Deloitte.

Deloitte Yousuf Adil
Chartered Accountants

House Building Finance Company Limited

Financial Statements
For the year ended December 31, 2016

Deloitte.

Deloitte Yousuf Adil
Chartered Accountants
Cavish Court, A-35, Block 7 & 8
KCHSU, Shahrah-e-Faisal
Karachi-75350
Pakistan

Tel: +92 (0) 21 3454 6494-7
Fax: +92 (0) 21- 3454 1314

www.deloitte.com

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, 2016 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, 2016 and of the losses, 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.

Deloitte Yousuf Adil
Chartered Accountants

We draw attention to note 1 to the financial statements which states that the Company has not complied with the minimum capital requirements stated in BSD Circular no. 19 of 2008 dated September 5, 2008 as at the year-end, which should be Rs. 6 billion - net of losses. The said note also discloses the event relating to the decision made by the Ministry of Finance (MoF) on January 9, 2017 on conversion of borrowings (credit lines) from the State Bank of Pakistan along with mark-up payable thereon into ordinary shares of the Company.

Our opinion is not qualified in respect of this matter.

Deloitte Yousuf Adil
Chartered Accountants

Engagement Partner
Mushtaq Ali Hirani

Dated: 24 MAY 2017
Karachi

HOUSE BUILDING FINANCE COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016

	Note	2016	2015
		-------- (Rupees in '000) --------	
ASSETS			
Cash and balances with treasury banks	5	**121,378**	82,376
Balances with other banks	6	**650,310**	107,638
Lendings to financial institutions	7	**400,188**	-
Investments - net	8	**6,841,040**	7,729,999
Advances - net	9	**11,816,929**	11,512,906
Operating fixed assets	10	**315,461**	373,236
Deferred tax assets	11	-	-
Other assets	12	**761,165**	876,296
		20,906,471	20,682,451
LIABILITIES			
Bills payable		-	-
Borrowings	13	-	11,242,300
Deposits and other accounts		-	-
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	14	**6,587,429**	10,194,912
		6,587,429	21,437,212
NET ASSETS		**14,319,042**	**(754,761)**
REPRESENTED BY			
Share capital	15	**3,001,000**	3,001,000
Reserves		**713,662**	713,662
Accumulated loss		**(5,757,934)**	(4,789,697)
		(2,043,272)	(1,075,035)
Conversion of liabilities into share capital	15.4	**16,364,000**	-
Advance against issue of capital	18.2	-	218,143
(Deficit) / surplus on revaluation of assets	16	**(1,686)**	102,131
		14,319,042	**(754,761)**
CONTINGENCIES AND COMMITMENTS	17		

The annexed notes from 1 to 38 form an integral part of these financial statements.

MANAGING DIRECTOR — DIRECTOR — DIRECTOR — DIRECTOR

HOUSE BUILDING FINANCE COMPANY LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	2016	2015
		------- (Rupees in '000) -------	
Rental / mark-up / return / interest income	18	**2,606,851**	2,509,819
Rental / mark-up / return / interest expense	14.2	**(1,068,019)**	(1,068,019)
Rental / mark-up / return / interest income - net		**1,538,832**	1,441,800
Provision made against non-performing advances - net	9.16.1	**(869,068)**	(566,180)
Reversal of provision against lendings to financial institutions		**17,619**	-
Reversal of provision against diminution in value of investments - net	8.9	-	39,101
Reversal of provision against impairment of investment in an associate	8.8.1	-	35,507
		(851,449)	(491,572)
Reconciliation adjustments	19	**(847)**	(9,562)
Relief package and reprocessing adjustments	20	**(9,891)**	(22,402)
Write-off against advances		**(650)**	-
		675,995	918,264
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		-	-
Dividend income		-	-
Income from dealing in foreign currencies		-	-
Gain on sale of securities		**7,920**	4,882
Unrealized gain / (loss) on revaluation of investment classified as held for trading		-	-
Other income	21	**273,250**	56,739
Total non-mark-up / interest income		**281,170**	61,621
		957,165	979,885
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	22	**(1,758,099)**	(1,703,525)
Other provisions	23	**(32,367)**	(7,536)
Other charges	24	**(9,552)**	(7,303)
Total non-mark-up / interest expenses		**(1,800,018)**	(1,718,364)
		(842,853)	(738,479)
Extra-ordinary/unusual items		-	-
Share of profit before taxation from associate	8.8.1	**6,986**	9,774
LOSS BEFORE ALLOCATION FOR STATE BANK OF PAKISTAN SHARE		**(835,867)**	(728,705)
State Bank of Pakistan share of profit on credit lines		-	-
LOSS BEFORE TAXATION		**(835,867)**	(728,705)
Taxation	25	**(30,083)**	(123,255)
LOSS AFTER TAXATION		**(865,950)**	(851,960)
Basic & diluted earnings per share - Rupees	26	**(2.89)**	(2.84)

The annexed notes from 1 to 38 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, 2016

	Note	2016	2015
		------- (Rupees in '000) -------	
Loss after tax for the year		**(865,950)**	(851,960)
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	**(102,287)**	(1,056,422)
Other comprehensive income transferred to equity		**(968,237)**	(1,908,382)
Components of other comprehensive income not reflected in equity			
- Deficit on revaluation of 'available-for-sale securities'		**(103,817)**	(23,828)
Total comprehensive income for the year		**(1,072,054)**	(1,932,210)

The annexed notes from 1 to 38 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, 2016

	Share capital	Statutory reserve*	Accumulated loss	Total
	---------------------------- (Rupees in '000) ----------------------------			
Balance as at January 01, 2015	3,001,000	713,662	(2,881,315)	833,347
Comprehensive income for the year				
Loss after tax for the year	-	-	(851,960)	(851,960)
Other comprehensive income	-	-	(1,056,422)	(1,056,422)
	-	-	(1,908,382)	(1,908,382)
Transfer to statutory reserve *	-	-	-	-
Balance at December 31, 2015	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)**

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

The annexed notes from 1 to 38 form an integral part of these financial statements.

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MANAGING DIRECTOR | DIRECTOR | DIRECTOR | DIRECTOR

HOUSE BUILDING FINANCE COMPANY LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	2016	2015
		------- (Rupees in '000) -------	
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		**(835,867)**	(728,705)
Adjustments			
Provision made against non-performing advances - net		**869,068**	566,180
Reversal of provision against lendings to financial institutions		**(17,619)**	-
Reversal of provision against diminution in value of investments - net		-	(39,101)
Reversal of provision against impairment of investment in an associate		-	(35,507)
Reconciliation adjustments		**847**	9,562
Relief package and reprocessing adjustments		**9,891**	22,402
Recovery of Pakistan Housing Authority (PHA) balance	18.1	**(218,143)**	
Gain on disposal of operating fixed assets		**(42,021)**	(75)
Depreciation of property and equipment		**30,595**	34,885
Amortization of intangibles		**371**	75
Provision for advance against purchase of land - housing projects		**3,345**	-
Share of profit before taxation from an associate		**(6,986)**	(9,774)
Adjustments in cost and depreciation	10.2	**28,741**	4,233
		658,089	552,880
		(177,778)	(175,825)
(Increase) / decrease in operating assets			
Lendings to financial institutions		**(382,569)**	2,006,302
Advances - net		**(1,183,829)**	(1,905,464)
Other assets (excluding advance tax - net)		**216,680**	(8,021)
		(1,349,718)	92,817
(Decrease) / increase in operating liabilities			
Other liabilities		**1,411,930**	974,697
Income tax paid		**(134,138)**	(485,855)
Net cash (used in) / generated from operating activities		**(249,704)**	405,834
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Investments realized / (made) - net		**791,289**	(524,828)
Capital expenditure		**(3,315)**	(5,830)
Proceed from disposal of operating fixed assets		**43,404**	75
Net cash generated from / (used in) investing activities		**831,378**	(530,583)
Increase / (decrease) in cash and cash equivalents (A+B)		**581,674**	(124,749)
Cash and cash equivalents at beginning of the year		**190,014**	314,763
Cash and cash equivalents at end of the year	27	**771,688**	190,014

The annexed notes from 1 to 38 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, 2016

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 50 branches and 3 zonal offices throughout Pakistan including Azad Jammu and Kashmir. According to credit rating report dated June 28, 2016 of JCR-VIS Credit Rating Company Limited, the long term and short term ratings of the Company are "A-" and "A-2".

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. The paid-up capital of the Company (net of losses) as at December 31, 2016 is Rs. 2.9 billion - negative. The State Bank of Pakistan (SBP) vide its letter no. BSD/BAID/659/2145/2012 dated February 16, 2012 granted exemption to the Company from the minimum capital requirement and Capital Adequacy Ratio till December 31, 2012 or completion of privatization / restructuring process, whichever is later.

The MoF vide its letter no. F.No.1(3) IF-II/2016-1122 dated January 9, 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 as on December 31, 2016 into ordinary shares of the Company at par value (Rs. 10 per share) and shareholders' has also approved the same in its 10th Annual General Meeting held on March 31, 2017.

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.

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.

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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
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

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

The Company's' management expects that the adoption of above amendments will not materially affect its financial statements in the period of initial application.

Further, the following new standard has been issued by the IASB, but has not yet been notified by the SECP for application in

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'

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)

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[redacted]

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)

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.

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.

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Available-for-sale

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

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 28. 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.

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.

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4.2 Lendings to / borrowings from financial institutions

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

Sale under repurchase obligations

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

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

Other borrowings

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

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.

- 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.

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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.

(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.

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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 9.2. 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 incurred.

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 9.3.1 Amortization is charged from the month of acquisition and up to the month of deletion. The useful lives and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

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

Capital work-in-progress

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

Impairment of non-financial assets

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

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

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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

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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.

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.

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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.

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	2016	2015
		------- (Rupees in '000) -------	
5. CASH AND BALANCES WITH TREASURY BANKS			
State Bank of Pakistan			
Local currency current account	5.1	**121,300**	82,290
National Bank of Pakistan			
Local currency deposit account	5.2	**78**	86
		121,378	82,376

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

5.2 This bank account carry mark-up at rate 4% (2015: 4%) per annum.

6. BALANCES WITH OTHER BANKS

Local currency deposit accounts	6.1	**400,310**	107,638
Local currency term deposit receipt	6.2	**250,000**	-
		650,310	107,638

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6.1 These bank accounts carry mark-up at rates ranging from 4% to 6% (2015: 4% to 6%) per annum.

6.2 This term deposit receipt carry mark-up at rates ranging from 6.55% per annum.

7. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2016	2015
		------- (Rupees in '000) -------	
Letters of placement	7.1	-	-
Repurchase agreement lending (Reverse Repo)	7.2	400,188	-
		400,188	-

7.1 Letters of placement

Trust Investment Bank Limited (TIBL)	7.1.1	5,909	5,909
First Dawood Investment Bank Limited (FDIBL)	7.1.2	57,381	75,000
		63,290	80,909
Less: Provision against letters of placement	7.1.3	(63,290)	(80,909)
		-	-

7.1.1 This represents clean placement made on November 17, 2008 for a period of 14 days at the mark-up rate of 28% per annum. The transaction remained unsettled at maturity and rescheduling has been made twice. Mark-up accrued upto February 15, 2012 has been received. The Company filed a suit against TIBL in the Banking Court for the recovery of outstanding principal along with mark-up. However, the Company on prudent basis has maintained 100% provision against outstanding receivable. The Banking Court decreed the case in favour 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.

7.1.2 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 against FDIBL in the Sindh High Court (SHC) 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 favour 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. 15.98 million and subsequent to the year end 0.74 million have been received.

7.1.3 Particulars of provision

	2016	2015
	------- (Rupees in '000) -------	
Opening balance	80,909	80,909
Provision made during the year	-	-
Provision reversed during the year	(17,619)	-
Closing balance	63,290	80,909

7.2 Repurchase agreement lending (Reverse Repo)

Pak Oman Investment Company Limited	7.2.2	400,188	-

7.2.1 Particulars of lendings

In local currency	400,188	-
In foreign currency	-	-
	400,188	-

7.2.2 This reverse repo carry mark-up at rates ranging from 5.75% to 5.85% per annum.

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7.2.3 Securities held as collateral against lendings to financial institutions

	2016			2015		
	Held by Company	Further given as collateral	Total	Held by Company	Further given as collateral	Total
	(Rupees in '000')					
Market Treasury Bills	-	-	-	-	-	-
Pakistan Investment Bonds	400,188	-	400,188	-	-	-
	400,188	-	400,188	-	-	-

8. INVESTMENTS - NET

	Note	2016			2015		
		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		6,485,165	-	**6,485,165**	3,711,363	-	3,711,363
Pakistan Investment Bonds	8.2.2	307,083	-	**307,083**	3,847,233	-	3,847,233
Unlisted ordinary shares	8.2.3	500	-	**500**	500	-	500
		6,792,748	-	**6,792,748**	7,559,096	-	7,559,096
Held-to-maturity securities							
Unlisted sukuk bonds	8.3	26,240	-	**26,240**	26,240	-	26,240
Unlisted term finance certificates	8.4	-	-	**-**	24,941	-	24,941
Term deposit receipts	8.5	2,344	-	**2,344**	2,344	-	2,344
Certificates of investment	8.6	67,500	-	**67,500**	67,500	-	67,500
		96,084	-	**96,084**	121,025	-	121,025
Investment in an associate							-
Takaful Pakistan Limited	8.8.1	50,478	-	**50,478**	44,331	-	44,331
		6,939,310	-	**6,939,310**	7,724,452	-	7,724,452
Less: Provision for diminution in value of investments	8.9	(96,584)	-	**(96,584)**	(96,584)	-	(96,584)
Investments (net of provisions)		6,842,726	-	**6,842,726**	7,627,868	-	7,627,868
(Deficit) / surplus on remeasurement of available-for-sale securities	16	(1,686)	-	**(1,686)**	102,131	-	102,131
		6,841,040	-	6,841,040	7,729,999	-	7,729,999

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		Note	2016	2015
			------- (Rupees in '000) -------	
8.2	**Investments by segments**			
	Government securities			
	Market treasury bills	8.2.1	**6,485,165**	3,711,363
	Pakistan Investment Bonds	8.2.2	**307,083**	3,847,233
	Fully paid-up ordinary shares			
	Unlisted company	8.2.3	**500**	500
	Term finance certificates, debentures, bonds and participation term certificates			
	Unlisted sukuk bonds	8.3	**26,240**	26,240
	Unlisted term finance certificates	8.4	**-**	24,941
	Other investments			
	Term deposit receipts	8.5	**2,344**	2,344
	Certificates of investment	8.6	**67,500**	67,500
	Investment in an associate			
	Takaful Pakistan Limited (TPL)	8.8.1	**50,478**	44,331
			6,939,310	7,724,452
	Less: Provision for diminution in value of investment	8.9	**(96,584)**	(96,584)
	Investments (net of provisions)		**6,842,726**	7,627,868
	(Deficit) / surplus on remeasurement of available-for-sale securities	16	**(1,686)**	102,131
	Total investments		**6,841,040**	7,729,999

8.2.1 These carry yield at rates ranging from 5.79% to 6.19% (2015: 6.25% to 8.9%).

8.2.2 These carry mark-up (coupon rate) at rates ranging from 8.75% to 9.25% (2015: 9.25% to 11.25%).

8.2.3 This represent investment in 66,125 (2015: 66,125) ordinary shares of Rs.10 each in Resource and Engineering Management Corporation Limited. Full provision has been made against this investment.

8.3 Particulars of investment in sukuk bonds

Name of issuer	Note	Rating	Mark-up rate	Total nominal value	
				2016	2015
				------- (Rupees in '000) -------	
Eden Housing Limited (EHL)	8.3.1	Unrated	3 months KIBOR plus 3%	**26,240**	26,240

40,000 (2015: 40,000) certificates
Outstanding face value: Rs. 656
(2015: 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 and maturing up till December 2012 along with mark-up of six months KIBOR plus 2.50%.

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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 represented investment in 30,000 term finance certificates (TFCs) of Rs. 5,000 each of Pak Libya Holding Company (Private) Limited (PLHCPL) costing Rs. 124.096 million having matured on February 07, 2016. These TFCs carried mark-up at six months KIBOR plus 1.60% per annum payable semi-annually.

8.5 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. 10 million including mark-up and remaining principal amount is outstanding. Hence in January 2002, recovery suit was filed in Banking Court Karachi. Full provision has been made against these TDRs.

8.6 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 has maintained 100% provision against outstanding principal amount in its books of accounts. Upto December 31, 2013, the Company received Rs. 157.5 million (70%) of the invested amount on the directive of SHC.

	2016		**2015**	
	---- (Rupees in '000) ---		**--- (Rupees in '000) ---**	
	Amount	**Rating**	**Amount**	**Rating**
8.7 Quality of available-for-sale securities - (at market value)				
Market treasury bills	**6,478,964**	**Sovereign**	3,710,670	Sovereign
Pakistan Investment Bonds (PIBs)	**311,598**	**Sovereign**	3,950,057	Sovereign
Unlisted ordinary shares				
Resource and Engineering Management Corporation Limited (fully provided)	**-**	**Unrated**	-	Unrated
	6,790,562		7,660,727	

8.8 Investment in an associate - Takaful Pakistan Limited

		2016	**2015**
		--- (Rupees in '000) ---	
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		**559,313**	577,443
Liabilities - Rupees in '000		**379,278**	405,073
Net contribution revenue - Rupees in '000		**239,063**	262,210
Profit after tax - Rupees in '000		**21,198**	30,426
Percentage of investment		**29%**	29%
Break up value per share - Rupees		**6.00**	5.75
Earnings per share - basic and diluted		**0.71**	1.01
Latest available financial statements		**Dec 31, 2016**	Dec 31, 2015
Name of Chief Executive		**Dr. Syed Tariq Husain (CEO)**	Dr. Syed Arif Hussain (CEO)

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	2016	2015
	--- (Rupees in '000) ---	

8.8.1 Carrying value of investment in an associate under equity method

Carrying value of investment at beginning of the year	**44,331**	-
Share of profit before taxation from associate	**6,986**	9,774
Share of taxation from associate	**(839)**	(950)
	50,478	8,824
Reversal of impairment	**-**	35,507
Carrying value of investment at end of the year	**50,478**	44,331

8.9 Particulars of provision

Balance at beginning of the year	**96,584**	135,685
Charge for the year	**-**	6,560
Reversal during the year	**-**	(45,661)
Balance at end of the year	**96,584**	96,584

8.10 Particulars of provision in respect of types and segment

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**	2,344
Certificates of investment - Bankers Equity Limited	**67,500**	67,500
	96,584	96,584

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9. ADVANCES - NET	Note	2016	2015
		--- (Rupees in '000) ---	
In Pakistan - local currency			
Rental Sharing Schemes	9.2	**1,648,634**	1,667,423
Interest Bearing Schemes	9.3	**106,913**	106,459
Ghar Aasan Scheme	9.4	**3,093,853**	3,595,700
Gwadar Employees Co-operative Housing Society (GECHS)	9.5	**11,369**	19,949
Shandar Ghar Scheme	9.6	**547,132**	641,987
Unearned income		**(319,564)**	(374,754)
		227,568	267,233
Financing facility for Small Builders	9.7	**2,207**	7,116
Ghar Aasan Flexi Scheme	9.8	**10,326,665**	8,654,016
Bisma & Saima Projects	9.10	**50,443**	68,663
New Small Builders Scheme	9.11	**86,875**	82,344
Housing finance to employees	9.12	**447,253**	489,956
Partners' death claims	9.13	**(110,199)**	(190,798)
Transitory district bank accounts - net	9.14	**33,707**	(15,864)
Advances - gross		**15,925,288**	14,752,197
Provision for non-performing advances			
Specific provision			
Rental Sharing Schemes	9.2	**1,608,105**	1,651,711
Interest Bearing Schemes	9.3	**106,913**	106,459
Ghar Aasan Scheme	9.4	**1,443,525**	917,136
Gwadar Employees Co-operative Housing Society	9.5	**11,369**	19,949
Shandar Ghar Scheme	9.6	**183,323**	253,463
Financing facility for Small Builders	9.7	**2,207**	6,480
Ghar Aasan Flexi Scheme	9.8	**598,478**	127,798
Housing finance to employees	9.12	**5,550**	5,550
		3,959,470	3,088,546
General provision	9.15	**148,889**	150,745
		(4,108,359)	(3,239,291)
Advances - net of provision		**11,816,929**	11,512,906

9.1 **Particulars of advances (gross)**

Short term (up to one year)	**3,153,074**	2,141,762
Long term (over one year)	**12,565,116**	12,610,435
	15,925,288	14,752,197

9.2 This represents advances under Profit & Loss Sharing Scheme, Simplified Scheme, New Simplified Scheme (NSS), Gothabad Scheme and loan to Brecast Industries (Pvt.) Limited. No additional disbursement of advance under these schemes has been made since 2000. Advances under NSS have been provided upto 98% (December 31, 2015: 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 of the decision of the Honorable Supreme Court of Pakistan, the Company has not accrued interest on these advances since July 01, 2000. All advances under this category has been classified as "Loss" and fully provided.

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

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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.

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, 2016, advances of Rs. 36.1 million (2015: 34.9 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% (2015: 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 tenor along with the profit ranging from 13% to 18% (2014 : 13% to 18%) per annum, or is transferable to the buyer of the house/apartment under Ghar Aasan Scheme. New disbursement under this scheme has been discontinued from November 17, 2009. Provision has been made in accordance with the prudential regulations.

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% (2015: 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.

9.10 Advances under 'Saima and Bisma Project' for construction of individual houses and apartments with maximum financing limit of Rs. 10 million is based on Musharaka financing. This advance is for a period 12 to 18 months and profit is calculated on the basis of 2 years fixed KIBOR rate. The payment of installments is commenced from the next month of the completion of construction of houses and apartments. Provision has been made in accordance with the prudential regulations.

9.11 The Company introduced new scheme in the name of New Small Builder Scheme 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.

9.12 Housing advance is given to employees as per the terms of employment for purchase of land, renovation or construction of houses, at concessional rates. Provision has been made in accordance with the prudential regulations.

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

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

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

9.16 Advances include Rs. 6,736 million (2015: Rs. 4,909 million) which have been placed under non-performing status as detailed below:

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**

2015	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)	539,387	-	539,387	-	-	-	-	-	-
Substandard	539,359	-	539,359	13,004	-	13,004	13,004	-	13,004
Doubtful	483,924	-	483,924	9,574	-	9,574	9,574	-	9,574
Loss	3,346,546	-	3,346,546	3,065,968	-	3,065,968	3,065,968	-	3,065,968
	4,909,216	-	4,909,216	3,088,546	-	3,088,546	3,088,546	-	3,088,546
General provision	-	-	-	150,745	-	150,745	150,745	-	150,745
	4,909,216	-	4,909,216	3,239,291	-	3,239,291	3,239,291	-	3,239,291

9.16.1 Particulars of provision against non-performing advances

	2016 Specific	2016 General	2016 Total	2015 Specific	2015 General	2015 Total
	Rupees in '000			Rupees in '000		
Balance at beginning of the year	3,088,546	150,745	3,239,291	2,552,026	121,085	2,673,111
Charge for the year	997,523	-	997,523	587,617	29,660	617,277
Reversal during the year	(126,599)	(1,856)	(128,455)	(51,097)	-	(51,097)
	870,924	(1,856)	869,068	536,520	29,660	566,180
Balance at end of the year	3,959,470	**148,889**	**4,108,359**	3,088,546	150,745	3,239,291

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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, 2016, had FSV benefit of IH&SMEFD Circular no. 04 of 2014 not been taken, loss for the year before taxation would have been increased by Rs. 553.1 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:

	2016	2015
	--- (Rupees in '000) ---	
Balance at beginning of the year	**614,353**	627,102
Granted during the year	**80,872**	137,250
Repaid during the year	**(145,897)**	(149,999)
Balance at end of the year	**549,328**	614,353

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	2016	2015
		---- (Rupees in '000) -----	

10. OPERATING FIXED ASSETS

	Note	2016	2015
Capital work-in-progress	10.1	**225**	11,684
Property and equipment	10.2	**314,218**	359,270
Intangible assets	10.3	**1,018**	2,282
		315,461	373,236

10.1 Capital work-in-progress

	2016	2015
Civil works	**225**	11,069
Software designing and development	**-**	615
	225	11,684

10.2 Property & 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, 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	6,075	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	6,075	5,673	257,604	15,462	4,605	9,922	8,782	6,095	314,218
Annual rate of depreciation (%)	-	-	5	10	10	15 - 33.33	33.33	20	

	Freehold land	Freehold land	Office premises	Furniture and fixtures	Electrical installations	Office equipment	Computer equipment	Motor vehicles	Total
					(Rupees in '000')				
As at January 01, 2015									
Cost	5,702	5,938	389,171	80,935	42,581	47,625	119,793	53,468	745,213
Accumulated depreciation	-	-	(64,040)	(52,229)	(33,106)	(39,320)	(116,917)	(52,993)	(358,605)
Net book value	5,702	5,938	325,131	28,706	9,475	8,305	2,876	475	386,608
Year ended December 31, 2015									
Opening net book value	5,702	5,938	325,131	28,706	9,475	8,305	2,876	475	386,608
Additions	-	-	-	1,780	-	4,855	226	5,011	11,872
Disposals									
Cost	-	-	-	(25)	-	(174)	(24,866)	(24)	(25,089)
Depreciation	-	-	-	25	-	174	24,866	24	25,089
	-	-	-	-	-	-	-	-	-
Adjustments in									
- cost*	-	-	-	(80)	2	(3,211)	(1,036)	46	(4,279)
- depreciation*	-	-	(2)	82	(2)	(73)	(5)	(46)	(46)
	-	-	(2)	2	-	(3,284)	(1,041)	-	(4,325)
Depreciation charge	-	-	(19,092)	(7,579)	(2,956)	(2,770)	(2,001)	(487)	(34,885)
Closing net book value	5,702	5,938	306,037	22,909	6,519	7,106	60	4,999	359,270
As at December 31, 2015									
Cost	5,702	5,938	389,171	82,610	42,583	49,095	94,117	58,501	727,717
Accumulated depreciation	-	-	(83,134)	(59,701)	(36,064)	(41,989)	(94,057)	(53,502)	(368,447)
Net book value	5,702	5,938	306,037	22,909	6,519	7,106	60	4,999	359,270

*This represents adjustments in order to reconcile assets as per subsidiary and general ledger. Office premises also include adjustment amounted to Rs. 33.2 million for pending bills in respect of Islamabad building capitalized in 2014.

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10.2.1 Disposal of operating fixed assets

Particulars	Cost	Net book value	Sale proceeds	Gain on disposal	Mode of disposal	Particular of buyers
	---------- Rupees in '000 ----------					
Items having cost less than one million rupees or book value less than two hundred and fifty thousand rupees						
Freehold land	154	154	4,895	4,741	Note 10.2.2	
Office premises	1,691	1,167	37,090	35,923	Note 10.2.2	
Furniture and fixtures	17	-	-	-	Auction	Various
Computer equipment	275	62	64	2	Auction	Ex Employees
Office equipment	83	-	-	-	Auction	Various
Mobile phones	162	18	32	14	Settlement	Ex Employees
Motor vehicles	3,219	-	1,341	1,341	Auction	Various
2016	**5,601**	**1,401**	**43,422**	**42,021**		
2015	25,089	-	75	75		

10.2.2 During the year a land and building portion (29%) of the Company was acquired and demolished by the Lahore Development Authority for Orange Train Project in consideration of amount paid.

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	Note	2016	2015
		------- (Rupees in '000) -------	
10.3 Intangibles			
Year ended December 31,			
Opening net book value		**2,282**	2,262
Additions		**855**	95
Disposals			
Cost		-	-
Amortization		-	-
		-	-
Adjustments*		**(1,740)**	-
Amortization charge	10.3.1	**(379)**	(75)
Closing net book value		**1,018**	2,282
As at December 31,			
Cost		**8,716**	9,874
Accumulated amortization		**(7,698)**	(7,592)
Net book value		**1,018**	2,282

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

*This represents adjustments for accrued amount.

11. DEFERRED TAX ASSETS

11.1 Deferred tax asset amounting to Rs. 2,018 million (2015: Rs. 2,370 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.

	Note	2016	2015
		------- (Rupees in '000) -------	
12. OTHER ASSETS			
Mark-up income accrued in local currency			
Advances		35,063	46,871
Investments		7,247	190,257
Advance taxation (payments less provision)		**549,334**	444,440
Other advances, deposits and prepayments		**142,011**	158,338
Advance against purchase of land - housing projects	12.1	**53,815**	50,470
Other receivable against advances		**20,835**	36,390
Advance against shares subscription	12.2	**6,675**	-
Assets acquired from Pakistan Refugees Rehabilitation Finance Corporation (PRRFC)	12.4	-	-
		814,980	926,766
Less: Provision held against other assets	12.3	**(53,815)**	(50,470)
		761,165	876,296

12.1 This represents an advance payment made in 2007 i.e. 32% and remaining 69% are shown as commitment for the purchase cost of two pieces of land measuring 163 acres situated in Gwadar. 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. Currently, negotiations for purchase of it at revised value is in progress. The management on prudent basis, has made full provision against this amount.

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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. 667,500 shares transferred to the Company on dated February 13, 2017.

	2016	2015
	------- (Rupees in '000) -------	
12.3 Particulars of provision against other assets		
Balance at beginning of the year	**50,470**	50,470
Charge for the year	**3,345**	-
Balance at end of the year	**53,815**	50,470

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.

	Note	2016	2015
		------- (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

13. BORROWINGS

	Note	2016	2015
In Pakistan - local currency	13.1	-	11,242,300
Outside Pakistan - foreign currency		-	-
		-	11,242,300

13.1 Detail of borrowings

	Note	2016	2015
Secured			
Borrowings from the State Bank of Pakistan (SBP)	13.1.1	-	11,242,300

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

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The credit lines were repayable as follows:

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

In pursuance of the Company's request, the SBP, through its letter no. SMED Refinance 900/06-2071, dated September 02, 2006, advised the Company to pay mark-up @ 9.5% for utilization of the said amount. The SBP also clarified on request of the Company that the mark-up so charged is the regular remuneration for credit lines.

13.1.2 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 (aggregating to Rs. 16,364 million) upto December 31, 2016 into ordinary shares of the Company at par value (Rs. 10 per share). Shareholders' have also approved the same in its 10th Annual General Meeting held on March 31, 2017. Accordingly, the amount has been transferred to "conversion of liabilities into share capital" account.

14. OTHER LIABILITIES

	Note	2016	2015
		------- (Rupees in '000) -------	
Mark-up expense accrued in local currency			
Sukuk bonds	14.1	-	58
Borrowings from the State Bank of Pakistan (SBP)	14.2	59	4,053,741
Retirement and other service benefits	29	4,181,753	4,356,942
Payable against voluntary retirement schemes		517,648	-
Deferred credits	14.4	1,699,717	1,596,859
Accrued expenses		66,001	108,876
Insurance premium payable	14.5	58,069	51,887
Advance rent received		39,200	-
Refundable to customers against advances		8,167	12,121
Security deposits		5,942	-
Application fee - Gwadar Project		3,872	3,881
Retention money payable		1,069	6,711
Reimbursement of claims by Government of Pakistan		579	579
Agents' deposit money		185	185
Others		5,168	3,072
		6,587,429	10,194,912

14.1 This represents mark-up accrued on sukuk bonds issued to various financial institutions.

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	Note	2016	2015
		------- (Rupees in '000) -------	

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

	Note	2016	2015
Balance at beginning of the year		**4,053,741**	2,985,722
Add: Mark-up accrued on SBP credit lines	13.1.1	**1,068,019**	1,068,019
		5,121,760	4,053,741
Less: Transferred to "conversion of liabilities into - share capital" account	13.1.2	**(5,121,701)**	-
Balance at end of the year		**59**	4,053,741

14.3 Voluntary Severance Scheme (VSS) and Voluntary Retirement Scheme (VRS) was announced by the Management in November 2016 pursuant to which 175 employees opted for the scheme.

14.4 Deferred credits

	Note	2016	2015
Balance at beginning of the year		**1,596,859**	1,502,011
Demand charges - net of recovery expenses		**23,494**	13,485
Provision against insurance receivable from partners		**-**	(9,658)
Profit received on investment from deferred credits		**79,364**	91,021
Balance at end of the year	14.4.1	**1,699,717**	1,596,859

14.4.1 Deferred credit balance at end of the year comprises of:

	Note	2016	2015
Demand charges - net of recovery expenses	14.4.2 & 14.4.3	**580,412**	556,918
Profit/commission received from State Life Insurance Corporation - net of death claims	14.4.4	**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	14.4.5	**52,503**	52,503
Property insurance		**(12,495)**	(12,495)
		40,008	40,008
Income from investments from deferred credit balance	14.4.6	**1,236,552**	1,157,188
		1,804,717	1,701,859
Donations	14.4.7	**(105,000)**	(105,000)
		1,699,717	1,596,859

14.4.2 Demand charges - net of recovery expenses

	Note	2016	2015
Demand charges recovered		**687,412**	664,302
Less: Recovery charges paid			
Balance at beginning of the year		**(107,384)**	(106,838)
During the year		**384**	(546)
		(107,000)	(107,384)
Balance at end of the year		**580,412**	556,918

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14.4.3 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.

14.4.4 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.

14.4.5 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.

14.4.6 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.

14.4.7 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.

14.5 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.

15. SHARE CAPITAL

15.1 Authorized Capital

2016	2015		2016	2015
Number of Shares				
2,000,000,000	600,000,000	Ordinary shares of Rs.10/-	**20,000,000**	6,000,000

15.2 Issued, subscribed Issued, subscribed and paid up capital

2016	2015		2016	2015
		Ordinary shares of Rs 10 e		
6	6	- Fully paid in cash	-	-
300,000,000	300,000,000	- Issued for consideration other than cash	**3,000,000**	3,000,000
100,000	100,000	- Shares issued for consideration in cash	**1,000**	1,000
300,100,006	300,100,006		**3,001,000**	3,001,000
		Pattern of share holdings:		
187,562,506	187,562,506	- Federal Government	**1,875,625**	1,875,625
112,537,500	112,537,500	- State Bank of Pakistan	**1,125,375**	1,125,375
300,100,006	300,100,006		**3,001,000**	3,001,000

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15.3 As at December 31, 2016, the Company has negative equity of Rs. 2,383.4 million against the minimum required equity of Rs. 6 billion as prescribed by the State Bank of Pakistan (SBP) for DFIs through BSD Circular No.19 dated September 05, 2008. The State Bank of Pakistan vide its letter no. BSD/BAID/659/2145/2012 dated February 16, 2012 granted exemption to the Company from the minimum capital requirement till December 31, 2012 or completion of privatization / restructuring process, whichever is later.

15.4 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 (aggregating to Rs. 16,364 million) upto December 31, 2016 into ordinary shares of the Company at par value (Rs. 10 per share). Shareholders' have also approved the same in its 10th Annual General Meeting held on March 31, 2017. Accordingly, the amount has been transferred to "conversion of liabilities into share capital" account. (Note 1)

In view of the above, the shortfall against minimum capital requirement is temporary and the Company will be in compliance with the minimum capital requirement, on issuance of ordinary shares.

	2016	2015
	------- (Rupees in '000) -------	
16. (DEFICIT) / SURPLUS ON REVALUATION OF ASSETS		
Available-for-sale securities		
Market treasury bills	**(6,201)**	(693)
Pakistan Investment Bonds (PIBs)	**4,515**	102,824
	(1,686)	102,131

17. CONTINGENCIES AND COMMITMENTS

17.1 Contingencies

	2016	2015
Claims not acknowledged as debt	**47,990**	47,990

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.

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.

*There are other cases as well with the Workmen Union and employees of the Company against which no contingent liability could be reliably estimated.

	Note	2016	2015
		------- (Rupees in '000) -------	
17.2 Commitments			
Loans sanctioned but not disbursed		**372,545**	417,492
Equity investment to be made in Pakistan Mortgage Refinance Company Limited	12.2	**193,325**	200,000
Land to be purchased for Gwadar Housing Projects	12.1	**146,355**	149,700
Land to be purchased for Gwadar Office		**9,750**	9,750
Contruction to be made on building in Lahore		**2,025**	-
Rental to be due under lease agreements in respect of vehicles			
Not later than one year		**252**	1,025
Later than one year but not later than five years		-	206

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	Note	2016	2015
		------- (Rupees in '000) -------	
18. RENTAL/MARK-UP/RETURN/INTEREST INCOME			
On advance to:			
Customers	18.1	**2,108,532**	1,723,498
Employees		**7,382**	6,839
On investment in securities:			
Available-for-sale	18.2	**458,266**	744,540
Held-to-maturity		**218**	4,251
On lending to financial institutions:			
Letters of placement		**1,912**	617
Repurchase agreement lending (Reverse Repo)		**17,139**	16,477
On bank balances		**13,402**	13,597
		2,606,851	2,509,819

18.1 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.

18.2 This amount is netted with mark-up accrued on deferred credit balance amounting to Rs. 79.4 million @ 4.97% (2015: Rs. 91 million @ 6.06%).

	Note	2016	2015
		------- (Rupees in '000) -------	
19. RECONCILIATION ADJUSTMENTS			
Tagged accounts settled	19.1	**(847)**	(9,562)

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

	Note	2016	2015
20. RELIEF PACKAGE AND REPROCESSING ADJUSTMENTS			
Reprocessing and closing adjustment	20.1	**7,754**	17,194
Relief package and settlement scheme	20.2	**1,268**	1,021
Waiver to partner accounts	20.3	**869**	4,187
		9,891	22,402

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

20.2 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.

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

21. OTHER INCOME

	Note	2016	2015
		------- (Rupees in '000) -------	
Profit commission from an insurance company		**155,973**	
Rent of buildings		**28,291**	-
Gain on disposal of operating fixed assets	10.2.1	**42,021**	75
Inspection and application fee		**17,295**	24,078
Miscellaneous	21.1	**29,670**	32,586
		273,250	56,739

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

22. ADMINISTRATIVE EXPENSES

	Note	2016	2015
		------- (Rupees in '000) -------	
Salaries, allowances and other perquisites		**1,004,899**	985,822
Defined benefit plan - pension	29.3	**340,990**	333,622
Defined benefit plan - post retirement medical benefit	29.3	**96,700**	113,183
Employees' compensated absences	29.8	**(98,305)**	56,484
Voluntary retirement schemes		**200,718**	-
Rent, taxes, insurance, electricity, etc.		**46,081**	38,557
Legal and professional		**39,647**	28,503
Repairs and maintenance		**38,381**	37,252
Depreciation of property and equipment	10.2	**30,595**	34,885
Amortization of intangibles	10.3	**371**	75
Postage and telephone		**16,987**	16,989
Traveling and conveyance		**14,509**	15,505
Stationery and printing		**6,058**	12,418
Security guards		**5,285**	4,356
Advertisement and publicity		**2,984**	13,042
Auditors' remuneration	22.1	**2,500**	2,500
Entertainment expense		**2,259**	3,976
Education and training		**1,055**	1,757
Subscription and publication		**201**	507
Others		**6,184**	4,092
		1,758,099	1,703,525

22.1 Auditors' remuneration

	2016	2015
Audit fee	**1,100**	1,100
Half yearly review	**385**	385
Special certification, internal control over financial reporting, other reviews	**1,015**	1,015
	2,500	2,500

		Note	2016	2015
			------- (Rupees in '000) -------	
23.	**OTHER PROVISIONS**			
	Provision against doubtful receivable insurance premium from partners		**21,742**	7,536
	Provision for non-utilization charges of lands		**7,280**	-
	Provision for advance against purchase of land - housing projects		**3,345**	-
			32,367	7,536

24.	**OTHER CHARGES**			
	Bank commission and charges		**8,516**	7,009
	Penalty imposed by the State Bank of Pakistan		**1,036**	294
			9,552	7,303

25.	**TAXATION**			
	Company			
	Current			
	- for the year		**29,244**	122,305
	- for prior years		**-**	-
			29,244	122,305
	Deferred			
	- for the year	11.1	**-**	-
			29,244	122,305
	Associate			
	Current tax			
	- for the year	8.8.1	**839**	950
	- for prior years		**-**	-
			839	950
	Deferred tax			
	- for the year		**-**	-
			839	950
			30,083	123,255

25.1	**Relationship between accounting (loss) / profit and taxation**			
			(835,867)	(728,705)
	Tax on accounting profit @ 31% (2015: 32%)	25.3	**-**	-
	Tax effects:			
	- Share of taxation from an associate			950
	- Super tax @ 3%			-
	- Expenses that are not deductible for determining taxable profit			122,305
				123,255

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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. The Company appeals 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.

The Company has also obtained stay order till May 14, 2017 from the High Court of Sindh (SCH) against demand raised by the FBR for the tax years 2010 and 2014.

The Company has applied for revision of income tax return for the tax year 2015, as the audited accounts are materially mismatched with unaudited accounts provided at the time of return filing.

25.3 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 minimum tax.

26. BASIC & DILUTED EARNINGS PER SHARE

	Note	2016	2015
		------- (Rupees in '000) -------	
Loss for the year - Rupees in '000		**(865,950)**	(851,960)
Weighted average number of ordinary shares - basic		**300,100,006**	300,100,006
Basic earnings per share - Rupees		**(2.89)**	(2.84)
Weighted average number of ordinary shares - diluted	1	**1,936,500,006**	300,100,006
Diluted earnings per share - Rupees	26.1	**(2.89)**	(2.84)

26.1 Diluted earnings per share is reported same as basic earnings per share because of loss for the year impact of potential ordinary shares is anti-dilutive.

	Note	2016	2015
		------ (Rupees in '000) -------	

27. CASH AND CASH EQUIVALENTS

	Note	2016	2015
Cash and balances with treasury banks	5	121,378	82,376
Balances with other banks	6	650,310	107,638
		771,688	190,014

28. STAFF STRENGTH

	2016	2015
As at end of the year		
Permanent	622	698
Contractual basis	48	51

29. RETIREMENT AND OTHER SERVICE BENEFITS

	2016	2015
Pension	2,781,324	2,887,120
Post retirement medical benefit	951,949	901,830
Employees' compensated absences	448,480	567,992
	4,181,753	4,356,942

29.1 Principal actuarial assumptions

The principal assumptions used in actuarial valuations carried out by the independent actuary as at December 31, 2016, under the 'Projected Unit Credit' method, are as follows:

	Pension		Post retirement medical benefit		Compensated absences	
	2016	2015	2016	2015	2016	2015
Discount rate per annum	9.5%	10.0%	9.5%	10.0%	9.5%	10.0%
Expected per annum rate of return on plan assets	9.5%	10.0%	-	-	-	-
Expected per annum rate of increase in future salaries	9.5%	10.0%	9.5%	-	9.5%	10.0%
Indexation of pension	8.5%	9.0%	-	-	-	-
Indexation of medical benefit	-	-	2.5%	2.5%	-	-

29.2 Reconciliation of payable to defined benefit plan

	Pension		Post retirement medical benefit	
	2016	2015	2016	2015
	------ (Rupees in '000) -------		------ (Rupees in '000) -------	
Present value of defined benefit obligations	5,955,378	5,721,530	951,949	901,830
Fair value of plan assets	(3,174,054)	(2,834,410)	-	-
Net liability at end of the year	2,781,324	2,887,120	951,949	901,830

29.2.1 Movement in present value of defined benefit obligations

	Pension		Post retirement medical benefit	
	2016	2015	2016	2015
	------ (Rupees in '000) -------		------ (Rupees in '000) -------	
Present value of defined benefit obligations at beginning of the year	5,721,530	4,559,650	901,830	791,891
Current service cost	128,000	136,409	25,585	21,342
Interest cost	545,357	516,484	87,202	91,841
Benefits paid during the year	(535,927)	(328,088)	(59,629)	(20,530)
Remeasurement: actuarial loss	145,442	837,075	13,048	17,286
Gain due to VSS	(49,024)	-	(16,087)	-
Present value of defined benefit obligations at end of the year	5,955,378	5,721,530	951,949	901,830

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29.2.2 **Movement in fair value of plan assets**

Fair value of plan assets at beginning of the year	**2,834,410**	2,717,200
Expected return on plan assets	**283,441**	319,271
Benefits paid by the Company	**535,927**	278,088
Contributions made by the Company	**-**	50,000
Benefits paid during the year	**(535,927)**	(328,088)
Remeasurement: actuarial (gain) / loss	**56,203**	(202,061)
Fair value of plan assets at end of the year	**3,174,054**	2,834,410

29.3 **Charge for defined benefit plan**

29.3.1 **Expense recognized in profit and loss account**

Current service cost	**128,000**	136,409	**25,585**	21,342
Net interest expense	**261,916**	197,213	**87,202**	91,841
Gain due to VSS	**(49,024)**	-	**(16,087)**	-
Expense for the year	**340,892**	333,622	**96,700**	113,183

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

Actuarial loss on defined benefit obligations	**145,442**	837,075	**13,048**	17,286
Actuarial (gain) / loss on fair value of plan assets	**(56,203)**	202,061	**-**	-
	89,239	1,039,136	**13,048**	17,286

29.4 **Net recognized liability**

Net liability at beginning of the year	**2,887,120**	1,842,450	**901,830**	791,891
Expense recognized in profit and loss account	**340,892**	333,622	**96,700**	113,183
Benefits paid by the Company	**(535,927)**	(278,088)	**(59,629)**	(20,530)
Contributions during the year	**-**	(50,000)	**-**	-
Remeasurement loss recognized in other comprehensive income	**89,239**	1,039,136	**13,048**	17,286
Net liability at end of the year	**2,781,324**	2,887,120	**951,949**	901,830

29.5 **Components of plan assets**

Government securities and TFC's	**2,654,785**	2,833,177
Bank balances	**1,765**	1,233
	2,656,550	2,834,410

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 increase / (decrease) 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 %	5,046,880	800,811
Decrease in Discount Rate by 1 %	(6,561,464)	(1,024,608)
Increase in expected future increment in salary by 1%	5,947,343	-
Decrease in expected future increment in salary by 1%	(5,514,768)	-
Increase in expected future increment in pension by 1%	6,330,887	-
Decrease in expected future increment in pension by 1%	(5,213,214)	-
Increase in expected future increment in medical benefit by 1%	-	990,901
Decrease in expected future increment in medical benefit by 1%	-	824,897

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

	2016	2015	2014	2013	2012
		(Rupees in '000')			
Pension Fund					
Present value of defined benefit obligations	**5,955,378**	5,721,530	4,559,650	3,237,201	3,140,201
Fair value of plan assets	**(3,174,054)**	(2,834,410)	(2,717,200)	(2,399,696)	(2,205,520)
	2,781,324	2,887,120	1,842,450	837,505	934,681
Actuarial (gain) / loss on defined benefit obligations	**145,442**	837,075	927,638	(247,879)	225,750
Actuarial (loss) / gain on plan assets	**56,203**	(202,061)	5,543	59,458	(72,569)
Post retirement medical benefits					
Present value of defined benefit obligations	**17,286**	17,286	638,194	738,826	1,003,934
Actuarial (gain) / loss on obligation	-	-	225,831	53,154	163,563

29.8 Employees' compensated absences

	2016	2015
	(Rupees in '000)	
Balance at beginning of the year	**567,992**	522,231
Expense for the year	**(98,305)**	56,484
Benefits paid	**(21,207)**	(10,723)
Balance at end of the year	**448,480**	567,992

30. REMUNERATION OF DIRECTORS AND EXECUTIVES

	Directors		Managing Director		Executives	
	2016	2015	2016	2015	2016	2015
			(Rupees in '000')			
Directors fees	**1,250**	670	-	-	-	-
Basic pay	-	-	**8,916**	7,535	**52,910**	20,730
Rent and house maintenance	-	-	**4,296**	3,451	**6,853**	14,481
Utilities	-	-	**712**	628	**698**	996
Medical	-	-	**111**	129	**1,164**	3,684
Charge for defined benefit plan	-	-	-	-	-	
Others	-	-	**11,506**	6,495	**3,144**	11,435
	1,250	670	**25,541**	18,238	**64,769**	51,326
Number of persons	**7**	7	**1**	1	**18**	22

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

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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 35.2 and 35.3.

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:

Relationship	Nature of Transaction	2016	2015
		----- (Rupees in '000) -----	
Associated undertaking			
- Takaful Pakistan Limited	Insurance premium paid	**10,701**	9,646
	Insurance claim received	**127**	-
Key management personnel	Loans and advances	**3,436**	7,752
	Proceeds from disposal of operating fixed assets	**32**	3
Retirement and other service benefits	Pension	**5,354**	15,287
	Post retirement medical benefit	**1,467**	4,775
	Employees' compensated absences	**(1,022)**	587

The related party status of outstanding receivables and payables as at December 31, 2016 are included in respective notes to the financial statements.

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

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33. CAPITAL ADEQUACY

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 10.65% (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.

In view of the above, the shortfall against minimum capital requirement is temporary and the Company will be in compliance with the minimum capital requirement, on issuance of ordinary shares.

SBP through its BSD Circular No. 07 dated April 15, 2009 has also asked to achieve the minimum Capital Adequacy Ratio (CAR) of 10.65%. The capital adequacy ratio (CAR) of the Company stands at 20.43% negative of its risk weighted exposures as at December 31, 2016. The Company has maintained capital adequacy ratio well below the requirement.

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

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

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

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

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

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

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

Common Equity Tier 1 (CET1)

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

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

Additional Tier 1 Capital (AT1)

Additional Tier capital shall consist of the following items:

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

Tier 2 Capital (Gone Concern Capital or Supplementary Capital)

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

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

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33.2 **Capital Adequacy Ratio (CAR) disclosure**

	CAPITAL ADEQUACY RETURN AS OF DECEMBER 31, 2016	Reference	2016	2015
			----- (Rupees in '000) -----	
	Common Equity Tier 1 capital (CET 1): Instruments & reserves			
1	Fully Paid-up Capital / Capital deposited with SBP	s	3,001,000	3,001,000
2	Advance against issue of capital		-	218,143
3	Reserve for issue of Bonus Shares		-	-
4	Discount on Issue of shares		-	-
5	General / Statutory Reserves (as disclosed on Balance Sheet)	u	713,662	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	(5,757,934)	(4,789,697)
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**		(2,043,272)	(856,892)
10	Total regulatory adjustments applied to CET1	Note 33.2.1	(30,903)	(18,891)
11	**Common Equity Tier 1**		(2,074,175)	(875,783)
	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)**		(2,074,175)	(875,783)
	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	94,482	91,792
27	Revaluation Reserves (net of taxes)		-	-
28	of which: Revaluation reserves on fixed assets		-	-
29	of which: Unrealized gains/losses on AFS	ab	(1,686)	102,131
30	Foreign Exchange Translation Reserves	v	-	-
31	Undisclosed/Other Reserves (if any)		-	-
32	**T2 before regulatory adjustments**		92,796	193,923
33	Total regulatory adjustment applied to T2 capital	Note 33.2.3	-	-
34	Tier 2 capital (T2) after regulatory adjustments		93,316	193,923
35	Tier 2 capital recognized for capital adequacy		-	193,923
36	Portion of Additional Tier 1 capital recognized in Tier 2 capital		-	-
37	**Total Tier 2 capital admissible for capital adequacy**		-	193,923
38	**TOTAL CAPITAL (T1 + admissible T2) (21+37)**		(2,074,175)	(681,860)
39	**Total Risk Weighted Assets (RWA)**	Note 33.5	11,000,627	10,689,382
	Capital Ratios and buffers (in percentage of risk weighted assets)			
40	**CET1 to total RWA**		-18.86%	-8.19%
41	**Tier-1 capital to total RWA**		-18.86%	-8.19%
42	**Total capital to total RWA**		-18.86%	-6.38%
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		10.65%	10.25%

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		Reference	2016 Amount	2016 Amounts subject to Pre-Basel III treatment*	2015 Amount
			(Rupees in '000)		
	Regulatory Adjustments and Additional Information				
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	616	410	1,159
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	20,191	17,732
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)		30,902	20,602	18,891
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)		-	-	-

		2016	2015
		----- (Rupees in '000) -----	

33.2.4 Additional Information

		2016	2015
	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)	11,000,627	10,689,382
(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	26,598
	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)	94,482	91,792
44	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

33.3 Capital Structure Reconciliation

Table: 44.3.1

	2016	
	Balance sheet as in the published financial statements	**Under regulatory scope of consolidation**
	----- (Rupees in '000) -----	
Assets		
Cash and balances with treasury banks	121,378	121,378
Balanced with other banks	650,310	650,310
Lending to financial institutions	400,188	400,188
Investments	6,841,040	6,841,040
Advances	11,816,929	11,816,929
Operating fixed assets	315,461	315,461
Deferred tax assets	-	-
Other assets	761,165	761,165
Total assets	20,906,471	20,906,471
Liabilities & Equity		
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	6,587,429
Total liabilities	6,587,429	6,587,429
Share capital/ Head office capital account	3,001,000	3,001,000
Reserves	713,662	713,662
Unappropriated/ Unremitted profit/ (losses)	(5,757,934)	(5,757,934)
Minority Interest	-	-
Conversion of liabilities into share capital	16,364,000	16,364,000
Surplus on revaluation of assets	(1,686)	(1,686)
Total liabilities & equity	20,906,471	20,906,471

Table: 44.3.2	2016 Balance sheet as in the published financial statements	2016 Under regulatory scope of consolidation	Reference
	----- (Rupees in '000) -----		
Assets			
Cash and balances with treasury banks	121,378	121,378	
Balanced with other banks	650,310	650,310	
Lending to financial institutions	400,188	400,188	
Investments	6,841,040	6,841,040	
of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold	30,287	30,287	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)	6,790,562	6,790,562	e
Advances	11,816,929	11,816,929	
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	-	-	f
general provisions reflected in Tier 2 capital	94,482	94,482	g
Fixed Assets	315,461	315,461	
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	761,165	761,165	
of which: Goodwill	-	-	j
of which: Intangibles	1,026	1,026	k
of which: Defined-benefit pension fund net assets	-	-	l
Total assets	20,906,471	20,906,471	
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	6,587,429	6,587,429	
Total liabilities	6,587,429	6,587,429	
Share capital	3,001,000	3,001,000	
of which: amount eligible for CET1	3,001,000	3,001,000	s
of which: amount eligible for AT1	-	-	t
Reserves	713,662	713,662	
of which: portion eligible for inclusion in CET1(provide breakup)	713,662	713,662	u
of which: portion eligible for inclusion in Tier 2	-	-	v
Unappropriated profit/ (losses)	(5,757,934)	(5,757,934)	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	16,364,000	16,364,000	aa
Surplus on revaluation of assets	(1,686)	(1,686)	
of which: Revaluation reserves on Fixed Assets	-	-	ab
of which: Unrealized Gains/Losses on AFS	(1,686)	(1,686)	
In case of Deficit on revaluation (deduction from CET1)	-	-	ac
Total liabilities & Equity	20,906,471	20,906,471	

44.4 **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)	3,001,000
Par value of instrument	Rs. 10 per share
Accounting classification	Shareholders' equity
Original date of issuance	1952
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

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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	
	2016	2015	2016	2015
Credit Risk				
On-Balance sheet				
Portfolios subject to standardized approach (Simple or Comprehensive)				
Cash & cash equivalents	-	-	-	-
Sovereign	-	-	-	-
Public Sector entities	-	-	-	-
Banks	28,342	2,153	266,126	21,528
Corporate	3,226	3,990	30,287	39,897
Retail	-	-	-	-
Residential Mortgages	341,286	345,060	3,204,559	3,450,597
Past Due loans	295,668	182,067	2,776,229	1,820,668
Operating Fixed Assets	33,531	37,208	314,845	372,077
Other assets	84,654	86,043	794,872	860,431
Portfolios subject to Internal Rating Based (IRB) Approach	-	-	-	-
Off-Balance sheet				
Non-market related				
Contingencies & Commitments	18,278	77,817	171,627	778,173
Market related	-	-	-	
Equity Exposure Risk in the Banking Book				
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	44,451	58,901	417,376	589,013
Equity position risk	-	-	-	-
Capital Requirement for portfolios subject to Internal Models Approach	-	-	-	-
Operational Risk				
Capital Requirement for operational risks	322,131	275,700	3,024,706	2,756,998
TOTAL	1,171,567	1,068,938	11,000,627	10,689,382

Capital Adequacy Ratios	2016		2015	
	Required	Actual	Required	Actual
CET1 to total RWA	**6.00%**	**-18.86%**	6.00%	-8.19%
Tier-1 capital to total RWA	**7.50%**	**-18.86%**	7.50%	-8.19%
Total capital to total RWA	**10.65%**	**-18.86%**	10.25%	-6.38%

33.5.1 In view of the capital position stated in note 33.1 the shortfall against capital adequacy ratio requirement is temporary and the company will be in compliance with the capital adequacy requirement, on issuance of ordinary shares.

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, 2016 stands at 9.57% negative (December 31, 2015: 4.08% negative). Tier 1 Capital as at December 31, 2016 is Rs. 2,074 million negative (December 31, 2015: Rs. 875 million negative) and total exposure as at December 31, 2016 is Rs. 20,906 million (December 31, 2015: Rs. 20,682 million).

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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 Responsibilities

Organizational framework for Risk Management includes the following:

The Board of Directors is responsible for overall supervision of the risk management process. A Board Risk Management Committee has been formed to regularly review risk related activities of the organization. The Board Risk Management Committee is responsible to establish and implement risk management framework of the Company. Individual risks are reviewed and controlled by various committees at management level like 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 its

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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.

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

	2016					
Housing finance	**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	**100.00**	-	-	**724,252**	**100.00**

	2015					
	Advances (Gross)		**Deposits**		**Contingencies and Commitments**	
	Rupees in '000	**Percent %**	**Rupees in '000**	**Percent %**	**Rupees in '000**	**Percent %**
Individuals	14,716,790	99.76	-	-	567,192	72.89
Others	35,407	0.24	-	-	210,981	27.11
	14,752,197	100	-	-	778,173	100.00

34.1.2.2 Segment by sector

	2016					
Housing finance	**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**

	2015					
	Advances (Gross)		**Deposits**		**Contingencies and Commitments**	
	Rupees in '000	**Percent %**	**Rupees in '000**	**Percent %**	**Rupees in '000**	**Percent %**
Public / Government	26,777	0.21	-	-	200,000	25.70
Private	14,725,420	99.79	-	-	578,173	74.30
	14,752,197	100	-	-	778,173	100

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

	2016		2015	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	(Rupees in '000)			
Individuals	6,708,872	3,932,643	4,873,810	3,053,140
Others	26,827	26,827	35,406	35,406
	6,735,699	3,959,470	4,909,216	3,088,546

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

	2016		2015	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	(Rupees in '000)			
Public/ Government	18,198	18,197	26,778	26,777
Private	6,717,501	3,941,271	4,882,438	3,061,767
	6,735,699	3,959,468	4,909,216	3,088,544

34.1.2.5 Geographical segment analysis

	Profit / (loss) before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in '000)			
2016				
Pakistan	(835,867)	20,906,471	14,319,042	724,252
2015				
Pakistan	(728,705)	20,682,451	(754,761)	778,173

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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:

	2016											
	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		121,378	-	-	-	-	-	-	-	-	-	121,378
Balances with other banks	5.00% - 12.5%	650,310	650,310	-	-	-	-	-	-	-	-	-
Lendings 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 lendings		-	-	-	-	-	-	-	-	-	-	-
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)

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	Effective yield/ interest rate	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	Non-interest bearing financial instruments
		2015										
		Exposed to yield / interest risk										
		(Rupees in '000')										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks		82,376	-	-	-	-	-	-	-	-	-	82,376
Balances with other banks	5.00% - 12.5%	107,638	107,638	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	13.87% - 15.2%	-	-	-	-	-	-	-	-	-	-	-
Investments - net	11.65% - 16.04%	7,729,999	543,779	1,536,907	24,980	5,315,197	-	206,005	103,131	-	-	-
Advances - net	5% - 19%	11,512,906	124,526	202,874	307,598	633,384	1,272,426	1,235,336	2,292,166	3,853,170	1,591,426	-
Other assets		876,296	-	-	-	-	-	-	-	-	-	876,296
		20,309,215	775,943	1,739,781	332,578	5,948,581	1,272,426	1,441,341	2,395,297	3,853,170	1,591,426	958,672
Liabilities												
Bills payable		-	-	-	-	-	-	-	-	-	-	-
Borrowings	9.50%	11,242,300	11,242,300	-					-	-	-	-
Deposits and other accounts		-	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		10,194,912	-	-	-	-	-	-	-	-	-	10,194,912
		21,437,212	11,242,300	-	-	-	-	-	-	-	-	10,194,912
On-balance sheet gap		(1,127,997)	(10,466,357)	1,739,781	332,578	5,948,581	1,272,426	1,441,341	2,395,297	3,853,170	1,591,426	(9,236,240)
Off-balance sheet financial instruments												
Forward Lending		-	-	-	-	-	-	-	-	-	-	-
Forward borrowings		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			(10,466,357)	1,739,781	332,578	5,948,581	1,272,426	1,441,341	2,395,297	3,853,170	1,591,426	(9,236,240)
Cumulative Yield/Interest Risk Sensitivity Gap			**(10,466,357)**	**1,739,781**	**332,578**	**5,948,581**	**1,272,426**	**1,441,341**	**2,395,297**	**3,853,170**	**1,591,426**	**(9,236,240)**

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

	December 31, 2016	December 31, 2015
	(Rupees in '000)	
Total financial assets	**20,591,010**	20,309,214
Operating fixed assets	**315,461**	373,237
Total assets as per balance sheet	**20,906,471**	20,682,451
Total financial liabilities	**6,587,429**	21,437,212

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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

	2016									
	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	121,378	121,378	-	-	-	-	-	-	-	-
Balances with other banks	650,310	650,310	-	-	-	-	-	-	-	-
Lendings 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)									
Advance against issue of capital	16,364,000									
(Deficit) / surplus on revaluation of assets	(1,686)									
	14,319,042									

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

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	2015									
	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	82,376	82,376	-	-	-	-	-	-	-	-
Balances with other banks	107,638	107,638	-	-	-	-	-	-	-	-
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments - net	7,729,999	543,779	1,536,907	24,980	5,315,197	-	206,005	103,131	-	-
Advances - net	11,512,906	124,526	202,873	307,598	633,384	1,272,426	1,235,336	2,292,166	3,853,170	1,591,427
Operating fixed assets	373,236	1,757	3,516	5,275	22,232	21,098	21,098	40,650	92,950	164,660
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	876,296	2,708	286,644	7,617	18,543	176,649	292,927	24,863	62,157	4,188
	20,682,451	862,784	2,029,940	345,470	5,989,356	1,470,173	1,755,366	2,460,810	4,008,277	1,760,275
Liabilities										
Bills payable	-	-	-	-	-	-	-	-	-	-
Borrowings	11,242,300	11,242,300	-	-	-	-	-	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	10,194,912	34,539	41,743	75,683	437,540	1,524,724	1,445,066	2,490,547	87,139	4,057,931
	21,437,212	11,276,839	41,743	75,683	437,540	1,524,724	1,445,066	2,490,547	87,139	4,057,931
Net assets / (liabilities)	**(754,761)**	**(10,414,055)**	**1,988,197**	**269,787**	**5,551,816**	**(54,551)**	**310,300**	**(29,737)**	**3,921,138**	**(2,297,656)**
Share capital	3,001,000									
Reserves	713,662									
Accumulated loss	(4,789,697)									
Advance against issue of capital	218,143									
(Deficit) / surplus on revaluation of assets	102,131									
	(754,761)									

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.

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).

	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
Lendings to financial institutions	-	-	-	400,188	-	400,188	-	-	-	-
Investments										
Unlisted ordinary shares	-	500	-	-	-	500	-	-	-	-
Unlisted term finance certificates	-	-	-	-	-	-	-	-	-	-
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**

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	2015									
	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	-	3,711,363	-	-	-	3,711,363	-	3,710,670	-	3,710,670
Pakistan Investment Bonds	-	3,847,233	-	-	-	3,847,233	-	3,950,057	-	3,950,057
	-	7,558,596	-	-	-	7,558,596	-	7,660,727	-	7,660,727
Financial assets not measured at fair value										
Cash and balances with treasury banks	-	-	82,376	-	-	82,376	-	82,376	-	82,376
Balances with other banks	-	-	107,638	-	-	107,638	-	107,638	-	107,638
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments										
Unlisted ordinary shares	-	500	-	-	-	500	-	-	-	-
Unlisted term finance certificates	-	-	24,941	-	-	24,941	-	-	-	-
Unlisted sukuk bonds	-	-	26,240	-	-	26,240	-	-	-	-
Certificates of investment	-	-	67,500	-	-	67,500	-	-	-	-
Term deposit receipts	-	-	2,344	-	-	2,344	-	-	-	-
Advances	-	-	-	11,512,906	-	11,512,906	-	-	-	-
Other assets	-	-	-	876,296	-	876,296	-	-	-	-
	-	500	311,039	12,389,202	-	12,700,741	-	190,014	-	190,014
	-	7,559,096	311,039	12,389,202	-	20,259,337	-	7,850,741	-	7,850,741
Financial liabilities not measured at fair value										
Borrowings	-	-	-	-	(11,242,300)	(11,242,300)	-	-	-	-
Other liabilities	-	-	-	-	(10,194,912)	(10,194,912)	-	-	-	-
	-	-	-	-	(21,437,212)	(21,437,212)	-	-	-	-
	-	7,559,096	311,039	12,389,202	(21,437,212)	(1,177,875)	-	7,850,741	-	7,850,741

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. DATE OF AUTHORIZATION

These financial statements were approved and authorized for issue on 24 MAY 2017 by the Board of Directors of the Company.

38. GENERAL

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

38.2 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.

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MANAGING DIRECTOR	DIRECTOR	DIRECTOR	DIRECTOR