699	3,959,470	-	3,959,470	3,959,470	-	3,959,470
General provision	-	-	-	148,889	-	148,889	148,889	-	148,889
	6,735,699	-	6,735,699	4,108,359	-	4,108,359	4,108,359	-	4,108,359

9.16.1 Particulars of provision against non-performing advances

	2017			2016		
	Specific	General	Total	Specific	General	Total
	Rupees in '000			Rupees in '000		
Balance at beginning of the year	3,959,470	148,889	4,108,359	3,088,546	150,745	3,239,291
Charge for the year	395,220	-	395,220	997,523	-	997,523
Reversal during the year	(1,037,800)	(12,922)	(1,050,722)	(126,599)	(1,856)	(128,455)
	(642,580)	(12,922)	(655,502)	870,924	(1,856)	869,068
Balance at end of the year	**3,316,890**	**135,967**	**3,452,857**	3,959,470	148,889	4,108,359

9.16.2 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.

9.16.3 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, 2017, had FSV benefit of IH&SMEFD Circular no. 03 of 2017 not been taken, profit for the year before taxation would have been increased by Rs. 272,748 million respectively.

9.17 **Particulars of loan / advances to employees**

Debts due by employees of the Company, or any of them either severally or jointly with any other persons:

	2017	**2016**
	— (Rupees in '000) —	
Balance at beginning of the year	**549,328**	614,353
Granted during the year	**36,193**	80,872
Repaid during the year	**(190,635)**	(145,897)
Balance at end of the year	**394,886**	549,328

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

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	Note	2017	2016
		—— (Rupees in '000) ——	

10. OPERATING FIXED ASSETS

	Note	2017	2016
Capital work-in-progress	10.1	4,579	225
Property and equipment	10.2	287,449	314,218
Intangible assets	10.3	687	1,018
		292,715	315,461

10.1 Capital work-in-progress

	Note	2017	2016
Civil works	10.1.2	4,579	225

10.1.2 This represents the construction of wall in Lahore office and construction of office in Qasimabad.

10.2 Property and equipment

	Freehold land	Leasehold land	Office premises	Furniture and fixtures	Electrical installations	Office equipment	Computer equipment	Motor vehicles	Total
	(Rupees in '000')								
Year ended December 31, 2017									
Opening net book value	6,075	5,673	257,604	15,462	4,605	9,922	8,782	6,095	314,218
Additions	-	-	1,938	-	57	1,114	1,671	-	4,780
Disposals									
Cost			(60)	(27)		(1,121)	(5,007)	(3,441)	(9,656)
Depreciation			26	27		968	5,006	3,441	9,468
	-	-	(34)	-	-	(153)	(1)	-	(188)
Depreciation charge	-	-	(15,373)	(5,948)	(1,780)	(2,326)	(4,323)	(1,611)	(31,361)
Closing net book value	6,075	5,673	244,135	9,514	2,882	8,557	6,129	4,484	287,449
As at December 31, 2017									
Cost	6,075	5,673	357,525	82,766	42,640	54,482	102,015	54,780	705,956
Accumulated depreciation	-	-	(113,390)	(73,252)	(39,758)	(45,925)	(95,886)	(50,296)	(418,507)
Net book value	6,075	5,673	244,135	9,514	2,882	8,557	6,129	4,484	287,449
Annual rate of depreciation (%)	-	-	5	10	10	15 - 33.33	33.33	20	

	Freehold land	Freehold land	Office premises	Furniture and fixtures	Electrical installations Freehold land	Office equipment	Computer equipment	Motor vehicles	Total
Year ended December 31, 2016									
Opening net book value	5,702	5,938	306,037	22,909	6,519	7,106	60	4,999	359,270
Additions	-	-	-	200	-	5,483	10,416	2,824	18,923
Disposals									
Cost	(154)	-	(1,691)	(17)	-	(83)	(275)	(3,219)	(5,439)
Depreciation	-	-	524	17	-	83	213	3,219	4,056
	(154)	-	(1,167)	-	-	-	(62)	-	(1,383)
Adjustments in									
- cost*	527	(265)	(31,833)	-	-	(6)	1,093	115	(30,369)
- depreciation*	-	-	(1,810)	(12)	1	228	112	(147)	(1,628)
	527	(265)	(33,643)	(12)	1	222	1,205	(32)	(31,997)
Depreciation charge	-	-	(13,623)	(7,635)	(1,915)	(2,889)	(2,837)	(1,696)	(30,595)
Closing net book value	6,075	5,673	257,604	15,462	4,605	9,922	8,782	6,095	314,218
As at December 31, 2016									
Cost	6,705	5,673	355,647	82,793	42,583	54,489	105,351	58,221	710,832
Accumulated depreciation	-	-	(98,043)	(67,331)	(37,978)	(44,567)	(96,569)	(52,126)	(396,614)
Net book value	6,705	5,673	257,604	15,462	4,605	9,922	8,782	6,095	314,218

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10.2.1 Disposal of operating fixed assets

Particulars	Cost	Net book value	Sale proceeds	Gain/ (loss) 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						
Office premises	60	34	1	(33)	Auction	Vorson (Pvt) Limited
Furniture and fixtures	27	-	-	-	Auction	Vorson (Pvt) Limited
Computer equipment	5,007	1	92	91	Auction and Settlement	Various
Office equipment	994	122	9	(113)	Auction	Vorson (Pvt) Limited
Mobile phones	127	31	41	10	Settlement	Ex Employees
Motor vehicles	3,441	-	78	78	Settlement	Various
2017	**9,656**	**188**	**221**	**33**		
2016	5,601	1,401	43,422	42,021		

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10.3 Intangible assets

2017

	Cost			Amortization				
	Opening Balance	Additions/ (Deletions)/	Closing Balance	Opening Balance	Amortization/ Impairment	Closing Balance	Book value at closing	Rate of amortization %
				Rupees in 000				
Computer Software	5,257	-	5,257	4,601	327	4,928	329	33.33%
Others	3,459	-	3,459	3,097	4	3,101	358	33.33%
	8,716		8,716	7,698	331	8,029	687	

2016

	Cost			Amortization				
	Opening Balance	Additions/ (Deletions)/	Closing Balance	Opening Balance	Amortization/ Impairment	Closing Balance	Book value at closing	Rate of amortization %
				Rupees in 000				
Computer Software	4,402	855	5,257	4,263	338	4,601	656	33.33%
Others	3,459	-	3,459	3,056	41	3,097	362	33.33%
	7,861	855	8,716	7,319	379	7,698	1,018	

11. DEFERRED TAX ASSETS

11.1 Deferred tax asset amounting to Rs. 2,035 million (2016: Rs. 2,018 million) has not been recognized as the management believes that it is not probable that taxable profit will be available in the foreseeable future against which these deductible temporary differences can be utilized.

12. OTHER ASSETS

	Note	2017	2016
		(Rupees in '000)	
Mark-up income accrued in local currency			
Advances		39,889	35,063
Investments		9,593	7,247
Advance taxation (payments less provision)		219,350	549,384
Other advances, deposits and prepayments		135,736	142,011
Advance against purchase of land - housing projects	12.1	53,815	53,815
Other receivable against advances		17,225	20,835
Advance against shares subscription	12.2	-	6,675
Assets acquired from Pakistan Refugees Rehabilitation Finance Corporation (PRRFC)	12.4	-	-
		475,608	814,980
Less: Provision held against other assets	12.3	(53,815)	(53,815)
		421,793	761,165

12.1 This represents an advance payment of 32% of the purchase cost made in 2007 for the purchase cost of two pieces of land measuring 163 acres situated in Gwadar. Remaining cost of 68% has been shown as commitment. The Company intend to construct low cost houses on this land to promote affordable housing facilities to low income groups of the residents of Gwadar. Due to disagreement on the price, management is in the process of negotiating purchase at revised value. Pending possession of the property, the management on prudent basis, has made full provision against this amount.

12.2 This represents payment made for ordinary shares subscription against commitment to take shares for Rs. 200 million of newly formed Pakistan Mortgage Refinance Company Limited. During the year, 667,500 shares were transferred to the Company on February 13, 2017. Accordingly these have been recognized as investment (note 8.2.3).

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		2017	2016
		(Rupees in '000)	
12.3	**Particulars of provision against other assets**		
	Balance at beginning of the year	53,815	50,470
	Charge for the year	-	3,345
	Balance at end of the year	53,815	53,815

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

	2017	2016
	(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 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

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13. OTHER LIABILITIES

	Note	2017	2016
		(Rupees in '000)	
Mark-up expense accrued in local currency Borrowings from the State Bank of Pakistan (SBP)	13.1	-	59
Retirement and other service benefits	29.	3,422,777	4,181,753
Payable against voluntary retirement schemes		-	517,648
Deferred credits	13.2	1,711,542	1,699,717
Accrued expenses		38,501	66,001
Insurance premium	13.3	53,952	58,069
Advance rent received		5,600	39,200
Refundable to customers against advances		12,781	8,167
Security deposits		5,600	5,942
Application fee - Gwadar Project		3,872	3,872
Retention money		596	1,069
Reimbursement of claims by Government of Pakistan		579	579
Agents' deposit money		185	185
Sindh Workers' Welfare Fund		41,016	-
Others		3,970	5,168
		5,300,971	6,587,429

13.1 Mark-up expense accrued in local currency Borrowings from the State Bank of Pakistan (SBP)

	2017	2016
Balance at beginning of the year	59	4,053,741
Add: Mark-up accrued on SBP credit lines	-	1,068,019
	59	5,121,760
Less: Transferred to "conversion of liabilities into - share capital" account	-	(5,121,701)
Less: Paid in cash	(59)	
Balance at end of the year	-	59

13.2 Deferred credits

	Note	2017	2016
Balance at beginning of the year		1,699,717	1,596,859
Demand charges - net of recovery expenses		11,825	23,494
Profit received on investment from deferred credits		-	79,364
Balance at end of the year	13.2.1	1,711,542	1,699,717

	Note	2017	2016
		------ (Rupees in '000) ------	
13.2.1 Deferred credit balance at end of the year comprises of:			
Demand charges - net of recovery expenses	13.2.2 & 13.2.3	592,237	580,412
Profit/commission received from State Life Insurance Corporation - net of death claims	13.2.4	208,562	208,562
Provision against insurance receivable from partners		(260,817)	(260,817)
		(52,255)	(52,255)
Unidentifiable insurance premium contribution received from borrowers / partners during prior years	13.2.5	52,503	52,503
Property insurance		(12,495)	(12,495)
		40,008	40,008
Income from investments from deferred credit balance	13.2.6	1,236,552	1,236,552
		1,816,542	1,804,717
Donations	13.2.7	(105,000)	(105,000)
		1,711,542	1,699,717

13.2.2 Demand charges - net of recovery expenses

	2017	2016
Demand charges recovered	699,237	687,412
Less: Recovery charges paid		
Balance at beginning of the year	(107,000)	(107,384)
During the year	-	384
	(107,000)	(107,000)
Balance at end of the year	592,237	580,412

13.2.3 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 direct recovery expenses. The Company requested the SBP to provide approval for change in accounting treatment vide letter no. HBFC/HOK/2016 dated August 2016. In response, the SBP vide its letter no. BPRD/BRP/2017-7658 dated March 29, 2017 did not grant the approval for change in accounting treatment. Accordingly, the deferred credit balance has been stated as it is in last year.

13.2.4 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.

13.2.5 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.

13.2.6 This represents income from investments 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.

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13.2.7 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.

13.3 Monthly insurance premium is payable to State Life Insurance Corporation of Pakistan (SLICP) 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.

14. SHARE CAPITAL

14.1 Authorized Capital

2017	2016		Note	2017	2016
Number of Shares				(Rupees in '000)	
2,000,000,000	2,000,000,000	Ordinary shares of Rs.10/- each		20,000,000	20,000,000

14.2 Issued, subscribed a Issued, subscribed and paid up capital

				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
		Issue of ordinary shares of Rs. 10 each			
1,636,400,000	-	-against cash	14.2.1	16,364,000	-
1,936,500,006	300,100,006			19,365,000	3,001,000
		Pattern of share holdings:			
187,562,506	187,562,506	- Federal Government		1,875,625	1,875,625
1,748,937,500	112,537,500	- State Bank of Pakistan		17,489,375	1,125,375
1,936,500,006	300,100,006			19,365,000	3,001,000

14.2.1 The MoF vide its letter no. F.No.1(3) IF-II/2016-1122 dated January 09, 2017 has approved the conversion of the SBP Credit Lines of Rs. 11,242 million along with outstanding mark-up of Rs. 5,122 million upto December 31, 2016 into ordinary shares of the Company at par value (Rs. 10 per share) . Shareholders' also approved the same in its Annual General Meeting held on March 31, 2017. During the period, the amount have been converted into ordinary share capital.

15. SURPLUS /(DEFICIT) ON REVALUATION OF ASSETS

	2017	2016
	(Rupees in '000)	
Available-for-sale securities		
Market Treasury Bills	(1,006)	(6,201)
Pakistan Investment Bonds (PIBs)	3,180	4,515
	2,174	(1,686)

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	Note	2017	2016
		------ (Rupees in '000) ------	

16. CONTINGENCIES AND COMMITMENTS

16.1 Contingencies

	Note	2017	2016
Claims not acknowledged as debt			
SMS Courier (Pvt) Limited (SMSCPL)	16.1.1	39,890	39,890
Liaquat National Hospital	16.1.2	8,100	8,100
		47,990	47,990

16.1.1 In the year 1995, the Company entered into an agreement with SMS Courier (Pvt) Limited (SMSCPL), a courier service company. Subsequently, due to unsatisfactory service, the Company terminated the agreement with SMSCPL. SMSCPL claimed indemnity of loss for Rs. 39.89 million and filed a suit for recovery from the Company which is pending for adjudication in Honorable Sindh High Court. The legal advisor of the Company is of the opinion that no economic outflow is expected in this respect.

16.1.2 In the year 2008, the Company entered into an agreement with Liaquat National Hospital (LNH) in Karachi for providing medical facilities/treatments to employees of the Company and their dependents. LNH lodged a claim of Rs. 8.1 million against the Company which include bills of the individuals who were not referred by the Company to LNH, as these were neither the Company's employees nor their dependents. Currently, the case is pending for adjudication in Honorable Sindh High Court. The legal advisor of the Company is of the opinion that no economic outflow is expected.

For tax contingency refer note 25.2

16.2 Commitments

	Note	2017	2016
		------ (Rupees in '000) ------	
Loans sanctioned but not disbursed		140,435	372,545
Equity investment to be made in			
Pakistan Mortgage Refinance Company Limited	12.2	193,325	193,325
Land to be purchased for Gwadar Housing Projects	12.1	149,725	146,355
Land to be purchased for Gwadar Office		9,750	9,750
Contruction to be made on building in Lahore		-	2,025
Model Town Lahore Project		29,490	-
Hyderabad Project		5,308	-
Peshawar Office Building Project		10,485	-
Other Commitments		1,578	-
Rental to be due under lease agreements in respect of vehicles			
Not later than one year		-	252
Later than one year but not later than five years		-	-

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17. RENTAL/MARK-UP/RETURN/INTEREST INCOME	Note	2017	2016
		------ (Rupees in '000) ------	
On advance to:			
Customers	17.1	1,823,950	2,108,532
Employees		11,274	7,382
On investment in securities:			
Available-for-sale	17.2	399,675	458,266
Held-to-maturity		-	218
On lending to financial institutions:			
Letters of placement		5,573	1,912
Repurchase agreement lending (Reverse Repo)		12,968	17,139
On bank balances		15,121	13,402
		2,268,561	2,606,851

17.1 It includes recovery of Pakistan Housing Authority (PHA) balance amounting to Rs. 218.1 million.

The Ministry of Finance (MoF) paid Rs. 44 million and Rs. 174.1 million to the Company during 2009 and 2010 respectively against outstanding amount of advance to PHA as the transaction was guaranteed by the Federal Government. However, the MoF through its letter No. F.10(4)IF-II/2000-594 dated April 17, 2010 instructed the 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. The MoF in its letter further advised that the amount of Rs. 218.1 million paid to the Company be utilized for increase in the paid-up capital. Accordingly, this amount was disclosed as "advance against issue of capital" in the financial statements of the year ended December 31, 2015.

Following the recognition of the said balance of Rs. 218.1 million as "advance against issue of capital", the Company suspended the recording of mark-up income in last year with retrospective impact in accordance with the requirement of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

However, MoF through its letter No. F.90(14)IF-I/2322-234 dated April 20, 2017 clarified that the payments earlier made to the Company was not for the issuance of share capital, accordingly the said amount has been reclassified to income.

17.2 This amount is netted with mark-up accrued on deferred credit balance amounting to Rs. Nil (2016: Rs. 79.4 million @ 4.97%).

18. RECONCILIATION ADJUSTMENTS	Note	2017	2016
		------ (Rupees in '000) ------	
Tagged accounts settled	18.1	(75)	(847)

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

19. RELIEF PACKAGE AND REPROCESSING ADJUSTMENTS	Note	2017	2016
Reprocessing and closing adjustment	19.1	6,515	6,572
Relief package and settlement scheme	19.2	-	1,268
Waiver to partner accounts	19.3	890	1,896
		7,405	9,736

19.1 This represents reversal of income recognized in previous years based on reconciliations of collection and disbursement.

19.2 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.

19.3 This represents waiver of mark-up to partners under relief package.

		Note	2017	2016
			------ (Rupees in '000) ------	
20.	**WRITE-OFF AGAINST ADVANCES**			
	Directly charged to Profit & Loss account	20.1	598	805
20.1	Write Offs of Below Rs. 500,000		598	805
21.	**OTHER INCOME**			
	Profit commission from an insurance company		107,304	155,973
	Rent of buildings		34,181	28,291
	Gain on disposal of operating fixed assets	10.2.1	33	42,021
	Inspection and application fee		7,565	17,295
	Miscellaneous	21.1	36,752	29,670
			185,835	273,250

21.1 This represents advance unit purchase charges for GAS Flexi Scheme, income earned on employee vehicle advances, etc.

		Note	2017	2016
			------ (Rupees in '000) ------	
22.	**ADMINISTRATIVE EXPENSES**			
	Salaries, allowances and other perquisites		682,428	1,004,899
	Defined benefit plan - pension	29.3	122,843	340,990
	Defined benefit plan - post retirement medical benefit	29.3	30,681	96,700
	Employees' compensated absences	29.8	(82,502)	(98,305)
	Voluntary retirement schemes		23,841	200,718
	Rent, taxes, insurance, electricity, etc.		41,605	46,081
	Legal and professional		43,786	39,647
	Repairs and maintenance		35,437	38,381
	Depreciation of property and equipment	10.2	31,361	30,595
	Amortization of intangibles	10.3	331	371
	Postage and telephone		16,655	16,987
	Traveling and conveyance		9,754	14,509
	Stationery and printing		3,784	6,058
	Security guards		5,691	5,285
	Advertisement and publicity		2,578	2,984
	Auditors' remuneration	22.1	2,750	2,500
	Entertainment expense		1,222	2,259
	Education and training		1,174	1,055
	Subscription and publication		135	201
	Sindh Workers' Welfare Fund		41,016	-
	Others		3,246	6,184
			1,017,816	1,758,099

		2017	2016
22.1	**Auditors' remuneration**		
	Audit fee	1,210	1,100
	Half yearly review	424	385
	Special certification, internal control over financial reporting, other reviews	1,116	1,015
		2,750	2,500

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	Note	2017	2016
		------ (Rupees in '000) ------	

23. OTHER PROVISIONS

	Note	2017	2016
Provision against doubtful receivable insurance premium from partners		2,488	21,742
Provision for non-utilization charges of lands		-	7,280
Provision for advance against purchase of land - housing projects		-	3,345
		2,488	32,367

24. OTHER CHARGES

	Note	2017	2016
Bank commission and charges		7,843	8,516
Penalty imposed by the State Bank of Pakistan		230	1,036
		8,073	9,552

25. TAXATION

	Note	2017	2016
Company			
Current			
- for the year		342,116	29,244
- for prior years	25.3	51,003	-
		393,119	29,244
Deferred			
- for the year	11.1	-	-
		393,119	29,244
Associate			
Current tax			
- for the year	8.7.1	667	839
- for prior years		-	-
		667	839
Deferred tax			
- for the year		-	-
		667	839
		393,786	30,083

25.1 Relationship between accounting profit / (loss) and taxation

	Note	2017	2016
		2,013,876	(835,867)
Tax on accounting profit @ 30% (2016: 31%)	25.4	-	-

25.2 The Federal Board of Revenue (FBR) while assessing taxable income for the tax years 2010, 2012, 2013 and 2014 has disallowed certain expenses and added to income certain amounts on account of mark-up on SBP credit lines, demand charges, other provisions/write-offs etc. and raised demands of Rs. 253, Rs. 312, Rs. 385 and Rs. 274 million for the tax years 2010, 2012, 2013 and 2014 respectively. Against demand raised by the FBR, the Company has paid Rs. 464 million. Appeals filed by the Company for the tax years 2010, 2012, 2013 and 2014 are pending before Appellate Tribunal Inland Revenue for disallowances of above expenses amounting to Rs. 3,447 million. During the year, AITR has issued an order in favour of the company allowing mark-up on SBP credit lines as expense. However, through said order AITR also upheld the Commissioner Inland Revenue Appeal decision in regard of demand charges. Further, management is pursuing the case regarding demand charges in Sindh High Court.

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25.3 This represents an amount paid to tax authorities in respect of rectification order passed in respect of tax year 2009 during the fiscal year 2016 and was paid in 2017

25.4 The relationship between tax expense and accounting profit has not been presented in these financial statements for the current year as the income of the Company is subject to Alternative Corporate Tax i.e. 17 % on profit before tax where as in 2016 minimum tax was recorded.

	Note	2017	2016
		(Rupees in '000)	
26. BASIC & DILUTED EARNINGS PER SHARE			
Profit/ (Loss) for the year - Rupees in '000		1,620,090	(865,950)
Weighted average number of ordinary shares - basic		1,391,033,339	300,100,006
Basic earnings per share - Rupees		1.16	(2.89)
Weighted average number of ordinary shares - diluted	1	-	1,936,500,006
Diluted earnings per share - Rupees	26.1	-	(2.89)

26.1 There are no dilutive earnings and potential ordinary shares during the year.

27. CASH AND CASH EQUIVALENTS

	Note	2017	2016
Cash and balances with treasury banks	5	53,531	121,378
Balances with other banks	6	771,582	650,310
		825,113	771,688

28. STAFF STRENGTH

As at end of the year

	2017	2016
Permanent	451	622
Contractual basis	7	48

29. RETIREMENT AND OTHER SERVICE BENEFITS

	2017	2016
Pension	2,374,416	2,781,324
Post retirement medical benefit	736,600	951,949
Employees' compensated absences	311,734	448,480
	3,422,750	4,181,753

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29.1 Principal actuarial assumptions

The principal assumptions used in actuarial valuations carried out by the independent actuary as at December 31, 2017, under the 'Projected Unit Credit' method, are as follows:

	Pension		Post retirement medical benefit		Compensated absences	
	2017	2016	2017	2016	2017	2016
Discount rate per annum	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Expected per annum rate of return on plan assets	9.5%	9.5%	-	-	-	-
Expected per annum rate of increase in future salaries	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Indexation of pension	8.5%	8.5%	-	-	-	-
Indexation of medical benefit	-	-	2.5%	2.5%	-	-

29.2 Reconciliation of payable to defined benefit plan

	Pension		Post retirement medical benefit	
	2017	2016	2017	2016
	(Rupees in '000)		(Rupees in '000)	
Present value of defined benefit obligations	5,859,114	5,955,378	736,600	951,949
Fair value of plan assets	(3,484,698)	(3,174,054)	-	-
Net liability at end of the year	2,374,416	2,781,324	736,600	951,949

29.2.1 Movement in present value of defined benefit obligations

	Pension		Post retirement medical benefit	
	2017	2016	2017	2016
	(Rupees in '000)		(Rupees in '000)	
Present value of defined benefit obligations at beginning of the year	5,955,378	5,721,530	951,949	901,830
Current service cost	128,973	128,000	26,277	25,585
Interest cost	494,377	545,357	81,559	87,202
Benefits paid during the year	(1,502,815)	(535,927)	(186,857)	(59,629)
Remeasurement: actuarial loss / (gain)	982,173	145,442	(59,173)	13,048
Gain due to VSS	(198,972)	(49,024)	(77,155)	(16,087)
Present value of defined benefit obligations at end of the year	5,859,114	5,955,378	736,600	951,949

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	Pension		Post retirement medical benefit	
	2017	2016	2017	2016
	(Rupees in '000)		(Rupees in '000)	

29.2.2 Movement in fair value of plan assets

	2017	2016
Fair value of plan assets at beginning of the year	3,174,054	2,834,410
Expected return on plan assets	301,535	283,441
Contribution during the period	1,502,788	535,927
Benefits paid during the year	(1,502,788)	(535,927)
Remeasurement: actuarial gain / (loss)	9,109	56,203
Fair value of plan assets at end of the year	3,484,698	3,174,054

29.3 Charge for defined benefit plan

29.3.1 Expense recognized in profit and loss account

	Pension 2017	Pension 2016	Medical 2017	Medical 2016
Current service cost	128,973	128,000	26,277	25,585
Net interest expense	192,842	261,916	81,559	87,202
Gain due to VSS	(198,972)	(49,024)	(77,155)	(16,087)
Expense for the year	122,843	340,892	30,681	96,700

29.3.2 Remeasurement actuarial loss / (gain) recognized in other comprehensive income

	Pension 2017	Pension 2016	Medical 2017	Medical 2016
Actuarial loss on defined benefit obligations	982,173	145,442	59,173	13,048
Actuarial (gain) / loss on fair value of plan assets	(9,109)	(56,203)	-	-
	973,064	89,239	59,173	13,048

29.4 Net recognized liability

	Pension 2017	Pension 2016	Medical 2017	Medical 2016
Net liability at beginning of the year	2,781,324	2,887,120	951,949	901,830
Expense recognized in profit and loss account	122,843	340,892	30,681	96,700
Benefits paid by the Company	(1,502,815)	(535,927)	(186,857)	(59,629)
Contributions during the year		-	-	-
Remeasurement loss recognized in other comprehensive income	973,064	89,239	(59,173)	13,048
Net liability at end of the year	2,374,416	2,781,324	736,600	951,949

29.5 Components of plan assets

	2017	2016
Government securities and TFC's	3,483,511	2,654,785
Bank balances	1,187	1,765
	3,484,698	2,656,550

29.5.1 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.

29.6 Sensitivity analysis

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

	Pension	Post retirement medical benefit
	------ (Rupees in '000) ------	
Increase in Discount Rate by 1 %	5,160,273	658,730
Decrease in Discount Rate by 1 %	(6,721,242)	(830,910)
Increase in expected future increment in salary by 1%	5,995,411	-
Decrease in expected future increment in salary by 1%	(5,735,235)	-
Increase in expected future increment in pension by 1%	6,580,680	-
Decrease in expected future increment in pension by 1%	(5,255,280)	-
Increase in expected future increment in medical benefit by 1%	-	811,525
Decrease in expected future increment in medical benefit by 1%	-	(672,025)

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

	2017	2016	2015	2014	2013
			(Rupees in '000')		
Pension Fund					
Present value of defined benefit obligations	5,859,114	5,955,378	5,721,530	4,559,650	3,237,201
Fair value of plan assets	(3,484,698)	(3,174,054)	(2,834,410)	(2,717,200)	(2,399,696)
	2,374,416	2,781,324	2,887,120	1,842,450	837,505
Actuarial (gain) / loss on defined benefit obligations	982,173	145,442	837,075	927,638	(247,879)
Actuarial (loss) / gain on plan assets	9,109	56,203	(202,061)	5,543	59,458
Post retirement medical benefits					
Present value of defined benefit obligations	736,600	17,286	17,286	638,194	738,826
Actuarial (gain) / loss on obligation	(59,173)	-	-	225,831	53,154

29.8 Employees' compensated absences

	2017	2016
	------ (Rupees in '000) ------	
Balance at beginning of the year	448,480	567,992
Expense for the year	(82,502)	(98,305)
Benefits paid	(54,244)	(21,207)
Balance at end of the year	311,734	448,480

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30. REMUNERATION OF DIRECTORS AND EXECUTIVES

	Directors		Managing Director		Executives	
	2017	2016	2017	2016	2017	2016
	(Rupees in '000')					
Directors fees	780	1,250	-	-	-	-
Basic pay	-	-	2,354	8,916	26,805	52,910
Rent and house maintenance	-	-	1,059	4,296	10,282	6,853
Utilities	-	-	-	712	1,082	698
Medical	-	-	-	111	2,266	1,164
Charge for defined benefit plan	-	-	-	-	-	-
Others	-	-	1,604	11,506	4,850	3,144
	780	1,250	5,017	25,541	45,285	64,769
Number of persons	7	7	1	1	13	18

30.1 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 maturities are stated in note 34.2 and 34.3.

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:

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Relationship	Nature of Transaction	2017	2016
		—— (Rupees in '000) ——	
Associated undertaking			
- Takaful Pakistan Limited	Insurance premium paid	8,595	10,701
	Insurance claim received	395	127
Key management personnel	Loans and advances	28,926	3,436
	Proceeds from disposal of operating fixed assets	222	32
Retirement and other service benefits	Pension	3,830	5,354
	Post retirement medical benefit	956	1,467
	Employees' compensated absences	(2,572)	(1,022)

The related party status of outstanding receivables and payables as at December 31, 2017 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 , LIQUIDITY COVERAGE RATIO and NET STABLE FUNDING RATIO

The State Bank of Pakistan (SBP) requires all Banks/DFIs to maintain regulatory capital for credit, market and operational risks which should at least be equal to 11.275% (including credit conversion buffer) of total risk weighted assets. As per SBP BPRD Circular no 06 dated August 15, 2013 wherein SBP requires 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.

33.1 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 accordance with BSD Circular no. 19 dated September 05, 2008 the minimum paid-up capital requirement (net of losses) of the Company at December 31, 2009 and onwards would be Rs. 6 billion. 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.

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In view of the above, minimum capital requirement of House Building Finance Company Limited has been fulfilled on issuance of ordinary shares.

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%	11.275%	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

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33.2 Capital Adequacy Ratio (CAR) disclosure

CAPITAL ADEQUACY RETURN AS OF DECEMBER 31, 2017

		Reference	2017	2016
			(Rupees in '000)	
	Common Equity Tier 1 capital (CET 1): Instruments & reserves			
1	Fully Paid-up Capital / Capital deposited with SBP	s	19,365,000	3,001,000
2	Advance against issue of capital		-	-
3	Reserve for issue of Bonus Shares		-	-
4	Discount on Issue of shares		-	-
5	General / Statutory Reserves (as disclosed on Balance Sheet)	u	1,037,680	713,662
6	Gain/(Losses) on derivatives held as Cash Flow Hedge		-	-
7	Unappropriated / unremitted profits - net of accumulated losses, if any (losses as negative number)	w	(5,375,752)	(5,757,934)
8	Minority Interests arising from CET1 capital instruments issued to third party by consolidated company subsidiaries (from "Consolidation sheet")	x	-	-
9	**CET 1 before Regulatory Adjustments**		15,026,928	(2,043,272)
10	Total regulatory adjustments applied to CET1	Note 33.2.1	(687)	(30,903)
11	**Common Equity Tier 1**		15,026,241	(2,074,175)
	Additional Tier 1 (AT 1) Capital			
12	Qualifying Additional Tier-1 instruments plus any related share premium		-	-
13	of which: Classified as equity	aa	-	16,364,000
14	of which: Classified as liabilities	m	-	-
15	Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)	y	-	-
16	of which: instrument issued by subsidiaries subject to phase out		-	-
17	**AT1 before Regulatory Adjustments**		-	16,364,000
18	Total regulatory adjustment applied to AT1 capital	Note 33.2.2	-	-
19	Additional Tier 1 capital after regulatory adjustments		-	16,364,000
20	**Additional Tier 1 capital recognized for capital adequacy**		-	-
21	**Tier 1 Capital (CET1 + admissible AT1) (11+20)**		15,026,241	(2,074,175)
	Tier 2 Capital			
22	Qualifying Tier 2 capital instruments under Basel III plus any related share premium	n	-	-
23	Tier 2 capital instruments subject to phase-out arrangement issued under pre-Basel 3 rules		-	-
24	Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2)	z	-	-
25	of which: instruments issued by subsidiaries subject to phase out		-	-
26	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	g	98,368	94,482
27	Revaluation Reserves (net of taxes)		-	-
28	of which: Revaluation reserves on fixed assets		-	-
29	of which: Unrealized gains/losses on AFS	ab	2,174	(1,686)
30	Foreign Exchange Translation Reserves	v	-	-
31	Undisclosed/Other Reserves (if any)		-	-
32	**T2 before regulatory adjustments**		100,542	92,796
33	Total regulatory adjustment applied to T2 capital	Note 33.2.3	-	-
34	Tier 2 capital (T2) after regulatory adjustments		100,542	93,316
35	Tier 2 capital recognized for capital adequacy		-	-
36	Portion of Additional Tier 1 capital recognized in Tier 2 capital		-	-
37	**Total Tier 2 capital admissible for capital adequacy**		-	-
38	**TOTAL CAPITAL (T1 + admissible T2) (21+37)**		15,126,783	(2,074,175)
39	**Total Risk Weighted Assets (RWA)**	Note 33.5	11,593,897	11,000,627
	Capital Ratios and buffers (in percentage of risk weighted assets)			
40	**CET1 to total RWA**		128.96%	-18.86%
41	**Tier-1 capital to total RWA**		128.96%	-18.86%
42	**Total capital to total RWA**		130.47%	-18.86%
43	Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)		-	-
44	of which: capital conservation buffer requirement		-	-
45	of which: countercyclical buffer requirement		-	-
46	of which: D-SIB or G-SIB buffer requirement		-	-
47	CET1 available to meet buffers (as a percentage of risk weighted assets)			
	National minimum capital requirements prescribed by SBP			
48	CET1 minimum ratio		6.00%	6.00%
49	Tier 1 minimum ratio		7.50%	7.50%
50	Total capital minimum ratio		11.275%	10.65%

Regulatory Adjustments and Additional Information

		Reference	2017 Amount	2017 Amounts subject to Pre-Basel III treatment*	2016 Amount
			(Rupees in '000)		
33.2.1	**Common Equity Tier 1 capital: Regulatory adjustments**				
1	Goodwill (net of related deferred tax liability)	j - o	-	-	-
2	All other intangibles (net of any associated deferred tax liability)	k - p	687	550	616
3	Shortfall in provisions against classified assets	f	-	-	-
4	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(h - r)*x	-	-	-
5	Defined-benefit pension fund net assets	(i-q)*x	-	-	-
6	Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	d	-	-	-
7	Cash flow hedge reserve		-	-	-
8	Investment in own shares/ CET1 instruments		-	-	-
9	Securitization gain on sale		-	-	-
10	Capital shortfall of regulated subsidiaries		-	-	-
11	Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	ac	-	-	-
12	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		-	-	-
13	Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	a	-	-	30,287
14	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	i	-	-	-
15	Amount exceeding 15% threshold		-	-	-
16	of which: significant investments in the common stocks of financial entities		-	-	-
17	of which: deferred tax assets arising from temporary differences		-	-	-
18	National specific regulatory adjustments applied to CET1 capital		-	-	-
19	Investments in TFCs of other banks exceeding the prescribed limit		-	-	-
20	Any other deduction specified by SBP (mention details)		-	-	-
21	Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions		-	-	-
22	Total regulatory adjustments applied to CET1 (sum of 1 to 21)		687	550	30,902
33.2.2	**Additional Tier-1 & Tier-1 Capital: regulatory adjustments**				
23	Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]		-	-	-
24	Investment in own AT1 capital instruments		-	-	-
25	Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities		-	-	-
26	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		-	-	-
27	Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation		-	-	-
28	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional tier-1 capital		-	-	-
29	Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions		-	-	-
30	Total regulatory adjustment applied to AT1 capital (sum of 23 to 29)		-	-	-
33.2.3	**Tier 2 Capital: regulatory adjustments**				
31	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital		-	-	-
32	Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities		-	-	-
33	Investment in own Tier 2 capital instrument		-	-	-
34	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		-	-	-
35	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation		-	-	-
36	Total regulatory adjustment applied to T2 capital (sum of 31 to 35)		-	-	-

		2017	2016
		(Rupees in '000)	

33.2.4 Additional Information

		2017	2016
	Risk Weighted Assets subject to pre-Basel III treatment		
37	Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)	11,593,897	11,000,627
(i)	of which: deferred tax assets	-	-
(ii)	of which: Defined-benefit pension fund net assets	-	-
(iii)	of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity	-	-
(iv)	of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	-	20,191
	Amounts below the thresholds for deduction (before risk weighting)		
38	Non-significant investments in the capital of other financial entities	-	-
39	Significant investments in the common stock of financial entities	-	-
40	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
	Applicable caps on the inclusion of provisions in Tier 2		
41	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	-	-
42	Cap on inclusion of provisions in Tier 2 under standardized approach	-	-
43	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	98,368	94,482
44	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

33.3 Capital Structure Reconciliation

Table: 44.3.1

	2017	
	Balance sheet as in the published financial statements	Under regulatory scope of consolidation
	(Rupees in '000)	
Assets		
Cash and balances with treasury banks	53,531	53,531
Balanced with other banks	771,582	771,581
Lending to financial institutions	851,542	851,542
Investments	6,489,513	6,489,512
Advances	11,449,397	11,342,094
Operating fixed assets	292,715	292,716
Deferred tax assets	-	-
Other assets	421,793	-
Total assets	20,330,073	19,880,976
Liabilities & Equity		
Bills payable	-	-
Borrowings	-	-
Deposits and other accounts	-	-
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
Other liabilities	5,300,971	5,300,971
Total liabilities	5,300,971	5,300,971
Share capital/ Head office capital account	19,365,000	19,365,000
Reserves	1,037,680	1,019,868
Unappropriated/ Unremitted profit/ (losses)	(5,375,752)	(5,447,002)
Minority Interest	-	-
Conversion of liabilities into share capital	-	-
Surplus on revaluation of assets	2,174	2,174
Total liabilities & equity	20,330,073	20,241,011

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Table: 44.3.2	2017 Balance sheet as in the published financial statements	2017 Under regulatory scope of consolidation	Reference
	---- (Rupees in '000) ----		
Assets			
Cash and balances with treasury banks	53,531	53,531	
Balanced with other banks	771,582	771,582	
Lending to financial institutions	851,542	851,542	
Investments	6,489,513	6,489,513	
of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold	-	-	a
of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold	-	-	b
of which: Mutual Funds exceeding regulatory threshold	-	-	c
of which: reciprocal crossholding of capital instrument (separate for CET1, AT1, T2)	-	-	d
of which: others (PIBs & T-Bills)	6,429,253	6,429,253	e
Advances	11,449,397	11,449,397	
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	-	-	f
general provisions reflected in Tier 2 capital	98,235	98,235	g
Fixed Assets	292,715	292,715	
Deferred Tax Assets	-	-	
of which: DTAs that rely on future profitability excluding those arising from temporary differences	-	-	h
of which: DTAs arising from temporary differences exceeding regulatory threshold	-	-	i
Other assets	421,793	421,793	
of which: Goodwill	-	-	j
of which: Intangibles	687	687	k
of which: Defined-benefit pension fund net assets	-	-	l
Total assets	20,330,073	20,330,073	
Liabilities & Equity			
Bills payable	-	-	
Borrowings	-	-	
Deposits and other accounts	-	-	
Sub-ordinated loans	-	-	
of which: eligible for inclusion in AT1	-	-	m
of which: eligible for inclusion in Tier 2	-	-	n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	-	-	
of which: DTLs related to goodwill	-	-	o
of which: DTLs related to intangible assets	-	-	p
of which: DTLs related to defined pension fund net assets	-	-	q
of which: other deferred tax liabilities	-	-	r
Other liabilities	5,300,971	5,300,971	
Total liabilities	5,300,971	5,300,971	
Share capital	19,365,000	19,365,000	
of which: amount eligible for CET1	19,365,000	19,365,000	s
of which: amount eligible for AT1	-	-	t
Reserves	1,037,680	1,037,680	
of which: portion eligible for inclusion in CET1(provide breakup)	1,037,680	1,037,680	u
of which: portion eligible for inclusion in Tier 2	-	-	v
Unappropriated profit/ (losses)	(5,375,752)	(5,375,752)	w
Minority Interest	-	-	
of which: portion eligible for inclusion in CET1	-	-	x
of which: portion eligible for inclusion in AT1	-	-	y
of which: portion eligible for inclusion in Tier 2	-	-	z
Conversion of liabilities into share capital	-	-	aa
Surplus on revaluation of assets	2,174	2,174	
of which: Revaluation reserves on Fixed Assets	-	-	ab
of which: Unrealized Gains/Losses on AFS	2,174	2,174	ac
In case of Deficit on revaluation (deduction from CET1)	-	-	
Total liabilities & Equity	20,330,073	20,330,073	

33.4 Main Features Template of Regulatory Capital Instruments

Main Features	Common Shares
Issuer	House Building Finance Company
Unique identifier	HBFCL
Governing law(s) of the instrument	Companies Ordinance 1984
Regulatory treatment	
Transitional Basel III rules	Common Equity Tier I
Post-transitional Basel III rules	Common Equity Tier I
Eligible at solo/ group/ group & solo	Solo
Instrument type	Ordinary Shares
Amount recognized in regulatory capital (Currency in PKR thousand)	19,365,000
Par value of instrument	Rs. 10 per share
Accounting classification	Shareholders' equity
Original date of issuance	1952
Furthur Issuance of 1,636,400,000	2016
Perpetual or dated	Perpetual
Original maturity date	No maturity

Issuer call subject to prior supervisory approval	Not applicable
Optional call date, contingent call dates and redemption amount	Not applicable
Subsequent call dates, if applicable	Not applicable

Coupons / dividends	
Fixed or floating dividend/ coupon	Not applicable
coupon rate and any related index/ benchmark	Not applicable
Existence of a dividend stopper	No
Fully discretionary, partially discretionary or mandatory	Fully discretionary
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	Not applicable
Convertible or non-convertible	
If convertible, conversion trigger (s)	Not applicable
If convertible, fully or partially	Not applicable
If convertible, conversion rate	Not applicable
If convertible, mandatory or optional conversion	Not applicable
If convertible, specify instrument type convertible into	Not applicable
If convertible, specify issuer of instrument it converts into	Not applicable
Write-down feature	
If write-down, write-down trigger(s)	Not applicable
If write-down, full or partial	Not applicable
If write-down, permanent or temporary	Not applicable
If temporary write-down, description of write-up mechanism	Not applicable
Position in subordination hierarchy in liquidation	
Non-compliant transitioned features	Not applicable
If yes, specify non-compliant features	Not applicable

33.5 Risk Weighted Assets

The capital requirements for the banking group as per the major risk categories should be indicated in the manner given below:-

	Capital Requirements		Risk Weighted Assets	
	2017	2016	2017	2016
Credit Risk				
On-Balance sheet				
Portfolios subject to standardized approach (Simple or Comprehensive)	-	-	-	-
Cash & cash equivalents	-	-	-	-
Sovereign	-	-	-	-
Public Sector entities	3,265	-	28,957	-
Banks	29,836	28,342	264,625	266,126
Corporate	6,818	3,226	60,469	30,287
Retail	-	-	-	-
Residential Mortgages	323,228	341,286	2,866,764	3,204,559
Past Due loans	377,664	295,668	3,349,567	2,776,229
Operating Fixed Assets	32,942	33,531	292,166	314,845
Other assets	52,636	84,654	466,835	794,872
Portfolios subject to Internal Rating Based (IRB) Approach	-	-	-	-
Off-Balance sheet				
Non-market related				
Contingencies & Commitments	60,896	18,278	540,096	171,627
Market related	-	-	-	-
Equity Exposure Risk in the Banking Book				
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	20,321	44,451	180,230	417,376
Equity position risk	-	-	-	-
Capital Requirement for portfolios subject to Internal Models Approach	-	-	-	-
Operational Risk				
Capital Requirement for operational risks	399,607	322,131	3,544,188	3,024,706
TOTAL	1,307,213	1,171,567	11,593,897	11,000,627

Capital Adequacy Ratios	2017		2016	
	Required	Actual	Required	Actual
CET1 to total RWA	6.00%	128.96%	6.00%	-18.86%
Tier-1 capital to total RWA	7.50%	128.96%	7.50%	-18.86%
Total capital to total RWA	11.275%	130.47%	10.65%	-18.86%

33.6 Leverage Ratio

The State Bank of Pakistan (SBP) through its BPRD Circular no. 06 of 2013 has issued instructions regarding implementation of parallel run of leverage ratio reporting and its components from December 31, 2013 to December 31, 2017. During this period the final calibration, and any further adjustments to the definition, will be completed, with a view to set the leverage ratio as a separate capital standard on December 31, 2018 whereas the banks/DFIs are required to disclose the leverage ratio from December 31, 2015.

The leverage ratio of the company as of December 31, 2017 stands at 72% positive (December 31, 2016: 9.57% negative). Tier 1 Capital as at December 31, 2017 is Rs. 15,026 million positive (December 31, 2016: Rs. 2,074 million negative) and total exposure as at December 31, 2017 is Rs. 20,870 million (December 31, 2016: Rs. 20,906 million).

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33.7 **Liquidity Coverage Ratio**

Liquidity Risk Management framework is guided by Board of Directors (BoD) and Board Sub Committee on Risk Management and Compliance (BRMC). Treasury Division is responsible to propose, recommend and institutionalize liquidity risk management policy which is approved by the Board.

Asset & Liability Committee (ALCO) is responsible for reviewing and approving the liquidity risk limits, ensuring the liquidity risk management practices are in line with the defined strategy. ALCO is also responsible to recommend Liquidity Risk policy for approval to BRMC / BOD.

Liquidity risk is defined as the risk that a bank does not have sufficient financial resources to meet its obligation and commitments as they fall due and have no other choice to secure funds at a higher cost. HBFCL ensures to maintain portfolio of liquid assets. All liquidity limits and concentration is reviewed in ALCO on a periodic basis. HBFCL performs its Liquidity stress test on a periodic basis in order to ensure that sufficient liquidity is always available in order to fulfill HBFCL's financial commitment. Stress testing technique is also used to identify the potential impact of extreme yet plausible events or movements on the value of a portfolio. Stress testing scenarios are developed in guidance provided by the regulator. Further Liquidity Risk Management is quantified by Liquidity coverage ratio and Net Stable funding ratio as communicated by the Regulator. Liquidity Coverage Ratio (LCR) refers to the highly liquid assets held by the bank to meet its short term obligations. LCR is used as a tool to manage liquidity risk. LCR has two components: high quality liquid asset (HQLA) and total net cash outflows. HQLA comprises of those assets that can be readily sold or employed as collateral for obtaining fund. HQLA structure has been divided into 1) cash and treasury balance, 2) marketable securities,3) corporate debt securities with credit rating, 4)non-financial equity shares

		Total unweighted 1 value (average)	Total weighted 2 value (average)
		Rupees in '000'	
1	Total high quality liquid assets (HQLA)	-	6,480,610
2	Retail deposits and deposits from small business customers of which:		
2.1	stable deposit	-	-
2.2	Less stable deposit	-	-
3	Unsecured wholesale funding of which:		
3.1	Operational deposits (all counterparties)	-	-
3.2	Non-operational deposits (all counterparties)	-	-
3.3	Unsecured debt	-	-
4	Secured wholesale funding	-	-
5	Additional requirements of which:		
5.1	Outflows related to derivative exposures and other collateral requirements	-	-
5.2	Outflows related to loss of funding on debt products	-	-
5.3	Credit and Liquidity facilities	140,435	7,022
6	Other contractual funding obligations		
7	Other contingent funding obligations		
8	**TOTAL CASH OUTFLOWS**	140,435	6,487,632
	CASH INFLOWS		
9	Secured lending	-	-
10	Inflows from fully performing exposures	-	-
11	Other Cash inflows	547,079	273,540
12	**TOTAL CASH INLFOWS**	547,079	273,540

	Total Adjusted Value
TOTAL HQLA	6,480,610
TOTAL NET CASH OUTFLOWS	1,755
LIQUIDITY COVERAGE RATIO	369173%

1 unweighted values must be calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows)

2 Weighted values must be calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows)

3 Adjusted values must be calculated after the application of both (i) haircuts and inflow and outflow rates and (ii) any applicable caps (i.e. cap on level 2B and level 2 assets for HQLA and cap on inflows)

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33.8 **Net Stable Funding Ratio**

Net Stable Funding Ratio (NSFR) is used to reduce funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on – and offbalance sheet items and promotes funding stability. The ratio is defined as the amount of available stable funding (ASF), relative to the amount of required stable funding (RSF).

LR IX

	(Amount in PKR in thousands)	Unweighted Value By Residual Maturity *				Weighted Value
		No Maturity	Below 6 months	6 months to below 1 year	1 year and above 1 year	
ASF Item						
1	Capital:					
2	Regulatory capital	15,026,241	-	-	-	15,026,241
3	Other capital instruments	100,542	-	-	-	100,542
4	Retail deposits and deposit from small business customers:					
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	-	-	-	-	-
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	-	-	-	-
10	Other liabilities:		388,084	370,768	4,542,118	4,727,502
11	NSFR derivative liabilities	-	-	-	-	-
12	All other liabilities and equity not included in other categories	-	-	-	-	-
13	**Total ASF**					19,854,285
RSF item						
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	-
15	Deposits held at other financial institutions for operational purposes	-	771,582	-	-	385,791
16	Performing loans and securities:					
17	Performing loans to financial institutions secured by Level 1 HQLA	-	300,000	-	551,542	100,154
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	-	-	-	-
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	-	-	-	-
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	7,821,648	5,084,071
21	Securities that are not in default and do not qualify as HQLA including exchange-traded equities.	-	-	-	-	-
22	Other assets:					
23	Physical traded commodities, including gold	-	-	-	-	-
24	Assets posted as initial margin for derivative contracts	-	-	-	-	-
25	NSFR derivative assets	-	-	-	-	-
26	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
27	All other assets not included in the above categories	3,619,088	785,603	-	-	4,011,889
28	Off-balance sheet items	-	-	-	540,096	27,005
29	Total RSF					9,608,910
30	Net Stable Funding Ratio (%)					207%

***The unweighted value by residual maturity is based on working prepared by Assets and Liabilities Management Committee (ALCO) of the Bank**

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 III 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

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 Assets and Liabilities Committee 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

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

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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.

34.1.2 Segmental information

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

34.1.2.1 Segments by class of business

	2017					
Housing finance	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
Individuals	14,875,527	99.82	-	-	290,160	53.72
Others	26,727	0.18	-	-	249,936	46.28
	14,902,254	**100.00**	-	-	**540,096**	**100.00**

	2016					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
Individuals	15,898,460	99.83	-	-	518,900	71.65
Others	26,828	0.17	-	-	205,352	28.35
	15,925,288	100	-	-	724,252	100.00

34.1.2.2 Segment by sector

	2017					
Housing finance	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
Public / Government	18,097	0.12	-	-	193,325	35.79
Private	14,884,157	99.88	-	-	346,771	64.21
	14,902,254	**100**	-	-	**540,096**	**100**

	2016					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
Public / Government	18,198	0.11	-	-	193,325	26.69
Private	15,907,090	99.89	-	-	530,927	73.31
	15,925,288	100	-	-	724,252	100

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

	2017		2016	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	(Rupees in '000)			
Individuals	6,639,729	3,290,063	6,708,872	3,932,643
Others	26,727	26,827	26,827	26,827
	6,666,456	3,316,890	6,735,699	3,959,470

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

	2017		2016	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	(Rupees in '000)			
Public/ Government	18,097	18,097	18,198	18,197
Private	6,648,359	3,298,793	6,717,501	3,941,271
	6,666,456	3,316,890	6,735,699	3,959,468

34.1.2.5 **Geographical segment analysis**

	Profit / (loss) before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in '000)			
2017				
Pakistan	2,013,876	20,330,073	15,029,102	540,096
2016				
Pakistan	(835,867)	20,906,471	14,319,042	724,252

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34.2 Mismatch of Interest Rate Sensitive Assets and Liabilities

34.2.1 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:

			2017									
	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		53,531	-	-	-	-	-	-	-	-	-	53,531
Balances with other banks	3.75% - 5.60%	771,582	771,582	-	-	-	-	-	-	-	-	-
Lending's to financial institutions	3.75% - 5.60%	851,542	100,000	751,542	-	-	-	-	-	-	-	-
Investments - net	6.01%-6.15%	6,489,513	2,096,462	2,531,731	1,456,532	242,043	-	104,829	-	-	-	57,916
Advances - net	5.99%-9.25%	11,449,397	547,079	180,659	272,296	552,716	1,266,054	1,041,555	3,442,446	2,915,956	1,230,636	-
Other assets		421,793	-	-	-	-	-	-	-	-	-	421,793
		20,037,358	3,515,123	3,463,932	1,728,828	794,759	1,266,054	1,146,384	3,442,446	2,915,956	1,230,636	533,240
Liabilities												
Bills payable		-	-	-	-	-	-	-	-	-	-	-
Borrowings		-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts		-	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		5,300,971	-	-	-	-	-	-	-	-	-	5,300,971
		5,300,971	-	-	-	-	-	-	-	-	-	5,300,971
On-balance sheet gap		14,736,387	3,515,123	3,463,932	1,728,828	794,759	1,266,054	1,146,384	3,442,446	2,915,956	1,230,636	(4,767,731)
Off-balance sheet financial instruments												
Forward lendings		-	-	-	-	-	-	-	-	-	-	-
Forward borrowings		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			3,515,123	3,463,932	1,728,828	794,759	1,266,054	1,146,384	3,442,446	2,915,956	1,230,636	(4,767,731)
Cumulative Yield/Interest Risk Sensitivity Gap			3,515,123	3,463,932	1,728,828	794,759	1,266,054	1,146,384	3,442,446	2,915,956	1,230,636	(4,767,731)

	Effective yield/ interest rate	2016 Exposed to yield / interest risk										Non-interest bearing financial instruments
		Total	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		121,378	-	-	-	-	-	-	-	-	-	121,378
Balances with other banks	5.00% - 12.5%	650,310	650,310	-	-	-	-	-	-	-	-	-
Lending's to financial institutions	13.87% - 15.2%	400,188	400,188	-	-	-	-	-	-	-	-	-
Investments - net	11.65% - 16.04%	6,841,040	892,594	1,713,342	981,278	3,253,826	-	-	-	-	-	-
Advances - net	5% - 19%	11,816,929	246,461	439,681	314,559	649,124	1,365,514	1,218,006	2,228,110	3,706,023	1,649,451	-
Other assets		761,165	-	-	-	-	-	-	-	-	-	761,165
		20,591,010	2,189,553	2,153,023	1,295,837	3,902,950	1,365,514	1,218,006	2,228,110	3,706,023	1,649,451	882,543
Liabilities												
Bills payable		-	-	-	-	-	-	-	-	-	-	-
Borrowings	9.50%	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts		-	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		6,587,429	-	-	-	-	-	-	-	-	-	6,587,429
		6,587,429	-	-	-	-	-	-	-	-	-	6,587,429
On-balance sheet gap		14,003,581	2,189,553	2,153,023	1,295,837	3,902,950	1,365,514	1,218,006	2,228,110	3,706,023	1,649,451	(5,704,886)
Off-balance sheet financial instruments												
Forward Lending		-	-	-	-	-	-	-	-	-	-	-
Forward borrowings		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			2,189,553	2,153,023	1,295,837	3,902,950	1,365,514	1,218,006	2,228,110	3,706,023	1,649,451	(5,704,886)
Cumulative Yield/Interest Risk Sensitivity Gap			2,189,553	2,153,023	1,295,837	3,902,950	1,365,514	1,218,006	2,228,110	3,706,023	1,649,451	(5,704,886)

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

	December 31, 2017	December 31, 2016
	(Rupees in '000)	
Total financial assets	20,037,358	20,591,010
Operating fixed assets	292,715	315,461
Total assets as per balance sheet	20,330,073	20,906,471
Total financial liabilities	5,300,971	6,587,429

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34.3 **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.

34.3.1 **Maturities of Assets and Liabilities**

	2017									
	Total	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')									
Assets										
Cash and balances with treasury banks	53,531	53,531	-	-	-	-	-	-	-	-
Balances with other banks	771,582	771,582	-	-	-	-	-	-	-	-
Lending's to financial institutions	851,542	100,000	751,542	-	-	-	-	-	-	-
Investments - net	6,489,513	2,096,462	2,531,731	1,456,532	242,043	-	104,829	-	-	57,916
Advances - net	11,449,397	547,079	180,659	272,296	552,716	1,266,054	1,041,555	3,442,446	2,915,956	1,230,636
Operating fixed assets	292,715	1,770	3,493	5,240	12,000	20,959	20,959	41,099	72,818	114,377
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	421,793	5,284	55,808	5,059	12,682	137,179	161,221	13,135	28,204	3,221
	20,330,073	3,575,708	3,523,233	1,739,127	819,441	1,424,192	1,328,564	3,496,680	3,016,978	1,406,150
Liabilities										
Bills payable	-	-	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	5,300,971	94,155	99,911	194,019	370,768	1,524,815	1,175,901	1,743,830	69,644	27,928
	5,300,971	94,155	99,911	194,019	370,768	1,524,815	1,175,901	1,743,830	69,644	27,928
Net assets / (liabilities)	**15,029,102**	**3,481,553**	**3,423,322**	**1,545,108**	**448,673**	**(100,623)**	**152,663**	**1,752,850**	**2,947,334**	**1,378,222**

Share capital	19,365,000
Reserves	1,037,680
Accumulated loss	(5,375,752)
Conversion into Liabilities	-
Surplus/ (deficit) on revaluation of assets	2,174
	15,029,102

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

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	Total	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
	2016									
	(Rupees in '000')									
Assets										
Cash and balances with treasury banks	121,378	121,378	-	-	-	-	-	-	-	-
Balances with other banks	650,310	650,310	-	-	-	-	-	-	-	-
Lending's to financial institutions	400,188	400,188	-	-	-	-	-	-	-	-
Investments - net	6,841,040	892,594	1,713,342	981,278	3,253,826	-	-	-	-	-
Advances - net	11,816,929	246,461	439,681	314,559	649,124	1,365,514	1,218,006	2,228,110	3,706,023	1,649,451
Operating fixed assets	315,461	1,909	3,764	5,647	12,932	22,588	22,588	44,292	78,476	123,265
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	761,165	9,537	100,711	9,130	22,885	247,553	290,938	23,703	50,896	5,812
	20,906,471	2,322,377	2,257,498	1,310,614	3,938,767	1,635,655	1,531,532	2,296,105	3,835,395	1,778,528
Liabilities										
Bills payable	-	-	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	6,587,429	117,004	124,158	241,104	460,747	1,894,863	1,461,273	2,167,029	86,545	34,706
	6,587,429	117,004	124,158	241,104	460,747	1,894,863	1,461,273	2,167,029	86,545	34,706
Net assets / (liabilities)	**14,319,042**	**2,205,373**	**2,133,340**	**1,069,510**	**3,478,020**	**(259,208)**	**70,259**	**129,076**	**3,748,850**	**1,743,822**
Share capital	3,001,000									
Reserves	713,662									
Accumulated loss	(5,757,934)									
Conversion into Liabilites	16,364,000									
Surplus/ (deficit) on revaluation of assets	(1,686)									
	14,319,042									

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.

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

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34.3.2 **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 III 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. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

	2017									
	Carrying Amount						Fair value			
	Held-for-trading	Available-for-sale	Held-to-maturity	Loan and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	(Rupees in '000)									
Financial assets measured at fair value										
Investments										
Market Treasury Bills	-	6,124,240	-	-	-	6,124,240	-	6,123,234	-	6,123,234
Pakistan Investment Bonds	-	302,839	-	-	-	302,839	-	306,019	-	306,019
	-	6,427,079	-	-	-	6,427,079	-	6,429,253	-	6,429,253
Financial assets not measured at fair value										
Cash and balances with treasury banks	-	-	-	53,531	-	53,531	-	53,531	-	53,531
Balances with other banks	-	-	-	771,582	-	771,582	-	771,582	-	771,582
Lending's to financial institutions	-	-	-	851,542	-	851,542	-	-	-	-
Investments										
Unlisted Ordinary Shares	-	500	-	-	-	500	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Unlisted Sukuk Bonds	-	-	26,240	-	-	26,240	-	-	-	-
Certificates of Investment	-	-	45,000	-	-	45,000	-	-	-	-
Term Deposit Receipts	-	-	2,344	-	-	2,344	-	-	-	-
Advances	-	-	-	11,449,397	-	11,449,397	-	-	-	-
Other assets	-	-	-	421,793	-	421,793	-	-	-	-
	-	500	73,584	13,547,845	-	13,621,929	-	825,113	-	825,113
	-	6,427,579	73,584	13,547,845	-	20,049,008	-	7,254,366	-	7,254,366
Financial liabilities not measured at fair value										
Borrowings	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	(5,300,971)	(5,300,971)	-	-	-	-
	-	-	-	-	(5,300,971)	(5,300,971)	-	-	-	-
	-	6,427,579	73,584	13,547,845	(5,300,971)	14,748,037	-	7,254,366	-	7,254,366

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	2016									
	Carrying Amount						Fair value			
	Held-for-trading	Available-for-sale	Held-to-maturity	Loan and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	(Rupees in '000)									
Financial assets measured at fair value										
Investments										
Market Treasury Bills	-	6,485,165	-	-	-	6,485,165	-	6,478,964	-	6,478,964
Pakistan Investment Bonds	-	307,083	-	-	-	307,083	-	311,598	-	311,598
	-	6,792,248	-	-	-	6,792,248	-	6,790,562	-	6,790,562
Financial assets not measured at fair value										
Cash and balances with treasury banks	-	-	-	121,378	-	121,378	-	121,378	-	121,378
Balances with other banks	-	-	-	650,310	-	650,310	-	650,310	-	650,310
Lending's to financial institutions	-	-	-	400,188	-	400,188	-	-	-	-
Investments										
Unlisted Ordinary Shares	-	500	-	-	-	500	-	-	-	-
Unlisted Sukuk Bonds	-	-	26,240	-	-	26,240	-	-	-	-
Certificates of Investment	-	-	67,500	-	-	67,500	-	-	-	-
Term Deposit Receipts	-	-	2,344	-	-	2,344	-	-	-	-
Advances	-	-	-	11,816,929	-	11,816,929	-	-	-	-
Other assets	-	-	-	761,165	-	761,165	-	-	-	-
	-	500	96,084	13,749,970	-	13,846,554	-	771,688	-	771,688
	-	6,792,748	96,084	13,749,970	-	20,638,802	-	7,562,250	-	7,562,250
Financial liabilities not measured at fair value										
Borrowings	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	(6,587,429)	(6,587,429)	-	-	-	-
	-	-	-	-	(6,587,429)	(6,587,429)	-	-	-	-
	-	6,792,748	96,084	13,749,970	(6,587,429)	14,051,373	-	7,562,250	-	7,562,250

The fair value of financial assets and liabilities not carried at fair value are not significantly different from their carrying values since assets and liabilities are either short term in nature or in case of loans are frequently repriced.

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37. **RECLASSIFICATION OF COMPARATIVE FIGURES**

Comparative figures have been reclassified and re-arranged where necessary for the purpose of better presentation. Major reclassifications are as follows:

From	To	Rupees
Relief package and reprocessing adjustments	Write-off against advances	155,000

38. **DATE OF AUTHORIZATION**

These financial statements were approved and authorized for issue on 28 MAR 2018 by the Board of Directors of the Company.

39. **GENERAL**

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

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

MANAGING DIRECTOR | **DIRECTOR** | **DIRECTOR** | **DIRECTOR**