

**House Building Finance
Company Limited**

**Financial Statements
for the year ended December 31, 2011**

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of **HOUSE BUILDING FINANCE COMPANY LIMITED** formerly **HOUSE BUILDING FINANCE CORPORATION LIMITED** (the Company) as at December 31, 2011 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:

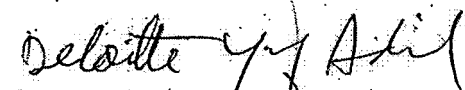
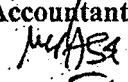
- a. in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;
- b. in our opinion:
 - i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change as disclosed in note - 3.15 to which we concur;
 - 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, 2011 and of the profit, comprehensive income, 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 draw attention to:

- note 1.2 to the financial statements which states that the Company has not complied with the minimum capital requirements stated in BSD Circular No. 7 dated April 15, 2009 which as at December 31, 2011 should be Rs. 8 billion net of losses and discloses the events subsequent to the reporting date relating to the decision made on conversion of borrowings (credit lines) from State Bank of Pakistan and settlement of markup thereon.
- note 1.3 to the financial statements regarding the approval of these financial statements by the Board after incorporating the adjustments and changes in disclosures arising from review of subsequent events from the date of financial statements to the date of this report.; and

Our opinion is not qualified in respect of abovementioned matters.


Chartered Accountants


Engagement Partner
Mushtaq Ali Hirani

Karachi
Dated: 29 Sept. 2015

HOUSE BUILDING FINANCE COMPANY LIMITED
 (FORMERLY HOUSE BUILDING FINANCE CORPORATION LIMITED)
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011

	Note	2011 ---Rupees in '000---	2010 Restated
ASSETS			
Cash and balances with treasury banks	4	57,803	59,789
Balances with other banks	5	448,761	95,986
Lendings to financial institutions	6	4,432	991,224
Investments - net	7	7,839,516	5,821,020
Advances - net	8	10,392,064	10,682,065
Operating fixed assets	9	214,516	169,191
Deferred tax asset	10	329,620	1,233,870
Other assets		19,286,712	19,053,145
LIABILITIES			
Bills payable	11	11,992,300	12,292,300
Borrowings		-	-
Deposits and other accounts		-	-
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	12	4,530,138	4,904,059
Other liabilities		16,522,438	17,196,359
NET ASSETS			
REPRESENTED BY			
Share capital	13	3,001,000	3,001,000
Reserves		620,610	485,490
Accumulated loss		(1,070,466)	(1,610,945)
		2,551,144	1,875,545
Advance against issue of capital	8.6	218,143	-
Deficit on revaluation of assets	14	(5,013)	(18,759)
		2,764,274	1,856,786
CONTINGENCIES AND COMMITMENTS			
	15		

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

NYAS


 MANAGING DIRECTOR


 DIRECTOR


 DIRECTOR

HOUSE BUILDING FINANCE COMPANY LIMITED

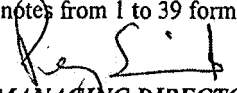
(FORMERLY HOUSE BUILDING FINANCE CORPORATION LIMITED)

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2011

	Note	2011 Rupees in '000	2010 Restated
Rental / mark-up / return / interest earned	16	2,630,558	2,538,071
Rental / mark-up / return / interest expensed	17	(1,100,426)	(908,078)
Net rental / mark-up / interest income		1,530,132	1,629,993
Reversals / (provision) made against non performing advances	18	665,008	(36,021)
Provision for diminution in value of investments		(19,520)	(71,116)
Reversal of provision for diminution in value of lendings to financial institutions		3,324	6,074
Reversal of provision for diminution in value of investments		64	33,750
Impairment of investment in an associated undertaking		-	(35,506)
Amount received from GoP against remission of advance to widows	12.4.4	865,074	-
Bad debts written off directly		-	-
		1,513,950	(102,819)
Reconciliation adjustments	19	4,691	(2,062)
Reversal of markup on IDA loan		-	153,845
Reversal due to relief package and reprocessing adjustments	20	(301,544)	(163,723)
Net rental / mark-up / interest income after provisions		2,747,229	1,515,234
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	43,838	33,680
Total non-mark-up / interest income		43,838	33,680
		2,791,067	1,548,914
NON MARK-UP/INTEREST EXPENSES			
Administrative expenses	22	(1,410,732)	(1,478,193)
Voluntary Severance Scheme - net	23	(417,689)	(82,476)
Other provisions	24	(49,501)	(648)
Other charges	25	(7,040)	(8,054)
Total non-mark-up / interest expenses		(1,884,962)	(1,569,371)
		906,105	(20,457)
Share in results of an associate before taxation	7.8	-	(10,324)
PROFIT / (LOSS) BEFORE ALLOCATION FOR STATE			
BANK OF PAKISTAN SHARE			
State Bank of Pakistan share of (profit) / loss on credit lines	26	906,105	(30,781)
		(94,443)	9,626
PROFIT / (LOSS) BEFORE TAXATION			
Taxation	27	811,662	(21,155)
- Current		(112,885)	(27,679)
- Prior years'		(23,178)	-
- Deferred		-	-
		(136,063)	(27,679)
PROFIT / (LOSS) AFTER TAXATION			
		675,599	(48,834)
Basic / diluted earnings per share - Rupee	28	2.25	(0.16)

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


MANAGING DIRECTOR


DIRECTOR


DIRECTOR

2011/12/31

HOUSE BUILDING FINANCE COMPANY LIMITED

(FORMERLY HOUSE BUILDING FINANCE CORPORATION LIMITED)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2011

	Share capital	Statutory reserve *	Accumulated loss	Total
	----- Rupees in '000 ----- Restated			
Balance at December 31, 2009	3,001,000	485,490	(1,562,111)	1,924,379
Loss after tax for the year ended December 31, 2010	-	-	(48,834)	(48,834)
Balance at December 31, 2010	3,001,000	485,490	(1,610,945)	1,875,545
Profit after tax for the year ended December 31, 2011	-	-	675,599	675,599
Transfer to statutory reserve	-	135,120	(135,120)	-
Balance at December 31, 2011	3,001,000	620,610	(1,070,466)	2,551,144

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

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

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MANAGING DIRECTOR


DIRECTOR


DIRECTOR

HOUSE BUILDING FINANCE COMPANY LIMITED

(FORMERLY HOUSE BUILDING FINANCE CORPORATION LIMITED)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2011

	2011	2010
	Rupees in '000	
		Restated
Profit / (loss) for the year	675,599	(48,834)
Other comprehensive income		
Total comprehensive income for the year	<u>675,599</u>	<u>(48,834)</u>

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

MAS


MANAGING DIRECTOR


DIRECTOR


DIRECTOR

HOUSE BUILDING FINANCE COMPANY LIMITED

(FORMERLY HOUSE BUILDING FINANCE CORPORATION LIMITED)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2011

	2011	2010
	<i>Rupees in '000</i>	
Profit / (loss) for the year	675,599	(48,834)
Other comprehensive income		
Total comprehensive income for the year	<u>675,599</u>	<u>(48,834)</u>

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

MAST


MANAGING DIRECTOR


DIRECTOR


DIRECTOR

HOUSE BUILDING FINANCE COMPANY LIMITED

(FORMERLY HOUSE BUILDING FINANCE CORPORATION LIMITED)

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2011

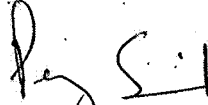
	Note	2011	2010
		Rupees in '000	
A. CASH FLOWS FROM OPERATING ACTIVITIES			Restated
Profit / (loss) before taxation		811,662	(21,155)
Adjustments:			
Depreciation		24,195	24,592
Amortization of intangible assets		839	432
Gain on sale of operating fixed assets		(2,753)	(4,352)
Fixed assets adjustments		(4,724)	-
Capital work in progress charged off		-	33,843
Reversal of provision for diminution in value of lending to financial institutions		(3,324)	(6,074)
Provision for diminution in value of investments		19,520	71,116
Reversal of provision for diminution in value of investments		(64)	(33,750)
Impairment of investment in an associated undertaking		-	35,506
(Reversals)/ provision made against non performing advances		(665,008)	36,021
Reconciliation adjustments		(4,691)	2,062
Reversal of rental income		301,544	163,723
Provision against Gawadar Housing Project		50,470	-
Reversal of markup on IDA loan		-	(153,845)
Rental / mark-up / return / interest expensed		1,100,426	908,078
Amount received from GoP against remission of advance to widows		(865,074)	-
Share in loss of an associate		-	11,020
		(48,644)	1,088,372
		763,018	1,067,217
Decrease in operating assets			
Advances		658,156	1,102,593
Lending to financial institutions		990,116	523,743
Other assets excluding advance tax		830,742	719,127
		2,479,014	2,345,463
Decrease in operating liabilities			
Borrowings		(300,000)	(455,000)
Other liabilities		(249,821)	(396,708)
		(549,821)	(851,708)
Financial charges paid		(140,340)	(225,395)
Income tax paid		(113,994)	(25,974)
		(254,334)	(251,369)
Net cash flows from operating activities		2,437,877	2,309,603
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(66,097)	(6,420)
Sale proceeds from disposal of operating fixed assets		3,215	5,908
Investments made-net		(2,024,206)	(2,372,085)
Net cash flows used in investing activities		(2,087,088)	(2,372,597)

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	Note	2011 Rupees in '000	2010 Restated
Increase / (decrease) in cash and cash equivalents		350,789	(62,994)
Cash and cash equivalents at beginning of the year		155,775	218,769
Cash and cash equivalents at end of the year	29	506,564	155,775

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

14/11/11


MANAGING DIRECTOR


DIRECTOR


DIRECTOR

HOUSE BUILDING FINANCE COMPANY LIMITED
(FORMERLY HOUSE BUILDING FINANCE CORPORATION LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. STATUS AND NATURE OF BUSINESS

1.1 The House Building Finance Company Limited [formerly 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, Sharah-e-Faisal, Karachi, in the province of Sindh. Pursuant to a vesting order SRO.1/2007 dated July 25, 2007 issued by the Finance Division - Government of Pakistan effective from January 01, 2007, the Company had taken over all assets, running business, contracts, liabilities and proceedings of the House Building Finance Corporation (HBFC), established in 1952 under the House Building Finance Corporation Act 1952 (XVIII of 1952) by the Government of Pakistan from closing of the business on December 31, 2006. In 2011, the Company changed its name from House Building Finance Corporation Limited to House Building Finance Company Limited.

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 54 district offices and 9 zonal offices throughout Pakistan including Azad Jammu and Kashmir. According to credit rating report dated June 14, 2011 of JCR-VIS, the long term and short term ratings of the Company are "A" and "A2" respectively.

1.2 In accordance with BSD Circular No. 7 dated April 15, 2009 the minimum paid up capital requirement (free of losses) of the Company at December 31, 2011 is Rs. 8 billion. The paid up capital of the Company (free of losses) as at December 31, 2011 is Rs. 2.76 billion. The Company is in process of financial restructuring and proposal in this regard has been submitted to the Ministry of Finance and State Bank of Pakistan, by virtue of which the Company has requested the capital induction of Rs. 3 billion by the Government of Pakistan and conversion of outstanding credit lines by State Bank of Pakistan into long term loan or preference shares at reasonable markup rate. The reply of the same is awaited. Further, the State Bank of Pakistan vide its letter No. BSD/BAID/659/2145/2012 dated February 16, 2012 has granted exemption to the Company from the minimum capital requirement till December 31, 2012 or completion of privatization / restructuring process, whichever is later.

The Finance Minister of Pakistan, in his speech on Budget 2014-15, announced the revival plan for the Company enabling it to play its important role in the housing sector. The major actions to be taken were: (i) immediate formation of Board of Directors; (ii) improvements in efficiency and capacity; (iii) simplification of procedures; (iv) major drive to recover non-performing advances; and (v) provision of new resources.

Subsequent to year end, a meeting has held on July 11, 2014 between the representatives of the SBP, Securities and Exchange Commission of Pakistan and the Company under the chairmanship of the Finance Minister, Government of Pakistan, whereby it has been decided that the Company's total outstanding debt of Rs. 11.242 billion payable to SBP along with markup payable of Rs. 2.448 billion (i.e. aggregating to Rs. 13.690 billion) shall be converted into SBP's investment in the equity of the Company and the remaining portion of markup of Rupees 2 billion of outstanding markup as of June 30, 2014 will be paid up by the Company immediately. The decisions of the aforesaid meeting has been communicated to the Company by Finance Division, Government of Pakistan vide its notification No. F.1(2)IF-112011-Vol-III/104 dated July 15, 2014 and No. F.6(9)-IF- 111/2008 dated July 24, 2014 and markup of Rupees 2 billion was paid to SBP on August 18, 2014

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

MAST

1.3 The Board of Directors of the Company was dissolved on July 16, 2012, by the Federal Government before the meeting for approving the financial statements for the year ended December 31, 2011 could be held. The current Board has been appointed on July 28, 2014 and these financial statements have been presented after incorporating the subsequent events arising during the period and appropriate disclosure has been given in relevant notes.

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.

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

2.2 *Adoption of new and amended international financial reporting standards and IFRS interpretations*

During the year, the following amendments to standards and interpretations became effective, however, their application did not have material impact on the financial statements of the Company:

Standards/Interpretations

- IAS 1 Presentation of Financial Statements (Amendments)
- IAS 24 Related Party Disclosures (Revised)
- IAS 27 Consolidated and Separate Financial Statements (Amendments)
- IAS 32 Financial Instruments: Presentation (Amendments)
- IAS 34 Interim Financial Reporting (Amendments)
- IFRIC 13 Customer Loyalty Programmes (Amendments)
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendments)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

2.3 *Amendments to published standards and new interpretation to existing standard that are not yet effective and have not been early adopted by the Company*

The following amendments to published standards and new interpretation to existing standard are effective for accounting periods, beginning on or after the date mentioned against them:

MAS

IAS 1 - 'Presentation of Financial Statements' (effective for annual periods beginning on or after July 1, 2012) - retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

IAS 12 - 'Income taxes' - (effective for annual periods beginning on or after January 1, 2012) - IAS 12 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment Property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

IAS 19 - 'Employee Benefits' (effective for annual periods beginning on or after January 1, 2013) - These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.

IFRIC 20 - 'Stripping Costs in the Production Phase of a Surface Mine' applies to all types of natural resources that are extracted using a surface mine activity process, and addresses the issues pertaining to the recognition of production stripping cost as an asset, initial measurement of stripping activity at cost and subsequent measurement of stripping activity asset at depreciated or amortized cost based on a systematic basis over the expected useful life of the identified component of ore body.

The abovementioned amendments to standards and new interpretation are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than increase in disclosures in certain cases.

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

IAS 19 (Amendment), 'Employee benefits' (effective from January 1, 2009).

The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

IAS 37, 'Provisions, contingent liabilities and contingent assets', requires contingent liabilities to be disclosed, which are not recognised. IAS 19 has been amended to be consistent.

The Company has adopted the aforementioned amendments from January 1, 2009. The management of the Company believes that this amendment does not have any impact on the Company's financial statements.

MVA

IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009). As per the new requirements, where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Company has adopted the aforementioned amendments from January 1, 2009. The management of the Company believes that presently this amendment does not have any impact on the Company's financial statements.

IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Company has adopted the aforementioned amendments from January 1, 2009. The management of the Company believes that this amendment does not have any impact on the Company's financial statements.

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 but are considered not to be relevant or to have any significant effect on the Company's operations and are therefore not detailed in these financial statements.

Standards, interpretations and amendments to published approved accounting standards that are not applied

IFRS 8 'Operating segments', (effective from January 1, 2009). IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. All Banks/DFIs are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the Company believes that the SBP has defined the segment categorization through the said BSD Circular. Accordingly, the requirements specified by the IFRS 8 as mentioned above are presently not applicable on the Company's financial statements.

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

The following standards, amendments and interpretations of approved accounting standards effective for accounting periods beginning on or after January 1, 2010 are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain increased disclosures in certain cases: -

IFRIC – 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after July 01, 2009) states that when a Company distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognised in equity. When the non cash asset is distributed, the difference between the carrying amount and fair value is recognised in the income statement. As the Company does not distribute non-cash assets to its shareholders, this interpretation has no impact on the Company's financial statements.

Amendment to IFRS 5 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Company will apply IFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Company's financial statements.

IAS 1

Amendment to IAS 32 - Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after February 01, 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 01, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on the Company's financial statements.

IAS 24 - Related Party Disclosures (revised 2009) - effective for annual periods beginning on or after January 01, 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.

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 Company's financial

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 but are considered not to be relevant or to have any significant effect on the Company's operations and are therefore not detailed in these financial statements.

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

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

Standards/Amendments/Interpretations	Effective date (accounting period beginning on or
- IAS 1 (Amendments) Presentation of Financial Statements	July 1, 2012
- IAS 12 (Amendments) Income Taxes	January 1, 2012
- IAS 19 (Amendments) Employee Benefits	January 1, 2013
- IFRS 7 (Amendments) Enhanced Derecognition Disclosure Requirements	July 1, 2011
- IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013

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

Standards/Amendments/Interpretations	Effective date (accounting
- IAS 12 (Amendments) Income Taxes	January 1, 2012
- IAS 19 (Amendments) Employee Benefits	January 1, 2013
- IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013

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2.5 *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.

2.6 *Share based payments*

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

According to the scheme, 12% of the shares held by the GoP will be transferred to the Trust. The eligible employees will be allotted units of the trust, based on the length of the service till August 14, 2009. On cessation of the employment each employee will be required to surrender the units for cash payment from the fund equivalent to market value or breakup value of the shares. Under the scheme, eligible employees will not be entitled to get the benefit unless they have served five more years from the date of enforcement of BESOS except for certain exceptional reasons for early separation from the Company as mentioned in the trust deed. The eligible employees will be entitled to 50% of the dividend and the remaining 50% dividend will be transferred to Central Revolving Fund of the Privatization Commission who would settle the surrendered units of the trust on behalf of GoP.

HBFCCL Employees Empowerment Trust was created by the GoP which is regulated by the Board of trustees represented by the senior officers of MoF and the Company. Units to be allocated to each employee have been determined based on the entitlement of each employee.

During the year, the Securities & Exchange Commission of Pakistan on receiving representations from some of entities covered under the Scheme and after having consulted the Institute of Chartered Accountants of Pakistan has granted exemption to such entities from the application of IFRS 2 to the Scheme.

As determined by the actuary, had this exemption not been granted, the staff costs of the Company for the year would have been higher by Rs. 26.05 million, profit after taxation would have been lower by Rs. 26.05 million (2010 : Rs. 26.05 million), retained earning would have been lower by Rs. 62 million (2010 : Rs. 62 million), earning per share would have been lower by Rs. 0.09 per share (2010 : Rs. 0.09 per share) and reserves would have been higher by Rs. 62 million.

2.7 *Accounting estimates and judgments*

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. It also requires management to exercise judgment in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

a. Classification of investments

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

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

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

b. Impairment of available-for-sale investments

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

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

The Company regularly reviews its loan portfolio and debt securities classified as investments to assess the amount of non-performing loans and advances and debt securities and provision required there-against. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower, the forced sale value of securities and requirements of the Prudential Regulations are considered. Consequent to the change in Prudential Regulations with respect to the benefit allowed for Forced Sale Value (FSV) of eligible collaterals / securities held against non-performing loans, the Company has change its estimates for provision against non-performing loans and advances and the resulting impact is disclosed in note 8.14.3.

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

d. Income taxes

While making the estimates for income taxes currently payable by the Company, management looks at the current income tax laws and the decisions of appellate authorities on certain issues in the past. There are various matters where the Company's view differs with the view taken by the income tax department and such amounts are shown in note 27. In making provision for deferred taxes, estimates of the Company's future taxable profits and expected reversal of deductible temporary differences are taken into account.

e. Employees retirement benefit plans

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

f. Operating assets, depreciation and amortization

In making estimates of the depreciation / amortization method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Company. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard - 8, "Accounting Policies, "Changes in Accounting Estimates and Errors".

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2.7 Functional and presentation currency

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those applied in the preparation of the financial statements of the Company for the year ended December 31, 2010 and are enumerated as follows:

3.1 Bank balances

Cash and cash equivalents

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

Cash in transit

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

3.2 Lendings to / borrowings from financial institutions

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

Sale under repurchase obligations

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

Purchase under resale obligations

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

Other lendings

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

Other borrowings

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

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3.3 Revenue recognition

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

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

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

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

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

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

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

3.4 Advances

Housing finance advance

Advances are stated net of general and specific provisions.

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

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

3.5 Investments

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

Held for trading

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

Held-to-maturity

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

Available-for-sale

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

Initial measurement

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

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

Subsequent measurement

Held for trading

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

Held to maturity

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

Available for sale

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

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

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

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

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses (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.

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

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

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

Intangible

Intangible assets having finite useful life are stated at cost less accumulated amortization and impairment losses, if any. Intangible assets comprise of cost of computer software and patents, which are being amortized using the straight-line method over their useful lives as stated in note 9.4. Amortization is charged from the month of acquisition and up to the month of deletion. The useful lives and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

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

Capital work-in-progress

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

Impairment of non-financial assets

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

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

Current

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

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Deferred

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

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

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

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

3.8 Employee benefits

a. Defined benefit plan

Pension Fund

The Company operates an approved funded pension scheme for all its employees who have been in full time employment for at least 10 years. The scheme provides pension based on the employees' last drawn pensionable salary. Contributions are made to the scheme on the basis of actuarial recommendation. The latest valuation was carried out at December 31, 2011 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:

	2011	2010
	<i>Per annum</i>	
Discount rate	13%	14%
Expected rate of return on investments/plan assets	13%	14%
Expected rate of increase in salary	12%	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 the 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 year and the latest valuation was carried out at December 31, 2011 using 'Projected Unit Credit' actuarial cost method. Discount rate of 13% (2010 : 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.

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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 year and the latest valuation was carried out at December 31, 2011.

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 Pakistani Rupee applying the exchange rate at the date of respective transactions. Gains and losses on translation are included in profit and loss account currently.

3.10 *Financial instruments*

Financial assets and liabilities

Financial instruments carried on the balance sheet include cash and bank balances, lending's to financial institutions, investments, advances, certain receivables, borrowings from financial institutions, deposits and certain other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them. Financial assets are de-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 assets 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 assets 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.

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3.13 Earnings per share

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

3.14 Dividends and appropriation to reserves

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

3.15 Demand charges

Demand charges (penalties) on late payment by the partners are credited to 'Deferred Credit' account. This amount is utilized for charity purposes after netting of recovery charges as approved by the Board. For the purpose of this account, salaries of recovery staff is not considered as directly attributable expense as per the directives of the State Bank of Pakistan. Accordingly, the management changed its accounting policy and recognised the effect of such amendment in the current and prior year financial statements as fully explained in note 12.4.1.

	Note	2011 Rupees in '000	2010
4. CASH AND BALANCES WITH TREASURY BANKS			
With State Bank of Pakistan in			
Cash reserve account		-	58,544
Local currency current account	4.1	57,718	1,160
With National Bank of Pakistan in			
Local currency deposit account		85	85
		<u>57,803</u>	<u>59,789</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% (2010: 0%). As per SBP letter no. OSED/SU-21/898(2)/239/2011 dated February 08, 2011, the funds were transferred to SBP current account for monitoring of cash reserve by SBP.

	Note	2011 Rupees in '000	2010
5. BALANCES WITH OTHER BANKS			
In Pakistan - Local currency			
In transit		18,704	21,139
On deposit accounts	5.1	430,057	74,847
		<u>448,761</u>	<u>95,986</u>

5.1 These bank accounts carry mark-up at rates ranging from 5% to 12.5% (2010: 5% to 11%) per annum.

6. LENDINGS TO FINANCIAL INSTITUTIONS

Letters of placement	6.1	4,432	14,404
Repurchase agreement lending (Reverse Repo)	6.2	-	976,820
		<u>4,432</u>	<u>991,224</u>

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	Note	2011 Rupees in '000	2010
6.1 Letters of placement			
Trust Investment Bank Limited (TIBL)	6.1.1	5,909	19,205
First Dawood Investment Bank Limited (FDIBL)	6.1.2	75,000	75,000
		<u>80,909</u>	<u>94,205</u>
Less: Provision for placement with TIBL and FDIBL	6.1.3	76,477	79,801
		<u>4,432</u>	<u>14,404</u>

6.1.1 This represents clean placement made on November 17, 2008 for a period of 14 days. The transaction remained unsettled at maturity and rescheduling have been made twice, whereas, TIBL complied with the later arrangement till September 2011. Subsequent to the year end, profit due on outstanding amount upto December 2011 has been received by the Company. However, three installments of principal amount due in fourth quarter of 2011 have not been received. Subsequent to the balance sheet date, mark-up accrued upto December 31, 2011 has been received. However, Company on prudent basis has maintained 25% provision against outstanding receivable as at December 31, 2011.

6.1.2 This represents clean placement made on September 12, 2008 for a period of 94 days at the mark-up rate of 17%. The transaction remained unsettled at maturity and consequently, the Company had filed suit against FDIBL for recovery of outstanding principal and obtained a decree on November 05, 2010. FDIBL has filed appeal against the judgement. As on December 31, 2011 the case is under execution process. However, the Company on prudent basis has made provision of full outstanding amount.

	Note	2011 Rupees in '000	2010
6.1.3 Particulars of provision			
Opening balance		79,801	85,875
Reversal during the year		(3,324)	(6,074)
Closing balance		<u>76,477</u>	<u>79,801</u>

6.2 Repurchase agreement lending (Reverse Repo)

Pak Oman Investment Company Limited	-	606,413
Pak Iran Joint Investment Company Limited	-	190,319
The Bank of Punjab	-	180,088
	-	<u>976,820</u>

6.3 Particulars of lending

In local currency	4,432	991,224
In foreign currency	-	-
	<u>4,432</u>	<u>991,224</u>

6.4 Securities held as collateral against lendings to financial institutions

	December 31, 2011			December 31, 2010		
	Held by Company	Further given as collateral	Total	Held by Company	Further given as collateral	Total
	<i>Rupees in '000'</i>					
Pakistan Investment Bonds	-	-	-	606,413	-	606,413
Market Treasury Bills	-	-	-	370,407	-	370,407
	-	-	-	<u>976,820</u>	-	<u>976,820</u>

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7. INVESTMENTS - Net

	2011		2010		
	Held by Company	Given as collateral	Total	Held by Company	Given as collateral

Note

<----- Rupees in '000 ----->

7.1 Investments by types

Available-for-sale securities

7.2.1	7,314,749	-	7,314,749	5,711,409	-	5,711,409
7.2.2	500	-	500	500	-	500
7.3	77,682	-	77,682	77,746	-	77,746
	7,392,931	-	7,392,931	5,789,655	-	5,789,655

Held-to-maturity securities

7.3	125,520	-	125,520	149,240	-	149,240
7.3	-	-	-	20,000	-	20,000
7.4	148,400	-	148,400	-	-	-
7.5	352,344	-	352,344	2,344	-	2,344
7.6	135,000	-	135,000	168,750	-	168,750
	761,264	-	761,264	340,334	-	340,334

Associate

7.8	35,506	-	35,506	35,506	-	35,506
	8,189,701	-	8,189,701	6,165,495	-	6,165,495

Investments at cost

7.9	(309,666)	-	(309,666)	(290,210)	-	(290,210)
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Less: Provision for diminution in value of investments

	(35,506)	-	(35,506)	(35,506)	-	(35,506)
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Impairment of investment in an associated undertaking - Takaful Pakistan Limited

	7,844,529	-	7,844,529	5,839,779	-	5,839,779
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Investments (net of provisions)

14	(5,013)	-	(5,013)	(18,759)	-	(18,759)
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Deficit on revaluation of available for sale securities

	7,839,516	-	7,839,516	5,821,020	-	5,821,020
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Total investments

	7,839,516	-	7,839,516	5,821,020	-	5,821,020
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7.2 Investments by segments	Note	2011	2010
		Rupees in '000	
Federal Government securities			
Market treasury bills	7.2.1	7,314,749	5,711,409
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
Unlisted sukuk bonds	7.3	125,520	149,240
Listed sukuk bonds	7.3	77,682	77,746
Term finance certificates	7.4	148,400	-
Other investments			
Term deposit receipts	7.5	352,344	2,344
Certificates of investment - Bankers Equity Limited (BEL)	7.6	135,000	168,750
Investment in an associate	7.8	35,506	35,506
Total investment at cost		8,189,701	6,165,495
Less: Provision for diminution in value of investment	7.10	(309,666)	(290,210)
Less: Impairment in associate - Takaful Pakistan Limited		(35,506)	(35,506)
Investments (net of provisions)		7,844,529	5,839,779
Deficit on revaluation of available for sale securities		(5,013)	(18,759)
Total investments		7,839,516	5,821,020

7.2.1 Market treasury bills are eligible for discounting with the State Bank of Pakistan, these carry mark up from 11.65% to 13.79% (2010: 12.17% to 13.20%) and will mature upto November 15, 2012.

7.2.2 These represent investment in 66,125 (2010: 66,125) ordinary shares of Rs.10 each in Resource and Engineering Management Corporation Limited.

7.3 Particulars of investment in sukuk bonds

Name of issuer	Rating	Markup rate	Repayment	Total nominal value	
				2011	2010
				Rupees in '000	
Government of Pakistan Maturity date: September 26, 2011	Sovereign	6 months treasury bills yield plus 0.45%	Semi-annually	-	20,000

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Name of issuer	Rating	Markup rate	Repayment	Total nominal value		
				2011	2010	
				Rupees in '000		
Eden Housing Limited 40,000 (2010: 40,000) units Face value: Rs.5,000 each Maturity date: June 29, 2014 Chief Executive Officer: Mr. Muhammad Amjad	7.3.1	D	3 months KIBOR plus 2.50%	Quarterly	125,520	149,240
Maple Leaf Cement Factory Limited (MLCFL) 15,562 (2010: 15,562) units Face value: Rs.5,000 each Maturity date: December 03, 2018 Chief Executive Officer: Mr. Tariq Sayeed Saigol	7.3.2	BB/B	3 months KIBOR plus 1%	Quarterly	77,682	77,746

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

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

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

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

Markup from December 2009 to February 2011 is converted into interest free debt and to be paid in 24 equal quarterly installments starting from March 2012 till December 2017. Token markup of 0.5% on the converted markup amount will be paid on the installment date. Markup from March to June 2011 amounting to Rs. 5.51 million was receivable upto September 2011. However, Rs. 3.32 million was received and the remaining balance of Rs. 2.19 million is deferred till December 2012. Further, markup from October 2011 onwards is outstanding. The management, on prudent basis, has provided full outstanding amount against these sukuk.

7.4 These represent investment in 30,000 units of Rs. 5,000 each in Term Finance Certificates (TFCs) of Pak Libya Holding Company (Private) Limited costing Rs. 148.48 million having maturity on February 07, 2016. These TFCs carry mark up at 6 months KIBOR plus 1.60% per annum payable semi annually whereas principal is payable semi annually commencing from August 07, 2013. The credit rating of company is AA-. The Deputy Managing Director of the Company is Mr. Khald S.T. Benrjoba.

MUAST

7.5 Particulars of term deposit receipts	Note	2011	2010
		Rupees in '000	
Commercial Banks			
National Bank of Pakistan	7.5.1	250,000	-
First Women Bank Limited	7.5.1	100,000	-
Investment Bank			
Asset Investment Bank Limited		2,344	2,344
		<u>352,344</u>	<u>2,344</u>

7.5.1 Term deposit receipts carry markup at rates ranging from 12.35% to 12.50% (2010: nil) per annum and will mature on January 30, 2012.

7.6 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. Upto December 31, 2011, the Company received Rs. 90 million (40%) of the invested amount on the directive of the Honorable High Court of Sindh.

7.7 Quality of Available for Sale Securities	2011		2010	
	Rupees in '000		Rupees in '000	
	Amount	Rating	Amount	Rating
Securities (At market value)				
Market Treasury Bills	7,309,736	Sovereign	5,692,650	Sovereign
Sukuks				
Listed sukuks - Maple Leaf Cement Factory Limited	-	BB/B	-	BB/B
Unlisted ordinary shares				
Resource and Engineering Management Corporation Limited	-	Unrated	-	Unrated
Total	<u>7,309,736</u>		<u>5,692,650</u>	

7.8 Investment in associate - Takaful Pakistan Limited Company

	2011	2010
Number of shares held	8,700,000	8,700,000
Cost of investment - Rupees in '000	87,000	87,000
Asset - Rupees in '000	488,902	442,289
Liabilities - Rupees in '000	354,454	314,307
Revenue - Rupees in '000	148,768	169,432
Profit / (loss) after tax - Rupees in '000	3,907	(38,000)
Percentage of investment	29%	29%
Break up value per share - Rupees	4.48	4.27
Latest available financial statements	Dec 31, 2011	Dec 31, 2010
Name of Chief Executive	Muhammad Umar (Acting CEO)	Ashraf Ali Siddiqui
Place of incorporation	Pakistan	
Principal business	Takaful business	

MAST

2011 2010
Note Rupees in '000

7.8.1 Carrying value of investment in an associate under equity method

Carrying value of investment at January 01	-	46,526
Share in results of an associate before taxation	-	(10,324)
Share in charge for taxation	-	(696)
	-	35,506
Less: Impairment	-	(35,506)
Carrying value of investment at December 31	-	-

7.9 Particulars of provision

Opening balance	290,210	252,844
Charge for the year	19,520	71,116
Reversal during the year	(64)	(33,750)
Closing balance	309,666	290,210

7.10 Particulars of provision in respect of type and segment

Available-for-sale securities

Unlisted ordinary shares	500	500
Listed sukus - Maple Leaf Cement Factory Limited	77,682	77,746

Held-to-maturity securities

Term deposit receipts - Asset Investment Bank Limited	2,344	2,344
Unlisted sukus - Eden Housing Limited	94,140	74,620
Certificates of investment (COIs)- Bankers Equity Limited	7.6 135,000	135,000

309,666 290,210

2011 2010
Note Rupees in '000

8. ADVANCES - Net

In Pakistan - Local currency

Rental Sharing Schemes	8.2 & 8.3	2,596,529	3,228,777
Interest Bearing Schemes	8.4	110,366	112,109
Ghar Aasan Scheme	8.5	6,440,625	7,300,648
Pakistan Housing Authority (PHA)	8.6	218,143	218,143
Gawadar Employees Co-operative Housing Society (GECHS)	8.7	30,779	40,691
Shandar Ghar Scheme	8.8	2,154,826	2,809,016
Unearned income		(1,125,147)	(1,477,787)
		1,029,679	1,331,229
Financing facility for Small Builders	8.9	17,092	32,404
Ghar Aasan Flexi Scheme	8.10	2,739,876	1,953,285
Housing finance to employees	8.11	502,907	484,160
Transitory district bank accounts - net	8.12	7,883	(52,558)
Advances - gross		13,693,879	14,648,888

MHS

	Note	2011 Rupees in '000	2010 Rupees in '000
Provision for non-performing advances			
Specific provision			
Rental Sharing Schemes		2,474,952	2,926,496
Interest Bearing Schemes		110,366	112,109
Ghar Aasan Scheme		466,960	626,854
Gawadar Employees Co-operative Housing Society		30,779	40,691
Shandar Ghar Scheme		82,662	132,674
Financing facility for Small Builders		1,619	4,576
Ghar Aasan Flexi Scheme		44,416	16,013
General provision	8.13	90,061	107,410
	8.14.3	3,301,815	3,966,823
Advances - net of provision		<u>10,392,064</u>	<u>10,682,065</u>

8.1 Particulars of advances (Gross)

Short term (up to one year)	3,449,332	3,483,440
Long term (over one year)	10,244,547	11,165,448
	<u>13,693,879</u>	<u>14,648,888</u>

- 8.2 This represents advances under Profit & Loss Sharing Scheme, Simplified Scheme, New Simplified Scheme (NSS), Gothabad Scheme and loan to Breacast Industries (Pvt.) Limited. No additional disbursement of advance under these schemes has been made since 2000. Advances under NSS have been provided upto 93% (2010 : 86%) of the gross advance whereas advances under rest of the schemes are fully provided.
- 8.3 The Board of Directors approved various settlement schemes from time to time pursuant to the Government of Pakistan announcements. As per the existing settlement scheme, which was valid upto December 31, 2011, on payment of the entire principal amount and certain percentage of other charges, partners are entitled for waiver of outstanding mark-up and major portion of demand charges. Under the schemes 36,371 (2010 : 34,329) customers availed the facility up to the balance sheet date in pursuance of which an amount of Rs.3,094 (2010 : Rs.2,900) million has been recovered and the remaining outstanding share in rental income along with demand charges amounting to Rs.2,614 (2010 : Rs.2,331) million has been waived.
- 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 institutions - Balance Transfer Facility (BTF) with maximum financing limit of Rs.7.5 million. This advance is repayable by the partners in 36 to 240 monthly installments. The net annual rental income is 5% of the total assessed cost of the house, subject to upward revision of annual rent on cumulative basis at 25% after every 3 years. For disbursements after May 26, 2008, constant net annual rental income of 15.5% is charged on daily product basis on the value of outstanding units. In addition, the Company shares appreciation in the value of the house at rates ranging between 2.5% to 12.5% per annum assessed for various localities. New disbursement under this scheme has been discontinued from February 11, 2009.

MUASE

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

8.7 As per the arrangement Gawader Employees' Co-operative Housing Society (GECHS) is required to adjust the principal amount of advance of Rs.47.50 million within thirty three months from December 26, 2006 through transfer of balance in each individual case of the allottees of house under Ghar Aasan Scheme and under Ghar Aasan Flexi Scheme after completion and handing over possession of houses. Until the transfer of advances to individuals, GECHS shall pay profit @ 13% per annum. Upto December 31, 2011, advances of Rs.16.72 million (2010 : Rs.6.81 million), were transferred to 56 (2010 : 28) individual cases: i.e., 49 cases (2010: 21) under Ghar Aasan Scheme, and 7 cases (2010: 7) under Ghar Aasan Flexi Scheme amounting to Rs.15.56 million (2010: 5.65 million) and Rs.1.16 million (2010: 1.16 million) respectively.

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

8.8 Advances under Shandar Ghar Scheme for renovation of houses only with maximum financing limit of Rs.2.5 million are based on Murabaha approved by the Board of Directors on January 20, 2004 . The advance is repayable by the partners in 12 to 120 monthly installments. The Murahaba profit varies from 8% to 13.5% (2010 : 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% (2010 : 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 3.25% and 3.50% respectively per annum.

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

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 on regular portfolio of consumer financing.

Handwritten signature/initials

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

The management has carried out an exercise to identify customers where no principal was received during the year and reclassified them into loss category as at December 31, 2011. An adjustment of Rs. 140.45 million after taking into account benefit of forced sales value (FSV) has been recorded and mark-up of Rs.12 million accrued on these customers has also been suspended. Further, an independent exercise was carried out to review classification of advances based on the basis used by the management to classify non-performing advances on three schemes; i.e. Ghar Asaan, Ghar Asaan Flexi and Shandar Ghar and additional provision of Rs. 19.64 million net of FSV was made in the books of accounts of the Company.

8.14.3 The SBP vide BSD Circular No. 10 of 2009 dated October 20, 2009 had allowed banks/DFIs to avail benefit of forced sales value of collaterals mortgaged with them while determining provisioning requirement against non-performing financing. During the current year, SBP vide BSD Circular No.1 of 2011 dated October 21, 2011 has made certain amendments in the Prudential Regulations for Consumer Financing with respect to allowing additional benefit of forced sales value (FSV) of mortgage properties held as collateral against housing finances. According to the said circular, the impact on profitability due to availing FSV benefit shall not be available for payment of cash dividend or stock dividend. As at December 31, the Company has availed benefit of forced sales value amounting to Rs.2,943.06 million (2010: Rs.1,701.30 million). Had FSV benefit of BSD Circular No.1 of 2011 not been taken, profit for the year before taxation would have been converted into loss of Rs. 289.40 million.

	Note	2011 Rupees in 000	2010
8.15 Particulars of write offs			
Against provisions		43,816	-
Directly charged to profit and loss account		-	-
		43,816	-
Write offs Rs. 500,000 and above		17,965	-
Write offs below Rs. 500,000		25,851	-
	8.16	43,816	-

8.16 Relief to rehabilitate the economic life in Khyber Pakhtunkhaw, FATA and PATA - Claim for total write off loans in Malakand, Swat, Buner and Chitral Districts

State Bank of Pakistan (SBP) vide SMEFD Circular No. 01 of 2011 dated February 02, 2011 directed the Banks, DFIs and MFBs to write off the entire advances to the borrowers of Malakand, Swat, Buner and Chitral districts outstanding as of December 31, 2009. SBP directed that Bank, DFIs and MFBs to bear the cost of such write offs to the extent of amount held into provision against non performing advances and interest in the suspense account, while the rest of the cost (i.e. outstanding principal amount of performing and for NPL portfolio, non performing less provisioning amount) will be reimbursed by the Government of Pakistan. SBP directed to make all out efforts to publicize the scheme through advertisements, banners and direct contact with the concerned borrowers. SBP further directed to release all the securities / charges held against such advances and issue necessary clearance certificate to concerned borrowers soon after the receipt of funds from SBP.

During the year, the Company carried out exercise based on the criteria mentioned in the Circular and identified 487 partners of the said districts with principal outstanding of Rs. 114.32 million, provision for non-performing loans of Rs. 43.81 million and interest and other charges receivable of Rs. 36.89 million. Thus, the Company claimed and received Rs. 70.51 million (Rs. 114.32 million net of provision for non-performing loans of Rs. 43.81 million) from Government of Pakistan on April 19, 2011 and recorded the same in the books of account.

10/ASR

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

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

	2011	2010
	<i>Rupees in '000</i>	
Balance at beginning of year	586,635	684,948
Loans granted during the year	132,007	99,841
Repayments / adjustments	<u>(113,260)</u>	<u>(198,154)</u>
Balance at end of year	<u>605,382</u>	<u>586,635</u>

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

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OPERATING FIXED ASSETS

Note	2011	2010	
	Rupees in '000		
Capital work-in-progress	9.1	77,454	18,775
Property and equipment	9.2	135,229	149,583
Intangible assets	9.4	1,833	833
		<u>214,516</u>	<u>169,191</u>

9.1 Capital work-in-progress

Civil works	77,217	18,538
Software designing and development	237	237
	<u>77,454</u>	<u>18,775</u>

9.2 Property & equipment

	Freehold land	Office premises	Furniture and fixtures	Electrical installations	Office equipment	Computer equipment	Motor vehicles	Total
As at January 01, 2010								
Cost	11,640	75,037	68,716	36,483	33,092	109,058	71,536	405,562
Accumulated depreciation	-	(39,965)	(13,228)	(18,780)	(16,302)	(103,430)	(65,241)	(256,946)
Net book value	<u>11,640</u>	<u>35,072</u>	<u>55,488</u>	<u>17,703</u>	<u>16,790</u>	<u>5,628</u>	<u>6,295</u>	<u>148,616</u>
Year ended December 31, 2010								
Opening net book value	11,640	35,072	55,488	17,703	16,790	5,628	6,295	148,616
Additions	-	5,692	10,724	4,907	5,374	418	-	27,115
Disposals								
Cost	-	-	-	-	(18)	(87)	(6,615)	(6,720)
Depreciation	-	-	-	-	18	87	5,059	5,164
	-	-	-	-	-	-	(1,556)	(1,556)
Depreciation Charge	-	(3,965)	(7,587)	(2,728)	(4,747)	(4,113)	(1,452)	(24,592)
Closing net book value	<u>11,640</u>	<u>36,799</u>	<u>58,625</u>	<u>19,882</u>	<u>17,417</u>	<u>1,933</u>	<u>3,287</u>	<u>149,583</u>
As at December 31, 2010								
Cost	11,640	80,729	79,440	41,390	38,448	109,389	64,921	425,957
Accumulated Depreciation	-	(43,930)	(20,815)	(21,508)	(21,031)	(107,456)	(61,634)	(276,374)
Net book value	<u>11,640</u>	<u>36,799</u>	<u>58,625</u>	<u>19,882</u>	<u>17,417</u>	<u>1,933</u>	<u>3,287</u>	<u>149,583</u>
Year ended December 31, 2011								
Opening net book value	11,640	36,799	58,625	19,882	17,417	1,933	3,287	149,583
Additions	-	219	1,026	1,187	1,175	1,839	133	5,579
Disposals								
Cost	-	-	(139)	-	(201)	(199)	(3,649)	(4,188)
Depreciation	-	-	120	-	189	199	3,218	3,726
	-	-	(19)	-	(12)	-	(431)	(462)
Adjustments (9.2.1)								
Cost	-	-	(41)	(5)	2,521	2	404	2,881
Depreciation	-	(73)	(362)	176	(558)	2,768	(108)	1,843
	-	(73)	(403)	171	1,963	2,770	296	4,724
Depreciation Charge	-	(4,043)	(7,822)	(2,898)	(5,079)	(3,194)	(1,159)	(24,195)
Closing net book value	<u>11,640</u>	<u>32,902</u>	<u>51,407</u>	<u>18,342</u>	<u>15,464</u>	<u>3,348</u>	<u>2,126</u>	<u>135,229</u>
As at December 31, 2011								
Cost	11,640	80,948	80,286	42,572	41,943	111,031	61,809	430,229
Accumulated Depreciation	-	(48,046)	(28,879)	(24,230)	(26,479)	(107,683)	(59,683)	(295,000)
Net book value	<u>11,640</u>	<u>32,902</u>	<u>51,407</u>	<u>18,342</u>	<u>15,464</u>	<u>3,348</u>	<u>2,126</u>	<u>135,229</u>
Annual rate of depreciation (%)	-	5	10	10	15 - 33.33	33.33	20	

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

9.2.2 The gross carrying value of fully depreciated assets still in use amounted to Rs. 183.91 (2010 : 175.16) million.

BASE

9.3 Disposal of operating fixed assets

Particulars	Cost	Net book value	Sale proceeds	Gain on disposal	Mode of disposal	Particular of buyers
	<-----Rupees in '000 ----->					
Items having cost above one million rupees or book value above two hundred and fifty thousand rupees						
Motor vehicles	1,175	431	1,479	1,048	Auction	M. Zulfiqar Ali, Karachi
Items having cost less than one million rupees or book value less than two hundred and fifty thousand rupees						
Furniture and fixtures	139	19	41	22	Auction	Various
Computer Equipment	199	-	63	63	Auction	Various
Office equipment	201	12	33	21	Auction	Various
Motor Vehicles	2,474	-	1,599	1,599	Auction	Various
	4,188	462	3,215	2,753		
2011						
	6,720	1,556	5,908	4,352		
2010						

ju/ASA

	Note	2011 Rupees in '000	2010
9.4 Intangibles assets			
Net carrying value			
Balance at beginning of the year		833	1,265
Additions at cost		1,839	-
Amortisation charge for the year	9.4.1	(839)	(432)
Balance at end of year		<u>1,833</u>	<u>833</u>
Gross carrying value			
Cost		7,412	5,573
Accumulated amortisation		(5,579)	(4,740)
Net book value		<u>1,833</u>	<u>833</u>

9.4.1 The cost is being amortised over a period of 3 years.

10. OTHER ASSETS

Income/mark-up accrued in local currency		14,482	6,477
Investments		21,512	35,764
Advances		50,470	50,470
Advance for purchase of land - housing projects	10.1	109,760	105,546
Advances, deposits, advance rent and other prepayments		79,255	187,273
Advance taxation (payments less provisions)	10.2	19,499	25,594
Other receivable against advances		85,112	22,746
Receivable from pension fund	31.2	-	-
Receivable from Government of Pakistan against Voluntary Severance Scheme	23.1	-	800,000
Assets acquired from Pakistan Refugees Rehabilitation Finance Corporation (PRRFC)	10.3	-	-
		380,090	1,233,870
Less: Provision held against other assets	10.1.1	(50,470)	-
		<u>329,620</u>	<u>1,233,870</u>

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

10.1.1 Particulars of provision against other assets

Balance at beginning of the year	-
Charge for the year	50,470
Balance at end of the year	<u>50,470</u>

10.2 Advance tax of Rs. 4,511.71 (2010: Rs. 4,483.71) million is netted off from provision for tax of Rs. 4,432.46 (2010: Rs. 4,296.44) million.

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

MUSA

Pakistan Refugees Rehabilitation Finance Company

Note

2011 2010
Rupees in '000

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)
	<u>19,627</u>	<u>19,627</u>

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	<u>11,996</u>	<u>11,996</u>

REPRESENTED BY

Capital	16,000	16,000
Accumulated loss	(4,004)	(4,004)
	<u>11,996</u>	<u>11,996</u>

11. BORROWINGS

In Pakistan - local currency	11.1	11,992,300	12,292,300
Outside Pakistan - foreign currency		-	-
		<u>11,992,300</u>	<u>12,292,300</u>

11.1 Detail of borrowings

Secured

Borrowings from State Bank of Pakistan - PLS credit lines	11.1.1	11,242,300	11,242,300
Sukuk bonds	11.1.2	750,000	1,050,000
		<u>11,992,300</u>	<u>12,292,300</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).

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

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

As per the above schedule, credit line Nos. 58 to 63 were payable on June 25, 2006, September 07, 2007, June 30, 2008, August 08, 2008, November 10, 2010 and July 12, 2011 respectively, but were not paid. In pursuance of Company's request, the SBP through its letter no. SMED Refinance 900/06-2071 dated September 02, 2006 advised the Company to repay the credit lines as per the schedule and claimed markup @ 9.5% for utilization of the said amount after the due date till the date of their payment. The management has made accrual of entire amount of markup on overdue credit lines @ 9.5% per annum.

11.1.2 Sukuk certificates - Secured

	<i>2011</i>	<i>2010</i>
	<i>Rupees in '000</i>	
Balance as at January 01	1,050,000	1,350,000
Redemption during the year	(300,000)	(300,000)
Closing balance as at December 31	<u>750,000</u>	<u>1,050,000</u>

Redemptions

Not later than one year	300,000	300,000
Later than one year and less than five years	450,000	750,000
Balance as at December 31	<u>750,000</u>	<u>1,050,000</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 non-banking finance company (First Dawood Investment Bank Limited) has been appointed as a trustee under the trust deed dated April 11, 2008. In case the Company defaults on any of its obligation, the trustee may enforce the Company's obligation in accordance with the terms of the trust deed.

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12. OTHER LIABILITIES	Note	2011 Rupees in '000	2010 Restated
Mark-up / return / interest payable on borrowings - in local currency	12.1	14,325	22,121
Accrued expenses		198,894	131,102
Payable to post retirement medical benefits	31.2	566,929	513,959
Payable against employees' compensated absences		357,366	377,729
Refundable to customers against advances		45,138	17,976
Payable to SBP	12.2	1,837,621	775,296
Insurance premium payable	12.3	62,363	95,754
Deferred credits	12.4	1,185,474	1,828,598
Reimbursement of claims by Government of Pakistan	12.5	219,400	855,609
Salary compensation and benevolent fund payable to VSS optees		32,103	275,337
Retention money payable		3,879	3,832
Application fee- Gawadar Project		3,915	3,915
Agents' deposit money		1,185	1,485
Others		1,546	1,346
		<u>4,530,138</u>	<u>4,904,059</u>

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

12.2 Payable to SBP	Note	2011 Rupees in '000	2010 Restated
Balance at January 1		775,296	43,692
Share of profit / (loss)	26.1	94,443	(9,626)
		<u>869,739</u>	<u>34,066</u>
Less: Markup accrued on SBP credit lines	11.1.1	967,882	741,230
Balance at December 31		<u>1,837,621</u>	<u>775,296</u>
Free reserves	12.2.2	<u>(1,070,466)</u>	<u>(1,610,945)</u>

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

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

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

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

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

	Note	2011 Rupees in '000	2010 Restated
12.4 Deferred credits			
Demand charges - net of recovery expenses			
Demand charges recovered	12.4.1 & 12.4.6	615,303	567,488
Less: Recovery charges paid at December 31			
Balance at January 01		81,482	59,707
Expense for the year	12.4.1	19,158	21,775
Balance at December 31		(100,640)	(81,482)
		514,663	486,006
Profit/commission received from State Life Insurance Corporation - net of death claims	12.4.2	208,562	208,562
Provision against insurance receivable from partners		(190,714)	(200,356)
		17,848	8,206
Unidentifiable insurance premium contribution received from borrowers / partners during prior years	12.4.3	52,503	52,503
Property insurance		(12,495)	(12,495)
		40,008	40,008
Received from GoP against remission of advance to widows	12.4.4	-	865,074
Profit received on investment from deferred credits	12.4.5 & 12.4.6	715,455	529,304
		1,287,974	1,928,598
Donations	12.4.7	(102,500)	(100,000)
		1,185,474	1,828,598

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12.4.1 This represents amount charged to partners' account on late payment of installments recovered after June 30, 2000 in accordance with the requirements of section 24(20)(d) of the House Building Finance Corporation (HBFC) Act, 1952 as amended by the HBFC (Amendment) Ordinance, 2001. As per the said requirement, expenses incurred in recovering such installments from partners could be charged off against the excess amount recovered. In 2010, after the lapse of HBFC (Amendment) Ordinance, 2001, the then Board decided to charge of the salary of recovery staff against this head and therefore considered as directly attributable expense. Excess, if any, was to be used for charitable purposes.

In 2014, management received a directive from State Bank of Pakistan that such salaries cannot be charged against this amount. Accordingly, management changed its accounting policy and effects of this change has been incorporated as under in accordance with the requirements of IAS-8 "Accounting policies, changes in accounting estimates and errors".

Since this policy was first introduced in 2010, there is no impact on the opening balance of accumulated losses and as such third balance sheet does not need to be presented.

	<i>Amount as reported earlier</i>	<i>Effect of change in accounting policy</i>	<i>Amount restated</i>
	----- Rupees in '000 -----		
For the year ended December 31, 2010			
Effect on balance sheet			
Demand charges net of recovery expenses	298,077	187,929	486,006
Payable to SBP	801,859	(26,563)	775,296
Accumulated loss	(1,472,085)	(138,860)	(1,610,945)
Statutory reserves	507,996	(22,506)	485,490
Effect on profit and loss			
Administrative expenses - Salaries, allowances, etc.	808,353	187,929	996,282
Share of State Bank of Pakistan in (loss) / profit	16,937	(26,563)	(9,626)
(Loss) / profit after taxation	112,532	(161,366)	(48,834)
Basic / diluted earnings per share - Rupee	0.37	(0.53)	(0.16)

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

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

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12.4.4 In 1999, as per the direction of Ministry of Finance, Government of Pakistan (GoP), the management segregated remission of advance / rent of widows, orphans and ex-employees of the Company aggregating to Rs. 1,231 million by identifying advances under different schemes being receivable from GoP. Against this amount partial reimbursement of Rs. 366.7 million had been received from the GoP until 2003 and the remaining of Rs. 865.07 million remained receivable.

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. Hence this amount was charged off in 2004. During 2009, the Federal Government approved claim of Rs 865.07 million of the Company and agreed to release the funds in four quarterly installments. The Company received total of Rs. 865.07 million upto December 31, 2010.

Since the outstanding amount had already been waived / adjusted under various relief packages, the then Board decided to hold the amount as "Deferred Credit" till various options of its utilisation were being considered. The Board has now decided to treat this amount as income of the Company as there was no portfolio of loans to widows and orphans relating to that period and this amount is a reimbursement for expenses already charged off during earlier years.

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

12.4.6 Movement in demand charges and profit received

	<i>Demand charges - net of recovery expenses</i>		<i>Profit received on investment from deferred</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
	<i>Rupees in 000</i>			
Balance as at January 01	567,488	543,158	529,304	423,398
Profit credited during the year	-	-	186,151	105,906
Demand charges recovered	47,815	24,330	-	-
Balance at December 31	<u>615,303</u>	<u>567,488</u>	<u>715,455</u>	<u>529,304</u>

12.4.7 During the year donation of Rs. 2.5 million is paid to Sindh Institute of Urology and Transplantation (SIUT). Last year Rs. 100 million were donated to Prime Minister Flood Relief Fund.

12.5 The Company received claims from Ministry of Finance, Government of Pakistan in respect of provision against advance to partners affected by earthquake amounting to Rs. 912.80 million. Amount received against advance to partners affected by earthquake was to be adjusted after proper verification of partners. In 2011, the independent consultant has completed their work and submitted their report to the management. Uptill December 2011, 4,401 accounts representing Rs. 693.98 million have been adjusted by the management. Remaining 813 accounts representing Rs. 218.82 million are under management consideration and will be adjusted after due verification.

13. SHARE CAPITAL

13.1 Authorized Capital

<i>2011</i>	<i>2010</i>		<i>2011</i>	<i>2010</i>
<i>Number of Shares</i>			<i>Rupees in '000</i>	
<u>600,000,000</u>	<u>600,000,000</u>	Ordinary shares of Rs.10/- each	<u>6,000,000</u>	<u>6,000,000</u>

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13.2 Issued, subscribed and paid up capital

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

13.3 As at December 31, 2011, the Company has equity of Rs. 2,551 million against the minimum required equity of Rs. 6 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 as stated in note 1.

	2011	2010
Note	Rupees in '000	
14. DEFICIT ON REVALUATION OF ASSETS		
Available-for-sale securities		
Government securities	14.1	14.1
	<u>5,013</u>	<u>18,759</u>

14.1 Movement of deficit on revaluation of assets

Opening	18,759	578
Charge	-	18,181
Reversal during the year	<u>(13,746)</u>	<u>-</u>
Closing	<u>5,013</u>	<u>18,759</u>

15. CONTINGENCIES AND COMMITMENTS

15.1 Contingencies

15.1.1 Claims not acknowledged as debt	<u>47,990</u>	<u>47,990</u>
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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 dependents. The said hospital lodged a claim of Rs.8.10 million against the Company which include bills of the persons who were not referred by the Company to the said hospital, as these were neither the Company's employees nor their dependents. The legal advisor of the Company is confident that the Company has a strong case and no economic outflow is expected.

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15.1.2 In 2012, the HBFC Workmen Union of Pakistan had filed a writ petition in the Islamabad High Court against the appointment of Ex-Managing Director of the Company. The single bench of Islamabad High Court in its order dated October 16, 2012 decided that the appointment was illegal and all benefits derived by him be recovered. The said order has been challenged by the Ex-Managing director and the matter is pending in divisional bench of the Islamabad High Court. The Company can not file recovery suit during the pendency of the appeal and the status quo order.

	Note	2011 Rupees in '000	2010
15.2 Commitments			
Land for Housing projects-Gawadar	10.1	149,700	149,700
Land for Gawadar office		9,750	9,750
Rental due under operating lease agreements in respect of vehicles			
Not later than one year		6,896	8,542
Later than one year but not later than five years		9,148	15,022
Design, supervision and construction contract for Islamabad project		177,507	-
Equity investment in Pakistan Mortgage Refinance Company		200,000	200,000
16. RENTAL/MARK-UP/RETURN/INTEREST EARNED			
On advances to customers		1,816,450	1,836,319
On investments in securities:			
Available for sale		603,299	432,558
Held to maturity		49,347	95,423
On deposits with financial institutions		18,236	17,785
On securities purchased under resale agreements		140,381	89,304
On clean lending		2,845	66,682
		<u>2,630,558</u>	<u>2,538,071</u>
17. RENTAL/MARK-UP/RETURN/INTEREST EXPENSED			
Markup on sukuk certificates		132,544	166,848
Markup on SBP credit lines	11.1.1	967,882	741,230
		<u>1,100,426</u>	<u>908,078</u>
18. REVERSALS / (PROVISIONS) MADE AGAINST NON - PERFORMING ADVANCES			
Reversal of provision / (provision) against advances	8.14.1	621,192	(38,941)
Reversal against advances written off	8.14.1	43,816	-
Recovery of house finance to employees		-	2,920
		<u>665,008</u>	<u>(36,021)</u>
19. RECONCILIATION ADJUSTMENTS			
Tagged accounts settled	19.1	<u>(4,691)</u>	<u>2,062</u>

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

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	Note	2011 Rupees in '000	2010 Rupees in '000
20. REVERSAL DUE TO RELIEF PACKAGE AND REPROCESSING ADJUSTMENTS			
Relief package and settlement scheme	20.1	17,680	47,254
Reprocessing and closing adjustment of housing finance	20.2	283,864	116,469
		<u>301,544</u>	<u>163,723</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 Board of Directors as explained fully in Note 8.3 to the financial statements.

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

	Note	2011 Rupees in '000	2010 Rupees in '000
21. OTHER INCOME			
Inspection and application fee		16,182	12,740
Gain on sale of operating fixed assets	9.3	2,753	4,352
Miscellaneous		24,903	16,588
		<u>43,838</u>	<u>33,680</u>

	Note	2011 Rupees in '000	2010 Rupees in '000 Restated
22. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.		892,533	996,282
Charge for defined benefit plan - pension	31.2 & 31.4	209,176	158,621
Post retirement medical benefits	31.2 & 31.4	104,021	91,452
Employees' compensated absences		90	22,000
Repairs and maintenance		40,724	71,382
Legal and professional		30,440	30,931
Rent, taxes, insurance, electricity, etc.		30,493	27,280
Stationery and printing		13,851	13,000
Advertisement and publicity		22,622	3,368
Auditors' remuneration	22.1	2,960	2,825
Depreciation	9.2	24,195	24,592
Amortization of intangible assets	9.4	839	432
Traveling and conveyance		15,237	13,656
Postage and telephone		12,173	13,430
Entertainment		2,719	2,187
Security guard charges		2,035	1,807
Subscription and publication		836	870
Commission against recoveries		1,685	740
Others		4,103	3,338
		<u>1,410,732</u>	<u>1,478,193</u>

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	Note	2011 Rupees in '000	2010 Restated
22.1 Auditors' remuneration			
Audit fee		1,100	1,000
Half yearly review		385	350
Special certification, internal control over financial reporting, other reviews and sundry advisory fee		1,250	1,250
Out-of-pocket expenses		225	225
		<u>2,960</u>	<u>2,825</u>

23. Voluntary Severance Scheme (VSS)- net

Salary compensation		117,689	259,790
Charge for defined benefit plan - pension	31.4	-	870,111
Post retirement medical benefits	31.4	-	(38,903)
Employees' compensated absences		-	(89,001)
Benevolent fund		-	80,479
Voluntary Severance Scheme -gross	23.1	<u>117,689</u>	<u>1,082,476</u>
Amount receivable from Government for VSS charged off	23.2	<u>300,000</u>	<u>-</u>
		417,689	1,082,476
Less: Government grant	23.2	-	(1,000,000)
Voluntary Severance Scheme -net		<u>417,689</u>	<u>82,476</u>

23.1 In 2010, 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 was applicable to employees who were in the regular service of the Company as on June 30, 2010 and had 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 December 31, 2010. The Company retained the right at its absolute discretion to accept or decline any option without assigning any reason. In 2010, the Company accepted applications of 417 employees in respect of which Rs. 1,082 million were provided on the basis of valuation carried out by an actuary. During 2011, Board of Directors has authorised the management to accept applications of 20 additional employees against which charge of Rs. 117.69 million has been recorded in the books of account of the Company.

23.2 The Federal Government made budgetary allocation of Rs. 1,000 million on account of VSS and intimated the same through its letter No. F.6(9)-IF.II.2008 dated August 5, 2010 out of which Rs. 200 million were received in 2010 and Rs. 500 million were received in the 2011. The Finance Division, Government of Pakistan, vide its letter No.F.6(9)-IF-II/2008-939 dated May 10, 2011 has informed the Company that due to financial crunch in financial year 2010-11, the balance amount of Rs. 300 million has been surrendered. Thus, management on prudent basis charged off for this amount in the financial statements.

	2011 Rupees in '000	2010
24. OTHER PROVISIONS		
Provision against Gawadar Land	50,470	-
Doubtful receivable of insurance premium from partners	(969)	648
	<u>49,501</u>	<u>648</u>

25. OTHER CHARGES

Penalty imposed by State Bank of Pakistan	355	879
Commission and bank charges	6,685	7,175
	<u>7,040</u>	<u>8,054</u>

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STATE BANK OF PAKISTAN SHARE OF PROFIT ON CREDIT LINES

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

	December 31, 2011			December 31, 2010		
	Total	Relating to PLS schemes	Relating to other operations	Total	Relating to PLS schemes	Relating to other operations
	<----- Rupees '000' ----->					
	<----- Restated ----->					
<i>Rental/Mark-up/Return/Interest earned</i>						
On loans and advances to customers	1,816,450	1,816,450	-	1,836,319	1,836,319	-
On investments in securities:						
Available for sale	603,299	-	603,299	432,558	-	432,558
Held to maturity	49,347	-	49,347	95,423	-	95,423
On deposits with financial institutions	18,236	-	18,236	17,785	-	17,785
On securities purchased under resale agreements	140,381	-	140,381	89,304	-	89,304
On clean lending	2,845	-	2,845	66,682	-	66,682
	2,630,558	1,816,450	814,108	2,538,071	1,836,319	701,752
<i>Rental/Mark-Up/Return/Interest expensed</i>						
Markup on SBP credit lines	(967,882)	(948,524)	(19,358)	(741,230)	(726,405)	(14,825)
On Sukkuk	(132,544)	-	(132,544)	(166,848)	-	(166,848)
	(1,100,426)	(948,524)	(151,902)	(908,078)	(726,405)	(181,673)
Net mark-up / interest income	1,530,132	867,926	662,206	1,629,993	1,109,914	520,079
Reversal / (provisions) made against non performing advances	665,008	665,008	-	(36,021)	(36,021)	-
Provisions made for diminution in value of investments	(19,520)	-	(19,520)	(71,116)	-	(71,116)
Reversal made for diminution in value of lendings to financial institutions	3,324	-	3,324	6,074	-	6,074
Reversal made for diminution in value of investment	64	-	64	33,750	-	33,750
Reversal of mark-up on IDA loan	-	-	-	153,845	-	153,845
Reconciliation adjustments	4,691	4,691	-	(2,062)	(2,062)	-
Impairment in value of associated undertaking	-	-	-	(35,506)	-	(35,506)
Amount received from GoP against remission of advance to widows	865,074	865,074	-	-	-	-
Reversal of rental income due to relief package	(301,544)	(301,544)	-	(163,723)	(163,723)	-
Net mark-up / interest income after provisions and relief package	2,747,229	2,101,155	646,074	1,515,234	908,108	607,126
<i>Non mark-up / interest income</i>						
<i>Other Income</i>						
Inspection and application fee	16,182	16,182	-	12,740	12,740	-
Gain on sale of fixed assets	2,753	-	2,753	4,352	-	4,352
Miscellaneous	24,903	-	24,903	16,588	-	16,588
	43,838	16,182	27,656	33,680	12,740	20,940
	2,791,067	2,117,337	673,730	1,548,914	920,848	628,066
<i>Non Mark-Up/interest expenses</i>						
<i>Administrative expenses</i>						
VSS loss - net	(1,410,732)	(813,287)	(597,445)	(1,478,193)	(922,886)	(555,307)
Other provisions	(417,689)	(240,798)	(176,891)	(82,476)	(51,493)	(30,983)
Other charges	(49,501)	(49,501)	-	(648)	(648)	-
	(7,040)	(6,899)	(141)	(8,054)	(7,893)	(161)
Total non-markup/interest expenses	(1,884,962)	(1,110,485)	(774,477)	(1,569,371)	(982,920)	(586,451)
Operating profit / (loss) for the year	906,105	1,006,852	(100,747)	(20,457)	(62,072)	41,615
Share in results of associate before taxation	-	-	-	(10,324)	-	(10,324)
Profit / (loss) for the year before SBP share	906,105	1,006,852	(100,747)	(30,781)	(62,072)	31,291
Share of State Bank of Pakistan		1,006,852			(62,072)	
Less: share of free reserves and credit balance						
Credit balance		-			30,665	
Profit from PLS schemes available for sharing		1,006,852			(31,407)	
SBP's share		9.38%			30.65%	
Share of State Bank of Pakistan in Profit		94,443			(9,626)	

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

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

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

27. TAXATION

	2011	2010
	Rupees in '000	
Current - for the year		
Company	112,885	26,983
Associate	-	696
	112,885	27,679
Deferred - for the year		
Company	-	-
Associate	-	-
	-	-
For prior years		
Company	23,178	-
	<u>136,063</u>	<u>27,679</u>
Relationship between tax expense and accounting profit / (loss)		
Accounting profit / (loss) before taxation	<u>811,662</u>	<u>(21,155)</u>
Tax on accounting profit @ 35% (2013: 35%)	284,082	(7,404)
Tax effects of :		
- turnover tax	-	34,387
- expenses that are not deductible / deductible for determining taxable profit	110,853	-
- prior year charge	23,178	-
- adjustment of accumulated tax losses	(282,050)	-
- others	-	696
	<u>136,063</u>	<u>27,679</u>

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

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

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

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

27.2 The Company has net deductible temporary differences on which deferred tax asset of Rs. 299.50 million. However, the management is of the view that the Company would not be able to generate sufficient taxable profits in future to utilize deferred tax asset unless restructuring of the Company is completed for which proposal is pending with the Federal Government. In the absence of any time frame for restructuring of the Company, future cash flow projections cannot be prepared, accordingly, the Company has not realized deferred tax asset in these financial statements.

	Note	2011 Rupees in '000	2010 Rupees in '000
28. BASIC / DILUTED EARNINGS PER SHARE			
Profit / (loss) for the year		675,599	(48,834)
Weighted average number of ordinary shares		300,100,006	300,100,006
Basic / diluted earning per share - Rupee		2.25	(0.16)

28.1 Diluted earnings per share has not been presented as the Company does not have any convertible instruments in issue at December 31, 2011 and 2010 which would have any effect on the earnings per share if the option to convert is exercised.

	Note	2011 Rupees in '000	2010 Rupees in '000
29. CASH AND CASH EQUIVALENTS			
Cash and balance with treasury banks	4	57,803	59,789
Balance with other banks	5	448,761	95,986
		506,564	155,775

30. STAFF STRENGTH

Permanent	801	907
Temporary / on contractual basis	25	44
	826	951

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DEFINED BENEFIT PLAN

31.1 Principal actuarial assumptions

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

	2011	2010
	<i>Pension fund</i>	
Discount rate	13 % per annum	14 % per annum
Expected rate of return on investments / plan assets	13 % per annum	14 % per annum
Expected rate of increase in salary	12 % per annum	13 % per annum
Pension increase rate	9 % per annum	9 % per annum

31.2 Movement in payable to defined benefit plan

	<i>Post retirement</i>			
	<i>Pension fund</i>		<i>Medical benefits</i>	
	2011	2010	2011	2010
	-----Rupees in 000-----			
Opening net liability	(22,746)	555,539	513,959	614,310
Expense for the year	209,176	1,028,732	104,021	52,549
Benefit payments	(271,542)	(1,557,017)	(51,051)	(152,900)
Contribution during the year	-	(50,000)	-	-
Balance at December 31	<u>(85,112)</u>	<u>(22,746)</u>	<u>566,929</u>	<u>513,959</u>

31.3 Reconciliation of payable to defined benefit plan

	<i>Post retirement</i>			
	<i>Pension fund</i>		<i>Medical benefits</i>	
	2011	2010	2011	2010
	-----Rupees in 000-----			
Present value of defined benefit obligation	2,620,727	2,417,489	738,826	638,194
Fair value of plan assets	(1,887,567)	(1,654,048)	-	-
Deficit	733,160	763,441	738,826	638,194
Unrecognized actuarial (loss) / gain	(818,272)	(786,187)	(171,897)	(124,235)
Net liability at December 31	<u>(85,112)</u>	<u>(22,746)</u>	<u>566,929</u>	<u>513,959</u>

31.4 Charge for defined benefit plan

Current service cost	69,844	59,246	15,537	14,818
Interest cost	310,918	292,036	82,992	76,634
Expected return on plan assets	(221,081)	(192,661)	-	-
	159,682	158,621	98,529	91,452
<i>VSS related charge</i>				
Amortization of actuarial losses	49,494	322,378	5,492	34,675
VSS loss	-	547,733	-	(73,578)
	49,494	870,111	5,492	(38,903)
	<u>209,176</u>	<u>1,028,732</u>	<u>104,021</u>	<u>52,549</u>

Map/BA

2011 2010
Rupees in '000

31.5 Actual return on plan assets

Pension fund	233,519	227,900
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31.6 Composition of Fair Value of Plan Assets

	2011	2010	2011	2010
	<i>Rupees in '000</i>		<i>% age</i>	
Pension Fund				
Government Bonds and TFC's	1,886,884	1,653,610	99.96	99.97
Bank Balances	683	438	0.04	0.03
	1,887,567	1,654,048	100.00	100.00

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

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

	2011	2010	2009	2008	2007
	<----- Rupees in 000 ----->				
Pension Fund					
Present value of defined benefit obligation	2,620,727	2,417,489	2,085,972	1,889,013	1,920,400
Fair value of plan assets	(1,887,567)	(1,654,048)	(1,376,148)	(1,232,536)	(1,093,456)
Deficit	733,160	763,441	709,824	656,477	826,944
Actuarial (gain) / loss on obligation	94,017	989,519	(4,575)	(215,425)	328,192
Actuarial (loss)/gains on plan assets	(12,438)	(35,239)	78,943	(29,734)	(50,838)

31.9 Post Employment Medical Contribution

Present value of defined benefit obligation	738,826	638,194	547,389	507,654	568,918
Actuarial loss / (gain) on obligation	53,154	225,831	(39,380)	(133,040)	58,858

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32. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Managing Director		Directors		Executives	
	2011	2010	2011	2010	2011	2010
----- Rupees in '000 -----						
Directors Fees	-	-	961	470	-	-
Managerial remuneration	10,085	5,846	-	-	47,250	31,263
Rent and house maintenance	2,894	2,631	-	-	22,557	17,030
Utilities	793	645	-	-	1,920	1,324
Medical	254	126	-	-	2,001	1,213
Charge for defined benefit plan	-	-	-	-	8,796	4,044
Others	7,257	7,074	-	-	14,617	8,547
	<u>21,283</u>	<u>16,322</u>	<u>961</u>	<u>470</u>	<u>97,141</u>	<u>63,421</u>
Number of persons	<u>1</u>	<u>1</u>	<u>4</u>	<u>5</u>	<u>27</u>	<u>28</u>

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

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

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FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

The 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.

34. RELATED PARTY TRANSACTIONS

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

<i>Relationship</i>	<i>Nature of Transaction</i>	<i>2011</i>	<i>2010</i>
		<i>Rupees in '000</i>	
Associated undertaking			
Takaful Pakistan Limited	Insurance premium paid	583	5,833
	Insurance claims received	555	293
Key management personnel	Remuneration to key management personnel	57,335	37,109
	Proceeds from disposal of operating fixed assets	17	10
	Loans and advances	29,660	18,643
Retirement benefits plans	Pension fund	8,796	4,044
	Post retirement medical benefits	3,873	1,833

The related party status of outstanding receivables and payables as at December 31, 2011 are included in respective notes to the financial statements.

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35. CAPITAL ADEQUACY

35.1 Scope of Applications

The Basel II Framework as prescribed by the SBP is applicable to the Company in the assessment of its capital adequacy requirement. The risk weighted assets to capital ratio, calculated (as per standardized approach of Basel-II) in accordance with SBP's guidelines on capital adequacy is as follows:

35.2 Capital Structure

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

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

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

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

	2011	2010
	<i>Rupees in '000</i>	
		<i>Restated</i>
Tier I Capital		
Shareholders equity	3,001,000	3,001,000
Reserves	620,610	485,490
Accumulated losses	(1,070,466)	(1,610,945)
Less: Intangible assets	(2,070)	(833)
Deficit on account of revaluation of investments held in AFS category	(5,013)	(18,759)
Other deductions	-	-
Total Tier I Capital	2,544,061	1,855,953
Tier II Capital		
Subordinated Debt (upto 50% of total Tier I Capital)	-	-
General Provisions subject to 1.25% of Total Risk Weighted Assets	90,061	107,410
Revaluation Reserve	-	-
Other deductions	-	-
Total Tier II Capital	90,061	107,410
Tier III Capital	-	-
Total Regulatory Capital Base	2,634,122	1,963,363

35.3 Capital Adequacy

Objectives of Managing Capital

The Company's objectives when managing capital are:

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

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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. 6 billion by the end of financial year 2011. However, there is a shortfall of Rs. 3.5 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 as mentioned in note 1.2 to these financial statements.

SBP through its BSD Circular No. 07 of 2009 dated April 15, 2009 has also asked to achieve the minimum Capital Adequacy Ratio (CAR) of 10%. The capital adequacy ratio (CAR) of the Company stands at 31.18% of its risk weighted exposures as at December 31, 2011. The Company has maintained capital adequacy ratio well above 10%.

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

35.4 Risk-Weighted Exposures

	2011		2010	
	Capital Requirements	Risk Weighted Assets	Capital Requirements	Risk Weighted Assets
	Rupees in '000		Rupees in '000 Restated	
Credit Risk				
Portfolios subject to standardized approach (Simple or Comprehensive)	582,160	5,821,604	591,850	5,918,501
Market Risk				
Capital requirement for portfolios subject to standardized approach				
Interest rate risk	22,066	275,820	79,524	994,051
Equity position risk etc.				
Operational Risk				
Capital Requirement for operational risks	188,092	<u>2,351,145</u>	78,532	<u>1,913,676</u>
		<u>8,448,569</u>		<u>8,826,228</u>
Capital Adequacy Ratio				
Total regulatory capital held	(a)	<u>2,634,122</u>		<u>1,963,363</u>
Total Risk Weighted Assets	(b)	<u>8,448,569</u>		<u>8,826,228</u>
Capital Adequacy Ratio	(a) / (b)	<u>31.18%</u>		<u>22.24%</u>

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36. RISK MANAGEMENT

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

The Company's risk management 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 administration, credit monitoring, treasury and operations are in place. The basic principles employed in formulation of the above policies and procedures involves identification, measurement, monitoring and controlling risks to ensure that: -

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

Risk profile of the Company

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

Risk Structures and Responsibilities

Organizational framework for Risk Management includes the following :

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

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. It also closely liaises with other control functions like Audit and Compliance.

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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.

36.1 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 investments, borrowing and asset-liability management activities.

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

- Lending process and decision is based on a full appreciation of the risks inherent in the transaction.
- Management monitors credit portfolio through MIS reports.
- 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.

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 and credit setup, proper delegation of credit decisions at committee level with appropriate approving limits has been made. In this regard following steps have been taken: -

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- 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.

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 is actively working to develop and 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 2012.

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 borrower types and geographical regions. The concentration risk can arise in loan book as well as investment book.

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

36.1.1 Segmental information

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

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36.1.1 Segments by class of business

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

Housing finance	<----- 2010 ----->					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent %	Rupees in '000	Percent %	Rupees in '000	Percent %
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>

36.1.1.2 Segment by sector

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

	<----- 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>

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

	2011		2010	
	<i>Classified Advances</i>	<i>Specific Provisions Held</i>	<i>Classified Advances</i>	<i>Specific Provisions Held</i>
	<----- Rupees in '000 ----->			
Individuals	7,912,488	3,165,517	7,266,520	3,803,264
Others	46,237	46,237	56,149	56,149
	<u>7,958,725</u>	<u>3,211,754</u>	<u>7,322,669</u>	<u>3,859,413</u>

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

Public/ Government	37,706	37,706	47,519	47,519
Private	7,921,019	3,174,048	7,275,150	3,811,894
	<u>7,958,725</u>	<u>3,211,754</u>	<u>7,322,669</u>	<u>3,859,413</u>

36.1.1.5 *Geographical segment analysis*

	<i>Profit / (loss) before taxation</i>	<i>Total assets employed</i>	<i>Net assets employed</i>	<i>Contingencies and commitments</i>
	<----- Rupees in '000 ----->			
2011				
Pakistan	811,662	19,286,712	2,764,274	600,991
2010				
Pakistan - Restated	(21,155)	19,053,145	1,856,786	431,004

14/5/11

36.2 Credit Risk-General Disclosures Basel II Specific

36.2.1 Credit Risk - General Disclosures

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

36.2.2 Credit Risk Disclosures for portfolio subject to the 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**

<i>Exposures</i>	<i>JCR-VIS</i>	<i>PACRA</i>	<i>Other (Specify)</i>
Corporate	√	√	x
Banks	√	√	x
Sovereigns	x	x	x
SME's	x	x	x
Securitized	x	x	x
Others (Specify)	x	x	x

36.2.3 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**

<i>Exposures</i>	<i>Rating Category #</i>	<i>Amount Outstanding</i>	<i>Deduction CRM</i>	<i>Net Amount</i>
Corporate	2 to 6	40,782	-	40,782
Banks	1 & 3	796,971	-	796,971
Sovereigns etc.	-	57,803	-	57,803
Unrated		11,272,052	-	11,272,052
		<u>12,167,608</u>	-	<u>12,167,608</u>

CRM = Credit Risk Mitigation

36.2.4 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.

MUSA

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.

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

At present Company has no investment position in equity holdings.

36.3 Market Risk

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

The Company is exposed 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.

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36.3.1 Mismatch of Interest Rate Sensitive Assets and Liabilities

36.3.1.1 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	2011 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		
Assets													
Cash and balances with treasury banks	57,803	-	-	-	-	-	-	-	-	-	-	-	57,803
Balances with other banks	448,761	430,077	-	-	-	-	-	-	-	-	-	-	18,684
Lending to financial institutions	4,432	4,432	-	-	-	-	-	-	-	-	-	-	-
Investments	7,839,516	1,469,357	2,409,109	3,085,581	708,389	37,190	56,520	73,370	-	-	-	-	-
Advances - net	10,392,064	1,072,190	144,340	218,530	404,057	783,312	794,348	1,528,388	2,763,139	2,683,760	-	-	-
Other assets	160,915	-	-	-	-	-	-	-	-	-	-	-	160,915
	18,903,491	2,976,056	2,553,449	3,304,111	1,112,446	820,502	850,868	1,601,758	2,763,139	2,683,760	-	-	237,402
Liabilities													
Bills payable	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	11,992,300	10,742,300	-	150,000	150,000	300,000	150,000	-	-	-	-	-	500,000
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	3,125,264	-	-	-	-	-	-	-	-	-	-	-	3,125,264
	15,117,564	10,742,300	-	150,000	150,000	300,000	150,000	-	-	-	-	-	3,125,264
On-balance sheet gap	3,785,927	(7,766,244)	2,553,449	3,154,111	962,446	520,502	700,868	1,601,758	2,763,139	2,683,760	-	-	(3,387,862)
Off-balance sheet financial instruments													
Forward Lending	-	-	-	-	-	-	-	-	-	-	-	-	-
Forward borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap		(7,766,244)	2,553,449	3,154,111	962,446	520,502	700,868	1,601,758	2,763,139	2,683,760	-	-	(3,387,862)
Cumulative Yield/Interest Risk Sensitivity Gap		(7,766,244)	(5,212,795)	(2,058,684)	(1,096,238)	(575,736)	125,132	1,726,890	4,490,029	7,173,789	-	-	3,785,927

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2010
Exposed to Yield/ Interest risk
Rupees in '000
Restated

On-balance sheet financial instruments	Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk							Above 10 Years		
			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	
Assets												
Cash and balances with treasury banks		59,789	-	-	-	-	-	-	-	-	-	59,789
Balances with other banks	12.83% to 13.12%	95,986	74,847	-	-	-	-	-	-	-	-	21,139
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	140,776	208,782	413,858	827,146	810,974	1,588,518	2,960,406	2,852,121	-
Other assets		941,051	-	-	-	-	-	-	-	-	-	941,051
Liabilities												
Bills payable		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
Borrowings	9.5% - 14.24%	12,292,300	-	-	150,000	-	-	-	300,000	-	-	1,553,300
Deposits and other accounts		-	9,689,000	-	-	-	-	-	-	-	150,000	-
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		2,219,852	-	-	-	-	-	-	-	-	-	2,219,852
On-balance sheet gap		14,512,152	9,689,000	150,000	150,000	150,000	300,000	300,000	150,000	150,000	2,852,121	3,773,152
Off-balance sheet financial instruments		4,078,983	(7,176,724)	3,762,400	1,589,081	291,614	527,146	510,974	1,513,138	2,960,406	2,852,121	(2,751,173)
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	(2,751,173)
Total Yield/Interest Risk Sensitivity 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	(2,751,173)
Cumulative Yield/Interest Risk Sensitivity Gap		-	(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	4,078,983

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

	December 31 2011	December 31 2010
Total financial assets as per note 36.3.1.1	18,903,491	18,591,135
Operating fixed assets	214,516	169,191
Other assets	168,705	292,819
Total assets as per balance sheet	19,286,712	19,053,145
Total financial liabilities as per note 36.3.1.1	15,117,564	14,512,152
Other liabilities	1,404,874	2,684,207
Total liabilities	16,522,438	17,196,359

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36.4 Liquidity Risk

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

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

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

36.4.1 Maturities of Assets and Liabilities

----- 2011 -----											
Total	Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Rupees in '000	
										<	>
57,803	57,803	-	-	-	-	-	-	-	-	-	-
448,761	448,761	-	-	-	-	-	-	-	-	-	-
4,432	4,432	-	-	-	-	-	-	-	-	-	-
7,839,516	1,469,357	2,409,109	3,085,581	708,389	37,190	56,520	73,370	-	-	-	-
10,392,064	1,072,190	144,340	218,530	404,057	783,312	794,348	1,528,388	2,763,139	2,683,760	-	-
214,516	1,097	2,195	3,292	84,038	13,168	13,173	24,840	44,621	28,092	-	-
329,620	41,011	216,837	71,772	-	-	-	-	-	-	-	-
19,286,712	3,094,651	2,772,481	3,379,175	1,196,484	833,670	864,041	1,626,598	2,807,760	2,711,852	-	-
Assets											
Cash and balances with treasury banks											
Balances with other banks											
Lendings to financial institutions											
Investments											
Advances - net											
Operating fixed assets											
Other assets											
Liabilities											
Bills payable											
Borrowings from financial institutions											
Deposits and other accounts											
Sub-ordinated loans											
Liabilities against assets subject to finance lease											
Deferred tax liabilities											
Other liabilities											
11,992,300	10,742,300	500,000	150,000	150,000	300,000	150,000	-	-	-	-	-
4,530,138	1,051,185	2,150,043	219,400	153,616	955,894	-	-	-	-	-	-
16,522,438	11,793,485	2,650,043	369,400	303,616	1,255,894	150,000	-	-	-	-	-
2,764,274	(8,698,834)	122,438	3,009,775	892,868	(422,224)	714,041	1,626,598	2,807,760	2,711,852	-	-
Net assets / (liabilities)											
3,001,000											
620,610											
(1,070,466)											
Surplus on revaluation of assets											
(5,013)											
218,143											
<u>2,764,274</u>											

MyRS

----- 2010 -----
 Rupees in '000
 Restated

Assets	Total	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
		Up to 1 Month	Months	Months	Months	Year	Years	Years	Years	Years	Years	Years	Years	Years		
Cash and balances with treasury banks	59,789	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	95,986	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	991,224	349,884	3,324	7,756	-	-	-	-	-	-	-	-	-	-	-	-
Investments	5,821,020	927,685	3,271,740	1,526,975	20,000	-	-	-	-	-	-	-	-	-	-	-
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	25,776	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	-	-	-	-	-	-	-	
	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	-	-	-	-	-	

Liabilities	Total	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
		Up to 1 Month	Months	Months	Months	Year	Years	Years	Years	Years	Years	Years	Years	Years		
Bills payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings from financial institutions	12,292,300	9,689,000	-	150,000	1,203,300	800,000	300,000	150,000	-	-	-	-	-	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	4,904,059	1,120,821	318,572	657,776	458,089	705,767	625,657	999,543	17,834	-	-	-	-	-	-	
	17,196,359	10,809,821	318,572	807,776	1,661,389	1,505,767	925,657	1,149,543	17,834	-	-	-	-	-	-	
Net assets / (liabilities)	1,856,786	(8,212,263)	3,522,455	944,349	(372,174)	(505,941)	8,273	569,733	2,993,936	2,908,418	-	-	-	-	-	

Share capital	3,001,000
Reserves	485,490
Accumulated loss	(1,610,945)
Surplus on revaluation of assets	(18,759)
	<u>1,856,786</u>

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.10,742 (2010: Rs. 9,689) million. The amount of SBP credit line Rs. 11,242.3 million is under active consideration of Government of Pakistan and State Bank of Pakistan as mentioned in note 1 to these financial statements.

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36.5 Operational Risk

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

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

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

36.5.1 Operational Risk Disclosures-Basel II Specific

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

37. CORRESPONDING FIGURES

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

38. DATE OF AUTHORIZATION

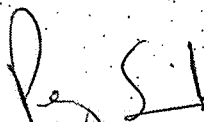
These financial statements were authorized for issue on _____ by the Board of Directors of the Company.

39. GENERAL

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

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

M. A. S.



MANAGING DIRECTOR



DIRECTOR



DIRECTOR