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we've become the Agents
of TRANSFORMATION

Half Yearly Report
June 30, 2011

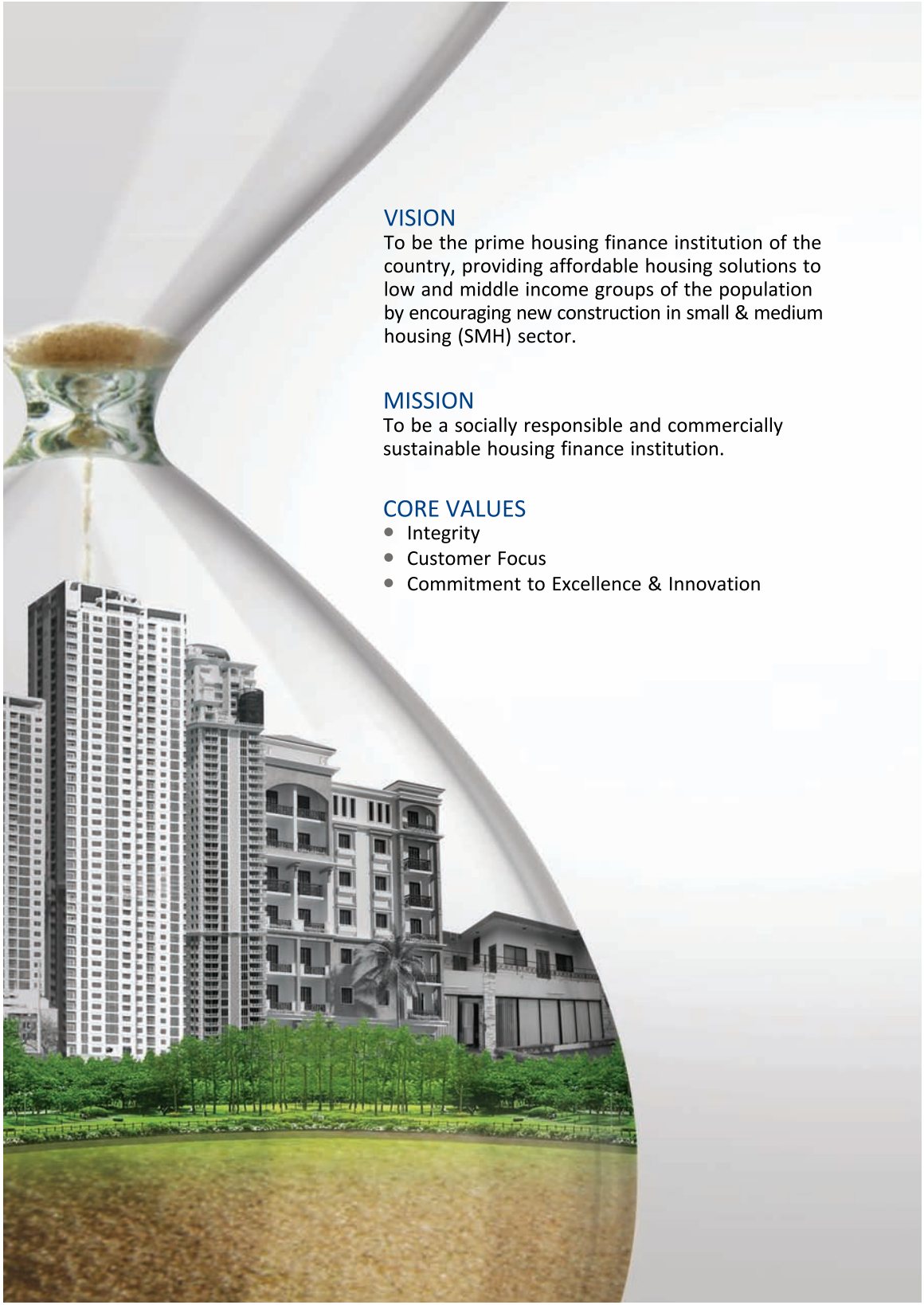


HOUSE BUILDING FINANCE COMPANY LIMITED
(Formerly House Building Finance Corporation Limited)



HOUSE BUILDING FINANCE COMPANY LIMITED
(Formerly House Building Finance Corporation Limited)

Half Yearly Report
Half Yearly Report
Half Yearly Report
2011
2011
2011



VISION

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

MISSION

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

CORE VALUES

- Integrity
- Customer Focus
- Commitment to Excellence & Innovation



ABOUT US ABOUT US ABOUT US

Introduction:

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

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

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

People We Serve

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

Presently, nearly 51% of HBFCL's clientele is of the lower income demographic with loan amounts of less than Rs. 100,000. Nearly 93% of our clients have loans below Rs. 500,000, and maintain a monthly income between Rs. 3,500 and Rs. 5,000. Understanding that a large portion of our client base can only afford to pay instalments of Rs. 1,000 to Rs. 1,200 per month, HBFCL has actively developed products to accommodate this market to include repayment plans over a 15 to 20 year period.

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



HOUSE BUILDING FINANCE COMPANY LIMITED
(Formerly House Building Finance Corporation Limited)

BOARD OF DIRECTORS
BOARD OF DIRECTORS
BOARD OF DIRECTORS

Azhar A. Jaffri (Chairman)

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

A. Akbar Sharifzada (Director)

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

Tasneem Ahmed Siddiqui (Director)

Retired Director General,
Sindh Katchi Abadis Authority, Karachi

Zakaria M. Fazil (Director)

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

Tahir Siddiqui (Secretary to the Board of Directors)

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



MANAGEMENT
MANAGEMENT
MANAGEMENT

Azhar A. Jaffri

Chief Executive Officer & Managing Director

Muhammad Shabbir Alam

Group Head, Special Building Projects, Re-possessed Properties & Research

Tahir Saeed Effendi

Group Head, Corporate Affairs / Compliance

Farah Husain

Group Head, Internal Audit

Muhammad Hanif Kasbati

Group Head, Finance & Chief Financial Officer

Aatiqa Lateef

Group Head, Legal, Strategy & Marketing

Minhaj Ahmed Qureshi

Group Head, Human Resources

Tahir Siddiqui

Group Head, Business Development and Treasury

Mehdi Zaidi

Group Head, Credit, Collections, SAM & IT

Sarwat Gilani

General Manager, Risk Management



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DIRECTORS' REPORT DIRECTORS' REPORT DIRECTORS' REPORT

On behalf of the Board of Directors, I am pleased to present half yearly financial statements with the External Auditors' Review Report for the period ended June 30, 2011.

House Building Finance Company Limited (HBFC) has achieved an after-tax profit of Rs. 94.9 million for the first half of 2011, following up on annual profit after tax of Rs. 113 million announced earlier this year on March 30. This landmark achievement is in sharp contrast to the after tax loss of Rs. 5.4 million in the same period last year. Under the leadership of the current management, the profits of the company have continued to increase, after continuous losses for the previous three years. During the period 2007-2009, the Company had registered an aggregate loss of Rs. 1,482 million.

The encouraging performance of the Company is evidence of the fact that HBFC is no longer a burden on the national exchequer. Instead, the Company has contributed substantial tax monies and is playing an important role in the development of housing business in the country. The results announced reveal that all financial indicators are positive, in spite of inflationary pressures, the prevailing law and order situation, rising borrowing rates in the recent years and the additional cost the Company had to bear for its Voluntary Severance Scheme (VSS) announced in 2010.

The sustained profitability of HBFC follows the launch of a comprehensive transformation strategy in 2009, starting with the induction of a highly professional management team, which then brought about consumer-focused and prudent lending policies, launched an aggressive recovery drive and introduced various cost-cutting measures. The ongoing programme seeks to make HBFC a streamlined, self-sustaining, efficient and customer-focused housing finance institution and augurs well for the organization and its various stakeholders, including its borrowers, and promises continued growth in the future.

The most significant validation of the HBFC turnaround is the JCR-VIS long-term and short-term ratings of 'A' and 'A2', respectively. This important milestone is a strong endorsement of the determination of the current management in attaining this rating.

Significant achievements of the first half of 2011, include inter alia, the following:

Profit and Loss Account

During the period under review, gross revenue increased by 24.4% i.e., Rs. 273.8 million to Rs. 1,393.7 million as compared to Rs. 1,119.9 million in the same period last year. This was due to an increase in the rental for housing business by Rs. 203.2 million i.e., 25.5% and mark-up income on other operations by Rs. 70.6 million i.e., 21.9%.

Although the mark-up on SBP credit lines increased by Rs. 103.6 million i.e., 29.4%, the financial cost of Sukuk decreased by Rs. 16.7 million i.e., 18.9% due to redemption of Sukuk to the tune of Rs. 150 million. This resulted in the net increase in financial expenses by Rs. 86.9 million. In order to confront the high financial charges, which are almost Rs. 1 billion a year, HBFC is also in the process of negotiating with the Ministry of Finance and State Bank of Pakistan for financial restructuring.

Administrative expenses decreased by 12.5%, i.e., Rs. 92.8 million, to Rs. 652.0 million in the current half year as compared to Rs. 744.8 million in the last half year. This was mainly due to the cost effective measures taken by management, including savings on account of salaries and allowances due to the Voluntary Severance Scheme introduced in June, 2010.

The Company achieved a profit before tax of Rs. 132.1 million in the half year 2011, as compared to profit before tax of Rs. 6.0 million in the first half of the year 2010. The profit after tax was Rs. 94.9 million in the current half year as compared to the loss after tax of Rs. 5.4 million in the same period last year.



The profit translated into positive Earning Per Share (EPS) of Rs. 0.32 in the current half year, as compared to negative EPS of Rs. 0.02 in the preceding half year.

Balance Sheet

Total assets during the half year under review decreased by 0.6% i.e., Rs. 119.8 million, to Rs. 18.9 billion as at June 30, 2011 as compared to Rs. 19.1 billion on December 31, 2010, while gross advances reduced by 3.9% i.e., Rs. 577.3 million, to Rs. 14.1 billion as at June 30, 2011 as compared to Rs. 14.6 billion on December 31, 2010. The decrease in advances is the result of the overall fall in demand, due to severe economic downturn and high inflation eroding the purchasing power, and quality control on fresh disbursements. The low quantum of disbursements has resulted in decrease of net advances by 3.9% i.e., Rs. 416.3 million, to Rs. 10.3 billion during the period as compared to Rs. 10.7 billion on December 31, 2010. Consequent upon this, loan to assets ratio decreased slightly i.e., by 0.4%, to 64.1% as at June 30, 2011 as compared to 64.5% on December 31, 2010.

During the period under review, other assets decreased by 39.4% i.e., Rs. 485.8 million, from Rs. 1.2 billion on December 31, 2010 to Rs. 0.7 billion as at June 30, 2011 as a result of Rs. 500 million received from the Government for payment against the compensation for the Voluntary Severance Scheme. The accrual of profit / mark-up payable on overdue SBP credit lines recognized and charged to the accounts amounts to Rs. 456.4 million during the current half year as compared to Rs. 352.8 million in the last half year. This increase is due to more SBP credit lines becoming due in the year ended December 31, 2010.

The equity to total assets improved slightly, i.e., 11.3% as at June 30, 2011 and 10.7% as at December 31, 2010. However, it resulted in improving equity to loan by 6.0%, to 17.6% in the current half year from 16.6% on December 31, 2010. The Company, however, has not declared any dividend or issued bonus shares during the half year ended June 30, 2011 due to limitations as to equity and free reserves.

Profit / Loss Sharing with SBP and Treatment in Financial Statements

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

The Company computed the share of SBP by apportioning total income earned related to profit and loss sharing schemes and income related to other operations. Similarly other expenses and other income are also apportioned on the same basis. Whereas, administrative expenses and other charges are allocated as per their weight in total average earning assets. For the first time, half yearly financial statements are being prepared on this ratio. The profit / loss sharing ratio with SBP is based on the criteria agreed with SBP and as at June 30, 2011 it was 13.82 : 86.18 for SBP and HBFCL respectively.

Repayment of State Bank of Pakistan (SBP) Credit Lines

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

Internal Control over Financial Reporting (ICFR)

As per amended guidelines on ICFR issued by SBP, the statutory auditor(s) of Banks / DFIs, instead of expressing an opinion in annual financial statements on efficacy of ICFR have to submit a "Long Form Report" to SBP through the management for the year ended December 31, 2010 by June 30, 2011. The Company hired KPMG



Taseer Hadi & Co. Chartered Accountants, being the consultant for this purpose, who had completed their work up to Stage II i.e., Process Documentation and Gap Reporting, on which the Company's external auditors M/s M. Yousuf Adil Saleem & Co. Chartered Accountants have submitted their review report, which in turn, has been submitted to SBP within the prescribed time.

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

On behalf of the Board,

A handwritten signature in black ink, appearing to be 'M. Yousuf Adil Saleem', written over a horizontal line.

Chief Executive Officer / Managing Director

Karachi: August 25, 2011



HOUSE BUILDING FINANCE COMPANY LIMITED
(Formerly House Building Finance Corporation Limited)

INDEPENDENT REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE MEMBERS

Introduction

We have reviewed the accompanying condensed interim statement of financial position of House Building Finance Company Limited ("the Company") as at June 30, 2011 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement, and condensed interim statement of changes in equity and notes to the accounts for the half year period then ended (here-in-after referred to as the "interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed interim profit and loss account and condensed interim statement of comprehensive income for the quarters ended June 30, 2011 and 2010 have not been reviewed by us as we are required to review only the cumulative figures for the half year ended June 30, 2011.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial information as at and for the half year ended June 30, 2011 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

Emphasis of Matter

The Company has not complied with the minimum capital requirement stated in BSD Circular No. 7 dated April 15, 2009. As per the provisions of the said circular, the minimum capital of the Company as at December 31, 2010 should have been Rs. 7 billion net of losses.

We draw attention to note 18.1 to the interim financial information regarding tax demands of Rs. 813.82 million raised during the current period for assessment years 2005, 2008 and 2009. The ultimate outcome of these matters cannot presently be determined.

Our opinion is not qualified in respect of these matters.

Sd/-

Chartered Accountants

Engagement Partner:
Mushtaq Ali Hirani

Karachi

Date: August 25, 2011



CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2011

| | | (Unaudited) | (Audited) |
|---|------|------------------|--------------|
| | | June 30, | December 31, |
| | | 2011 | 2010 |
| | Note | (Rupees in '000) | |
| ASSETS | | | |
| Cash and balances with treasury banks | 6 | 55,054 | 59,789 |
| Balances with other banks | 7 | 151,095 | 95,986 |
| Lendings to financial institutions | 8 | 459,941 | 991,224 |
| Investments | 9 | 7,077,491 | 5,821,020 |
| Advances - net | 10 | 10,265,735 | 10,682,065 |
| Operating fixed assets | 11 | 176,022 | 169,191 |
| Deferred tax assets | | - | - |
| Other assets | 12 | 748,037 | 1,233,870 |
| | | 18,933,375 | 19,053,145 |
| LIABILITIES | | | |
| Bills payable | | - | - |
| Borrowings | 13 | 12,142,300 | 12,292,300 |
| Deposits and other accounts | | - | - |
| Sub-ordinated loans | | - | - |
| Liabilities against assets subject to finance lease | | - | - |
| Deferred tax liabilities | | - | - |
| Other liabilities | 14 | 4,666,305 | 4,742,693 |
| | | 16,808,605 | 17,034,993 |
| NET ASSETS | | | |
| | | 2,124,770 | 2,018,152 |
| REPRESENTED BY | | | |
| Share capital | 15 | 3,001,000 | 3,001,000 |
| Statutory reserve | | 526,979 | 507,996 |
| Accumulated loss | | (1,396,154) | (1,472,085) |
| | | 2,131,825 | 2,036,911 |
| Deficit on revaluation of investments | | (7,055) | (18,759) |
| | | 2,124,770 | 2,018,152 |
| CONTINGENCIES AND COMMITMENTS | | | |
| | 16 | | |

The annexed notes from 1 to 22 form an integral part of this condensed interim financial information.


Managing Director


Director


Director


Director



CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011

| | Half year ended | | Quarter ended | |
|--|--------------------------------|-----------|---------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Note | <----- (Rupees in '000) -----> | | | |
| Rental / mark-up / return / interest earned | 1,393,692 | 1,119,893 | 733,058 | 607,072 |
| Rental / mark-up / return / interest expensed | (527,883) | (440,944) | (264,054) | (219,771) |
| Net rental / mark-up / interest income | 865,809 | 678,949 | 469,004 | 387,301 |
| Reversal of provision / (provision) for non-performing advances | 161,002 | 53,783 | 94,047 | (102,174) |
| (Provision) / reversal of provision for diminution in value of investments | (37,468) | (68,718) | 16 | (71,468) |
| Reversal / (provision) for diminution in value of lending to financial institutions | 2,216 | - | 2,216 | - |
| Bad debts written off directly | - | - | - | - |
| | 125,750 | (14,935) | 96,279 | (173,642) |
| Reconciliation adjustments | 1,508 | (3,190) | 527 | (3,094) |
| Reversal of mark-up on IDA loan | - | 153,845 | - | 153,845 |
| Reversal of rental income due to relief package | (153,732) | (143,801) | (83,697) | (78,893) |
| Net rentals / mark-up / interest income after provisions | 839,335 | 670,868 | 482,113 | 285,517 |
| NON MARK-UP / INTEREST INCOME | | | | |
| Fees, commission and brokerage income | - | - | - | - |
| Dividend income | - | - | - | - |
| Income from dealing in foreign currencies | - | - | - | - |
| Gain / (loss) on sale of securities | - | - | - | - |
| Unrealised gain / (loss) on revaluation of investment classified as held for trading | - | - | - | - |
| Other income | 16,348 | 8,761 | 5,665 | 6,590 |
| Total non-markup / interest income | 16,348 | 8,761 | 5,665 | 6,590 |
| | 855,683 | 679,629 | 487,778 | 292,107 |
| NON MARK-UP / INTEREST EXPENSES | | | | |
| Administrative expenses | (651,953) | (744,771) | (368,159) | (397,731) |
| Other provisions / write offs | (50,031) | (12,233) | (50,193) | (12,044) |
| Other charges | (3,891) | (4,729) | (1,988) | (2,606) |
| Total non-markup / interest expenses | (705,875) | (761,733) | (420,340) | (412,381) |
| | 149,808 | (82,104) | 67,438 | (120,274) |
| Share in results of associate before taxation | - | (4,625) | - | (4,625) |
| PROFIT / (LOSS) BEFORE ALLOCATION OF STATE BANK OF PAKISTAN SHARE | 149,808 | (86,729) | 67,438 | (124,899) |
| State Bank of Pakistan share of (profit) / loss | 17 | (17,692) | 92,720 | (5,677) |
| PROFIT BEFORE TAXATION | 132,116 | 5,991 | 61,761 | 4,386 |
| Taxation | | | | |
| Current year | 18 | (14,936) | (11,362) | 9,688 |
| Prior years | (22,266) | - | (22,266) | - |
| Deferred | - | - | - | - |
| | (37,202) | (11,362) | (12,578) | (8,970) |
| PROFIT / (LOSS) AFTER TAXATION | 94,914 | (5,371) | 49,183 | (4,584) |
| Earnings per share - Basic & diluted | 19 | 0.32 | (0.02) | 0.16 |
| | | | | (0.02) |

The annexed notes from 1 to 22 form an integral part of this condensed interim financial information.

Managing Director

Director

Director

Director



CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011

| | Half year ended | | Quarter ended | |
|--|--------------------------------|----------------|---------------|----------------|
| | 2011 | 2010 | 2011 | 2010 |
| | <----- (Rupees in '000) -----> | | | |
| Profit / (Loss) for the period | 94,914 | (5,371) | 49,183 | (4,584) |
| Other comprehensive income for the period | - | - | - | - |
| Total comprehensive income / (loss) for the period | <u>94,914</u> | <u>(5,371)</u> | <u>49,183</u> | <u>(4,584)</u> |

The annexed notes from 1 to 22 form an integral part of this condensed interim financial information.


Managing Director


Director


Director


Director



CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011

| | Share Capital | Statutory Reserve* | Accumulated Loss | Total |
|---|------------------------------|-----------------------|---------------------|------------------|
| | <----- Rupees in '000 -----> | | | |
| Balance as at January 1, 2010 | 3,001,000 | 485,490 | (1,562,111) | 1,924,379 |
| Other comprehensive loss after tax for the half year ended June 30, 2010 | - | - | (5,371) | (5,371) |
| Balance as at June 30, 2010 | <u>3,001,000</u> | <u>485,490</u> | <u>(1,567,482)</u> | <u>1,919,008</u> |
| Other comprehensive income after tax for the half year ended December 31, 2010 | - | - | 117,903 | 117,903 |
| Transfer to statutory reserve | - | 22,506 | (22,506) | - |
| Balance as at December 31, 2010 | <u>3,001,000</u> | <u>507,996</u> | <u>(1,472,085)</u> | <u>2,036,911</u> |
| Other comprehensive income after tax for the half year ended June 30, 2011 | - | - | 94,914 | 94,914 |
| Transfer to statutory reserve | - | 18,983 | (18,983) | - |
| Balance as at June 30, 2011 | <u>3,001,000</u> | <u>526,979</u> | <u>(1,396,154)</u> | <u>2,131,825</u> |

* 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 profits 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 22 form an integral part of this condensed interim financial information.


Managing Director


Director


Director


Director



INTERIM CONDENSED CASH FLOW STATEMENT (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2011

| | 2011 | 2010 |
|--|--------------------|--------------------|
| | (Rupees in '000) | |
| A. CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before taxation | 132,116 | 5,991 |
| Adjustments: | | |
| Depreciation | 13,175 | 12,169 |
| Amortization of intangible assets | 290 | 223 |
| Gain on sale of operating fixed assets | (1,793) | (4,350) |
| Capital work in progress charged off | - | 33,334 |
| Financial charges | 527,883 | 440,944 |
| Provision for diminution in value of lending to financial institutions | (2,216) | - |
| Reversal of markup on IDA loan | - | (153,845) |
| Reversal of provision for non-performing advances | (161,002) | (53,783) |
| Provision for diminution in value of investments | 37,468 | 68,718 |
| Other provision | 50,031 | 12,233 |
| Reconciliation adjustments | (1,508) | 3,190 |
| Reversal of rental income due to relief package | 153,732 | 143,801 |
| Share in loss of associate | - | 4,700 |
| | <u>616,060</u> | <u>507,334</u> |
| | 748,176 | 513,325 |
| (Increase) / decrease in operating assets | | |
| Advances | 425,111 | 610,111 |
| Lending to financial institutions | 533,499 | 903,486 |
| Other assets excluding advance tax | 417,153 | (54,374) |
| | <u>1,375,763</u> | <u>1,459,223</u> |
| Increase / (decrease) in operating liabilities | | |
| Borrowings | (150,000) | (305,000) |
| Other liabilities | (529,686) | 1,880,889 |
| | <u>(679,686)</u> | <u>1,575,889</u> |
| | 1,444,253 | 3,548,437 |
| Financial charges paid | (74,146) | (130,673) |
| Taxes paid - net | (18,992) | (16,557) |
| Net cash flows generated from operating activities | <u>1,351,115</u> | <u>3,401,207</u> |
| B. CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of operating fixed assets | (2,720) | (552) |
| Capital work in progress | (18,019) | (4,461) |
| Proceed from disposal of operating fixed assets | 2,233 | 5,760 |
| Investments - net | (1,282,235) | (3,415,648) |
| Net cash flows used in investing activities | <u>(1,300,741)</u> | <u>(3,414,901)</u> |
| Increase / (decrease) in cash and cash equivalents (A+B) | 50,374 | (13,693) |
| Cash and cash equivalents at the beginning of the period | 155,775 | 218,769 |
| Cash and cash equivalents at the end of the period | <u>206,149</u> | <u>205,076</u> |
| CASH AND CASH EQUIVALENTS | | |
| Cash and balances with treasury banks | 55,054 | 59,092 |
| Balances with other banks | 151,095 | 145,984 |
| | <u>206,149</u> | <u>205,076</u> |

The annexed notes from 1 to 22 form an integral part of this condensed interim financial information.


Managing Director


Director


Director


Director



NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2011

1. STATUS AND NATURE OF BUSINESS

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 the Finance and Trade Centre Building, Sharah-e-Faisal, Karachi, in the province of Sindh. Pursuant to a vesting order SRO.I/2007 dated July 25, 2007 issued by the Finance Division - Government of Pakistan, the Company has taken over all assets, running business, contracts, liabilities and proceedings of the House Building Finance Corporation (HBFC), established in 1952 under the House Building Finance Corporation Act 1952 (XVIII of 1952) by the Government of Pakistan from closing of the business on December 31, 2006, the effective date. During the current period, 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 52 branch offices (December 31, 2010: 58 district offices) and 10 zonal offices (December 31, 2010: 12 zonal offices) throughout Pakistan including Azad Jammu and Kashmir. The long term and short term ratings of the Company assigned by JCR-VIS, a credit rating company, are "A" and "A2" respectively.

2. BASIS OF PRESENTATION

- 2.1 The disclosures made in these condensed interim financial information have been limited based on the format prescribed by the SBP vide BSD Circular Letter No. 2, dated May 12, 2004, and International Accounting Standard 34, "Interim Financial Reporting". They do not include all of the information and disclosures required in the annual financial statements and should be read in conjunction with the financial statements of the Company for the year ended December 31, 2010.
- 2.2 This condensed interim financial information is unaudited, however this is subjected to a limited scope review by the auditors and is being submitted to the shareholders in accordance with Section 245 of the Companies Ordinance, 1984.

3. STATEMENT OF COMPLIANCE

- 3.1 This condensed interim financial information of the Company for the half year ended June 30, 2011 has been prepared in accordance with the requirements of International Accounting Standards 34 - Interim Financial Reporting, Islamic Financial Accounting Standards and provisions of and directives issued under the Companies Ordinance, 1984 and the State Bank of Pakistan (SBP). In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 and the State Bank of Pakistan have been followed.

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



3.2 The SBP vide BSD Circular letter No. 11 dated September 11, 2002 has deferred the applicability of International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" (IAS 39) and International Accounting Standard 40, "Investment Property" (IAS 40) till further instruction. Further, according to the notification of Securities and Exchange Commission of Pakistan (SECP) dated April 28, 2008, the IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable. Accordingly, the requirements of these standards have not been considered in the preparation of this condensed interim financial information. However, investments have been classified and valued in accordance with the requirements prescribed by SBP through various circulars.

4. BASIS OF MEASUREMENT

This condensed interim financial information has been prepared on the historical cost convention except that certain investments are carried at fair value. All amounts are in Pakistan Rupees unless stated otherwise.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND RISK MANAGEMENT POLICIES

5.1 The accounting policies and methods of computation followed in the preparation of this condensed interim financial information are the same as those of annual audited financial statements for the year ended December 31, 2010 except for the following new and revised standards and interpretations adopted with no significant impact on this condensed interim financial information.

5.2 Amendments to IFRS 2 Share-based Payment - Group Cash-settled Share-based Payment Transactions became effective from July 1, 2010 which requires an entity receiving goods or services (receiving entity) in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements. Amendments to IFRS 2 are applicable to Benazir Employee Stock Option Scheme (BESOS).

There is no change in status of BESOS as mentioned in note 2.2.1 to the audited financial statements for the year ended December 31, 2010. During the current period, 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.

Had this exemption not been granted the staff costs of the Company for the period would have been higher by Rs. 14.38 million, profit after taxation would have been lower by Rs. 14.38 million, retained earning would have been lower by Rs. 54.05 million, earning per share would have been lower by Rs. 0.05 per share and reserves would have been higher by Rs. 54.05 million, before adjustment of SBP share.

5.2.1 Amendments to certain existing standards and new interpretations on approved accounting standards effective during the period either were not relevant to the Company's operations or did not have any significant impact on the accounting policies of the Company.

5.3 The financial risk management objectives and policies adopted by the Company are consistent with those disclosed in the financial statements of the Company for the year ended December 31, 2010.



| | | (Unaudited) June 30, 2011 | (Audited) December 31, 2010 |
|---|------|---------------------------------|-----------------------------------|
| | Note | Rupees in '000 | |
| 6. CASH AND BALANCES WITH TREASURY BANKS | | | |
| With State Bank of Pakistan in: | | | |
| Cash reserve account | | - | 58,544 |
| Local currency current account | 6.1 | 54,969 | 1,160 |
| With National Bank of Pakistan in: | | | |
| Local currency deposit account | | 85 | 85 |
| | | <u>55,054</u> | <u>59,789</u> |

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

7. BALANCES WITH OTHER BANKS

| | | | |
|------------------------------|-----|----------------|---------------|
| In Pakistan - local currency | | | |
| In-transit | | 40,453 | 21,139 |
| In deposit accounts | 7.1 | 110,642 | 74,847 |
| | | <u>151,095</u> | <u>95,986</u> |

7.1 These accounts carry mark-up at rates ranging from 5% to 13% (December 31, 2010: 5% to 11%) per annum.

8. LENDING TO FINANCIAL INSTITUTIONS

| | | | |
|---|-----|----------------|----------------|
| Letters of placement | 8.1 | 7,756 | 14,404 |
| Repurchase agreement lending (Reverse Repo) | 8.2 | 452,185 | 976,820 |
| | | <u>459,941</u> | <u>991,224</u> |

8.1 Letters of placement

| | | | |
|---|-------|--------------|---------------|
| Trust Investment Bank Limited (TIBL) | 8.1.1 | 10,341 | 19,205 |
| First Dawood Investment Bank Limited (FDIBL) | 8.1.2 | 75,000 | 75,000 |
| | | 85,341 | 94,205 |
| Less: Provision for placement with FDIBL and TIBL | 8.1.3 | 77,585 | 79,801 |
| | | <u>7,756</u> | <u>14,404</u> |

8.1.1 This represents clean placement made on November 17, 2008 for a period of 14 days. The transaction remained unsettled at maturity and rescheduling has been made twice, whereas, TIBL is complying with the latter arrangement to date. The Company on prudence basis has maintained 25% provision against outstanding receivable as at June 30, 2011.

8.1.2 This represents clean placement made on September 12, 2008 for a period of 94 days. 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. During the current period, FDIBL has filed appeal against the judgement. The Company on prudence basis has made provision of the full amount.



| | | (Unaudited) June 30, 2011 | (Audited) December 31, 2010 |
|---------------------------------------|------|---------------------------------|-----------------------------------|
| | Note | Rupees in '000 | |
| 8.1.3 Particulars of provision | | | |
| Opening balance | | 79,801 | 85,875 |
| Reversal for the period / year | | (2,216) | (6,074) |
| Closing balance | | <u>77,585</u> | <u>79,801</u> |

8.2 Repurchase agreement lendings carry mark-up at the rate of 13.25% per annum (December 31, 2010: 12.83% to 13.12% per annum) with maturities upto July 22, 2011.

9. INVESTMENTS

Investment by types

Available for sale securities

| | | | |
|--------------------------|-----|---------------|---------------|
| Market Treasury Bills | 9.1 | 6,788,026 | 5,711,409 |
| Unlisted ordinary shares | 9.2 | 500 | 500 |
| Listed Sukuk bonds | 9.3 | <u>77,714</u> | <u>77,746</u> |
| | | 6,866,240 | 5,789,655 |

Held to maturity securities

| | | | |
|------------------------------------|-----|----------------|----------------|
| Unlisted Sukuk bonds | 9.3 | 140,160 | 149,240 |
| Government of Pakistan Ijara Sukuk | 9.3 | 20,000 | 20,000 |
| Term finance certificates | 9.4 | 148,480 | - |
| Term deposit receipts | 9.5 | 102,344 | 2,344 |
| Certificates of investment | | <u>135,000</u> | <u>168,750</u> |
| | | 545,984 | 340,334 |

Associate

| | | | |
|--------------------------|--|---------------|---------------|
| Takaful Pakistan Limited | | <u>35,506</u> | <u>35,506</u> |
|--------------------------|--|---------------|---------------|

Total investment at cost

| | | | |
|---|-----|-----------------|-----------------|
| Total investment at cost | | 7,447,730 | 6,165,495 |
| Provision for diminution in value of investments | 9.6 | (327,678) | (290,210) |
| Impairment in Associates - Takaful Pakistan Limited | | <u>(35,506)</u> | <u>(35,506)</u> |

Investments net of provisions

| | | | |
|---|--|------------------|------------------|
| Investments net of provisions | | 7,084,546 | 5,839,779 |
| Deficit on revaluation of available for sale securities | | <u>(7,055)</u> | <u>(18,759)</u> |
| Total investments at market value | | <u>7,077,491</u> | <u>5,821,020</u> |

9.1 Market treasury bills are eligible for discounting with the State Bank of Pakistan, these bills carry mark up rates ranging from 13.07% to 13.73% (December 31, 2010: 12.17% to 13.20%) and will mature upto December 31, 2011.

9.2 These represent investment in 66,125 (December 31, 2010: 66,125) ordinary shares of Rs. 10 each in Resource and Engineering Management Corporation Limited.



9.3 Particulars of investment in Sukuk bonds

| Name of issuer | Rating | Mark-up rate | Repayment | Total nominal value | |
|--|-----------|---|---------------|---------------------------------|-----------------------------------|
| | | | | (Unaudited) June 30, 2011 | (Audited) December 31, 2010 |
| Rupees in '000 | | | | | |
| Listed | | | | | |
| Maple Leaf Cement Factory Limited 15,562 units (December 31, 2010 : 15,562 units) Face value: Rs.5,000 each Maturity date: December 03, 2018 | BB+ | 3 months KIBOR plus 1% | Quarterly | 77,714 | 77,746 |
| Unlisted | | | | | |
| Government of Pakistan Ijara Sukuk Maturity date: September 26, 2011 | Sovereign | 6 months Treasury Bills yield plus 0.45% | Semi-annually | 20,000 | 20,000 |
| Eden Housing Limited 40,000 units (December 31, 2010 : 40,000 units) Face value: Rs.5,000 each Maturity date: June 29, 2014 | D | 3 months KIBOR plus 2.50% | Quarterly | 140,160 | 149,240 |

9.4 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 @ 6 months KIBOR plus 1.60% per annum payable semi-annually whereas principal is payable semi-annually commencing from August 07, 2013.

| 9.5 Particulars of Term Deposit Receipts | Note | (Unaudited) | (Audited) |
|--|-------|------------------|----------------------|
| | | June 30, 2011 | December 31, 2010 |
| Rupees in '000 | | | |
| Commercial Bank | | | |
| First Women Bank Limited | 9.5.1 | 100,000 | - |
| Investment Bank | | | |
| Asset Investment Bank Limited | | 2,344 | 2,344 |
| | | <u>102,344</u> | <u>2,344</u> |

9.5.1 Term deposit receipts carry mark-up @ 13% per annum.



| | Note | (Unaudited) | (Audited) |
|--|------|------------------|----------------------|
| | | June 30, 2011 | December 31, 2010 |
| | | Rupees in '000 | |
| 9.6 Particulars of provision in respect of type and segment | | | |
| Available-for-sale securities | | | |
| Unlisted ordinary shares | | 500 | 500 |
| Listed Sukuks - Maple Leaf Cement Factory Limited | | 77,714 | 77,746 |
| Held-to-maturity securities | | | |
| Term deposit receipts - Asset Investment Bank Limited | | 2,344 | 2,344 |
| Unlisted Sukuks - Eden Housing Limited | | 112,120 | 74,620 |
| Certificates of investment - Bankers Equity Limited | | 135,000 | 135,000 |
| | | <u>327,678</u> | <u>290,210</u> |

10. ADVANCES - NET

In Pakistan - Local currency

| | | | |
|--|-------|-------------------|-------------------|
| Rental Sharing Schemes | 10.1 | 2,831,206 | 3,228,777 |
| Interest Bearing Schemes | 10.2 | 111,255 | 112,109 |
| Ghar Aasan Scheme | 10.3 | 6,875,021 | 7,300,648 |
| Pakistan Housing Authority (PHA) | 10.4 | 218,143 | 218,143 |
| Gawadar Employees Co-operative Housing Society | 10.5 | 31,714 | 40,691 |
| Shandar Ghar Scheme | 10.6 | 2,464,364 | 2,809,016 |
| Unearned income | | (1,301,029) | (1,477,787) |
| | | 1,163,335 | 1,331,229 |
| Financing facility for Small Builders | 10.7 | 19,418 | 32,404 |
| Ghar Aasan Flexi Scheme | 10.8 | 2,365,152 | 1,953,285 |
| Housing finance to employees | 10.9 | 449,000 | 484,160 |
| Transitory district bank accounts - net | 10.10 | 7,309 | (52,558) |
| Advances - gross | | <u>14,071,553</u> | <u>14,648,888</u> |

Provision for non-performing advances

Specific provision

| | | | |
|--|-------|-------------------|-------------------|
| Rental Sharing Schemes | | 2,603,534 | 2,926,496 |
| Interest Bearing Schemes | | 111,255 | 112,109 |
| Ghar Aasan Scheme | | 738,808 | 626,854 |
| Gawadar Employees Co-operative Housing Society | | 31,714 | 40,691 |
| Shandar Ghar Scheme | | 137,437 | 132,674 |
| Financing facility for Small Builders | | 4,511 | 4,576 |
| Ghar Aasan Flexi Scheme | | 75,855 | 16,013 |
| General provision | 10.11 | 102,704 | 107,410 |
| | | <u>3,805,818</u> | <u>3,966,823</u> |
| Advances - net of provision | | <u>10,265,735</u> | <u>10,682,065</u> |



- 10.1 This represents advances under Profit & Loss Sharing Scheme, Simplified Scheme, New Simplified Scheme (NSS), Gothabad Scheme and loan to Precast Industries (Pvt.) Limited. No additional disbursement of advance under these schemes has been made since 2000. Advances under NSS have been provided upto 89% of the gross advance (December 31, 2010: 86%) whereas advances under the rest of the schemes and Precast Industries (Pvt.) Limited are fully provided.
- 10.2 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.
- 10.3 This scheme is based on Diminishing Musharaka for construction, purchase of houses and replacement of existing housing advance obtained by applicants from another financial institution - Balance Transfer Facility (BTF) with maximum financing limit of Rs. 7.5 million. This advance is repayable by the partners in 36 to 240 monthly installments. The net annual rental income is 5% of the total assessed cost of the house, subject to upward revision 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 effective from February 11, 2009.
- 10.4 It represents outstanding amount of advance for which repayment has been refused by PHA. Since the transaction is guaranteed by the Federal Government Guarantee, therefore, the Company had shown its intention to invoke the guarantee of Federal Government to recover the amount vide letter No. HBFCL/HOK/ED(RECY)/08/456 dated February 11, 2008.

The Company had received payment of Rs. 217.14 million from Ministry of Finance, Government of Pakistan (MoF) but has not adjusted this amount as MoF through its letter No. F.10(4)JF-1/2000-594 dated April 17, 2010 instructed Ministry of Housing & Works (MoH&W) to pay this amount to the Company and necessary provision in this regard should be made in the Federal Budget. MoF in its letter further stated that the amount paid by them to the Company will, inter alia, be utilised for increase in the paid up capital of the Company. This amount has been recorded as "Reimbursement of claims by Government of Pakistan" in other liabilities in note 14.2 of this condensed interim financial information.

- 10.5 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 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 June 30, 2011, advances of Rs. 15.79 million (December 31, 2010: Rs. 6.81 million), were transferred to 56 (December 31, 2010: 28) individual cases; i.e., 49 cases (December 31, 2010: 21 cases) under Ghar Aasan Scheme, and 7 cases (December 31, 2010: 7 cases) under Ghar Aasan Flexi Scheme amounting to Rs. 14.63 million (December 31, 2010: Rs. 5.65 million) and 1.16 million (December 31, 2010: Rs. 1.16 million) respectively.

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

- 10.6 Advances under Shandar Ghar Scheme are based on Murahaba approved by the Board of Directors on January 20, 2004 for renovation of houses only with maximum financing limit of Rs. 2.5 million. This advance is repayable by the partners in 12 to 120 monthly installments. The Murahaba profit varies from 8% to 13.5% (December 31, 2010: 8% to 13.5%) per annum. New disbursement under this scheme has been discontinued from February 11, 2009.
- 10.7 Advances under 'Finance facility for Small Builders' for construction of individual houses and apartments for sale to the general public with maximum financing limit of Rs. 7.5 million is based on Musharaka financing approved by the Board of Directors in August 2007. This advance was 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% (December 31, 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.



- 10.8 Advances under the 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 a salaried person and a business person is one year KIBOR with a spread of 3.25% and 3.50% (December 31, 2010: 2% and 3.5%) respectively per annum.
- There are two investment plans under this scheme; variable installment plan and fixed investment plan. New disbursement under the variable installment plan has been discontinued effective from July 27, 2009.
- 10.9 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.
- 10.10 This net balance mainly includes unrepresented cheques of disbursements and unidentified collections in bank accounts at district and zonal offices.
- 10.11 General provision against advances has been determined in accordance with the requirements of Prudential Regulations (R-4) issued by the State Bank of Pakistan.

| 11. OPERATING FIXED ASSETS | Note | (Unaudited) | (Audited) |
|--------------------------------------|------|----------------|-------------------|
| | | June 30, 2011 | December 31, 2010 |
| | | Rupees in '000 | |
| Capital work-in-progress | 11.1 | 35,637 | 18,775 |
| Property and equipment | 11.2 | 138,409 | 149,583 |
| Intangible assets | 11.2 | 1,976 | 833 |
| | | <u>176,022</u> | <u>169,191</u> |
| 11.1 Capital work-in-progress | | | |
| Civil works | | 35,400 | 18,538 |
| Software designing and development | | 237 | 237 |
| | | <u>35,637</u> | <u>18,775</u> |

11.2 Following is the cost of assets that have been added and net book value of the assets disposed-off during the half year ended June 30, 2011.

| Description | Additions | | Deletions | | |
|--------------------------------|---------------|----------------|---------------|----------------|--|
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | |
| | June 30, 2011 | June 30, 2010 | June 30, 2011 | June 30, 2010 | |
| | | Rupees in '000 | | Rupees in '000 | |
| Property and equipments | | | | | |
| Furniture and fixtures | 948 | 10,618 | - | - | |
| Office equipment | 319 | 4,471 | 13 | - | |
| Office premises | 219 | 5,692 | - | - | |
| Electrical Installation | 221 | 4,907 | - | - | |
| Computer equipment | 737 | 36 | - | - | |
| Vehicles | - | - | 431 | 1,410 | |
| | <u>2,444</u> | <u>25,724</u> | <u>443</u> | <u>1,410</u> | |
| Intangible assets | | | | | |
| Computer software | 1,433 | - | - | - | |
| | <u>3,877</u> | <u>25,724</u> | <u>443</u> | <u>1,410</u> | |



| | | (Unaudited) June 30, 2011 | (Audited) December 31, 2010 |
|---|------|---------------------------------|-----------------------------------|
| | Note | Rupees in '000 | |
| 12. OTHER ASSETS | | | |
| Income / mark-up accrued in local currency | | | |
| Investments | | 15,921 | 6,477 |
| Advances | | 35,205 | 35,764 |
| Housing Projects in progress | 12.1 | - | 50,470 |
| Advances, deposits, advance rent and other prepayments | | 92,033 | 105,546 |
| Advance taxation (payments less provisions) | | 169,063 | 187,273 |
| Other receivable against advances | | 23,620 | 25,594 |
| Receivable from Pension Fund | | 112,195 | 22,746 |
| Receivable from Government of Pakistan against Voluntary Severance Scheme | | 300,000 | 800,000 |
| Assets acquired from Pakistan Refugees Rehabilitation Finance Corporation (PRRFC) | 12.2 | - | - |
| | | 748,037 | 1,233,870 |

12.1 It represents an advance payment of Rs. 50.47 million representing 25% of the total cost of Rs. 201.88 million for purchase of 163 acres land situated in Gawadar. The Company paid advance to obtain this land for construction of low cost houses to promote affordable housing facilities to low income groups of the residents of Gawadar. This advance was paid in 2007 and since then there is no movement in this regard. The Company on prudence basis has made provision against advance paid.

12.2 As stated in note 10.4 of the financial statements for the year ended December 31, 2010, according to 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. However the Company does not have any control over these assets and liabilities.

13. BORROWINGS

Secured

| | | | |
|---|------|------------|------------|
| Borrowings from State Bank of Pakistan - PLS credit lines | 13.1 | 11,242,300 | 11,242,300 |
| Sukuk certificates | 13.2 | 900,000 | 1,050,000 |
| | | 12,142,300 | 12,292,300 |

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



The credit lines are on profit and loss sharing basis and repayable as follows:

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

As per the above schedule credit line Nos. 58 to 61 were payable on June 25, 2006, September 07, 2007, June 30, 2008 and August 08, 2008 respectively, but were not paid in pursuance of the Company's request to SBP to convert the credit line Nos. 58 and 59 aggregating Rs. 3.23 billion into equity and to reschedule the remaining amount of Rs. 8.01 billion over the period of 12 years at a fixed mark-up rate of 6%.

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

- 13.2 Sukuk Certificates represent 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 and May 2014.



| | | (Unaudited) June 30, 2011 | (Audited) December 31, 2010 |
|---|--------|---------------------------------|-----------------------------------|
| | Note | Rupees in '000 | |
| 14. OTHER LIABILITIES | | | |
| Mark-up / return / interest payable on borrowings | | | |
| - in local currency | | 19,413 | 22,121 |
| Accrued expenses | | 153,096 | 131,102 |
| Payable to post retirement medical benefits | | 517,892 | 513,959 |
| Payable against employees' compensated absences | | 328,022 | 377,729 |
| Refundable to customers against advances | | 32,780 | 17,976 |
| Payable to SBP | 14.1 | 1,275,996 | 801,859 |
| Insurance premium payable | | 61,699 | 95,754 |
| Reimbursement of claims by Government of Pakistan | 14.2 | 595,506 | 855,609 |
| Salary Compensation and benevolent fund payable to VSS optees | | - | 275,337 |
| Deferred credits | 14.3 | 1,669,647 | 1,640,669 |
| Retention money payable | | 3,365 | 3,832 |
| Application fee - Gawadar Project | | 3,915 | 3,915 |
| Agents' deposit money | | 1,385 | 1,485 |
| Others | | 3,589 | 1,346 |
| | | <u>4,666,305</u> | <u>4,742,693</u> |
| 14.1 Share of loss receivable from SBP | | | |
| Opening Balance | | 801,859 | 43,692 |
| Share of profit / (loss) | 17 | <u>17,692</u> | <u>16,937</u> |
| | | 819,551 | 60,629 |
| Add: Mark-up accrued on SBP credit lines | 13.1 | <u>456,445</u> | <u>741,230</u> |
| Closing Balance | | <u>1,275,996</u> | <u>801,859</u> |
| Free reserves | 17.2 | <u>-</u> | <u>(1,472,085)</u> |
| 14.2 Reimbursement of claims by Government of Pakistan | | | |
| Against | | | |
| - Earthquake affected partners | 14.2.1 | 306,856 | 637,466 |
| - PHA claim | 14.2.2 | 218,143 | 218,143 |
| - Malakand, Swat, Buner and Chitral districts affected partners | 14.2.3 | <u>70,507</u> | <u>-</u> |
| | | <u>595,506</u> | <u>855,609</u> |

14.2.1 The Company has received claims from Ministry of Finance, Government of Pakistan in respect of provision against advance to partners affected by earthquake and amount receivable from PHA amounting to Rs. 912.80 million and Rs. 218.14 million respectively. Amount received against advance to partners affected by earthquake was to be adjusted after proper verification of partners. As at balance sheet date based on independent consultant report 5,214 cases out of which 3,837 cases (December 31, 2010: 1,869 cases) amounting to Rs. 605.94 million (December 31, 2010: Rs. 275.34 million) have been adjusted which include principal of Rs. 248.89 million (December 31, 2010: Rs. 110.54 million) and



Rs. 357.05 million (December 31, 2010: Rs. 164.80 million) is realized in rental / mark-up income on advances from loans to customers. Remaining 1,377 cases are under management review and will be adjusted after due verification.

14.2.2 Amount received from Federal Government against PHA claim has not been adjusted due to the reason mentioned in note 10.4.

14.2.3 The State Bank of Pakistan (SBP) vide SMEFD Circular No. 01 of 2011 dated February 02, 2011 directed all the Banks/DFIs/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 the cost of write offs of amounts held into provision against non performing advances and suspended interest shall be borne by the Company while the outstanding principal amount of performing and non performing less provisioning will be reimbursed by the Government of Pakistan. Further, it is required by the Company to make all efforts to publicize the scheme and make direct contact with the concerned borrowers. SBP also 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 period, the Company has carried out the 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 against non-performing loans of Rs. 43.81 and Rs. 36.89 million as interest and other charges receivable. Thus, the Company has claimed and received Rs. 70.51 million (Rs. 114.32 net of provision of Rs. 43.81 million) from Government of Pakistan on April 19, 2011. The Company will adjust / write off the identified partners after approval of the Board.

| | Note | (Unaudited) | (Audited) |
|---|--------|------------------|----------------------|
| | | June 30, 2011 | December 31, 2010 |
| Rupees in '000 | | | |
| 14.3 Deferred credits | | | |
| Demand charges - net of recovery expenses | | | |
| Demand charges recovered | | 576,214 | 567,488 |
| Less: Recovery charges paid | | (329,354) | (269,411) |
| | | <u>246,860</u> | <u>298,077</u> |
| Profit/commission received from State Life Insurance Corporation - net of death claims | | 208,562 | 208,562 |
| Provision against insurance receivable from partners | | (196,393) | (200,356) |
| | | <u>12,169</u> | <u>8,206</u> |
| Unidentifiable insurance premium contribution received from borrowers / partners during prior years | | 52,503 | 52,503 |
| Property insurance | | (12,495) | (12,495) |
| | | <u>40,008</u> | <u>40,008</u> |
| Received from GoP against remission of advances to widows | 14.3.1 | 865,074 | 865,074 |
| Profit received on investment | | 605,536 | 529,304 |
| Contribution towards Prime Minister's Flood Relief Fund | | (100,000) | (100,000) |
| | | <u>505,536</u> | <u>429,304</u> |
| | | <u>1,669,647</u> | <u>1,640,669</u> |



- 14.3.1 This includes amount of Rs. 865.3 million received from Ministry of Finance, Government of Pakistan in respect of remission of advances to widows. The said amount will be utilised to write-off principal amounts receivable from widows and orphans that currently exist, and then the Board will consider its eventual usage for the welfare of widows / orphans.

15. SHARE CAPITAL

As at June 30, 2011, the Company has equity of Rs. 2,131.83 million against the minimum required equity of Rs. 7 billion as prescribed by the SBP for DFIs through BSD Circular No. 7 dated April 15, 2009. The management of the Company is considering various alternatives to meet the capital requirement. In this regard, several meetings were held with the Ministry of Finance, Government of Pakistan and SBP to inject further capital and to convert overdue SBP credit lines into equity.

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

During the current period, Government of Pakistan through letter F.2(6) IF-II/2011 dated May 02, 2011 advised that funds equal to Rs. 3,000 million will be allocated in Federal Budget 2011-12 for investment in equity of the Company in order to meet SBP's minimum capital requirements. Formal intimation from Federal Government after budget for allocation of said fund is awaited.

16. CONTINGENCIES AND COMMITMENTS

16.1 Contingencies

There is no change in the status of contingencies of the Company as disclosed in its financial statements for the year ended December 31, 2010.

| | (Unaudited) June 30, 2011 | (Audited) December 31, 2010 |
|--|---------------------------------|-----------------------------------|
| | Rupees in '000 | |
| 16.2 Commitments | | |
| Land for Housing projects - Gawadar | 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 | 7,180 | 8,542 |
| Later than one year but not later than five years | 10,795 | 15,022 |
| Design, supervision and construction contract for Islamabad office | 246,494 | - |
| Equity investment in Pakistan Mortgage Refinance Company | 200,000 | 200,000 |

17. STATE BANK OF PAKISTAN'S SHARE OF LOSS

| | | | |
|--|------|---------------|---------------|
| State Bank of Pakistan's share of loss before adjustment | 17.1 | 17,692 | 386,244 |
| Less: Share of credit balance of the Company in the profit and loss in the ratio of profit sharing | 17.2 | - | (293,524) |
| | | <u>17,692</u> | <u>92,720</u> |



- 17.1 The Company apportions the share of SBP by allocating total income earned and related expenses to profit and loss sharing schemes and income related to other operations. Administrative expenses under profit and loss sharing schemes and other operations are allocated as per their weight in total average earning assets. SBP is entitled for share of allocated income and expenses to profit and loss sharing schemes in the ratio of active credit lines and overdue credit lines.
- 17.2 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.

| | (Unaudited) June 30, 2011 | (Audited) December 31, 2010 |
|---------------------------------|---------------------------------|-----------------------------------|
| | Rupees in '000 | |
| 18. TAXATION | | |
| Current - for the period | | |
| - Company | 14,936 | 11,287 |
| - Associate | - | 75 |
| For prior years | | |
| - Company | 22,266 | - |
| | <u>37,202</u> | <u>11,362</u> |

- 18.1 During the current period, 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 to obtain stay against the said order. The Court has granted stay till second week of August 2011. No provision has been made in this condensed interim financial information in this regard as the management is confident that ultimate outcome will be in favour of the Company.

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 period, the 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 of Sindh is filed to obtain stay against the said order. The court has granted stay till second week of August 2011. No provision has been made in this condensed interim financial information 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 the Appellate forums. However, as a matter of prudence sufficient tax provision has been made in the books of accounts.



19. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the net profit / (loss) for the period by the weighted average number of shares at the period end as follows:

| | (Un-audited) | | | |
|--|--------------------------------|------------------|------------------|------------------|
| | Half year ended | | Quarter ended | |
| | June 30, 2011 | June 30, 2010 | June 30, 2011 | June 30, 2010 |
| | <----- Rupees in '000 -----> | | | |
| Profit / (Loss) after tax for the period | 94,914 | (5,371) | 49,183 | (4,584) |
| | <----- Number of Shares -----> | | | |
| Weighted average number of ordinary shares | 300,100,006 | 300,100,006 | 300,100,006 | 300,100,006 |
| Earnings per share | | | | |
| - Basic and diluted - Rupees | 0.32 | (0.02) | 0.16 | (0.02) |

20. RELATED PARTY TRANSACTIONS

Related parties comprise associated undertaking, retirement benefit plans, directors and key management personnel of the Company. These transactions were made on substantially the same commercial terms as those prevailing at the time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. There were no transactions with the key management personnel other than those under the terms of their employment.

| Relationship | Nature of transaction | (Unaudited) | |
|--|--|------------------|------------------|
| | | June 30, 2011 | June 30, 2010 |
| | | Rupees in '000 | |
| Transactions with related parties | | | |
| Associated undertaking | | | |
| Takaful Pakistan Limited | Insurance premium paid | 583 | 1,226 |
| | Insurance claims received | 35 | 193 |
| Key management personnel | | | |
| | Remuneration paid | 49,466 | 34,101 |
| | Proceeds from disposal of operating fixed assets | 17 | 10 |

21. DATE OF AUTHORIZATION FOR ISSUE

This condensed interim financial information was authorized for issue on August 25, 2011 by the Board of Directors of the Company.

22. GENERAL

Figures have been rounded-off to the nearest thousand Rupees.


Managing Director


Director


Director


Director



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