

A large, semi-transparent hourglass is positioned on the left side of the page. The top bulb is empty, while the bottom bulb is filled with a golden-brown sand. The sand is falling through the narrow neck, creating a thin stream. In the background, a modern cityscape with several high-rise apartment buildings is visible. The buildings are white with blue accents and are set against a clear sky. The foreground shows a green lawn and some trees. The overall composition suggests a connection between time and urban development.

With time,
we've become the Agents
of TRANSFORMATION

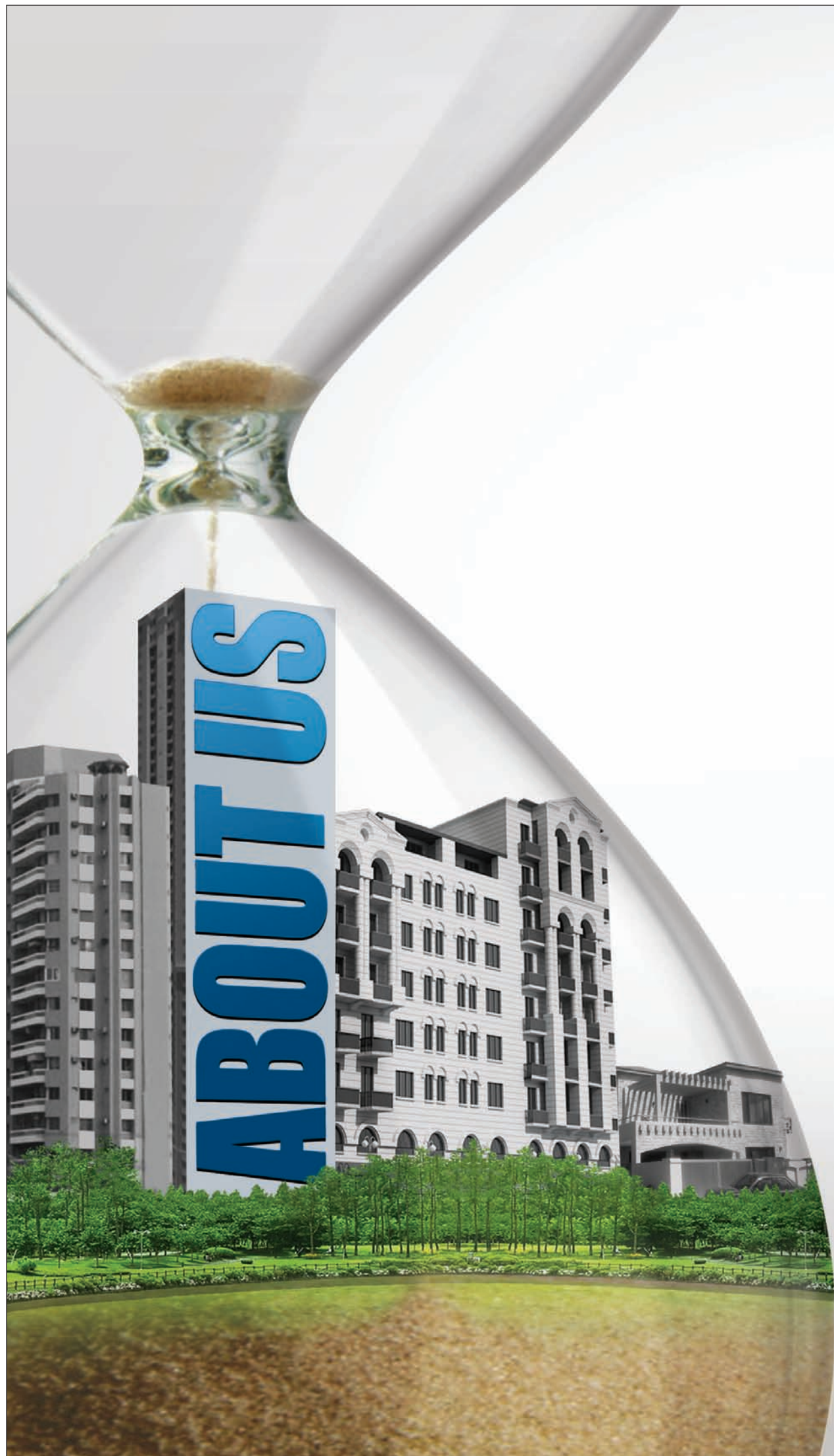
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HOUSE BUILDING FINANCE CORPORATION LIMITED



Annual Report
Annual Report
Annual Report
2010
2010
2010



ABOUT US ABOUT US ABOUT US

Introduction:

Corporatized on July 25, 2007, the House Building Finance Corporation Limited is now an unlisted public company. The Government of Pakistan (GoP) and the State Bank of Pakistan (SBP) jointly hold the capital of HBFCL with 62.50 % and 37.50 %, shares respectively.

The House Building Finance Corporation Limited (HBFC) is also the most longstanding housing finance institution in Pakistan and ranks amongst the oldest housing finance institutions in the entire Asia-Pacific region. HBFC is a government designated financial institution and provides financing facilities for construction, reconstruction, renovation and purchase of houses through its deep rooted and national foot print of twelve zonal offices, fifty eight branches, fifteen representative offices, four camp offices, three regional offices, and the head office based in Karachi.

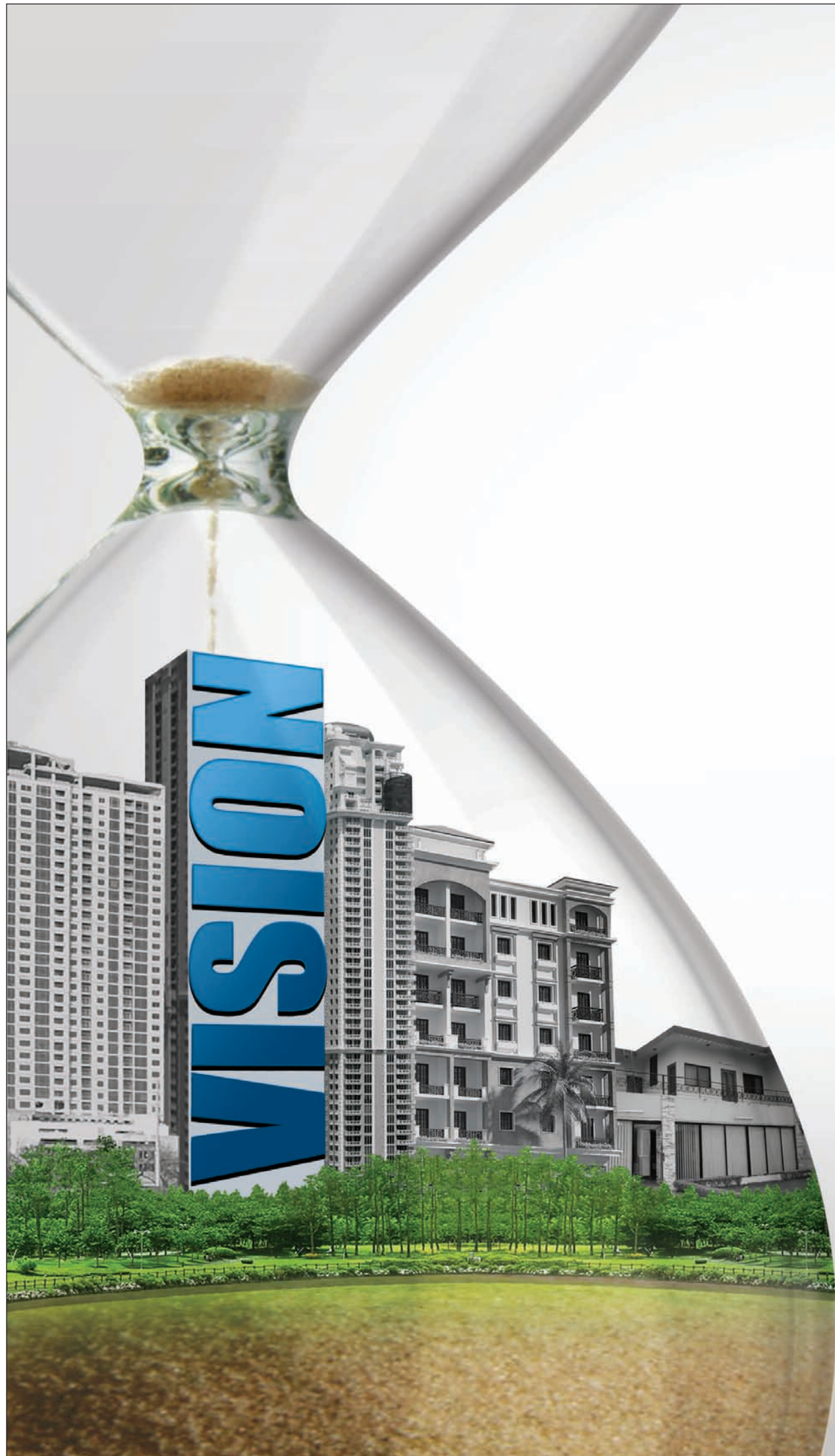
As of February 18th, 2011 and pursuant to the provisions of section 39 of the SECP Companies Ordinance, 1984, the name of House Building Finance Corporation was changed to House Building Finance Company Limited.

People We Serve

As a matter of our mandate, HBFC has focused on providing house financing for the housing needs of the lower & middle income socio-economic sector. To date, HBFC has financed over 450,000 homes. Over the years we have developed and offered housing finance products based on the needs of our clientele.

Presently, nearly 51% of HBFC's clientele is of the lower income demographic with loan amounts of less than Rs. 100,000. Nearly 93% of our clients have loans below Rs. 500, 000, and maintain a monthly income between Rs. 3,500 and Rs. 5,000. Understanding that a large portion of our client base can only afford to pay instalments of Rs. 1000 to Rs. 1200 per month, HBFC has actively developed products to accommodate this market to include repayment plans over a 15 to 20 years period.

For HBFC, our social role is an integral and inseparable part of its commercial stance and our business in itself conducts "Corporate Social Responsibility."

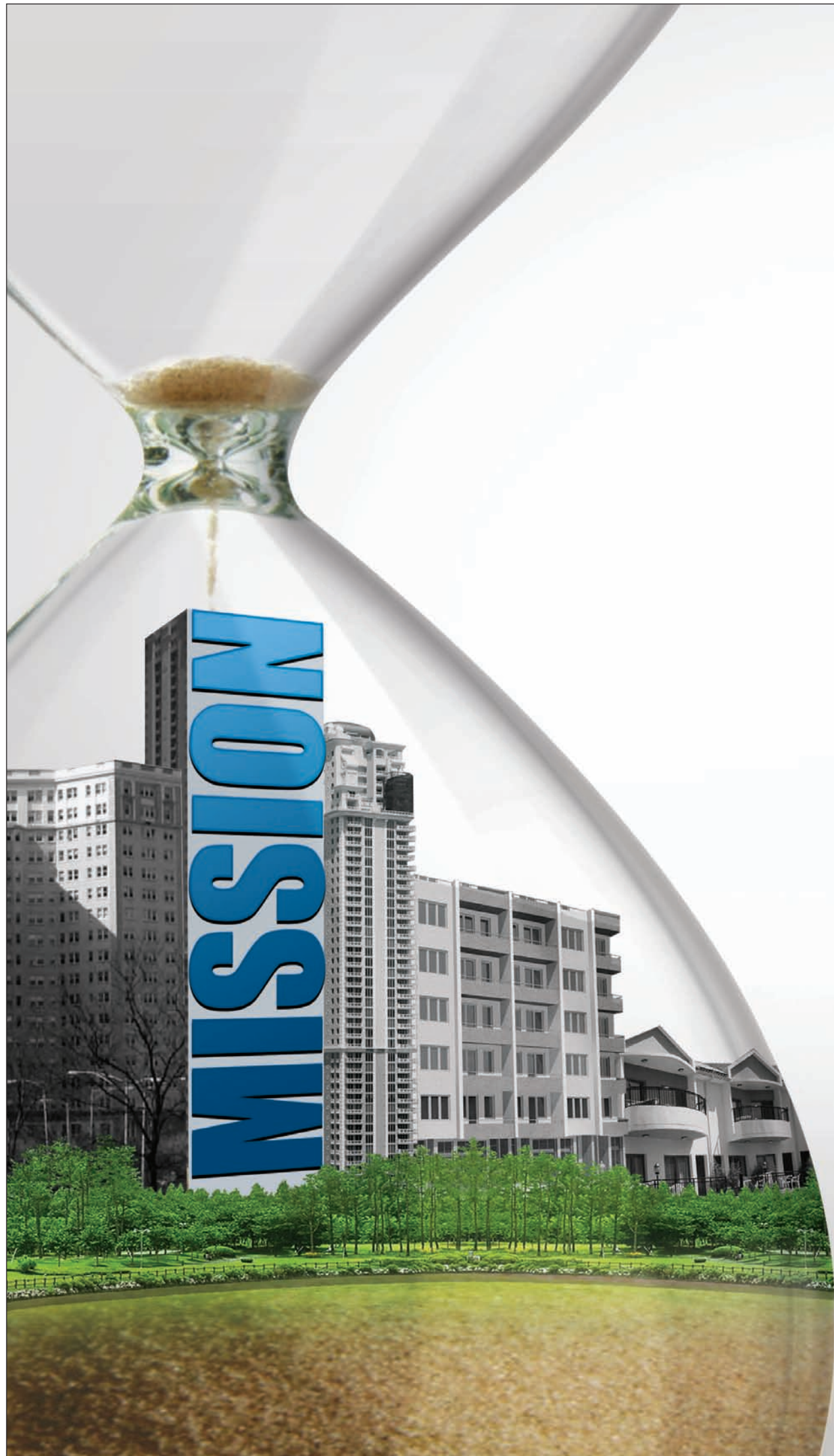


HOUSE BUILDING FINANCE CORPORATION LIMITED



VISION
VISION
VISION

To be the prime housing finance institution of the country, providing affordable housing solutions to low and middle income groups of population by encouraging new constructions in small & medium housing (SMH) sector.

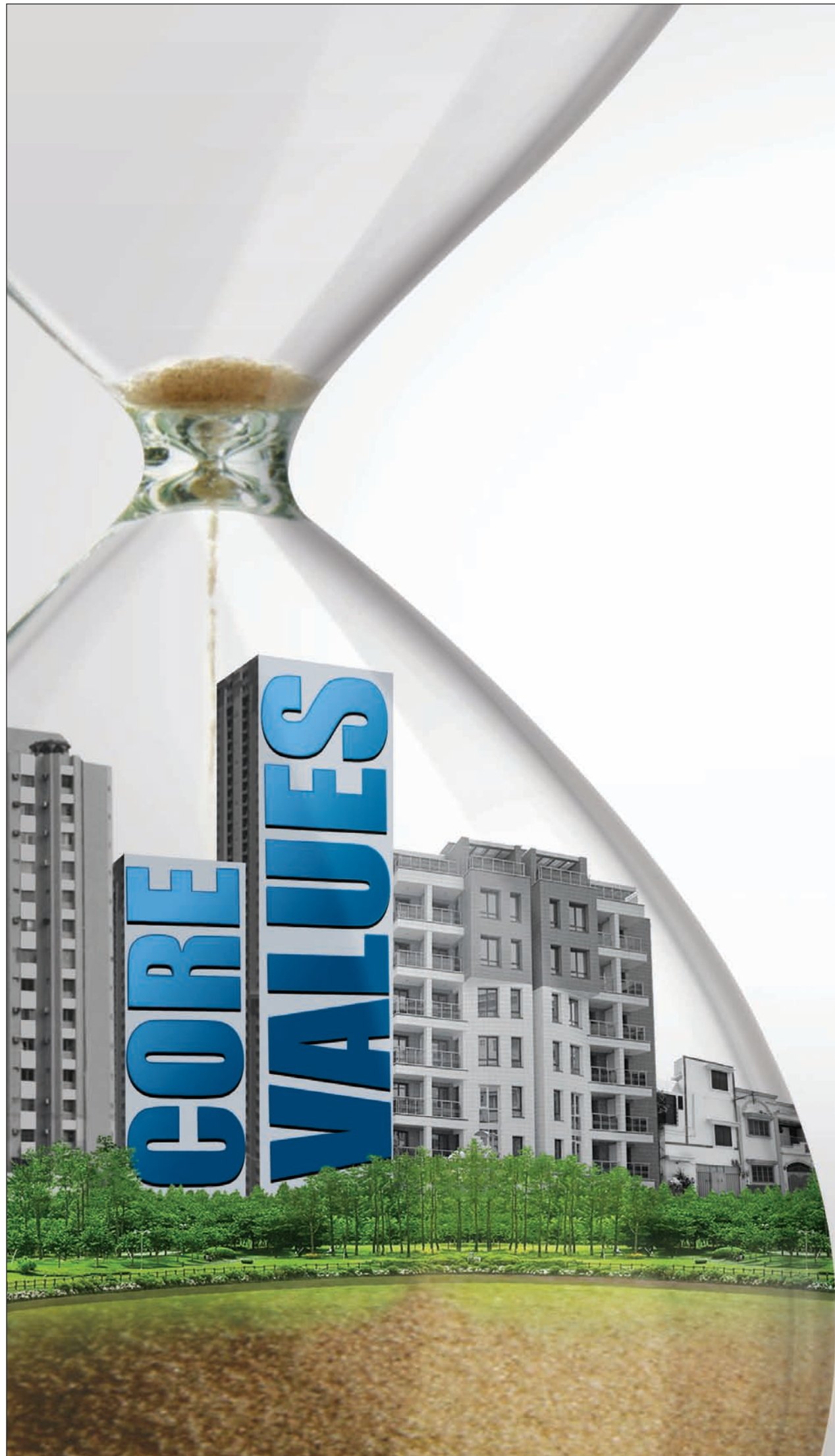


HOUSE BUILDING FINANCE CORPORATION LIMITED



MISSION
MISSION
MISSION

To be a socially responsible and commercially sustainable housing finance institution.



CORE VALUES
CORE VALUES
CORE VALUES

- Integrity
- Customer Focus
- Commitment to Excellence & Innovation



CORPORATE INFORMATION
CORPORATE INFORMATION
CORPORATE INFORMATION

HEAD OFFICE

3rd Floor, Finance & Trade Centre,
Shahrah-e-Faisal Karachi, Pakistan

Phones:
92-21-99202301-05

Toll free:
0800 42325

Fax:
92-21-99202360 & 99202319

Website:
www.hbfc.com.pk

REGIONAL OFFICES

Region A: 7th Floor, SLIC Building,
The Mall Road, Peshawar Cantt.

Region B: 1 Lake Road, Lahore

Region C: Civic Centre, Karachi

EXTERNAL AUDITORS

M. Yousuf Adil Saleem & Co.
Chartered Accountants

BANKERS

Habib Bank Limited
MCB Bank Limited

LEGAL ADVISOR

M. Zunoon Khan
Advocate High Court
Federal Shariat Court





BOARD OF DIRECTORS
BOARD OF DIRECTORS
BOARD OF DIRECTORS

Mr. A. Akbar Sharifzada
Director

Mr. Tariq Iqbal Khan
Director

Mr. Zakaria M. Fazil
Director

Mr. Tasneem Ahmed Siddiqui
Director

Mr. Azhar A. Jaffri
Chairman





BOARD OF DIRECTORS

BOARD OF DIRECTORS

BOARD OF DIRECTORS

HBFC's Board of Directors comprises of seasoned professionals with extensive experience gained in Financial Services, Government, Housing for the Poor, and Construction & Development. The Board is the highest overall Governance unit of HBFC and provides oversight over the company's operations, credit portfolio and financial reporting. The board is fully independent and has been empowered by the shareholders to provide governance over the affairs of the company. It is committed to instil the highest level of Corporate Governance and professional value in the company.

The Board comprises of the Chairman, 4 Directors and Secretary to the Board.

Mr. Azhar A. Jaffri (Chairman)



Chief Executive Officer - Managing Director,
House Building Finance Corporation Ltd., Karachi

Mr. A. Akbar Sharifzada (Director)

Joint Secretary (IF)
Finance Division, Ministry of Finance,
Government of Pakistan, Islamabad



Mr. Tasneem Ahmed Siddiqui (Director)

Retired Director General,
Sindh Katchi Abadis Authority, Karachi



Mr. Zakaria M. Fazil (Director)



Executive Member,
Association of Builders & Developers (ABAD),
Karachi

Mr. Tariq Iqbal Khan (Director)

Retired Chairman & Managing Director,
National Investment Trust Ltd., Karachi



Mr. Tahir Siddiqui (Secretary to the Board of Directors)

Group Head Business Development and Treasury,
House Building Finance Corporation Ltd., Karachi



MANAGEMENT
MANAGEMENT
MANAGEMENT





MANAGEMENT MANAGEMENT MANAGEMENT

Azhar A. Jaffri



Azhar Jaffri joined House Building Finance Corporation Limited in January 2009 as Chief Executive Officer & Managing Director. He is currently also Chairman of the Board. Mr. Jaffri has 30 years of experience in the banking and financial services industry. He has worked in Southeast Asia and the Middle East for over 18 years of his career, and in Pakistan for about 12 years. He has worked with multinational banking and financial institutions including, American Express, HSBC/Saudi British Bank, Citibank and MasterCard International. Immediately prior to joining HBFC, Mr. Jaffri was SEVP and Group Chief for Consumer Banking with one of the leading banks in Pakistan. He holds a Master's degree in International Management & Business from the American Graduate School of International Management.

Muhammad Shabbir Alam

Muhammad Shabbir Alam joined House Building Finance Corporation Limited in November 2005 and is Group Head of Special Building Projects, Re-possessed Properties & Research. Mr. Alam has over 36 years experience across various industries that include organizations such as Pakistan Steel Mills, National Development Finance Corporation and National Bank of Pakistan. His expertise is in project implementation, including financing and appraisal, procurement and management of special/remedial assets (Non-Performing Loans). He holds a BE (Mech.) from N.E.D University of Engineering and Technology and an MBA degree in Finance from the Institute of Business Administration.



Tahir Saeed Effendi



Tahir Saeed Effendi is the Group Head Corporate Affairs of the House Building Finance Corporation Limited, having joined the organization in March 2006 as Executive Director Finance / CFO & Company Secretary. Mr. Effendi has 30 years of broad-based professional experience in the financial services sector with Allied Bank and First Allied Bank Modarba, and covers credit, finance, Islamic banking, business promotion, information technology and corporate affairs. He completed his articles from the renowned chartered accountants firm of Ford, Rhodes, Robson, Morrow. He is a Fellow Member of the Institute of Chartered Accountants of Pakistan and a Fellow Member of the Institute of Bankers and Institute of Chartered Managers.

Farah Husain

Farah Husain joined House Building Finance Corporation Limited in October 2010 as Group Head Internal Audit. Ms. Husain has 13 years of broad-based professional experience spanning sectors such as consumer, telecommunications, chemicals, energy, pharmaceuticals and financial services. Beginning with Citibank Pakistan, her career includes working with Engender Health, KPMG UK, PTCL and the United Nations. Ms. Husain holds an MBA in Finance from University of Central England and is a Chartered Accountant qualified from the Institute of Chartered Accountants, England and Wales (ICAEW).



Muhammad Hanif Kasbati



Muhammad Hanif Kasbati joined House Building Finance Corporation Limited in October 2009 and is the Chief Financial Officer of the organization. Mr. Kasbati has 15 years of experience in the field of accounting, finance, auditing and corporate affairs. Prior to joining HBFC, he has been associated with Arif Habib Investments Limited, Dawood Lawrencepur and Pakistan International Airlines. Mr. Kasbati is a qualified Chartered Accountant and has also done his Masters in Business Administration from Pakistan's leading business school, the Institute of Business Administration (IBA), Karachi.

MANAGEMENT

Aatiqa Lateef



Aatiqa Lateef joined House Building Finance Corporation Limited in 2010 and is Group Head Legal, Compliance & Strategy. Dr. Lateef has over 15 years of diversified international experience that includes working in Bearing Point and Hewlett-Packard in the United States. Her experience in Pakistan includes the Competition Commission of Pakistan and Partnership at the law firm of Awan Raza. Dr. Lateef's expertise is in evaluation and balancing of legal and business risk, in addition to JV's and mergers and acquisitions, international transactional law and strategic management. Dr. Lateef is a J.D. (Doctor of Jurisprudence) and holds an MBA degree in strategic management from Texas A&M University.

Tahir Siddiqui



Tahir Siddiqui joined House Building Finance Corporation Limited in February 2009 as Group Head Business Development and Treasury, in addition to being Secretary to the Board of Directors. Mr. Siddiqui has over 25 years of experience in credit, corporate banking, planning, and structuring debt and equity derivatives and treasury, both in Pakistan and overseas. He has worked in diverse and senior positions at First American Bank, Drexel Burnham Lambert, Chase Manhattan Bank, UDL Group and HBL. Mr. Siddiqui holds a Masters in Business Administration degree from Mississippi State University and an AMP from Harvard Business School, USA.

Yazdi R. Sidhwa



Yazdi R. Sidhwa joined House Building Finance Corporation Limited as Group Head of Information Systems and Operations in November 2010. Mr. Sidhwa has over 22 years of financial experience gained both locally as well as internationally, with large public sector and private domestic banks, and DFI and specialized financial institutions. He was previously with HBL and Standard Chartered Bank in Pakistan and in the United Kingdom. Mr. Sidhwa's expertise includes implementing complete banking ERP solutions, IS audits and comprehensive internal banking financial audits, including product portfolio audits. Mr. Sidhwa holds an MBA degree from the Institute of Business Administration (IBA) Karachi, an M.Sc. degree from the University of Maryland, USA and is a Certified Information Systems and Internal Auditor.

Minhaj Ahmed Qureshi



Minhaj Ahmed Qureshi joined House Building Finance Corporation Limited in December 2005 and is Group Head, Human Resources. He has 25 years of professional experience with both domestic and multinational institutions such as Allwin Engineering Industries Ltd., PICIC, Sidat Hyder Morshed Associates (Pvt.) Ltd. and KMPG Taseer Hadi Khalid & Co. Mr. Qureshi's experience involves development and implementation of HR best practices to include organizational management, training & development, process re-engineering and facilitating the change management cycle. He holds an MBA degree from the College of Business Management, Karachi, an LLB from the University of Karachi, and a BE (Mech.) degree from N.E.D University of Engineering and Technology.

Mehdi Zaidi



Mehdi Zaidi joined House Building Finance Corporation Limited in October 2010 as Group Head Credit, Collections and SAM. Mr. Zaidi has over 26 years of professional experience in the financial services industry. His career began with mortgage underwriting with the fifth largest mortgage lender in the UK. Subsequently he worked with companies like Citibank N.A., Habib Bank Limited, and T&D Consulting. His key areas of expertise include credit, operational excellence, and strategic change management and project management. Mehdi Zaidi holds a business degree from Thames Valley University in the UK.

Sarwat Gilani



Sarwat Gilani joined House Building Finance Corporation Limited in 2005 and is the General Manager of Risk Management. Ms. Gilani is a risk management professional with 14 years diversified banking experience in the areas of Risk Management, Compliance, Operations, Credit and Trade Finance. Her professional experience includes The Bank of Punjab, and First Women Bank Ltd. in the areas of credit, operations, trade finance and risk management. She earned a Masters degree with a distinction in 2004, in Risk Management, from Sheffield Hallam University, UK as a Fellow of Bank of England. She also holds an MBA degree from Bahauddin Zakariya University.



MANAGEMENT FIELD OFFICES

Regional Head North Region

Mr. Saeed Khan
Federal Capital Area, PKPK, Northern Area, AJK

Regional Head Central Region

Mr. Nadeem Rafi Khan
Punjab

Regional Head South Region

Mr. Farrukh Riaz
Sindh & Balochistan

COMMITTEES OF THE BOARD

1. HUMAN RESOURCE & COMPENSATION COMMITTEE AS ON 31st DECEMBER, 2010

S. No.	Name, Designation & Address	Status
1.	Mr. Azhar A. Jaffri, Managing Director, HBFC, Head Office, Karachi	Chairman
2.	Mr. Tariq Iqbal Khan, Chairman/M.D., National Investment Trust Ltd., 6th Floor, NBP Building, I.I.Chundrigar Road, Karachi	Director
3.	Mr. Tasneem Ahmad Siddiqui Saaiban, GRE-319, 2-B, Britto Road, Garden East, Karachi	Director

2. RISK MANAGEMENT COMMITTEE MEMBERS AS ON 31st DECEMBER, 2010

S. No.	Name, Designation & Address	Status
1.	Mr. Azhar A. Jaffri, Managing Director, HBFC, Head Office, Karachi	Chairman
2.	Mr. A. Akbar Sharifzada Joint Secretary (IF), Finance Division, Government of Pakistan, Islamabad	Director
3.	Mr. Tariq Iqbal Khan, Chairman/M.D., National Investment Trust Ltd., 6th Floor, NBP Building, I.I.Chundrigar Road, Karachi	Director

3. CREDIT COMMITTEE MEMBERS AS ON 31st DECEMBER, 2010

S. No.	Name, Designation & Address	Status
1.	Mr. Azhar A. Jaffri, Managing Director, HBFC, Head Office, Karachi	Chairman
2.	Mr. Tariq Iqbal Khan, Chairman/M.D., National Investment Trust Ltd., 6th Floor, NBP Building, I.I.Chundrigar Road, Karachi	Director
3.	Mr. Zakaria M. Fazil Off: 9-E, Zamzama Comm. Lane No.7, Suite No.3, Phase V, Res: R-22, 11th East Street Ph-I, Defence Housing Authority, Karachi	Director

4. AUDIT COMMITTEE MEMBERS OF HBFC AS ON 31st DECEMBER, 2010

S. No.	Name, Designation & Address	Status
1.	Mr. Abdul Akbar Sharifzada Joint Secretary (IF), Finance Division, Govt. of Pakistan, Islamabad	Chairman
2.	Mr. Tariq Iqbal Khan, Chairman/M.D., National Investment Trust Ltd., 6th Floor, NBP Building, I.I.Chundrigar Road, Karachi	Director
3.	Mr. Tasneem Ahmad Siddiqui Saaiban, GRE-319, 2-B, Britto Road, Garden East, Karachi	Director

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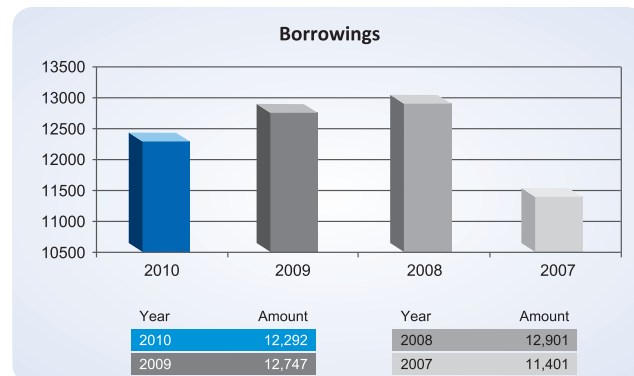
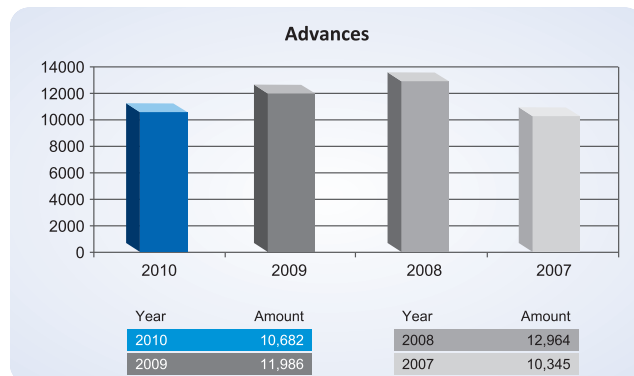
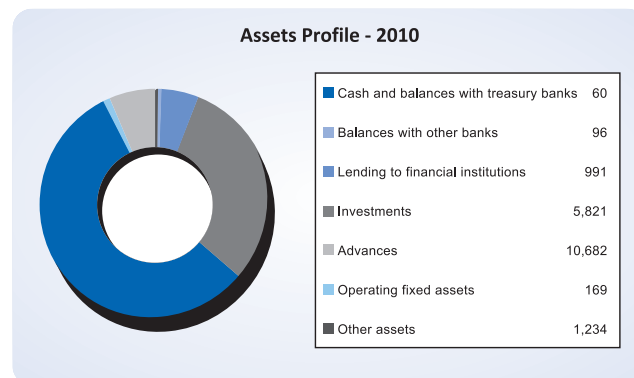
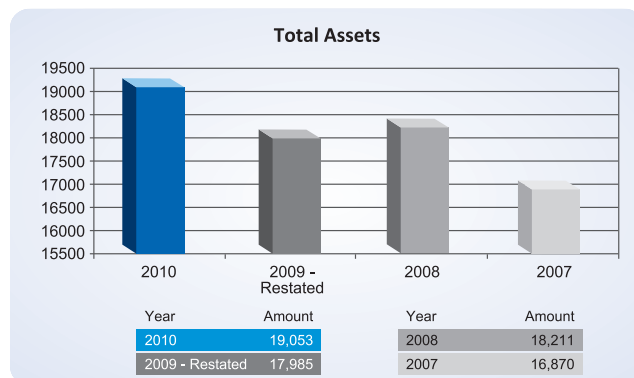


FINANCIAL HIGHLIGHTS
FINANCIAL HIGHLIGHTS
FINANCIAL HIGHLIGHTS
Four Years at a Glance

	2010	2009 Restated	2008	2007
(Rs. in million)				
Paid-up Capital	3,001	3,001	3,001	3,001
Shareholder's Equity	2,037	1,924	2,449	2,835
Borrowings	12,292	12,747	12,901	11,401
Advances	10,682	11,986	12,964	10,345
Total Assets	19,053	17,985	18,211	16,870
Rental/Mark-up/Return/ Interest earned	2,538	2,162	1,867	1,701
Rental/Mark-up/Return/ Interest expensed	908	952	1,017	26
Operating Expenses	1,381	1,292	1,221	1,365
Profit/(Loss) before taxation	140	(78)	1	(121)
Profit/(Loss) after taxation	113	(109)	(386)	(572)
Earning per share (Rs.)	0.37	(0.36)	(1.28)	(1.91)
Disbursement	679	715	3,859	3,359
Collections	3,406	3,601	3,217	3,254
Zone / Branches / Rep. Offices	89	97	102	105
Number of Employees	951	1,344	1,369	1,423

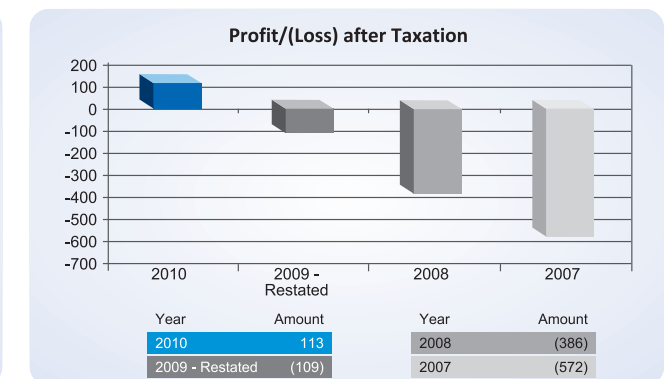
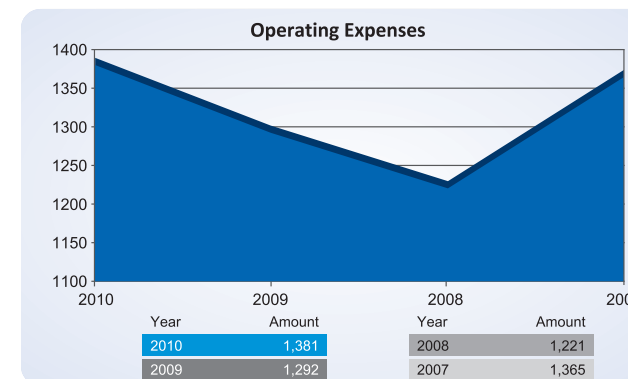
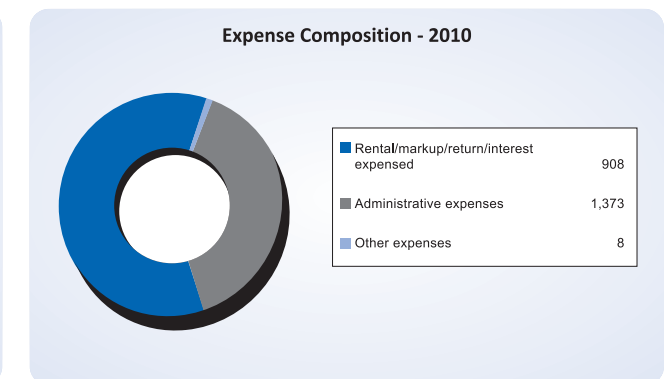
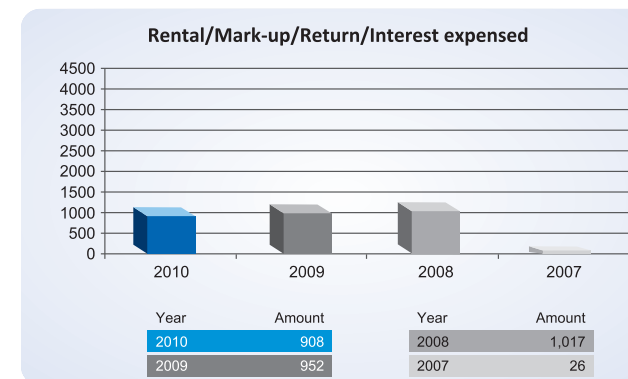
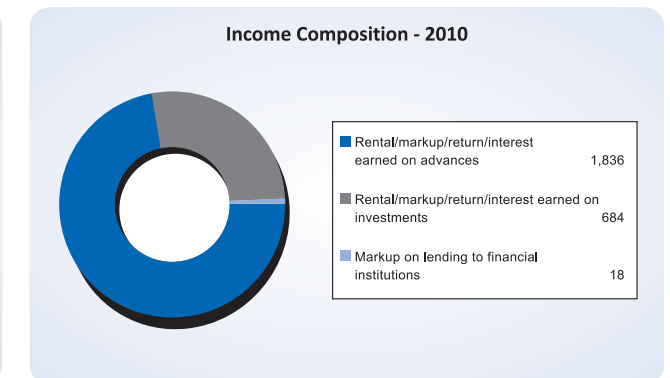
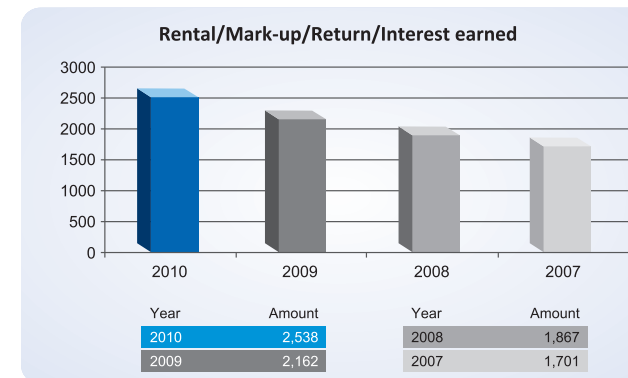
FOUR YEARS AT A GLANCE
FOUR YEARS AT A GLANCE
FOUR YEARS AT A GLANCE

(Rupees in million)

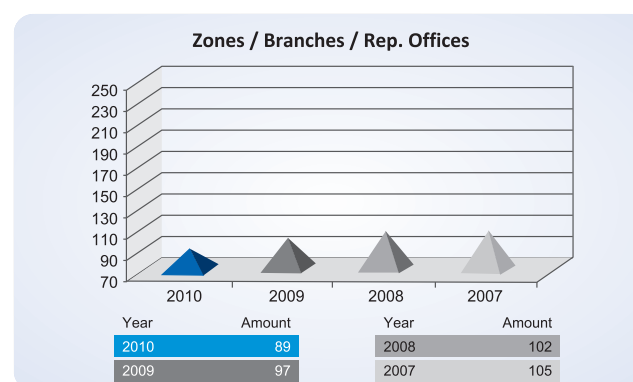
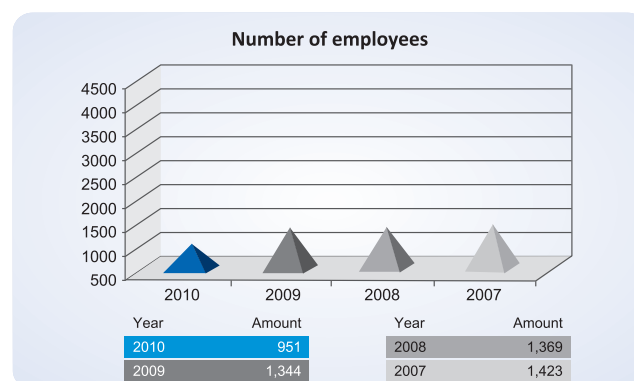
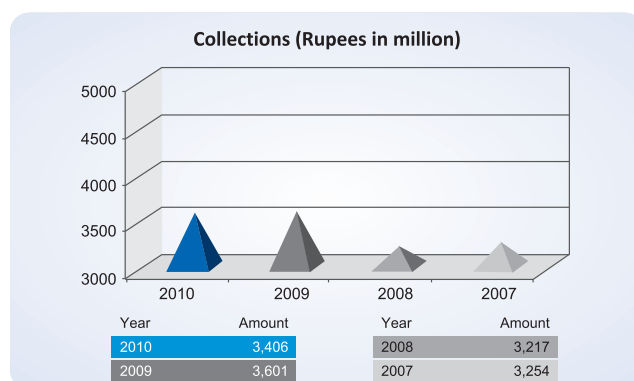
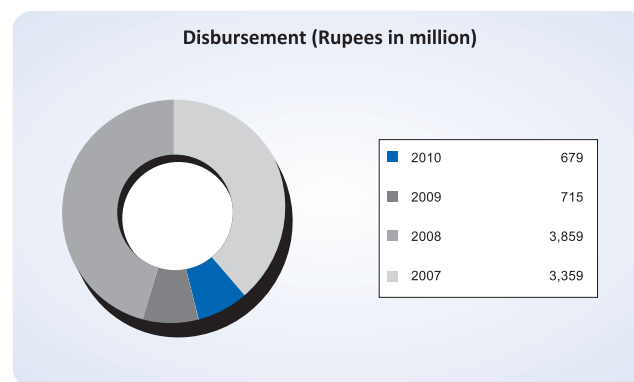
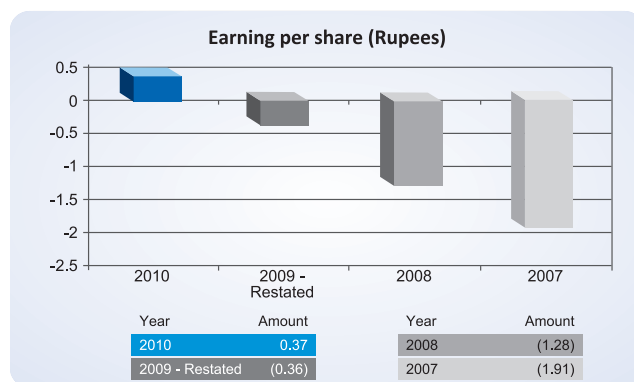


FOUR YEARS AT A GLANCE
FOUR YEARS AT A GLANCE
FOUR YEARS AT A GLANCE

(Rupees in million)



FOUR YEARS AT A GLANCE
FOUR YEARS AT A GLANCE
FOUR YEARS AT A GLANCE



DIRECTORS' REPORT
DIRECTORS' REPORT
DIRECTORS' REPORT



Overview

The year under review has been one of great socio-economic turbulence in the country. Pakistan experienced the worst ever floods in its history, where, at one point over 25 percent of the country was under water and some 20 million people ultimately became homeless. As can be expected, this massive calamity took a heavy toll on the country's already fragile economy, retarding progress and creating huge despondency in the populace. To add to the natural disasters, economic digression continued such as rapidly rising inflation and law and order issues prevailing.

Under these extremely trying circumstances, the HBFC Board was charged with continuing to aggressively undertake a major change management exercise that seeks to make HBFC a streamlined, self-sustaining, efficient and customer-focused housing finance institution. This transformation became even more essential given the past year's natural disasters and the country's urgent need for housing for the mostly affected lower and middle socio-economic sectors.

As a result of the Board's mandate, HBFC is currently executing a comprehensive transformation strategy, with the goal of having HBFC play a leading role in addressing a critical socio-economic issue of the country - the shortage of housing. This today is estimated to be more than 7.5 million units.

This transformation, already culminating in tangible results, was designed to determinedly bring about far-reaching reforms in every segment of the organization, and in every sphere of operation. These operational spheres include Credit & Recoveries, Internal Audit, Legal, Financial Administration, Human Resources, Business Development & Customer Services, Strategy & Marketing/PR, Corporate Affairs and Risk Management.

The goals of the transformation are to streamline processes, minimize redundancies and bring about a reduction in major operational expenses. Additionally, by focusing on the development of products and lending policies that are manageable and not detrimental to our clients in the long-term, HBFC is poising itself to become a self-sustaining, forward looking and socially responsible going concern.

I am pleased to report the challenges faced have instead, been confronted as opportunities, and exceptional progress has been made in implementing and seeing tangible, albeit initial, results of our Transformation Strategy. Significant achievements during the year includes, inter alia, the following:

■ **Achieving a Financial Turnaround**

After a span of four years, HBFC has turned around from a loss-making entity into a sustainable financially viable institution due to unremitting efforts of the HBFC team.

■ **Achieving High Rate of Recoveries of Outstanding Loans**

Rupees 3.5 billion have been recovered during year 2010, due to incentive schemes and recovery efforts, despite the challenging economic environment.

■ **Reducing Operating Expenses**

To address the overstaffing issue of the past, a lucrative Voluntary Separation Scheme (VSS) was offered to and accepted by a large number of staff after thorough consultations with and the support of the trade union/CBA. A total of 417 Officers and Staff readily opted for the Scheme, resulting in tangible savings to HBFC and operationally reducing redundancies related to process inefficiencies. In addition, the Company has cut down on other administrative expenses.

■ **Improving Lending Policy and Practice**

Prudent lending is the new hallmark to prevent continued bad lending and non-performing loans. A well defined and articulated credit policy addressing the needs of the small and medium segment has been implemented through the organization.

■ **Rationalization of Zones/Branches**

HBFC will continue to be the only housing finance institution with nationwide coverage of services and clientele. However this will now be achieved through rationalizing our network, by optimizing each branch and cutting down on unnecessary redundancies. This has also resulted in considerable savings to the organization.

■ **Induction of Experienced Professionals**

An organization is as strong as the people leading it. HBFC has sought out and brought in private sector professionals with international experience and track records of success. These heads of operational functions are directly responsible for producing results and meeting targets.

■ **Improvements of Systems across the Board**

In addition to all the above, HBFC is executing a thoroughly planned transformation strategy to bring about improvements across the board, through all verticals and horizontal aspects of the business.

■ **Developing Strategic Alliances**

HBFC is actively establishing strategic alliances with other organizations that will aim at enhancing business growth. Recently an MOU has been signed with the Malir Development Authority (MDA) for a major housing project in Karachi addressing the needs of the lower and middle income socio-economic sectors. Other such partnerships are currently being explored.

HBFC is determined to carry through the transformation and make the institution the pride of the government and of the country. We are also determined to keep our business aligned and ensure social responsibility mandate by providing affordable housing for lower and middle socio-economic sectors. To this end it seeks close support and understanding of the Government and of all other stakeholders.



Performance Review

Profit and Loss Account

During the period under review, gross revenue increased by 17% i.e. Rs. 376 million to Rs. 2.54 billion as compared to Rs. 2.16 billion in previous year. This was due to increase in rental for housing business by Rs. 93 million i.e., 5.3% and mark-up income by Rs. 283 million i.e., 67.5%.

Although the mark-up on SBP credit lines increased by Rs. 29 million i.e., 4%, the financial cost of Sukuk decreased by Rs. 56 million i.e., 25% due to redemption of Sukuk to the tune of Rs. 300 million.

Administrative expenses increased by 7% i.e. Rs. 89 million to Rs. 1.37 billion in the current year as compared to Rs. 1.28 billion in last year. This was mainly due to the extra financial burden borne by the Company due to Voluntary Severance Scheme, increase in the salaries of the employees and inflationary effects. This impact could have been much higher if the Management had not taken the steps to cut the cost.

The Company achieved a profit before tax of Rs. 140 million in year 2010, as compared to loss before tax of Rs. 78 million in 2009. The profit after tax was Rs. 113 million in current year as compared to the loss after tax of Rs. 109 million in last year.

The profit translated into positive Earning Per Share (EPS) of Rs. 0.37 in the current year as compared to negative EPS of Rs. 0.36 in the preceding year.

Balance Sheet

Total assets during the year under review increased by 6% i.e. Rs. 1.07 billion to Rs. 19.05 billion in the current year as compared to Rs. 17.98 billion in preceding year, while gross advances reduced by 8% i.e. Rs. 1.27 billion to Rs. 14.65 billion in the current year as compared to Rs. 15.91 billion in preceding year. The decrease in advances is the result of overall fall in demand, due to severe economic downturn and high inflation eroding the purchasing power, and quality control on fresh disbursements. The low quantum of disbursements has resulted in decrease of net advances by 11% i.e. Rs. 1.3 billion to Rs. 10.7 billion during the period under review as compared to Rs. 12 billion in previous year. Consequent upon this, loan to assets ratio decreased by 6.7% to 64.2% in the year 2010 as compared to 70.9% in the year 2009. The provision for NPLs almost remained the same during the current year at Rs. 3.97 billion as compared to Rs. 3.93 billion in previous year.

During the period under review, other assets increased by 147% i.e. Rs. 737 million from Rs. 0.50 billion in 2009 to Rs. 1.23 billion in 2010 as a result of Rs. 800 million receivable from Government for payment against the compensation for Voluntary Severance Scheme. The accrual of profit / mark-up payable on overdue SBP credit lines recognized and charged to the accounts amounts to Rs. 741 million during 2010 as compared to Rs. 711 million for last year. This increase is due to more SBP credit lines becoming due during the current year.

The equity to total assets remained static, i.e. 10.7% as at December 2010 and December 2009. However, it resulted in improving equity to loan by 1.5% to 16.6% in 2010 from 15.1% in 2009. The Company, however, has not declared any dividend or issued bonus shares during the year ended 31 December 2010 due to limitations as to equity and free reserves.

Return on assets was positive 0.6% during the current year as compared to a negative 0.6% in the preceding year due to Company's turnaround to the profit after tax of Rs. 113 million during the period under review as compared to loss of Rs. 109 million in preceding year.

Corporate and Financial Reporting Framework

HBFC has complied with the requirements of the Code of Corporate Governance as practicably applicable. In this connection, the compliance of relevant clauses of the Code is stated below.

- The financial statements present fairly the state of affairs of the Company, the result of its operations, cash flow and changes in equity;
- The Company has maintained proper books of accounts;
- The appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on rationale and prudent judgment;
- International Accounting Standards, as applicable to Pakistan have been followed in preparation of financial statements;
- The system of internal control is sound in design and has been effectively implemented and monitored. The controls which are in place are being continually reviewed by internal audit department;
- All liabilities in regard to the payment on account of taxes, duties, levies and charges have been fully provided and will be paid in due course or where claim was not acknowledged as liability the same is disclosed as contingent liability in the notes to the accounts;
- There is no doubts about the Company's ability to continue as a going concern; and
- The Directors and key executives of the Company have signed a "Statement of Ethics and Business Practices"

Profit/Loss Sharing with SBP and Restatement of Financial Statements

The Company is currently operating nine schemes and except one, all the schemes are on profit & loss sharing basis. Disbursements under these schemes were mainly financed through borrowings from State Bank of Pakistan (SBP). The terms of the borrowings states that in case of profit, the Company shall share its profit in proportion of its borrowings to the total finance employed in the respective financial year on daily product basis; while in case of loss, it will share the loss net of free reserves in the same proportion as for the profit.

The Company has been computing the share of SBP by apportioning total income earned related to profit and loss sharing schemes and income related to other operations. Similarly other expenses and other income are also apportioned on the same basis. Whereas, the administrative expenses and other charges were being apportioned in the ratio 98:02 between SBP and the Company. The matter was under discussion with SBP for long and SBP during the year appointed a team of auditors to review the matter. SBP subsequently communicated its working for the years 2007 and 2008. The basis of the working was that SBP is entitled for share of allocated income and expenses of the Company in the ratio of active credit lines and overdue credit lines. According to the working, SBP's share of loss for these years have been reduced by Rs. 416.193 million. Further, for the year 2009 and onward SBP directed that the Company's activities under other operations have been increasing for which allocation of administrative expenses under profit and loss sharing schemes and other operations in ratio of 98:02 is not appropriate and these should be allocated as per their weight in total average earning assets.

The Company re-worked the financial statements and recognized SBP's share in the financial statements accordingly. Resultantly, the SBP sharing of Rs. 416.19 million up to December 2008 is accounted for in retained earnings and the revised shares for December 2009 and new share for 2010 amounting to Rs. 47.29 million and Rs. 16.94 million respectively are accounted for in the respective years.

This endeavor by the top Management of the Company and SBP resulted in the removal of emphasis of matter paragraph by the external auditors in their report for the year ended December 31, 2010.

Future Outlook

Overall economic performance in 2011 is likely to remain quite challenging primarily owing to untenable budgetary and trade deficits, depressed level of foreign direct investment, high inflation rates, a severe energy crises all over the country and the current law and order situation. In this macroeconomic environment, the demand for housing across the nation will likely remain relatively subdued. Moreover, prevailing high interest rates are liable to further discourage potential borrowers from obtaining new financing for new home purchase or construction.

As in 2010, HBFC's focus in 2011 on recovery will remain relentless as additional resources in 2011 will be deployed to ensure the success of the recovery drive. This drive will also face challenges as the income of lower and middle socio-economic sectors has been greatly eroded due to a persistent inflationary environment in the course of the last three years. However, we are confident that all these efforts will result in a substantial reduction in NPLs.

HBFC also has plans to develop building projects in Islamabad, Lahore and Hyderabad. These projects will increase the asset value of the Company and will also contribute towards stimulating economic activity by generating employment opportunities and creating an increased demand for materials from over sixty different manufacturing and allied suppliers.

Internal focus is on training and development of our staff and considerable resources have been allocated to upgrade skills in all spheres of our business in order to make the organization more customer focused, responsive and operationally efficient. Furthermore, considerable efforts are being made to improve internal systems and processes to further improve core capabilities of the business. This is expected to lead to cost efficiencies and improvement in the profitability of the company in the forthcoming years.

Risk Management Framework

HBFC maintains a prudent and disciplined approach to risk taking by establishing a comprehensive set of policies, processes and limits for key risks. The Board of Directors has the overall responsibility to oversee the managing and monitoring of risks. The Board Risk Committee has been formed to regularly review risk related activities of the organization. Individual risks are reviewed and controlled by various committees at management level like Risk Management Committee, Credit Committee and ALCO. Risk Management Department carries out the day to day activities regarding risk assessment, risk measurement, risk control and mitigation and risk reporting. HBFC is gradually meeting the requirements of Basel II implementation for all three pillars.

Credit Risk

Credit risk is controlled through a setup of credit committees at Head Office and Regions for credit approvals. The Credit Committee at Head Office monitors portfolio behaviour and recommends improvements in credit policies. To improve the credit risk management practice, the work for development of Internal Credit Risk Rating System (ICRRS) is in progress.

Market Risk

HBFC is exposed to interest rate risk and equity price risk in treasury and investment book. Foreign exchange risk is not applicable to the company. Asset-Liability Committee (ALCO) is responsible for managing market risk. Middle Office carries out the activities for measurement and reporting of market risk.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. To streamline the management of Operational Risk, the management has taken various measures like Business Process Re-engineering, Systems Audit and development of Internal Controls for Financial Reporting.

Repayment of State Bank of Pakistan (SBP) Credit Lines

SBP credit lines aggregating Rs. 11.24 billion have been availed so far, out of which Rs. 9.69 billion are overdue. A request has been made to SBP to convert the certain portion of credit lines into equity and to restructure the remaining amount at reasonable markup rate. This matter is under consideration by SBP / MoF. Due to accrual of mark-up @ 9.50% p.a. on credit lines, the cost of fund has escalated. The Company has provided a comprehensive restructuring / transformation plan to SBP and MoF for which regular follow up is being made for early approval and implementation.

Internal Control Over Financial Reporting

As per amended guidelines on ICFR issued by SBP, the statutory auditor(s) of Banks / DFIs, instead of expressing an opinion in annual financial statements on efficacy of ICFR have to submit a "Long Form Report" to SBP through the management for the year ended December 31, 2010. The Company has hired KPMG Taseer Hadi & Co. Chartered Accountants, being the consultant for this purpose, who have completed their work up to the Stage II i.e., Process Documentation and Gap Reporting, on which the Company's external auditors M/s Yousuf Adil Saleem & Co. Chartered Accountants will submit their report.

Credit Rating

JCR-VIS Credit Rating Company Limited has assigned initial medium to long-term entity rating of 'A' (single A) and short-term rating of 'A-2' (A-Two) to House Building Finance Corporation Limited.

Statement of Provident and Pension Fund Investments

Investments of Provident Fund & Pension Fund as at December 31, 2009 according to their respective accounts were Rs. 564 million and Rs. 1,378 million respectively.

Pattern of shareholding

No. of Shareholders	From	To	Total Shares Held
6	1	10	6
*2	11	300,100,006	300,100,000
Total			*300,100,006

* Note: GoP holds 62.5% shares and SBP holds 37.5%

Board Meetings

During the year 2010, 6 (six) meetings of the Board of Directors were held. The Details of Attendance by each director at the meetings are given below:

S. No.	Name of Directors	Meetings Attended
1	Mr. Azhar A. Jaffri	6
2	Mr. Tariq Iqbal Khan	5
3	Mr. Zakaria M. Fazil	6
4	Mr. Tasneem Ahmed Siddiqui	6
5	Mr. A. Akbar Sharifzada	5
6	Mr. Muhammad Iqbal Hussain	1

Audit Committee Meetings

During 2010, four meetings of Audit Committee were held. The attendance of the Chairman/Members is given as under:

Name	Designation	No. of meetings attended	% age of Attendance
Mr. Abdul Akbar Sharifzada	Chairman	4	100%
Mr. Tariq Iqbal Khan	Member	4	100%
Mr. Tasneem A. Siddiqui	Member	4	100%

Summarised Operating and Financial Data of Last Six Years

(Rs. Million)	2005	2006	2007	2008	2009*	2010
Details					(Restated)	
Paid up capital	200	200	3,000	3,001	3,001	3,001
Reserves	479	479	485	485	485	508
Total Assets	17,094	18,369	16,870	18,211	17,985	19,053
Profit / (loss) before tax	72	356	(121)	1	(78)	140
Profit / (loss) after tax	(378)	144	(572)	(386)	(109)	113
Stock Dividend	-	-	2,800	-	-	-

* restatement effect is shown in 2009.

Auditors

M/s M. Yousuf Adil Saleem & Co., Chartered Accountants being eligible, have offered themselves for reappointment till the conclusion of next AGM. The Board of Directors, as suggested by the Audit Committee has recommended the name of M/s M. Yousuf Adil Saleem & Co., Chartered Accountants as statutory auditors for the next term.

Acknowledgements

The Board wishes to recognize on record, the cooperation, assistance and guidance provided to the Company by its shareholders namely, the GoP / MOF of Pakistan and the State Bank of Pakistan. The Board also appreciates the continued cooperation of its customers, the dedication and commitment of the management team and support of its staff.

On behalf of the Board



Chief Executive Officer / Managing Director

Karachi

Date: March 7, 2011



REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of House Building Finance Corporation Limited to comply with the Regulation G-1 of Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, the Code requires the Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance, as applicable to the Company for the year ended December 31, 2010.

We draw attention to the matter stated in point 4 of the Statement of Compliance with the Code of Corporate Governance where the Company had not complied with the Code.

Sd/-

Chartered Accountants

Engagement Partner:

Mushtaq Ali Hirani

Karachi

Dated: March 7, 2011

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED DECEMBER 31, 2010

This statement is being presented to comply with the Code of Corporate Governance contained in Prudential Regulation No.G-1 for Corporate / Commercial Banking issued by the State Bank of Pakistan (SBP) and responsibilities of the Board of Directors advised vide SBP BSD Circular No. 15 dated June 13, 2002. The Company has adopted the Code of Corporate Governance and applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors. At present all the directors excluding Chief Executive Officer (CEO) / Chairman of the Board are independent non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies.
3. All the directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, as DFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Two casual vacancies occurred in the Board on September 26, 2009 and November 16, 2010 was informed to the Ministry on October 5, 2009 and January 20, 2011 respectively. Nomination from the Federal Government to fill the casual vacancies is awaited as such presently Board consists of four members only out of six.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board, except for appointment and determination and terms and conditions of employment of Chief Executive Officer (CEO)/Managing Director (MD) which is a function of the Federal Government.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices to the Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors of the Board of the Company are individuals of repute and integrity with vast diversified experience of the financial and corporate affairs. They are also directors in other companies and are well conversant with their duties and responsibilities. Copies of Memorandum of Association, Article of Association and Prudential Regulations for Corporate / Commercial Banking has been provided to them.
10. The Board has approved appointment of Chief Financial Officer and Head of Internal Audit including their remuneration and terms and conditions of employment, during the year, as determined by the CEO.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company.
14. The Company has complied with the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of three members, of whom all non-executive directors including the chairman of the committee. A casual vacancy has occurred in the audit committee on November 16, 2010 which was filled in the immediate next Board meeting held on February 4, 2011.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company as required by the Code. The Terms of Reference (ToR) of the Committee have been formed and advised to the Committee for compliance.
17. The Board has set-up an effective internal audit function who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and are involved in the internal audit function on a full time basis.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except permitted services and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. All related party transactions have been placed before the audit committee of the Company and approved by the Board of Directors.
21. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board



Azhar A. Jaffri
Chief Executive Officer/Managing Director

Karachi
Date: March 7, 2011



STATEMENT OF INTERNAL CONTROL SYSTEM STATEMENT OF INTERNAL CONTROL SYSTEM STATEMENT OF INTERNAL CONTROL SYSTEM

The Board is responsible for the overall policies on internal control and management is responsible for implementing strategies and policies approved by the board and maintain an adequate and effective system of internal control.

The Corporation's system of internal control is designed to provide reasonable assurance regarding achievement of the following objectives:

1. Effectiveness and efficiency of operations;
2. Reliability of Financial data and reports; and
3. Compliance with laws and regulations.

Risk Recognition & Assessment

Material risks that could adversely affect the achievement of the Corporation's goals are being recognized and continually assessed. The assessment covers the risks which are broadly grouped into four categories i.e. Credit, Market, Liquidity and Operational.

Control Activities & Segregation of Duties

Control activities are an integral part of the daily activities of the Corporation. These include: top level reviews; appropriate activity for different departments or divisions; physical control; checking for compliance with exposure limits and follow-up on non-compliance; a system of approvals and authorization and, a system of verification and reconciliation.

Monitoring Activities & Correcting Deficiencies

Besides business line's evaluation, the Internal Audit department independently evaluates the effectiveness of control systems, monitors control systems and contributes to ongoing effectiveness of control systems by giving suggestions for the improvement in systems and procedures. The Internal Audit independently reports its significant findings to the audit committee of the Boards.

On behalf of the Board



Azhar A. Jaffri
Chief Executive Officer/Managing Director

Karachi

Date: March 7, 2011

AUDITORS' REPORT TO THE MEMBERS AUDITORS' REPORT TO THE MEMBERS AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of House Building Finance Corporation Limited (the Company) as at December 31, 2010 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, 2010 and of the profit, its cash flows and changes in equity for the year then ended; and

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

We would like to mention that the Company has not complied with the minimum capital requirements stated in the BSD Circular No. 7 dated April 15, 2009. As per the said circular, the minimum capital of the Company as at December 31, 2010 should be Rs. 7 billion net of losses.

Sd/-
Chartered Accountants
Engagement Partner
Mushtaq Ali Hirani

Karachi
Dated: March 7, 2011



FINANCIAL STATEMENTS OF HOUSING BUILDING FINANCE CORPORATION LIMITED FINANCIAL STATEMENTS OF HOUSING BUILDING FINANCE CORPORATION LIMITED for the year ended December 31, 2010

STATEMENT OF FINANCIAL POSITION
STATEMENT OF FINANCIAL POSITION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2010

	2010	2009	
	Restated		
Note	--- Rupees in '000 ---		
ASSETS			
Cash and balances with treasury banks	4	59,789	50,623
Balances with other banks	5	95,986	168,146
Lendings to financial institutions	6	991,224	1,508,893
Investments	7	5,821,020	3,551,008
Advances - net	8	10,682,065	11,986,464
Operating fixed assets	9	169,191	223,193
Deferred tax assets		-	-
Other assets	10	1,233,870	496,493
		19,053,145	17,984,820
LIABILITIES			
Bills payable		-	-
Borrowings	11	12,292,300	12,747,300
Deposits and other accounts		-	-
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	12	4,742,693	3,313,719
		17,034,993	16,061,019
		2,018,152	1,923,801
NET ASSETS			
REPRESENTED BY			
Share capital	13	3,001,000	3,001,000
Reserves		507,996	485,490
Accumulated loss		(1,472,085)	(1,562,111)
		2,036,911	1,924,379
Deficit on revaluation of assets	14	(18,759)	(578)
		2,018,152	1,923,801
CONTINGENCIES AND COMMITMENTS			
	15		

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



Managing Director



Director



Director



Director



PROFIT AND LOSS ACCOUNT
PROFIT AND LOSS ACCOUNT
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2010

Rental / mark-up / return / interest earned	16	2,538,071	2,162,251
Rental / mark-up / return / interest expensed	17	(908,078)	(951,975)
Net rental / mark-up / interest income		1,629,993	1,210,276
(Provision) / reversals made against non performing advances	18	(36,021)	317,857
Provision for diminution in value of investments		(71,116)	(81,250)
Reversal / (provision) for diminution in value of lendings to financial institutions		6,074	(10,875)
Reversal of provision for diminution in value of investments		33,750	56,250
Impairment in value of associated undertaking		(35,506)	-
Bad debts written off directly		-	-
		(102,819)	281,982
Reconciliation adjustments	19	(2,062)	(22,055)
Reversal of mark-up on IDA loan	12.4	153,845	-
Reversal of rental income	20	(163,723)	(221,121)
Net rental / mark-up / interest income after provisions		1,515,234	1,249,082

NON MARK-UP / INTEREST INCOME

Fee, commission and brokerage income		-	-
Dividend income		-	-
Income from dealing in foreign currencies		-	-
Gain / (loss) on sale of securities		-	-
Unrealized gain / (loss) on revaluation of investment classified as held for trading		-	-
Other income	21	33,680	19,727
Total non-mark-up / interest income		33,680	19,727

NON MARK-UP/INTEREST EXPENSES

Administrative expenses	22	(1,372,740)	(1,283,545)
Other provisions / write offs	23	(648)	(340)
Other charges	24	(8,054)	(8,035)
Total non-mark-up / interest expenses		(1,381,442)	(1,291,920)

Share in results of associate before taxation

PROFIT / (LOSS) BEFORE ALLOCATION FOR STATE BANK OF PAKISTAN SHARE

State Bank of Pakistan share of profit	25	157,148	(30,826)
PROFIT / (LOSS) BEFORE TAXATION		(16,937)	(47,286)

Taxation

- Current	26	(27,679)	(11,666)
- Prior		-	(18,917)
- Deferred		-	-
		(27,679)	(30,583)
PROFIT / (LOSS) AFTER TAXATION		112,532	(108,695)

Basic / diluted earnings per share - Rupee

	27	0.37	(0.36)
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The annexed notes from 1 to 38 form an integral part of these financial statements.



Managing Director



Director



Director



Director

STATEMENT OF COMPREHENSIVE INCOME
STATEMENT OF COMPREHENSIVE INCOME
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009 Restated
	--- Rupees in '000 ---	
Profit / (loss) for the year	112,532	(108,695)
Items relating to comprehensive income	-	-
Total comprehensive income / (loss) for the year	112,532	(108,695)


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



Managing Director



Director



Director



Director



CASH FLOW STATEMENT
CASH FLOW STATEMENT
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2010

A. CASH FLOWS FROM OPERATING ACTIVITIES

Profit / (loss) before taxation	140,211	(78,112)
Adjustments:		
Depreciation	24,592	33,379
Amortization of intangible assets	432	647
Gain on sale of operating fixed assets	(4,352)	(3,702)
Capital work in progress charged off	33,843	-
Provision for diminution in value of lending to financial institutions	(6,074)	10,875
Provision for diminution in value of investments	71,116	81,250
Reversal of provision for diminution in value of investments	(33,750)	(56,250)
Impairment in value of associated undertaking	35,506	-
Provision / (reversals) made against non performing advances	36,021	(317,857)
Reconciliation adjustments	2,062	22,055
Reversal of rental income	163,723	221,121
Reversal on IDA loan	-	(3,243)
Reversal of mark-up on IDA loan	(153,845)	-
Rental / mark-up / return / interest expensed	908,078	951,975
Share in loss of associate	11,020	7,926
	1,088,372	948,176
	1,228,583	870,064

(Increase)/ decrease in operating assets		
Advances	1,102,593	1,052,269
Lending to financial institutions	523,743	(1,331,960)
Other assets excluding advance tax	719,127	(7,583)
	2,345,463	(287,274)

Increase / (decrease) in operating liabilities		
Borrowings	(455,000)	(150,000)
Other liabilities	(558,074)	443,140
	(1,013,074)	293,140

Financial charges paid	(225,395)	(195,989)
Income tax paid	(25,974)	(32,130)

Net cash flows from operating activities

2,309,603 **647,811**

B. CASH FLOWS FROM INVESTING ACTIVITIES

Fixed capital expenditure	(6,420)	(15,722)
Sale proceeds from disposal of operating fixed assets	5,908	4,148
Investments made / redeemed-net	(2,372,085)	(1,120,756)
Net cash flows used in investing activities	(2,372,597)	(1,132,330)

Decrease in cash and cash equivalents

(62,994) (484,519)

Cash and cash equivalents at beginning of the year

218,769 703,288

Cash and cash equivalents at end of the year

28

155,775 **218,769**

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



Managing Director



Director



Director



Director

STATEMENT OF CHANGES IN EQUITY
STATEMENT OF CHANGES IN EQUITY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

	Share Capital	Statutory reserve *	Accumulated loss	Total
	----- Rupees in '000 -----			
Balance at January 01, 2009	3,001,000	485,490	(1,037,223)	2,449,267
Effect of restatement as referred in note 12.5.1	-	-	(416,193)	(416,193)
Balance at January 01, 2009 (Restated)	3,001,000	485,490	(1,453,416)	2,033,074
Loss after tax for the year ended December 31, 2009	-	-	(108,695)	(108,695)
Balance at December 31, 2009	3,001,000	485,490	(1,562,111)	1,924,379
Profit after tax for the year ended December 31, 2010	-	-	112,532	112,532
Transfer to statutory reserve	-	22,506	(22,506)	-
Balance at December 31, 2010	3,001,000	507,996	(1,472,085)	2,036,911

* 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.



Managing Director



Director



Director



Director



NOTES TO THE FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. STATUS AND NATURE OF BUSINESS

The House Building Finance Corporation 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, Shahrah-e-Faisal, Karachi, in the province of Sindh. The Company had taken over all assets, running business, contracts, liabilities and proceedings of the House Building Finance Corporation (HBFC), established in 1952 under the House Building Finance Corporation Act 1952 (XVIII of 1952) by the Government of Pakistan from closing of the business on December 31, 2006, pursuant to a vesting order SRO.I/2007 dated July 25, 2007 issued by the Finance Division - Government of Pakistan.

The Company is designated as a financial institution by the Federal Government and is providing financing facilities for the construction, reconstruction, renovation and purchase of houses through a network of 58 district offices and 12 zonal offices throughout Pakistan including Azad Jammu and Kashmir. The long term and short term ratings of the Company assigned by PACRA are "A" and "A1" respectively.

2. BASIS OF PRESENTATION

2.1 Statement of compliance

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

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

2.2 Application of new and revised International Financial Reporting Standards (IFRSs)

2.2.1 New / revised standards and interpretations to existing standards effective from current period or early adopted but not relevant to the Company

The following standards (revised or amended) and interpretations became effective for the current financial period or early adopted, but are either not relevant or do not have any material effect on the financial statements of the Company.

- IFRS 2 (Amendments) "Share-based Payments - Group cash-settled share-based payment transactions"

On 14th August 2009, the Government of Pakistan (GoP) has launched a scheme for the employees of state owned entities including the Company. Under the scheme a Trust is required to be formed and 12% of the shares held by the State Bank of Pakistan will be transferred to the Trust.

Since the scheme has significant impact on a large number of SOEs, the Securities and Exchange Commission of Pakistan (SECP) was approached by some entities for exemption from International Financial Reporting Standard Share Based Payment (IFRS-2), if applicable, we understand that SECP has already received a recommendation from the Institute of Chartered Accountants of Pakistan (ICAP) and it is expected that appropriate exemption from IFRS-2, if required, will be issued. Accordingly, the above mentioned scheme has not been accounted for under the requirements of IFRS-2 in the financial statements of the Company for year ended December 31, 2010.

- IFRS 5 (Amendments) "Non-current Assets Held for Sale and Discontinued Operations"
- Amendments to IAS 1 "Presentation of Financial Statements"
- Amendments to IAS 7 "Statement of Cash Flows"
- IAS 27 (Amended) "Consolidated and Separate Financial Statements"
- IAS 27 (as revised in 2008) "Consolidated and Separate Financial Statements"
- IAS 28 (as revised in 2008) "Investments in Associates"
- IFRIC 15 "Agreement for Construction of Real Estate"
- IFRIC 17 "Distributions of Non-cash Assets to Owners"

The application of Improvements to IFRSs issued in 2009 has not had any material effect on amounts reported in these unconsolidated financial statements.

2.2.2 The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2011 or later:

- IFRS 9 'Financial instruments' introduces new requirements for the classification and measurement of financial assets and financial liabilities and for their derecognition. While the International Accounting Standards Board has prescribed the effective date period beginning on or after January 1, 2013 with earlier application permitted, the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan have still not notified its effective date for adoption locally. As a result, there will be no impact on the Company's financial statement till IFRS 9 is notified.

- IAS 24 (Revised), 'Related party disclosures' (effective for annual periods beginning on or after January 1, 2011) - The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. This amendment will result in some changes in disclosures.
- IAS 32 (Amendment) 'Financial Instruments: Presentation' (effective for annual periods beginning on or after February 1, 2010) – 'Classification of rights issues' - The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities.
- IFRIC 13 (Amendment) 'Customer Loyalty Programmes' (effective from annual periods on or after January 1, 2011). The amendment clarifies that the fair value of award credits take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. This amendment will have no impact on the Company's financial statements.
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (effective for annual periods beginning on or after July 1, 2010) – This Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. This amendment will have no impact on the Company's financial statements.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 01, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on the Company's financial statements.
- Improvements to IFRSs 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after January 1, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers

that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.

2.3 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.

2.4 Accounting estimates and judgments

The preparation of financial statements in conformity with Approved Accounting Standards requires to make certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. These estimates and associated assumptions used in the preparation of the financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Provision against non-performing advances

The Company reviews its advance portfolio to assess amount of non-performing advances and provision required there against on a quarterly basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower and requirements of Prudential Regulations are considered. The amount of general provision against consumer advances is also determined in accordance with the relevant Prudential Regulations and SBP directives.

b. Impairment of available-for-sale investments

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

c. Held-to-maturity investments

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

d. Income taxes

In making the estimates for current and deferred income taxes, the management considers the income tax law and the decisions of appellate authorities on certain issues in the past.

e. Employees retirement benefit plans

The liabilities for employees retirement benefits is determined using actuarial valuation. The actuarial valuation involves assumptions about discount rates, expected rates of return on assets, future salary increases and future pension increases as disclosed in note 30. Changes in these assumptions in future years may affect the liability / asset under these plans in future years.

2.5 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Bank balances

Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with the SBP and other banks in current and deposit accounts.

Cash in transit

Collection in transit as on the balance sheet date received from the borrowers / partners is treated as cash in transit and included in the bank balances.

3.2 Lendings to / borrowings from financial institutions

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

Sale under re-purchase obligations

Securities sold subject to a re-purchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings from financial institutions. The differential in sale and re-purchase value is accrued over the period of the agreement and recorded as expense.

Purchase under resale obligations

Securities purchased under the agreement to resale (reverse repo) are included in lendings to financial institutions. The difference between the contracted price is amortized over the period of the agreement and recorded as income.

Other borrowings

These are recorded at the proceeds received. Mark-up paid on such borrowings is charged to the profit and loss account over the period of borrowings on accrual basis.

3.3 Revenue recognition

Rentals / mark-up / return on **regular advances and investments** is recognized on accrual basis. Mark up / return on classified advances and investments is recognized on receipt basis. Gains and losses on termination and documentation charges are recognized on receipt basis.

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

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

Income from sale of **housing projects** is recognized using the completed contract method.

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

Dividend income is recognized when the right to receive the dividend is established.

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

3.4 Advances

Housing finance advance

Advances are stated net of general and specific provisions.

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

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

3.5 Investments

The Company classifies its investments as follows:

Investments, other than those categorized as held-for-trading, are initially recognized at fair value plus transaction costs associated with the investments. Investments classified as held-for-trading are initially recognized at fair value and transaction costs are expensed in the profit and loss account.

All regular way purchases / sales of investment are recognized on the trade date, i.e., the date the company commits to purchase / sell the investments. Regular way purchases or sales of investment require delivery of securities within the time frame generally established by regulation or convention in the market place.

The Company classifies its investment portfolio, except for investments in associates, into 'held-for-trading', 'held-to-maturity' and 'available-for-sale' portfolios as follows:

Held for trading

These are securities which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealer's margin or are securities included in portfolio in which a pattern of short-term profit taking exists. These are carried at market value, with the related surplus / (deficit) on revaluation being taken to profit and loss account.





Held for maturity

These are securities with fixed or determinable payments and fixed maturity that are held with the intention and ability to hold to maturity. These are carried at amortized cost.

Available for sale

The investments that do not fall under the held-for-trading or held-to-maturity categories, are carried at market value except investments in unquoted equity securities which are stated at lower of cost or break-up value. Subsequent increases or decreases in the carrying value are credited / charged to profit and loss account. Break-up value of unquoted 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, if any. Impairment loss is charged to the profit and loss account currently, if evidence exists that the same has occurred.

The surplus / (deficit) on revaluation taken to 'Surplus / (deficit) on revaluation of assets' account below equity. Provision for diminution in value of investments in respect of unquoted shares is calculated with reference to book value of the same. Provision for diminution in value of investments for unquoted debt securities is calculated with reference to the time-based criteria as per the Prudential Regulations.

Held-for-trading and quoted available-for-sale securities are marked to market with reference to ready quotes on Reuters page (PKRV) or the Stock Exchanges.

Premium or discount on debt securities classified as available-for-sale and held-to-maturity securities is amortized using the effective interest method and taken to interest income.

On derecognition or impairment in quoted available-for-sale investments the cumulative gain or loss previously reported as "surplus / (deficit) on revaluation of assets" below equity is included in the profit and loss account.

Investment in associate

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

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

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

3.6 Operating fixed assets

Tangible

Capital work-in-progress

Capital work-in-progress is stated at cost accumulated up to the balance sheet 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.

Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment (if any). 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 all property and equipment is charged using the 'Straight Line Method' in the month when the asset is available for use upto the month of its disposal at the rates mentioned in note 9.2. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Refer note 9.2 in respect of changes in accounting estimates with regard to the fixed assets.

Minor maintenance and repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are retired.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the assets is recognised in the profit and loss account in the year when asset is derecognised.

Subsequent costs

Renewals and improvements are included in an asset's carrying amount or are 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 expenses are charged to profit and loss account during the financial year in which they are incurred.

Intangible

Intangible assets with definite useful lives are stated at cost less accumulated amortization and impairment losses (if any). Amortization is charged to income over the estimated useful life of the asset from the month when these assets are put in use, using the straight line method at the rate as specified in note 9.4 to the financial statements. The residual values, useful lives and amortization method are reviewed and adjusted, if appropriate, at each balance sheet date.

Impairment

The carrying amount of assets are reviewed at each balance sheet 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 except for impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

3.7 Taxation

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 balance sheet date between the tax base of assets and liabilities and their carrying amounts for the financial statements reporting purposes. Deferred tax is calculated at the tax rates that are expected to apply when the asset is realized or liability is settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax liability is generally recognized for all taxable temporary differences. Deferred tax assets is recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

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

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

3.8 Employee benefits

a. Defined benefit plan

Pension Fund

The Company operates an approved funded pension scheme for all its employees who have been in full time employment for at least 10 years. The scheme provides pension based on the employees' last drawn pensionable salary. Contributions are made to the scheme on the basis of actuarial recommendation. The latest valuation was carried out at December 31, 2010 by actuary using the 'Projected Unit Credit' actuarial cost method, by applying the following significant assumptions, for actuarial valuation of the scheme and such valuation shall be valid for next three years:

	2010	2009
	Per annum	
Discount rate	14%	14%
Expected rate of return on investments/plan assets	14%	14%
Expected rate of increase in salary	13%	13%
Pension increase rate	9%	9%

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

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

Post retirement medical benefits

The Company also provides post retirement medical benefits to its employees. Actuarial valuation of the scheme is carried out after every three years and the latest valuation was carried out at December 31, 2010 using 'Projected Unit Credit' actuarial cost method. Discount rate of 14% (2009: 14%) is used by the actuary for the valuation.

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

b. Defined contribution plan

The Company also operates an approved non-contributory Provident Fund scheme for all its employees. Contributions are made to the fund by the employees in accordance with the Fund's rules.

c. Employees' compensated absences

The Company provides for employees compensated absences on the basis of actuarial valuation in accordance with the requirements of IAS-19. Actuarial valuation of the scheme is carried out after every three years and the latest valuation was carried out at December 31, 2010.

3.9 Foreign currency transactions and translations

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

3.10 Financial instruments

Financial assets and liabilities

Financial instruments carried on the balance sheet 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-recognised 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-recognised when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liabilities is recognised in the profit and loss account of the current period.

Off setting

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

3.11 Provisions

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

3.12 Borrowing costs

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

3.13 Earning per share

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

3.14 Dividends and appropriation to reserves

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

4. CASH AND BALANCES WITH TREASURY BANKS

With State Bank of Pakistan in

Cash reserve account
Local currency current account

With National Bank of Pakistan in

Local currency deposit account

Note	2010	2009
	--- Rupees in '000 ---	
4.1	58,544	50,044
	1,160	506
	85	73
	<u>59,789</u>	<u>50,623</u>



4.1 This represents the amount required to be maintained by the Company in accordance with the SBP's regulations and carries markup @ 0% (2009: 0%).

5. BALANCES WITH OTHER BANKS

In Pakistan - Local currency
In transit
On deposit accounts

5.1 These bank accounts carry mark-up at rates ranging from 5% to 11% (December 31, 2009: 5% to 10.75%) per annum.

6. LENDINGS TO FINANCIAL INSTITUTIONS

Letters of placement
Repurchase agreement lending (Reverse Repo)

6.1 Letters of placement

Trust Investment Bank Limited (TIBL)
First Dawood Investment Bank Limited (FDIBL)
NIB Bank Limited
Pak Libya Investment Bank Limited
Saudi Pak Industrial and Agricultural Investment Company Limited
Pak Oman Investment Bank Limited

Less: Provision for placement with FDIBL and TIBL

6.1.1 This represents clean placement of Rs. 75 million made at mark-up rate of 28% per annum on November 17, 2008 for a period of 14 days. The transaction remained unsettled at maturity on December 01, 2008. In February 2009, TIBL repaid Rs. 15 million towards principal along with mark up of Rs. 3.16 million and entered into a rollover arrangement with the Company, whereby the remaining principal of Rs. 60 million was agreed to be repaid in 18 monthly installments at three months KIBOR plus 2% per annum commencing from March 2009 onwards.

TIBL complied with the rollover arrangement till September 2009 and repaid principal of Rs. 16.5 million. It stopped principal repayments from October 2009 onwards. However, during the current year, it has paid another Rs. 8 million along with markup till February 14, 2010. On March 15, 2010, the Company has entered into rescheduling agreement with TIBL on the outstanding amount of Rs. 35.5 million according to which TIBL paid Rs. 3 million immediately and remaining balance is payable over twenty two equal installments upto January 15, 2012 with a markup @ three months KIBOR plus 2%. TIBL has complied with the agreement and has paid Rs. 13.29 million against the overdue principal till the balance sheet date. However, on the prudence basis, the Company has made 25% provision against outstanding receivable as at December 31, 2010.

6.1.2 This represents clean placement of Rs. 75 million made at mark-up rate of 17% per annum on September 12, 2008 for a period of 94 days. The transaction remained unsettled at maturity on December 15, 2008. On January 27, 2009, FDIBL paid mark-up amounting to Rs. 3.28 million. The Company filed suit against FDIBL for recovery of outstanding principal and obtained a decree on November 05, 2010. Subsequent to the year end, FDIBL has filed appeal against the judgment. The Company has made provision of full amount.

Note	2010	2009
	--- Rupees in '000 ---	
5.1	21,139	46,465
	74,847	121,681
	<u>95,986</u>	<u>168,146</u>
6.1	14,404	938,925
6.2	976,820	569,968
	<u>991,224</u>	<u>1,508,893</u>
6.1.1	19,205	43,500
6.1.2	75,000	75,000
	-	602,235
	-	102,540
	-	100,765
	-	100,760
	<u>94,205</u>	<u>1,024,800</u>
6.1.3	79,801	85,875
	<u>14,404</u>	<u>938,925</u>


6.1.3 Particulars of provision

 Opening balance
 (Reversal) / charge for the year
 Closing balance

Note	2010	2009
	--- Rupees in '000 ---	
	85,875	75,000
	(6,074)	10,875
	<u>79,801</u>	<u>85,875</u>

6.2 Repurchase agreement lending (Reverse Repo)

 Pak Oman Investment Bank Limited
 Pak Iran Joint Investment Company Limited
 The Bank of Punjab
 Saudi Pak Industrial and Agricultural Investment Company Limited

Note	2010	2009
6.2.1	606,413	372,123
6.2.2	190,319	-
6.2.2	180,088	-
	-	197,845
	<u>976,820</u>	<u>569,968</u>

6.2.1 This represents reverse repo lending at mark-up of 12.83% to 13.12% (2009: 12.03% to 12.15%) per annum and is maturing upto March 15, 2011.

6.2.2 This represents reverse repo lending at mark-up of 12.6% to 13.05% per annum and is maturing upto January 04, 2011.

6.3 Particulars of lending

 In local currency
 In foreign currency

	991,224	1,508,893
	-	-
	<u>991,224</u>	<u>1,508,893</u>

6.4 Securities held as collateral against lendings to financial institutions

	December 31, 2010			December 31, 2009		
	Held by Company	Further given as collateral	Total	Held by Company	Further given as collateral	Total
	----- Rupees in '000' -----					
Pakistan Investment Bonds	606,413	-	606,413	569,968	-	569,968
Market Treasury Bills	370,407	-	370,407	-	-	-
	<u>976,820</u>	-	<u>976,820</u>	<u>569,968</u>	-	<u>569,968</u>

7. INVESTMENTS
7.1 Investments by types
Available-for-sale securities

 Market treasury bills
 Mutual funds
 Unlisted ordinary shares
 Commercial papers
 Listed sukuk bonds

Note	2010			2009		
	Held by Company	Given as collateral	Total	Held by Company	Given as collateral	Total
7.2.1	5,711,409	-	5,711,409	-	-	-
7.2.2	-	-	-	-	-	-
7.3	500	-	500	500	-	500
	77,746	-	77,746	9,311	-	9,311
	<u>5,789,655</u>	-	<u>5,789,655</u>	<u>1,564,857</u>	-	<u>1,564,857</u>

Held-to-maturity securities

 Market Treasury Bills
 Unlisted sukuk bonds
 Government of Pakistan Ijara Sukuk
 Term deposit receipts
 Certificates of investment

Note	2010			2009		
	Held by Company	Given as collateral	Total	Held by Company	Given as collateral	Total
7.2.1	-	-	-	-	-	-
7.3	149,240	-	149,240	-	-	-
7.3	20,000	-	20,000	20,000	-	20,000
7.4	2,344	-	2,344	570,601	-	570,601
7.5	168,750	-	168,750	168,750	-	168,750
	<u>340,334</u>	-	<u>340,334</u>	<u>2,193,047</u>	-	<u>2,193,047</u>

Associate

Takaful Pakistan Limited

Investments at cost

Less: Provision for diminution in value of investments

Less: Impairment in associate - Takaful Pakistan Limited

Investments (net of provisions)

7.7	35,506	-	35,506	46,526	-	46,526
	<u>6,165,495</u>	-	<u>6,165,495</u>	<u>3,804,430</u>	-	<u>3,804,430</u>
7.8	(290,210)	-	(290,210)	(252,844)	-	(252,844)
	<u>(35,506)</u>	-	<u>(35,506)</u>	<u>3,551,586</u>	-	<u>3,551,586</u>

Deficit on revaluation of available for sale securities

Total investments

14	(18,759)	-	(18,759)	(578)	-	(578)
	<u>5,821,020</u>	-	<u>5,821,020</u>	<u>3,551,008</u>	-	<u>3,551,008</u>



	Note	2010 --- Rupees in '000 ---	2009
7.2 Investments by segments			
Federal Government securities			
Market Treasury Bills	7.2.1	5,711,409	2,708,742
Open end mutual fund units			
		-	30,000
Fully paid up ordinary shares			
Unlisted companies	7.2.2	500	500
Term finance certificates, debentures, bonds and participation term certificates			
Government of Pakistan Ijarah Sukuk	7.3	20,000	20,000
Unlisted sukuk bonds	7.3	149,240	175,000
Listed sukuk bonds	7.3	77,746	75,000
Other investments			
Term deposit receipts	7.4	2,344	570,601
Commercial papers		-	9,311
Certificates of investment - Bankers Equity Limited (BEL)	7.5	168,750	168,750
Investment in Associates	7.7	35,506	46,526
Total investment at cost		6,165,495	3,804,430
Less: Provision for diminution in value of investment	7.8	(290,210)	(252,844)
Less: Impairment in associate - Takaful Pakistan Limited		(35,506)	-
Investments (net of provisions)		5,839,779	3,551,586
Deficit on revaluation of available for sale securities		(18,759)	(578)
Total investments		5,821,020	3,551,008

7.2.1 Market Treasury Bills are eligible for discounting with the State Bank of Pakistan, these carry mark-up from 12.17% to 13.20% (2009: from 11.7% to 13.3%) and will mature upto June 16, 2011.

7.2.2 These represent investment in 66,125 (2009: 66,125) ordinary shares of Rs. 10 each in Resource and Engineering Management Corporation Limited.

7.3 Particulars of investment in Sukuk bonds

Name of issuer	Rating	Mark-up rate	Repayment	Total nominal value	
Government of Pakistan	Sovereign	6 months	Semi-annually	20,000	20,000
Maturity date: September 26, 2011		Treasury Bills yield plus 0.45%			
Eden Housing Limited	D	3 months	Quarterly	149,240	175,000
40,000 (2009: 40,000) units		KIBOR plus 2.50%			
Face value: Rs. 5,000 each					
Maturity date: June 29, 2014					
(Note 7.3.1)					
Maple Leaf Cement Factory Limited (MLCFL)	BB/B	3 months	Quarterly	77,746	75,000
15,562 (2009: 15,000) units		KIBOR plus 1%			
Face value: Rs. 5,000 each					
Maturity date: December 03, 2018					
(Note 7.3.2)					

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

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

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

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

Mark-up from December 2009 to February 2011 will be converted into interest free debt and will be paid in 24 equal quarterly installments starting from March 2012 till December 2017. Token mark-up of 0.5% on the converted mark-up amount will be paid on the installment date. Mark-up from March to June 2011 will be paid in September 2011. Regular mark-up payment will commence from September 2011 on the due dates.

7.4 Particulars of Term Deposit Receipts

Commercial Banks

NIB Bank Limited

Investment Bank

Asset Investment Bank Limited

7.4.1 Term deposit receipts carry mark-up @ 15.62% (2009: 15.62%) per annum.

7.5 This represents placement in certificates of investment (COIs) of Rs. 200 million for three years and Rs. 25 million for three months in 1996 and 1998 respectively. BEL defaulted the repayment and went under liquidation on April 18, 2001 and claims of BEL were placed before Honourable High Court of Sindh. Consequently, the Company had made provision of full amount. On March 11, 2009, the Company received 25% of the invested amount of Rs. 56.25 million on the directive of the Honourable High Court of Sindh. Subsequent to the year end, the Company has further received 15% of the invested amount of Rs. 33.75 million against COIs of BEL on the directive of the Honourable High Court of Sindh. Accordingly, the Company has reversed the provision against the said COIs by the same during the year.

Note	2010 --- Rupees in '000 ---	2009
7.4.1	-	568,257
	2,344	2,344
	2,344	570,601



	2010		2009	
	Rupees in '000		Rupees in '000	
	Amount	Rating	Amount	Rating
7.6 Quality of Available for Sale Securities				
Securities (At market value)				
Market Treasury Bills	5,692,650	Sovereign	1,449,067	Sovereign
Unit of Mutual Funds				
NIT Government Bond Fund	-	-	30,401	5 star
Commercial papers	-	-	9,311	Unrated
Unlisted sukuks				
Maple Leaf Cement Factory Limited	-	BB/B	37,000	NPA
Unlisted ordinary shares				
Resource and Engineering Management Corporation Limited	-	Unrated	-	Unrated
Total	<u>5,692,650</u>		<u>1,525,779</u>	

	2010	2009
7.7 Investment in associate - Takaful Pakistan Limited Company		
Number of shares held	8,700,000	8,700,000
Cost of investment - Rupees in '000	87,000	87,000
Asset - Rupees in '000	442,289	678,569
Liabilities - Rupees in '000	314,307	509,111
Revenue - Rupees in '000	169,432	267,606
Loss after tax - Rupees in '000	(38,000)	(27,328)
Percentage of investment	29%	29%
Break up value per share - Rupees	4.27	5.65
Latest available financial statements	Dec 31, 2010	Dec 31, 2009
Name of Chief Executive	(Acting) Ashraf Ali Siddiqui	M. Jamil Akhter Khan
Place of incorporation	Pakistan	
Principal business	Takaful business	

	2010	2009
7.7.1 Carrying value of associate under equity method		
Carrying value of investment at January 01	46,526	54,452
Share in results of associate before taxation	(10,324)	(7,715)
Share in charge for taxation	(696)	(211)
	<u>35,506</u>	<u>46,526</u>
Less: Impairment	(35,506)	-
Carrying value of investment at December 31	<u>-</u>	<u>46,526</u>

7.8 Particulars of provision in respect of type and segment
Available-for-sale securities

	2010	2009
Unlisted ordinary shares	500	500
Listed Sukuks - Maple Leaf Cement Factory Limited	77,746	37,500

Held-to-maturity securities

	2010	2009
Term deposit receipts - Asset Investment Bank Limited	2,344	2,344
Unlisted Sukuks - Eden Housing Limited	74,620	43,750
Certificates of Investment (COIs)- Bankers Equity Limited	135,000	168,750
	<u>290,210</u>	<u>252,844</u>

Note 7.5

8. ADVANCES - Net
In Pakistan - Local currency

Rental Sharing Schemes	3,228,777	3,560,651
Interest Bearing Schemes	112,109	114,177
Ghar Aasan Scheme	7,300,648	8,113,851
Pakistan Housing Authority (PHA)	218,143	174,143
Gawadar Employees Co-operative Housing Society (GECHS)	40,691	40,691

Shandar Ghar Scheme	2,809,016	3,532,615
Unearned income	(1,477,787)	(1,870,677)
	<u>1,331,229</u>	<u>1,661,938</u>
Financing facility for Small Builders	32,404	78,367
Ghar Aasan Flexi Scheme	1,953,285	1,584,359
Housing finance to employees	484,160	596,169
Transitory district bank accounts - net	(52,558)	(10,000)
Advances - gross	<u>14,648,888</u>	<u>15,914,346</u>

Provision for non-performing advances
Specific provision

Rental Sharing Schemes	2,926,496	3,093,357
Interest Bearing Schemes	112,109	113,203
Ghar Aasan Scheme	626,854	505,788
Gawadar Employees Co-operative Housing Society	40,691	-
Shandar Ghar Scheme	132,674	78,192
Financing facility for Small Builders	4,576	1,011
Ghar Aasan Flexi Scheme	16,013	4,941
	<u>107,410</u>	<u>131,390</u>

General provision

Advances - net of provision	<u>3,966,823</u>	<u>3,927,882</u>
	<u>10,682,065</u>	<u>11,986,464</u>

8.1 Particulars of advances (Gross)

Short term (up to one year)	3,483,440	3,426,397
Long term (over one year)	11,165,448	12,487,949
	<u>14,648,888</u>	<u>15,914,346</u>

8.2 This represents advances under Profit & Loss Sharing Scheme, Simplified Scheme, New Simplified Scheme (NSS), Gothabad Scheme and loan to Brecast Industries (Pvt.) Limited. No additional disbursement of advance under these schemes has been made since 2000. Advances under NSS have been provided upto 86% (2009 : 82%) of the gross advance whereas advances under rest of the schemes are fully provided.

8.3 The Board of Directors has approved a Settlement Scheme in pursuant to the Government of Pakistan announcement which was valid upto December 31, 2009. As per the terms and conditions of the Scheme, on payment of the entire principal amount and certain percentage of mark-up, partners are entitled to waiver of outstanding mark-up and demand charges. Under this scheme 34,329 (2009 : 33,286) customers availed the facility up to the balance sheet date in pursuance of which the total outstanding balances amounting to Rs. 2,900 (2009 : Rs. 2,889) million has been recovered and the remaining outstanding share in rental income along with outstanding demand charges amounting to Rs. 2,331 (2009 : Rs. 2,287) million has been waived. Due to approval process, amount against additional 1,043 customers were received in the year 2009 however these were closed/settled this year. Amount received this year represents balance amount

receivable from customers already opted the scheme in 2009. Similarly, the Company also announced Incentive Scheme for NSS as per the approval of the Board of Directors in the year 2006 which was valid upto December 31, 2009. All borrowers having advances at an initial rental rate of 10% per annum and above are eligible for this Scheme. As per the terms and conditions of Scheme, the borrowers who have availed advances at initial rate between 10% to 12% will be reconstructed at 10% since inception and similarly customers who have availed advances at initial rate above 12% will be reconstructed at 12% since inception, and will be required to settle the reconstructed amount by way of payment of 25% as down payment and balance 75% in 30 equal monthly installments. Under this scheme 10,128 (2009: 8,720) partners availed the facility upto the balance sheet date in pursuance of which the total outstanding balances amounting to Rs. 1,839 (2009: Rs. 1,822) million have been recovered and the remaining outstanding share in rental income along with outstanding demand charges amounting to Rs. 279 (2009: Rs. 216) million have been waived. Due to approval process, amount against additional 1,408 customers have been received in the year 2009; however these were closed/settled this year. Amount received this year represents balance amount receivable from customers already opted the scheme in 2009.



8.4 No new disbursement has been made under this scheme since the year 1979. In pursuance of the decision of the Honorable Supreme Court of Pakistan, the Company has not accrued interest on these advances since July 01, 2000.

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

8.6 It represents outstanding amount of advance for which repayment has been refused by PHA. Since the transaction is guaranteed by the Federal Government Guarantee, therefore, the Company had shown its intention to invoke the guarantee of Federal Government to recover the amount vide letter No. HBFCL/HOK/ED(RECY)/08/456 dated February 11, 2008.

The Company had received part payment of Rs. 44 million last year from Ministry of Finance, Government of Pakistan (MoF) and adjusted the same. During the year, the Company has received the remaining amount of Rs. 173.14 million from the MoF but has not adjusted this amount and also reversed the amount earlier adjusted as MoF through its letter No. F.10(4)F-II/2000-594 dated April 17, 2010 instructed Ministry of Housing & Works (MoH&W) to pay this amount to the Company and necessary provision in this regard should be made in the Federal Budget. MoF in its letter further stated that the amount paid by them to the Company will, inter alia, be utilised for increase in the paid up capital of the Company. This amount has been recorded as "Reimbursement of claims by Government of Pakistan" in other liabilities in note 12.8 of the financial statements.

8.7 As per the arrangement Gawadar 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 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, 2010, advances of Rs. 6.44 million (2009 : Rs. 6.44 million), were transferred to 28 (2009 : 28) individual cases; i.e., 21 cases under Ghar Aasan Scheme, and 7 cases under Ghar Aasan Flexi Scheme amounting to Rs. 5.28 million and Rs. 1.16 million respectively.

Final profit and loss sharing will be subject to final settlement of accounts which shall be made within three months of the completion of the project which will be audited by the person authorized by the Company.

This advance is secured against mortgage of land. The Company has made provision for full amount as a matter of prudence.

8.8 Advances under Shandar Ghar Scheme for renovation of houses only with maximum financing limit of Rs. 2.5 million are based on Murahaba 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% (2009 : 8% to 13.5%) per annum. New disbursement under this scheme has been discontinued from February 11, 2009.

8.9 Advances under 'Finance facility for Small Builders' for construction of individual houses and apartments for sale to the general public with maximum financing limit of Rs. 7.5 million is based on Musharaka financing approved by the Board of Directors in August 2007. This advance is for a period of 12 to 18 months, extendable for further 3 months, to be repaid at the end of the tenor along with the profit ranging from 13% to 18% (2009 : 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.

8.10 Advances under Ghar Aasan Flexi Scheme for construction, renovation and purchase of house and replacement of existing housing facility - Balance Transfer Facilities (BTF) with maximum financing limit of Rs. 10 million is based on Diminishing Musharaka. This advance is repayable by the partners in 36 to 240 monthly installments. The rental income for salaried person and business person is one year KIBOR with a spread of 2% and 3.50% respectively per annum.

There are two investments plans under this scheme; variable installment plan and fixed investment plan. New disbursement under the variable installment plan has been discontinued effective from July 27, 2009.

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

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

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

8.14 Advances include Rs. 7,323 million (2009: Rs. 6,313 million) which have been placed under non-performing status as detailed below:

Category of Classification	2010			2009			
	Classified Advances		Provision Required	Classified Advances		Provision Held	
	Domestic	Overseas	Total	Domestic	Overseas	Total	
Substandard	1,389,984	-	1,389,984	174,956	-	174,956	
Doubtful	1,441,233	-	1,441,233	279,575	-	279,575	
Loss	4,491,452	-	4,491,452	3,404,882	-	3,404,882	
	7,322,669	-	7,322,669	3,859,413	-	3,859,413	
General provision	-	-	-	107,410	-	107,410	
	7,322,669	-	7,322,669	3,966,823	-	3,966,823	
			Rupees in '000				
				2010		2009	
	Classified Advances		Provision Required	Classified Advances		Provision Held	
	Domestic	Overseas	Total	Domestic	Overseas	Total	
Substandard	1,306,641	-	1,306,641	156,646	-	156,646	
Doubtful	1,117,888	-	1,117,888	220,480	-	220,480	
Loss	3,888,106	-	3,888,106	3,419,366	-	3,419,366	
	6,312,635	-	6,312,635	3,796,492	-	3,796,492	
General provision	-	-	-	131,390	-	131,390	
	6,312,635	-	6,312,635	3,927,882	-	3,927,882	
			Rupees in '000				
	2010			2009			
	Specific	General	Total	Specific	General	Total	
	Rupees in '000			Rupees in '000			
Opening balance	3,796,492	131,390	3,927,882	4,108,856	165,440	4,274,296	
Charge for the year	242,286	-	242,286	240,123	-	240,123	
Reversals	(179,365)	(23,980)	(203,345)	(523,930)	(34,050)	(557,980)	
Write offs	62,921	(23,980)	38,941	(283,807)	(34,050)	(317,857)	
Closing balance	3,859,413	107,410	3,966,823	3,796,492	131,390	3,927,882	

8.14.1 Particulars of provision against non-performing advances


8.15 Particulars of write offs

Against provisions
Directly charged to profit and loss account

	2010	2009
	--- Rupees in '000 ---	
Against provisions	-	28,557
Directly charged to profit and loss account	-	-
	-	28,557
Write offs Rs. 500,000 and above	-	-
Write offs below Rs. 500,000	-	28,557
	-	28,557

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

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

Balance at beginning of year
Loans granted during the year
Repayments / adjustments
Balance at end of year

	2010	2009
Balance at beginning of year	684,948	638,393
Loans granted during the year	99,841	152,044
Repayments / adjustments	(198,154)	(105,489)
Balance at end of year	586,635	684,948

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

9. OPERATING FIXED ASSETS

Capital work-in-progress
Property and equipment
Intangible assets

	2010	2009
Capital work-in-progress	18,775	73,313
Property and equipment	149,583	148,616
Intangible assets	833	1,264
	169,191	223,193

9.1 Capital work-in-progress

Civil works
Advances to suppliers and contractors
Software designing and development

	2010	2009
Civil works	18,538	67,881
Advances to suppliers and contractors	-	509
Software designing and development	237	4,923
	18,775	73,313

Note

9.1
9.2
9.4

9.2 Property and equipment

	2010			Annual rate of depreciation %	Net book value
	At January 01	At December 31	Charge for the year/ (on deletion)		
Freehold land (note 9.2.1)	11,640	11,640	-	-	11,640
Office premises	75,037	80,729	3,965	5	36,799
Furniture and fixtures	68,716	79,440	7,587	10	58,625
Electrical installations	36,483	41,390	2,728	10	19,882
Office equipment	33,092	38,448	4,747 (18)	15 & 33.33	17,417
Computer equipment	109,058	109,389	4,113 (87)	33.33	1,933
Motor vehicles	71,536	64,921	1,452 (5,059)	20	3,287
	405,562	425,957	24,592 (5,164)		149,583

Property and equipment

	2009							
	COST		ACCUMULATED DEPRECIATION				Net book value	Annual rate of depreciation %
	At January 01	At December 31	At January 01	Charge for the year/ (on deletion)	At December 31			
			Rupees in '000					
Freehold land	10,071	1,569	11,640	-	-	11,640	-	
Office premises	73,712	1,325	75,037	36,281	3,684	39,965	5	
Furniture and fixtures	60,261	8,583 (128)	68,716	7,300	6,032 (104)	13,228	10	
Electrical installations	33,534	2,949	36,483	16,678	2,102	18,780	10	
Office equipment	29,413	4,677 (998)	33,092	12,646	4,637 (981)	16,302	15 & 33.33	
Computer equipment	105,589	5,128 (1,659)	109,058	94,128	10,961 (1,659)	103,430	33.33	
Motor vehicles	76,506	16 (4,986)	71,536	63,859	5,963 (4,581)	65,241	20	
	<u>389,086</u>	<u>24,247 (7,771)</u>	<u>405,562</u>	<u>230,892</u>	<u>33,379 (7,325)</u>	<u>256,946</u>	<u>148,616</u>	

9.2.1 The fair market value of plot of land as per last valuation carried out by independent valuers in 2009 was Rs. 464.72 million.

9.2.2 The gross carrying value of fully depreciated assets still in use amounted to Rs. 175.16 (2009 : Rs. 116.32) million.

9.3 Disposal of operating fixed assets

Particulars	Cost	Net book value	Sale proceeds	Gain on disposal	Mode of disposal	Particular of buyers
Items having cost above one million rupees or book value above two hundred and fifty thousand rupees						
Motor vehicles	3,525	1,410	4,067	2,657	Auction	Various
Items having cost less than one million rupees or book value less than two hundred and fifty thousand rupees						
Computer Equipment	87	-	9	9	Settlement	Employee
Office equipment	18	-	2	2	Auction	Various
Motor Vehicles	3,090	146	1,830	1,684	Auction	Various
	<u>6,720</u>	<u>1,556</u>	<u>5,908</u>	<u>4,352</u>		
2010	<u>7,771</u>	<u>446</u>	<u>4,148</u>	<u>3,702</u>		



9.4 Intangible assets

2010		ACCUMULATED AMORTIZATION		Net book value	Annual rate of amortization %
		At January 01	At December 31		
Computer software	At January 01	5,311	4,061	833	33.33
	At December 31	5,311	4,478		
Patents	At January 01	262	247	-	33.33
	At December 31	262	262		
COST					
At January 01	At January 01	5,573	4,308	833	
At December 31	At December 31	5,573	4,740	833	
2009		ACCUMULATED AMORTIZATION			
Computer software	At January 01	4,061	3,501	1,250	33.33
	At December 31	5,311	4,061		
Patents	At January 01	260	160	14	33.33
	At December 31	262	247		
COST					
At January 01	At January 01	4,321	3,661	1,264	
At December 31	At December 31	5,573	4,308	1,264	



10. OTHER ASSETS

Note	2010	2009
	--- Rupees in '000 ---	
	Income/mark-up accrued in local currency	
	Investments	6,477
	Advances	35,764
10.1	Housing projects in progress	50,470
	Advances, deposits, advance rent and other prepayments	105,546
10.2	Advance taxation (payments less provisions)	187,273
	Other receivable against advances	25,594
10.3 & 30.2	Receivable from pension fund	22,746
12.9	Receivable from Government of Pakistan against Voluntary Severance Scheme	800,000
10.4	Assets acquired from Pakistan Refugees Rehabilitation Finance Corporation (PRRFC)	-
	1,233,870	496,493

- 10.1** It represent an advance payment of 25% of the cost of two pieces of land measuring 163 acres situated in Gawadar. The Company intends to construct low cost houses on this land to promote affordable housing facilities to low income groups of the residents of Gawadar.
- 10.2** This includes advance tax and provision for taxation amounting to Rs. 4,483.71 (2009 : Rs. 4,457.73) million and Rs. 4,296.44 (2009 : Rs. 4,269.45) million respectively.
- 10.3** This amount includes benefit payable to 82 VSS optees of Rs. 121.75 million.
- 10.4** 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.

Pakistan Refugees Rehabilitation Finance Corporation

Assets

Fixed assets	1	1
Cash and bank balances	518	518
Investments	253	253
Loans and advances	16,583	16,583
Inter-centre adjustment	2,432	2,432
Other receivables	1,992	1,992
Sundry debtors	200	200
Advances, deposits and prepayments	227	227
	22,206	22,206
Provision for bad and doubtful debts	(2,579)	(2,579)
	19,627	19,627

Liabilities

Sundry creditors	93	93
Accrued expenses	38	38
Return on capital	7,371	7,371
Other liabilities	129	129
	7,631	7,631

Net assets

REPRESENTED BY	2010	2009
Capital	16,000	16,000
Accumulated loss	(4,004)	(4,004)
	11,996	11,996


11. BORROWINGS

In Pakistan - local currency
Outside Pakistan - foreign currency

11.1 Detail of borrowings
Secured

Borrowings from State Bank of Pakistan - PLS credit lines
Sukuk bonds
International Development Association (IDA) loan

Note	2010 --- Rupees in '000 ---	2009
11.1	12,292,300	12,747,300
	-	-
	<u>12,292,300</u>	<u>12,747,300</u>
11.1.1	11,242,300	11,242,300
11.1.2	1,050,000	1,350,000
	-	155,000
	<u>12,292,300</u>	<u>12,747,300</u>

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

The credit lines are repayable as follows and are on profit and loss sharing basis as mentioned in Note 25: -

Credit line number	Amount of credit lines Rupees in '000	Repayment due on	Status
58	1,400,000	June 25, 2006	Due
59	1,833,000	September 07, 2007	Due
60	1,850,000	June 30, 2008	Due
61	2,406,000	August 08, 2008	Due
62	2,200,000	November 10, 2010	Due
63	1,053,300	July 12, 2011	Not yet due
64	500,000	February 26, 2012	Not yet due
	<u>11,242,300</u>		

As per the above schedule credit line Nos. 58 to 61 were payable on June 25, 2006, September 07, 2007, June 30, 2008 and August 8, 2008 respectively, but were not paid in pursuance of Company's request to SBP to convert the credit line Nos. 58 and 59 aggregating Rs. 3.23 billion into equity and to reschedule the remaining amount of Rs.8.01 billion over the period of 12 years at a fixed mark-up rate of 6%.

The SBP through its letter no. SMED Refinance 900/06-2071 dated September 02, 2006 has advised the Company to repay the credit lines as per the schedule and claimed mark-up @ 9.5% for utilization of the said amount after the due date till the date of their payment. Currently, negotiation with SBP for rescheduling of the borrowing and waiver of mark-up are in process. However, as a matter of prudence, the management has made accrual of entire amount of mark-up on overdue credit lines @ 9.5% per annum.

11.1.2 Sukuk Certificates - Secured

Balance as at January 01
Redemption during the year
Closing balance as at December 31

Redemptions

Not later than one year
Later than one year and less than five years
Balance as at December 31

	1,350,000	1,500,000
	(300,000)	(150,000)
	<u>1,050,000</u>	<u>1,350,000</u>
	300,000	300,000
	750,000	1,050,000
	<u>1,050,000</u>	<u>1,350,000</u>

11.1.2.1 Sukuk Certificates - Secured

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

Trustee

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

12. OTHER LIABILITIES

Mark-up / return / interest payable on borrowings in local currency
Accrued expenses
Payable to pension fund
Payable to post retirement medical benefits
Payable against employees' compensated absences
Profit payable in respect of IDA loan to the GoP
Refundable to customers against advances
Payable to SBP
Insurance premium payable
Deferred credits
Reimbursement of claims by Government of Pakistan
Salary compensation and benevolent fund payable to VSS optees
Retention money payable
Application fee - Gawadar Project
Agents' deposit money
Others

Note	2010 --- Rupees in '000 ---	2009
12.1	22,121	27,482
	131,102	148,006
30.2	-	555,539
30.2 & 12.2	513,959	614,310
12.3	377,729	495,804
12.4	-	207,032
	17,976	24,701
12.5	801,859	43,692
12.6	95,754	51,850
12.7	1,640,669	1,133,894
12.8	855,609	-
12.9	275,337	-
	3,832	5,302
	3,915	3,915
	1,485	2,192
	1,346	-
	<u>4,742,693</u>	<u>3,313,719</u>

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

12.2 This amount includes benefit payable to 82 VSS optees of Rs. 39.74 million.

12.3 This amount includes benefit payable to 82 VSS optees of Rs. 11.98 million.

12.4 During the year, Federal Government vide its letter No.66(1) DMR-1/91 dated May 25, 2010 has directed the Company to repay IDA loan of Rs. 155 million alongwith markup of Rs. 53.18 million which has been paid as full settlement and the balance amount is reversed.


12.5 Payable to SBP

Balance at January 01	
Share of profit	
Less: Markup accrued on SBP credit lines	
Balance at December 31	
Free reserves	

Note	2010	2009
	--- Rupees in '000 ---	
	43,692	(715,049)
25.1	16,937	47,286
	60,629	(667,763)
11.1.1	741,230	711,455
	801,859	43,692
12.5.2	(1,472,085)	(1,562,111)

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

The Company has been computing the share of SBP by allocating total income earned related to profit and loss sharing schemes and income related to other operations is allocated to the Company. Similarly other expenses are also allocated in relation to the income. Whereas, the administrative expenses and other charges were being apportioned in the ratio 98:02 between SBP and the Company. The matter was under discussion with SBP for long and SBP during the year appointed a team of auditors to review the matter.

SBP vide its letter No. BPRD(RPD-01)/2010-5414 dated August 06, 2010 has communicated its working for SBP's share in the profit and loss of the Company for the years ended December 31, 2007 and 2008. The basis of the working was that SBP is entitled for share of allocated income and expenses of the Company in the ratio of active credit lines and overdue credit lines. According to the working, SBP's share of loss for these years have been reduced by Rs. 416.193 million. Further, for the year 2009 and onwards SBP directed that the Company's activities under other operations have been increasing for which allocation of administrative expenses under profit and loss sharing schemes and other operations by ratio of 98:02 is not appropriate and these should be allocated as per their weight in total average earning assets.

The Company agreed with the working and direction of SBP and accordingly recognised SBP's share in these financial statements. The SBP sharing of Rs. 416.19 million upto December 2008 is accounted for in retained earnings and the revised shares for December 2009 and 2010 amounting to Rs. 47.29 million and Rs. 16.94 million respectively are accounted for in the respective years.

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

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

12.7 Deferred credits

Demand charges - net of recovery expenses	
Demand charges recovered	
Less: Recovery charges paid at December 31	
Profit/commission received from State Life Insurance Corporation - net of death claims	
Provision against insurance receivable from partners	
Unidentifiable insurance premium contribution received from borrowers / partners during prior years	
Property insurance	
Received from GoP against remission of advances to widows	
Profit received on investment	
Contribution towards Prime Minister's Flood Relief Fund	

Note	2010	2009
	--- Rupees in '000 ---	
	567,488	543,158
	(269,411)	(59,707)
12.7.1	298,077	483,451
12.7.2	208,562	208,562
	(200,356)	(194,525)
	8,206	14,037
12.7.3	52,503	52,503
	(12,495)	(12,495)
	40,008	40,008
12.7.4	865,074	173,000
12.7.5	529,304	423,398
	(100,000)	-
	429,304	423,398
	1,640,669	1,133,894

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

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

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

12.7.4 On the direction of Ministry of Finance, Government of Pakistan (GoP), the management had segregated remission of advance of widows, orphans and ex-employees of the Company by identifying advances under different schemes being receivable from GoP. Against this amount partial reimbursement had been received from the GoP. The Finance Division vide their letter dated June 18, 2003, had informed the then Corporation that the amount disbursed to the Corporation should be considered full and final settlement. However, the management was actively pursuing the matter with the Ministry of Finance. In the year 2006, an exercise was carried out by the Company in which it was identified that certain amount has already been received / waived against advances given to widows, orphans and ex-employees,

therefore this amount was taken to profit and loss in that year. Similarly, remaining balance had been taken to the profit and loss account during the year 2007, on account of repayment of loans.

The Company had raised claims with Federal Government in respect of remission of advances to widows. The Federal Government had approved the said claims and agreed to release the funds in four quarterly installments. The Company received 20% of the said amount upto December 31, 2009 and the remaining claimed amount during the year. As the Company had already received / waived the amount under various relief packages and settlement schemes, therefore, this amount is treated as grant and included in Deferred credits. The said amount will be utilised to write-off principal amounts receivable from widows and orphans that currently exist, and then the Board will consider its eventual usage for the welfare of widows / orphans.

12.7.5 This represents investment income earned up to the current year by the Company out of the amounts received in respect of the items reflected in the deferred credit account using average yield.

12.8 The Company has received claims from Ministry of Finance, Government of Pakistan in respect of provision against advance to partners affected by earthquake and amount receivable from PHA amounting to Rs. 912.80 million and Rs. 218.14 million respectively. Amount received against advance to partners affected by earthquake was to be adjusted after proper verification of partners. During the current year an independent consultant had verified 1,869 cases and accordingly amount of Rs. 275.34 million has been adjusted in this balance which include principal of Rs. 110.54 million and Rs. 164.80 million is realized in rental / mark-up income on advances from loans to customers. Amount received from Federal Government against PHA claim has not been adjusted due to the reason mentioned in note 8.6.

12.9 During the current period, the Company announced a Voluntarily Severance Scheme (VSS) vide Circular No. 003-76/P/HR&A/2010/916 dated June 18, 2010 for all executives and officers and vide Circular No. 003-76/P/HR&A/2010/1172 dated August 13, 2010 for staff. This scheme is applicable to employees who are in the regular service of the Company as on June 30, 2010 and have not yet attained the age of 58 years. Under the scheme, the eligible executives, officers and staff were required to submit their consent to exercise the option by June 30, 2010 and August 25, 2010 respectively and these dates have been extended to December 31, 2010. The Company has retained the right at its absolute discretion to accept or decline any option without assigning any reason. In order to ascertain the financial impact, actuarial valuation has been carried out based on 417 employees i.e. number of employees expected to accept the offer. Accordingly, the actuary has determined the total liability of Rs. 2,127.65 million against which staff retirement benefit liability of Rs. 1,402 million is already held in the Company's books of account in respect of these employees. Thus, according to actuary additional provision of Rs. 725 million and actuarial loss of Rs. 358 million would be required which aggregates to Rs. 1,083 million. Federal Government has made budgetary allocation of Rs. 1,000 million on account of VSS and has intimated the same through its letter No. F.6(9)-IF.II.2008 dated August 5, 2010 out of which Rs. 200 million were released vide letter No. F.6(9)IF-II/2008 dated December 22, 2010. Therefore, the Company has adjusted the VSS loss with the grant as mentioned in note 22.1.

During the year, the Company has paid Rs. 1,679.41 million to 335 employees and subsequently Rs. 194.68 million has been paid to 49 employees.

VSS liability for the remaining 82 employees against pension fund, medical benefit and compensated absences amounts to Rs. 121.75 million, Rs. 39.17 million and Rs. 11.98 million respectively as stated in note 10.3, 12.2 and 12.3 to these financial statements. Further, VSS liability against benevolent fund and salary compensation amounts to Rs. 15.55 million and Rs. 259.79 million respectively aggregating to Rs. 275.34 million. Hence, cumulative VSS liability amounts to Rs. 448.24 million.

13. SHARE CAPITAL

13.1 Authorized Capital

2010		2009	
Number of Shares		Rupees in '000	
600,000,000	600,000,000	6,000,000	6,000,000

13.2 Issued, subscribed and paid up capital each:

2010		2009	
Number of Shares		Rupees in '000	
6	6	-	-
300,000,000	300,000,000	3,000,000	3,000,000
100,000	100,000	1,000	1,000
300,100,006	300,100,006	3,001,000	3,001,000
Pattern of share holding			
187,562,506	187,562,506	1,875,625	1,875,625
112,537,500	112,537,500	1,125,375	1,125,375
300,100,006	300,100,006	3,001,000	3,001,000



13.3 As at December 31, 2010, the Company has an equity of Rs. 2,036.91 million against the minimum required equity of Rs. 7 billion as prescribed by the SBP for DFIs through BSD Circular No.7 dated April 15, 2009. The management of the Company is considering various alternatives to meet the capital requirement. In this regard, several meetings were held with the Ministry of Finance, Government of Pakistan and SBP to inject further capital and to convert overdue SBP credit lines into equity.

During the current year, the Government of Pakistan through letter No. F.6(9)-IF-II/2008 dated August 05, 2010 has informed the Company regarding budgetary allocation of Rs. 3,200 million to increase paid-up capital to meet SBP's minimum capital requirement. However, Government of Pakistan through letter No. F.6 (9)-IF.II/2008 dated November 11, 2010 decided to defer the release of the said amount to the Company due to financial constraints.

14. DEFICIT / (SURPLUS) ON REVALUATION OF ASSETS

Available-for-sale securities

	2010	2009
	--- Rupees in '000 ---	
Government securities	18,759	979
Mutual funds	-	(401)
	18,759	578

15. CONTINGENCIES AND COMMITMENTS

15.1 Contingencies

Claims not acknowledged as debt

	2010	2009
	47,990	47,990

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

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

15.2 Commitments

Land for Housing projects-Gawadar
Land for Gawadar office
Rental due under operating lease agreements in respect of vehicles
Not later than one year
Later than one year but not later than five years
Financial advisory services
Equity investment in Pakistan Mortgage Refinance Company

	2010	2009
10.1	149,700	149,700
	9,750	9,750
	8,542	8,217
	15,022	15,555
	-	2,680
	200,000	-


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

Note	2010 --- Rupees in '000 ---	2009
On advances to customers	1,836,319	1,743,352
On investments in securities:		
Available for sale	432,558	45,218
Held to maturity	95,423	255,314
On deposits with financial institutions	17,785	50,444
On securities purchased under resale agreements	89,304	32,497
On clean lending	66,682	35,426
	<u>2,538,071</u>	<u>2,162,251</u>

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

Mark-up on sukuk certificates	166,848	223,470
Mark-up on SBP credit lines	741,230	711,455
Mark-up on IDA loan	-	17,050
	<u>908,078</u>	<u>951,975</u>

18. PROVISIONS / (REVERSALS) MADE AGAINST NON-PERFORMING ADVANCES

Provision / (Reversal of provision) against advances	38,941	(317,857)
Reversal of house finance to employees written off	(2,920)	-
	<u>36,021</u>	<u>(317,857)</u>

19. RECONCILIATION ADJUSTMENTS

Tagged accounts written off	2,062	22,055
-----------------------------	-------	--------

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

20. REVERSAL OF RENTAL INCOME

Due to		
Relief package and settlement scheme	47,254	48,639
Reprocessing and closing adjustment of housing finance	116,469	172,482
	<u>163,723</u>	<u>221,121</u>

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

20.2 This represents reversal of income recognized in previous years due to problems in recording of collections and disbursements.

21. OTHER INCOME

Inspection and application fee	12,740	8,182
Gain on sale of operating fixed assets	4,352	3,702
Reversal of IDA loan	-	3,243
Miscellaneous	16,588	4,600
	<u>33,680</u>	<u>19,727</u>

22. ADMINISTRATIVE EXPENSES

Note	2010 --- Rupees in '000 ---	2009
Salaries, allowances, etc.	808,353	820,603
Charge for defined benefit plan - pension	158,621	151,484
Post retirement medical benefits	91,452	85,956
Employees' compensated absences	22,000	34,933
VSS loss - net	82,476	-
Repairs and maintenance	71,382	37,022
Legal and professional charges	30,931	16,200
Rent, taxes, insurance, electricity, etc.	27,280	31,114
Stationery and printing	13,000	14,817
Advertisement and publicity	3,368	19,411
Auditors' remuneration	2,825	2,140
Depreciation	24,592	33,379
Amortization of intangible assets	432	647
Traveling and conveyance	13,656	11,250
Postage and telephone	13,430	14,181
Entertainment	2,187	1,512
Security guard charges	1,807	1,302
Subscription and publication	870	739
Commission against recoveries	740	2,559
Others	3,338	4,296
	<u>1,372,740</u>	<u>1,283,545</u>

22.1 VSS loss - net

Salary compensation	259,790	-
Charge for defined benefit plan - pension	870,111	-
Post retirement medical benefits	(38,903)	-
Employees' compensated absences	(89,001)	-
Benevolent fund	80,479	-
VSS loss as calculated by actuary	1,082,476	-
Less: Government grant	(1,000,000)	-
	<u>82,476</u>	<u>-</u>

22.2 Auditors' remuneration

Audit fee	1,000	1,000
Internal Control over Financial Reporting review fee	1,000	-
Half yearly review	350	350
Special certification and other fee	250	540
Out-of-pocket expenses	225	250
	<u>2,825</u>	<u>2,140</u>

23. OTHER PROVISIONS

Doubtful receivable of insurance premium from partners	648	340
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24. OTHER CHARGES

Penalty imposed by State Bank of Pakistan	879	1,432
Commission and bank charges	7,175	6,603
	<u>8,054</u>	<u>8,035</u>


25. SBP SHARE OF PROFIT / (LOSS)
25.1 Allocation of income / expenses to Interest Bearing Scheme and PLS Scheme

	2010			Restated 2009		
	Total	Relating to PLS schemes	Relating to other operations	Total	Relating to PLS schemes	Relating to other operations
	Rupees '000'			Rupees '000'		
Rental/Mark-up/Return/Interest earned						
On loans and advances to customers	1,836,319	1,836,319	-	1,743,352	1,743,352	-
On Investments in:						
Available for sale securities	432,558	-	432,558	45,218	-	45,218
Held to maturity securities	95,423	-	95,423	255,314	-	255,314
On deposits with financial institutions	17,785	-	17,785	50,444	-	50,444
On securities purchased under resale agreements	89,304	-	89,304	32,497	-	32,497
On clean lending	66,682	-	66,682	35,426	-	35,426
	<u>2,538,071</u>	<u>1,836,319</u>	<u>701,752</u>	<u>2,162,251</u>	<u>1,743,352</u>	<u>418,899</u>
Rental/Mark-Up/Return/Interest expensed						
Interest on SBP credit lines	(741,230)	(726,405)	(14,825)	(711,455)	(697,226)	(14,229)
Interest on IDA loan	-	-	-	(17,050)	-	(17,050)
On sukuk	(166,848)	-	(166,848)	(223,470)	-	(223,470)
	<u>(908,078)</u>	<u>(726,405)</u>	<u>(181,673)</u>	<u>(951,975)</u>	<u>(697,226)</u>	<u>(254,749)</u>
Net mark-up / interest income	1,629,993	1,109,914	520,079	1,210,276	1,046,126	164,150
Reversals made against non performing advances	(36,021)	(36,021)	-	317,857	312,988	4,869
Provision for diminution in value of investments	(71,116)	-	(71,116)	(81,250)	-	(81,250)
Reversal / (provision) for diminution in value of lendings to financial institutions	6,074	-	6,074	(10,875)	-	(10,875)
Reversal of provision for diminution in value of investments	33,750	-	33,750	56,250	-	56,250
Reconciliation adjustments	(2,062)	(2,062)	-	(22,055)	(22,055)	-
Impairment in value of associated undertaking	(35,506)	-	(35,506)	-	-	-
Reversal of mark-up on IDA loan	153,845	-	153,845	-	-	-
Reversal of rental income	(163,723)	(163,723)	-	(221,121)	(221,121)	-
Net mark-up / interest income after provisions and relief package	1,515,234	908,108	607,126	1,249,082	1,115,938	133,144
Non mark-up / interest income						
Other Income						
Inspection and application fee	12,740	12,740	-	8,182	8,182	-
Gain on sale of fixed assets	4,352	-	4,352	3,702	-	3,702
Reversal of IDA	-	-	-	3,243	-	3,243
Miscellaneous	16,588	-	16,588	4,600	-	4,600
	<u>33,680</u>	<u>12,740</u>	<u>20,940</u>	<u>19,727</u>	<u>8,182</u>	<u>11,545</u>
	1,548,914	920,848	628,066	1,268,809	1,124,120	144,689
Non Mark-Up/interest expenses						
Administrative expenses	(1,372,740)	(857,048)	(515,692)	(1,283,545)	(974,288)	(309,257)
Other provisions / write offs	(648)	(648)	-	(340)	(340)	-
Other charges	(8,054)	(7,893)	(161)	(8,035)	(7,874)	(161)
	<u>(1,381,442)</u>	<u>(865,589)</u>	<u>(515,853)</u>	<u>(1,291,920)</u>	<u>(982,503)</u>	<u>(309,417)</u>
Operating profit / (loss) for the year	167,472	55,258	112,214	(23,111)	141,617	(164,728)
Share in results of associate before taxation	(10,324)	-	(10,324)	(7,715)	-	(7,715)
Profit / (loss) for the year before SBP share	<u>157,148</u>	<u>55,258</u>	<u>101,890</u>	<u>(30,826)</u>	<u>141,617</u>	<u>(172,443)</u>
Share of State Bank of Pakistan		55,258			141,617	
Less: Share of free reserves and credit balances						
Credit balance		-			-	
Profit / (loss) from PLS schemes available for sharing		55,258			141,617	
SBP's share		30.65%			33.39%	
Share of State Bank of Pakistan in profit / (loss)		<u>16,937</u>			<u>47,286</u>	

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

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

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

26. TAXATION
Current - for the year

Company
Associate

Deferred - for the year

Company
Associate

For prior years

Company

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

The Taxation Officer while assessing taxable income for the tax years 2004 and 2005 has disallowed certain expenses on account of initial depreciation, demand charges, retirement benefits, suspension of income and written-off loans and created an additional demand of Rs. 72.35 million. The Company has filed appeals with CIT(Appeals) against the said orders. No provision has been made in the financial statements in this regard as the management is confident that ultimate outcome of the appeals in question will be in favour of the Company.

Note	2010	2009
	--- Rupees in '000 ---	
26.1	26,983	11,455
	696	211
	<u>27,679</u>	<u>11,666</u>
	-	-
	-	-
	-	18,917
	<u>27,679</u>	<u>30,583</u>

The return for the tax year 2003 was selected for audit U/S 177 of the Ordinance and amended by the Taxation Officer. The Commissioner of Income Tax Appeals through its order dated December 12, 2005 has maintained the order of Taxation Officer but accepted the proration of disallowance of expenses between the income of the Company and share of State Bank of Pakistan hence reducing the tax liability to Rs. 24.309 million. Appeals had been filed both by the Company and the tax department before the Income Tax Appellate Tribunal (ITAT) on these issues which were later dismissed.

The income tax assessment years 1990-1991, 1993-94 to 1996-97, 2001-2002 and tax year 2003 are pending at various appellate forums. However, as a matter of prudence sufficient tax provision has been made in the books of account.



26.2 Relationship between tax expense and accounting profit

Minimum tax liability for the year

Note	2010	2009
	--- Rupees in '000 ---	
	26,983	11,455

Relationship between tax expense and accounting profit has not been presented in these financial statements as income for the year of the Company is subject to tax under the provisions of section 113 of the Income Tax Ordinance, 2001.

26.3 The Company has net deductible temporary differences in respect of retirement benefits and provision against advances and investments amounting to Rs. 350.20 (2009: Rs. 420.39) million on which deferred tax asset has not been recognised as the management estimate that probable benefits will not be realized in future.

27. BASIC / DILUTED EARNINGS PER SHARE

Profit / Loss for the year

112,532	(108,695)
---------	-----------

Weighted average number of ordinary shares of

300,100,006	300,100,006
-------------	-------------

Basic / diluted earning per share - Rupees

0.37	(0.36)
------	--------

27.1 Diluted earnings per share has not been presented as the Company does not have any convertible instruments in issue at December 31, 2010 and 2009 which would have any effect on the earnings per share if the option to convert is exercised.

28. CASH AND CASH EQUIVALENTS

Cash and balance with treasury banks

4	59,789	50,623
---	--------	--------

Balance with other banks

5	95,986	168,146
---	--------	---------

155,775	218,769
---------	---------

29. STAFF STRENGTH

Permanent

907	1,302
-----	-------

Temporary / on contractual basis

44	41
----	----

Daily wages

-	1
---	---

951	1,344
-----	-------

30. DEFINED BENEFIT PLAN

30.1 Principal actuarial assumptions

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

	2010	2009
	----- Pension fund -----	
Discount rate	14 % per annum	14 % per annum
Expected rate of return on investments / plan assets	14 % per annum	14 % per annum
Expected rate of increase in salary	13 % per annum	13 % per annum
Pension increase rate	9 % per annum	9 % per annum

30.2 Movement in payable to defined benefit plan

	Pension fund		Medical benefits	
	2010	2009	2010	2009
	-----Rupees in '000 -----			
Opening net liability	555,539	576,558	614,310	535,195
Expense for the year	1,028,732	151,484	52,549	85,956
Benefit payments	(1,557,017)	(122,503)	(152,900)	(6,841)
Contribution during the year	(50,000)	(50,000)	-	-
Balance at December 31	(22,746)	555,539	513,959	614,310

30.3 Reconciliation of payable to defined benefit plan

	Pension fund		Medical benefits	
	2010	2009	2010	2009
	-----Rupees in '000 -----			
Present value of Defined Benefit obligation	2,417,489	2,085,972	638,194	547,389
Fair value of plan assets	(1,654,048)	(1,376,148)	-	-
Deficit	763,441	709,824	638,194	547,389
Unrecognized actuarial (Loss) / gain	(786,187)	(154,285)	(124,235)	66,921
Net liability at December 31	(22,746)	555,539	513,959	614,310

30.4 Charge for defined benefit plan

Current service cost	59,246	59,355	14,818	14,884
Interest cost	292,036	264,462	76,634	71,072
Expected return on plan assets	(192,661)	(172,333)	-	-
	158,621	151,484	91,452	85,956

VSS related charge

Amortization of Actuarial losses	322,378	-	34,675	-
VSS loss	547,733	-	(73,578)	-
	870,111	-	(38,903)	-
	1,028,732	151,484	52,549	85,956

30.5 Actual return on plan assets

Pension fund	227,900	93,612
--------------	---------	--------

30.6 Composition of Fair Value of Plan Assets

Pension Fund	2010		2009	
	Rupees in '000		% age	
Government Bonds and TFC's	1,653,610	1,372,000	99.97	99.70
Mutual Funds	-	3,900	-	0.28
Bank Balances	438	248	0.03	0.02
	1,654,048	1,376,148	100.00	100.00

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

	2010	2009	2008	2007	2006
	<----- Rupees in 000 ----->				
Pension Fund					
Present value of defined benefit obligation	2,417,489	2,085,972	1,889,013	1,920,400	1,448,659
Fair value of plan assets	(1,654,048)	(1,376,148)	(1,232,536)	(1,093,456)	(920,394)
Deficit	<u>763,441</u>	<u>709,824</u>	<u>656,477</u>	<u>826,944</u>	<u>528,265</u>
Actuarial (gain) / loss on obligation	989,519	(4,575)	(215,425)	328,192	(14,363)
Actuarial (loss)/gains on plan assets	(35,239)	78,943	(29,734)	(50,838)	(67,560)
30.8 Post Employment Medical Contribution					
Present value of defined benefit obligation	638,194	547,389	507,654	568,918	454,541
Actuarial loss / (gain) on obligation	225,831	(39,380)	(133,040)	58,858	2,556


31. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Managing Director		Directors		Executives	
	2010	2009	2010	2009	2010	2009
	<----- Rupees in '000 ----->					
Directors Fees	-	-	470	398	-	-
Managerial remuneration	5,846	5,243	-	-	31,263	10,713
Rent and house maintenance	2,631	2,360	-	-	17,030	6,927
Utilities	645	298	-	-	1,324	580
Medical	126	215	-	-	1,213	1,744
Charge for defined benefit plan	-	-	-	-	4,044	1,348
Others	7,074	4,058	-	-	8,547	4,184
	<u>16,322</u>	<u>12,174</u>	<u>470</u>	<u>398</u>	<u>63,421</u>	<u>25,496</u>
Number of persons	<u>1</u>	<u>1</u>	<u>5</u>	<u>6</u>	<u>28</u>	<u>12</u>

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

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



32. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The repricing profile, effective rates and maturity are stated in note 35.3.1 and 35.4.1. The Company is of the opinion 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.

33. 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.

Relationship	Nature of Transaction	2010	2009
		Rupees in '000	
Associated undertaking Takaful Pakistan Limited	Insurance claims lodged	5,529	1,192
	Insurance premium paid	5,833	7,239
	Insurance claims received	293	1,180
Key management personnel	Remuneration to key management personnel	37,109	15,956
	Pension fund	4,044	1,348
	Post retirement medical benefits	1,833	660

34. CAPITAL ADEQUACY

34.1 Scope of Applications

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

34.2 Capital Structure

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

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

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

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

Tier I Capital

	2010	2009 Restated
--- Rupees in '000 ---		
Shareholders equity	3,001,000	3,001,000
Reserves	507,996	485,490
Accumulated losses	(1,472,085)	(1,562,111)
Less: Intangible assets	(833)	(1,264)
Deficit on account of revaluation of investments held in AFS category	(18,759)	(578)
Other deductions	-	(23,263)
Total Tier I Capital	2,017,319	1,899,274

Tier II Capital

Subordinated Debt (upto 50% of total Tier 1 Capital)	-	-
General Provisions subject to 1.25% of Total Risk Weighted Assets	107,410	106,465
Revaluation Reserve	-	-
Other deductions	-	(23,263)
Total Tier II Capital	107,410	83,202

Tier III Capital

Total Regulatory Capital Base

	2,124,729	1,982,476
--	-----------	-----------

34.3 Capital Adequacy

Objectives of Managing Capital

The Company's objectives when managing capital are:

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

Externally Imposed Capital Requirements

In order to strengthen the solvency of Banks / Development Financial Institutions (DFIs), SBP through its BSD Circular No. 07 of 2009 dated April 15, 2009 has asked to raise their minimum paid up capital to Rs. 7 billion by the end of financial year 2010. Further, DFIs are required to increase their minimum paid up capital to Rs. 10 billion in a phased manner by the end of financial year 2013. However, there is a shortfall of Rs. 4.96 billion in minimum capital requirement. The Company has approached its shareholders i.e. Ministry of Finance and State Bank of Pakistan, to inject the required capital to meet the shortfall which is under consideration.

SBP through its BSD Circular No. 07 of 2009 dated April 15, 2009 has asked to achieve the minimum Capital Adequacy Ratio (CAR) of 10% latest by December 31, 2010. The capital adequacy ratio (CAR) of the Company stands at 24.07% of its risk weighted exposures as at December 31, 2010. The Company has maintained capital adequacy ratio well above 10%.



34.4 Risk-Weighted Exposures

	2010		Restated 2009	
	Capital Requirements	Risk Weighted Assets	Capital Requirements	Risk Weighted Assets
	Rupees in '000		Rupees in '000	
Credit Risk				
Portfolios subject to standardized approach (Simple or Comprehensive)	591,850	5,918,501	584,205	5,842,046
Market Risk				
Capital requirement for portfolios subject to standardized approach				
Interest rate risk	79,524	994,051	12,759	159,493
Equity position risk etc.	-	-	-	-
Operational Risk				
Capital Requirement for operational risks	153,094	1,913,676	165,025	2,062,818
		<u>8,826,228</u>		<u>8,064,357</u>
Capital Adequacy Ratio				
Total regulatory capital held (a)		<u>2,124,729</u>		<u>1,982,476</u>
Total Risk Weighted Assets (b)		<u>8,826,228</u>		<u>8,064,357</u>
Capital Adequacy Ratio (a) / (b)		<u>24.07%</u>		<u>24.58%</u>

35. 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 philosophy is that returns must be commensurate with the risks taken and that all risks faced must be identified and managed through the robust risk management framework. The Company should operate within manageable level of risks. Our guiding principles are the Company's Mission, Risk Management Guidelines of State Bank of Pakistan and Basel II Accord. Risk Management is carried out by the Company under policies approved by the Board of Directors.

We believe a sound Risk Management Framework provides principles for identifying, accessing and monitoring risk within the Company. The framework specifies the key elements of the risk management process in order to maximise opportunities, to minimise adversity and to achieve improved outcomes and outputs based on informed decision making.

Clearly defined risk management policies and procedures covering all activities of the Company including credit evaluation, credit management, treasury operation, administration and human resource management, compliance function, risk management, accounting, audit and controls are in place. The basic principles employed in formulation of the above policies and procedures involves identification, measurement, monitoring and controlling risk 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.
- Sufficient capital as buffer is available to mitigate risk.

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 Committee has been formed to regularly review risk related activities of the organisation. Individual risks are reviewed and controlled by various committees at management level like ALCO, Credit Committee, Operational Committee and Risk Management Committee. The Board is also responsible for approval of all risk policies proposed by Risk Management Committee of the Company and ensuring that these are properly implemented. The Risk Management Committee is responsible to establish and implement risk management framework of the Company.

Risk Management Department is responsible for coordinating all the risk management activities of the Company working towards achievement of stated goals and objectives. 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 international best practices for risk management.
- Facilitate management in business decisions by providing analytical and conceptual risk reviews.
- Communicate and liaise with other functions and business units in carrying out risk reviews, analysis and mitigation activities.

35.1 Credit Risk

Credit risk is the risk of potential loss arising because of any failure by customers or counter parties to fulfill their obligations as and when they fall due.

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 the 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 liquid assets investment, borrowing and asset-liability management activities.

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

- Lending decision is based on a full appreciation of the risk inherent in the transaction.
- Management monitors credit portfolio through MIS reports.
- This includes stress testing for individual credits and the overall credit portfolio under adverse changes in the conditions/environment in which the borrowers operate.
- Also the Company has instituted an effective system for monitoring servicing of its credit portfolio and management of the distressed assets by putting in place two separate departments for collection and default management.
- The Company creates loan loss provisions against non-performing advances in accordance with Prudential Regulations issued by SBP.

Credit administration tasks undertaken include the following:

- Maintain Credit, Custody and Security documentation files,
- Register Security and Collateral documents,
- Tracking of covenants; and
- Satisfy internal and external reporting requirements.

The Company has issued Risk Management Guidelines for the whole credit process from credit initiation to credit disbursement and follow up to provide guidance to field offices where business is generated and also revised the related formats for credit appraisal and proposals.

Overall credit risk is monitored by Credit Committee at Head Office, which reviews and recommends improvements in credit policies and monitors portfolio behaviour. To further strengthen credit risk management, credit setup is centralized at Head Office level and Credit Committee makes all credit decisions and approvals. In this regard following steps have been taken:

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

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 and documented and monitored. Both the Company's procedures and legal mechanism by which collaterals are pledged 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 the default.

The Company has issued Risk Management Guidelines for the whole credit process from credit initiation to credit disbursement and then follow up for guidance of field offices where business is generated.

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. Over all credit risk is monitored by Central Credit Committee which reviews and recommends improvements in credit policies and monitors portfolio behaviour.

To strengthen credit risk management as per best international practices and SBP requirements, the Company plans to implement internal credit risk rating system. It is in process of development of internal credit risk rating system for its entire credit portfolio which is expected to become operational by the end of year 2010.

Collateral & Security

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

Insurance Cover

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

Credit Concentration Risk

Concentration of credit risk 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 industries and regions. At Company concentration risk can arise in loan book as well as investment book.


Concentration

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

35.1.1 Segmental Information

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

35.1.1.1 Segments by class of business

	----- 2010 -----					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
Housing finance						
Individuals	14,374,596	98.13	-	-	-	-
Others	274,292	1.87	-	-	431,004	100.00
	<u>14,648,888</u>	<u>100.00</u>	<u>-</u>	<u>-</u>	<u>431,004</u>	<u>100.00</u>

	----- 2009 -----					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
Housing finance						
Individuals	15,684,054	98.55	-	-	-	-
Others	230,292	1.45	-	-	233,892	100.00
	<u>15,914,346</u>	<u>100.00</u>	<u>-</u>	<u>-</u>	<u>233,892</u>	<u>100.00</u>

35.1.1.2 Segment by sector

	----- 2010 -----					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
Public / Government	265,662	1.81	-	-	200,000	46.40
Private	14,383,226	98.19	-	-	231,004	53.60
	<u>14,648,888</u>	<u>100.00</u>	<u>-</u>	<u>-</u>	<u>431,004</u>	<u>100.00</u>

	----- 2009 -----					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
Housing finance						
Public / Government	221,662	1.39	-	-	-	-
Private	15,692,684	98.61	-	-	233,892	100.00
	<u>15,914,346</u>	<u>100.00</u>	<u>-</u>	<u>-</u>	<u>233,892</u>	<u>100.00</u>

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

	2010		2009	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	----- Rupees in '000 -----			
Individuals	7,266,520	3,803,264	6,297,177	3,781,034
Others	56,149	56,149	15,458	15,458
	<u>7,322,669</u>	<u>3,859,413</u>	<u>6,312,635</u>	<u>3,796,492</u>

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

	2010		2009	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Public/ Government	47,519	47,519	6,828	6,828
Private	7,275,150	3,811,894	6,305,807	3,789,664
	<u>7,322,669</u>	<u>3,859,413</u>	<u>6,312,635</u>	<u>3,796,492</u>

35.1.1.5 Geographical segment analysis

	Profit / (loss) before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- Rupees in '000 -----			
2010				
Pakistan	140,211	19,053,145	2,018,152	431,004
2009 - Restated				
Pakistan	(78,112)	17,984,820	1,923,801	233,892

35.2 Credit Risk-General Disclosures Basel II Specific
35.2.1 Credit Risk - General Disclosures

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

35.2.2 Credit Risk Disclosures for portfolio subject to the Standardised Approach -Basel II Specific

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

Types of Exposures and ECAI's used
Current Year

Exposures	JCR-VIS	PACRA	Other (Specify)
Corporate	✓	✓	✗
Banks	✓	✓	✗
Sovereigns	✗	✗	✗
SME's	✗	✗	✗
Securitized	✗	✗	✗
Others (Specify)	✗	✗	✗



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

**Credit Exposures subject to Standardised approach
Current Year**

Exposures

	Rating Category No.	Amount Outstanding	Deduction CRM	Net Amount
Corporate	3 to 6	94,795	-	94,795
Banks	1	1,072,807	781,456	291,351
Sovereigns etc.	-	80,495	-	80,495
Unrated	-	12,218,976	-	12,218,976
		<u>13,467,073</u>	<u>781,456</u>	<u>12,685,617</u>

CRM = Credit Risk Mitigation

35.2.4 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardised Approaches - Basel II Specific

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

The Company accepts government securities, mortgages and other eligible guarantees etc. under the Simple Approach of Credit Risk Mitigation. The Company in order to obtain the credit risk mitigation benefit, uses realizable value of eligible collaterals to the extent of outstanding exposure.

35.2.5 Equity position risk in the Banking Book-Basel II Specific

At present Company has no investment position in equity holdings.

35.3 Market Risk

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

The Company is exposed to two of the above risks, i.e., interest rate risk in its banking and trading book and equity price risk in trading book. Foreign exchange risk is not applicable to the Company.

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

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

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

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

**35.3.1 Mismatch of Interest Rate Sensitive Assets and Liabilities
35.3.1.1 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:-

	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	
On-balance sheet financial instruments													
Assets													
Cash and balances with treasury banks		59,789											
Balances with other banks	12.83% to 13.12%	95,986	74,847										59,789
Lending to financial institutions	12.60%-13.12%	991,224	630,260	349,884	3,324	7,756							
Investments	12.17% - 13.20%	5,821,020	927,685	3,271,740	1,526,975	20,000			74,620				
Advances - net	5% -19%	10,682,065	879,484	1,40,776	208,782	413,858	827,146	810,974	1,588,518	2,960,406	2,852,121		941,051
Other assets		941,051											
		18,591,135	2,512,276	3,762,400	1,739,081	441,614	827,146	810,974	1,663,138	2,960,406	2,852,121		1,021,979
Liabilities													
Bills payable													
Borrowings	9.5% - 14.24%	12,292,300	9,689,000				300,000						
Deposits and other accounts													
Sub-ordinated loans													
Liabilities against assets subject to finance lease													
Other liabilities		2,246,415											2,246,415
		14,538,715	9,689,000		150,000		300,000						3,799,715
		4,052,420	(7,176,724)	3,762,400	1,589,081	291,614	527,146	510,974	1,513,138	2,960,406	2,852,121		(2,777,736)
On-balance sheet gap													
Off-balance sheet financial instruments													
Forward Lending													
Forward borrowings													
Off-balance sheet gap													
		(7,176,724)	3,762,400	1,589,081	291,614	527,146	510,974	1,513,138	2,960,406	2,852,121			(2,777,736)
		(7,176,724)	(3,414,324)	(1,825,243)	(1,533,629)	(1,006,483)	(495,509)	1,017,629	3,978,035	6,830,156			4,052,420



On-balance sheet financial instruments	Effective Yield/Interest rate	Total	Exposed to Yield/Interest risk						Non-interest bearing financial instruments													
			2009																			
			Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years		Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years										
Rupees in '000																						
Assets																						
Cash and balances with treasury banks		50,623																		50,623		
Balances with other banks	5% - 10.75%	168,146																				
Lending to financial institutions	12.03%-12.15%	1,508,893	441,576	1,045,692	2,250	2,250	2,250	11,750	5,375													
Investments	10% - 23%	3,551,008	831,404	950,751	1,559,458	57,532	39,391	7,500	28,045												76,927	
Advances - net	8% - 15%	11,986,464	859,937	201,321	223,271	455,649	903,076	900,429	1,778,668	3,458,111	3,206,002											
Other assets		166,442																			166,442	
Liabilities																						
Bills payable		17,431,576	1,469,659	2,078,417	1,176,272	2,017,357	972,358	945,195	1,786,168	3,486,156	3,206,002										293,992	
Borrowings	9.5%-16.63%	12,747,300	7,644,000		150,000		1,353,300	800,000	450,000													
Deposits and other accounts																						
Sub-ordinated loans																						
Liabilities against assets subject to finance lease																						
Other liabilities		2,179,825																			2,179,825	
On-balance sheet gap		14,927,125	7,644,000		150,000		1,353,300	800,000	450,000												2,179,825	
Off-balance sheet financial instruments		2,504,451	(6,174,341)	2,078,417	1,026,272	(332,643)	(380,942)	145,195	1,336,168	3,486,156	3,206,002										(1,885,833)	
Forward Lending																						
Forward borrowings																						
Off-balance sheet gap																						
Total Yield/Interest Risk Sensitivity Gap			(6,174,341)	2,078,417	1,026,272	(332,643)	(380,942)	145,195	1,336,168	3,486,156	3,206,002											
Cumulative Yield/Interest Risk Sensitivity Gap			(6,174,341)	(4,095,924)	(3,069,652)	(3,402,295)	(3,783,237)	(3,638,042)	(2,301,874)	1,184,282	4,390,284											2,504,451

35.3.1.2 Reconciliation of assets and liabilities exposed to yield / interest rate risk with total assets and liabilities.

	December 31 2010	Restated December 31 2009
Rupees in '000		
Total financial assets as per note 35.3.1.1	18,591,135	17,431,576
Operating fixed assets	169,191	223,193
Other assets	292,819	330,051
Total assets as per balance sheet	19,053,145	17,984,820
Total financial liabilities as per note 35.3.1.1	14,538,715	14,927,125
Other liabilities	2,496,278	1,133,894
Total liabilities	17,034,993	16,061,019

35.4 Liquidity Risk

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

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

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

35.4.1 Maturities of Assets and Liabilities

Total	2010									
	Up to 1 to 3 Months			Over 3 to 6 Months			Over 6 to 12 Months			
	Up to 1 Month	1 to 3 Months	3 to 6 Months	Over 3 to 6 Months	6 to 9 Months	9 to 12 Months	Over 12 Months to 24 Months	Over 24 to 36 Months	Above 36 Months	
Rupees in '000										
59,789										
95,986										
991,224	349,884		3,324		7,756					
5,821,020	3,271,740	1,526,975	20,000		20,000			74,620		
10,682,065	879,484	140,776	208,782	413,858	827,146	810,974		1,588,518	2,960,406	2,852,121
169,191	1,167	2,334	3,501	9,543	14,003	14,010		26,998	51,364	30,038
1,233,870	3,187	76,293	9,543	821,825	158,677	108,946		29,140	26,259	26,259
19,053,145	2,597,558	3,841,027	1,752,125	1,289,215	999,826	933,930		1,719,276	3,011,770	2,908,418

Assets

Cash and balances with treasury banks	59,789																				
Balances with other banks	95,986																				
Lending to financial institutions	991,224	349,884		3,324		7,756															
Investments	5,821,020	3,271,740	1,526,975	20,000		20,000								74,620							
Advances - net	10,682,065	879,484	140,776	208,782	413,858	827,146	810,974		1,588,518	2,960,406	2,852,121										
Operating fixed assets	169,191	1,167	2,334	3,501	9,543	14,003	14,010		26,998	51,364	30,038										
Other assets	1,233,870	3,187	76,293	9,543	821,825	158,677	108,946		29,140	26,259	26,259										

Liabilities

Bills payable	17,431,576																				
Borrowings from financial institutions	12,747,300	7,644,000		150,000		1,353,300	800,000		450,000												
Deposits and other accounts																					
Sub-ordinated loans																					
Liabilities against assets subject to finance lease																					
Deferred tax liabilities																					
Other liabilities	2,179,825																				2,179,825
Net assets / (liabilities)	(8,212,263)	(3,522,455)	1,752,125	1,289,215	999,826	933,930	1,719,276	3,011,770	2,908,418	2,993,936	2,908,418										

Share capital	3,001,000
Reserves	507,996
Accumulated loss	(1,472,085)
Surplus on revaluation of assets	(18,759)
Total	2,018,152



-----Restated-----

2009

Rupees in '000

	Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Assets									
Cash and balances with treasury banks	50,623	-	-	-	-	-	-	-	-
Balances with other banks	68,146	-	-	-	-	-	-	-	-
Lendings to financial institutions	441,576	1,045,692	2,250	2,250	11,750	5,375	-	-	-
Investments	-	831,404	981,152	1,559,458	57,532	39,391	7,500	28,045	46,526
Advances - net	859,937	201,321	223,271	455,649	903,076	900,429	1,778,668	3,458,111	3,206,002
Operating fixed assets	1,726	3,094	4,641	9,283	18,565	18,565	28,284	36,509	102,526
Other assets	4,072	125,858	5,317	22,430	172,647	120,540	21,093	21,093	3,443
	1,526,080	2,207,369	1,216,631	2,049,070	1,163,570	1,084,300	1,835,545	3,543,758	3,358,497
Liabilities									
Bills payable	-	-	-	-	-	-	-	-	-
Borrowings from financial institutions	-	-	-	-	-	-	-	-	-
Deposits and other accounts	7,644,000	-	-	-	1,353,300	800,000	450,000	-	-
Sub-ordinated loans	-	-	150,000	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	607,649	158,881	143,716	286,430	288,615	572,857	291,011	151,729
Other liabilities	-	607,649	308,881	2,493,716	1,639,730	1,088,615	1,022,857	291,011	151,729
	(6,930,751)	1,599,720	907,750	(444,646)	(476,160)	(4,315)	812,688	3,252,747	3,206,768
Net assets / (liabilities)									
Share capital	3,001,000								
Reserves	485,490								
Accumulated loss	(1,562,111)								
Surplus on revaluation of assets	(578)								
	1,923,801								

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

* The Asset / Liability mismatch in first category of above table has been arisen due to classification of overdue amount of SBP credit lines amounting to Rs. 9,689 (2009: Rs. 7,489) million. The amount of SBP credit line Rs. 11,242.3 million is under active consideration of Government of Pakistan for debt equity swap of Rs. 3,233 million and rescheduling/restructuring of balance amount of Rs. 8,009.3 million in yearly installment of Rs. 500 million @ of 6% p.a.

35.5 Operational Risk

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

The Company seeks to manage the operational risk from two perspectives, firstly by way of ensuring compliance of Standard Operating Procedures including defined processes for prevention and detection of any fraud and forgery, and work place safety and security and secondly through contingency planning to ensure continuity of business. Whilst policies and procedures in shape of manuals covering all functions are duly approved by the Board and implemented in the Company. These policies and manuals are ISO compliant. Primarily operational risk is continuously reviewed by the Management.

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

35.5.1 Operational Risk Disclosures - Basel II Specific

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

36. CORRESPONDING FIGURES

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

37. DATE OF AUTHORIZATION

These financial statements were authorized for issue on March 7, 2011 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 the profit and loss account.

Managing Director

Director

Director

Director



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