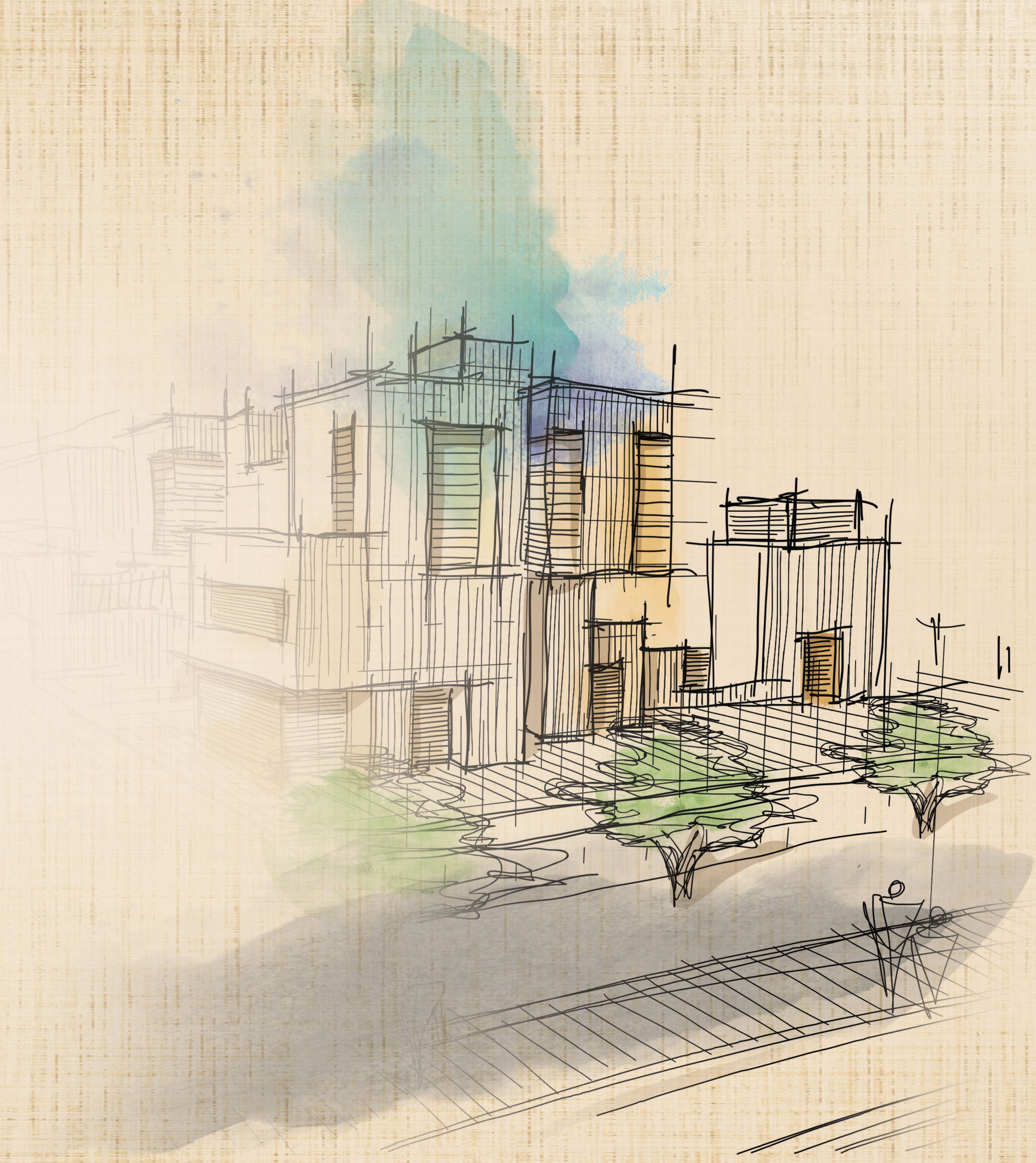


PMRC

PAKISTAN MORTGAGE REFINANCE COMPANY LIMITED

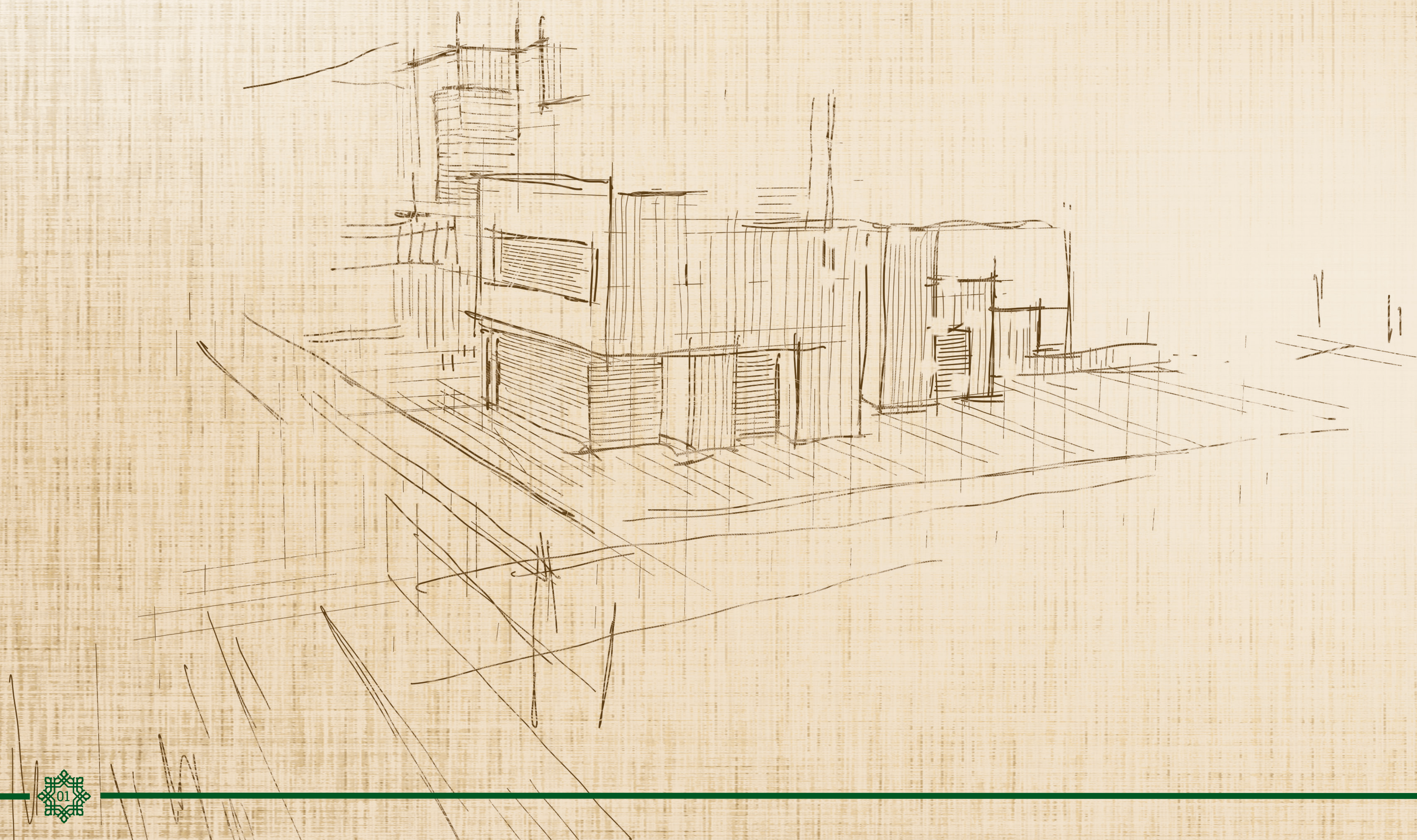
TURNING **DREAMS** INTO **REALITY**

Lender of First Resort!

AAA
RATED BY VIS

Annual Report 2018

TABLE OF CONTENTS

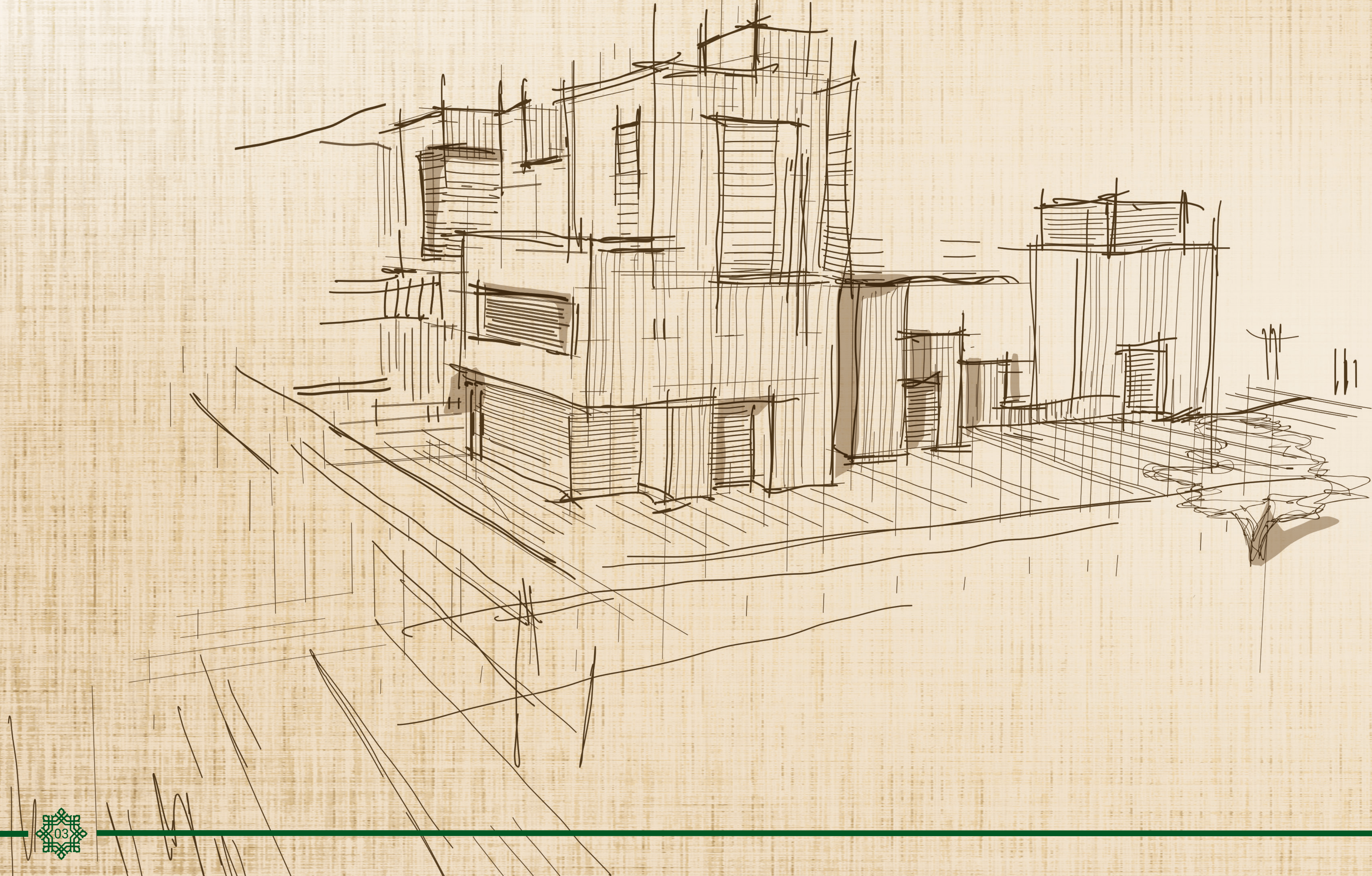


OVERVIEW

Pakistan Mortgage Refinance Company (PMRC) was set up as a Mortgage Liquidity Facility by the Government of Pakistan, the State Bank of Pakistan and World Bank to address the long-term funding constraint in the banking sector; which was hindering the growth of the primary mortgage market. PMRC will serve as a secure source of long-term funding at attractive rates and at the same time ensuring sound lending habits amongst the primary mortgage lenders (PMLs). Its thrust is three-fold: help reduce maturity mismatch risk for PMLs, increase the availability of fixed rate mortgages and increase the maturity structure of the mortgage loans; this in turn would not only help improve the affordability of mortgages but also increase the number of qualifying borrowers. With these initiatives, PMRC envisions an expansion of the primary mortgage market, which will consequently lead to the ultimate goal – a more widespread home ownership.

PMRC will play a key role in providing funding to both conventional and Islamic PMLs and it will endeavor to encourage and collaborate with PMLs for growth of housing finance in Pakistan.

As the Company's principal source of funding will be from the local bond market; another important objective of the Company is to pioneer the development of the local bond and sukuk markets.



VISION STATEMENT

To be a leading catalyst for the development of housing finance and capital markets in Pakistan.

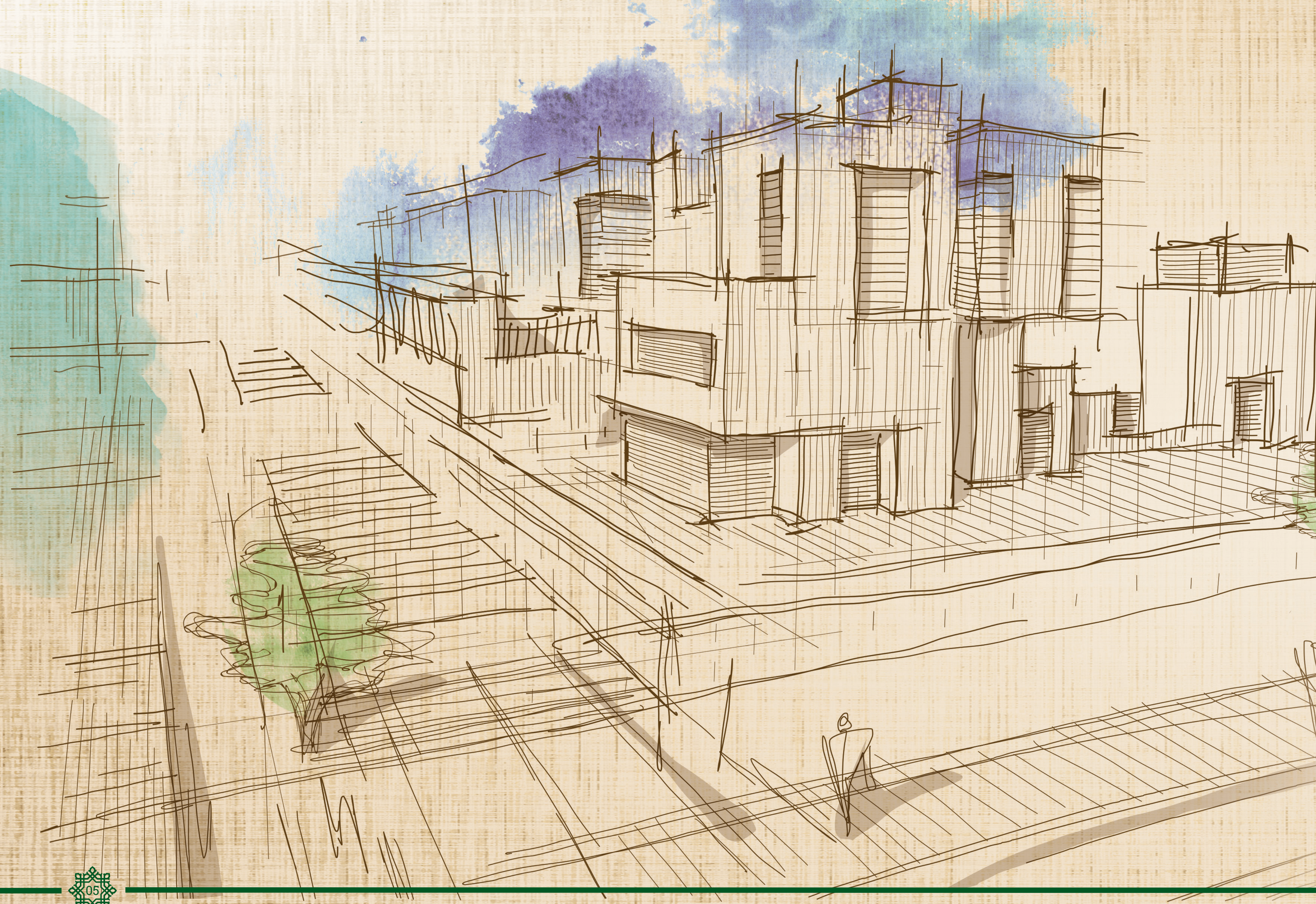
MISSION STATEMENTS

Promote expansion of affordable housing finance.

Establish high standards of mortgage practices for housing finance.

Provide innovative, viable and market-based financial products for the development of mortgage market in Pakistan.

Introduce new classes of conventional and Islamic assets to deepen and widen the local capital market.



CORE VALUES

PMRC conducts its business to the highest standards and in doing so, will be guided by its core values in its interactions with the clients, stakeholders, investors, public and employees. Its core values are integrity, professionalism, responsibility, innovation, excellence, respect and teamwork.

Integrity and professionalism
We act with integrity and professionalism and build trust by always making the right choice.

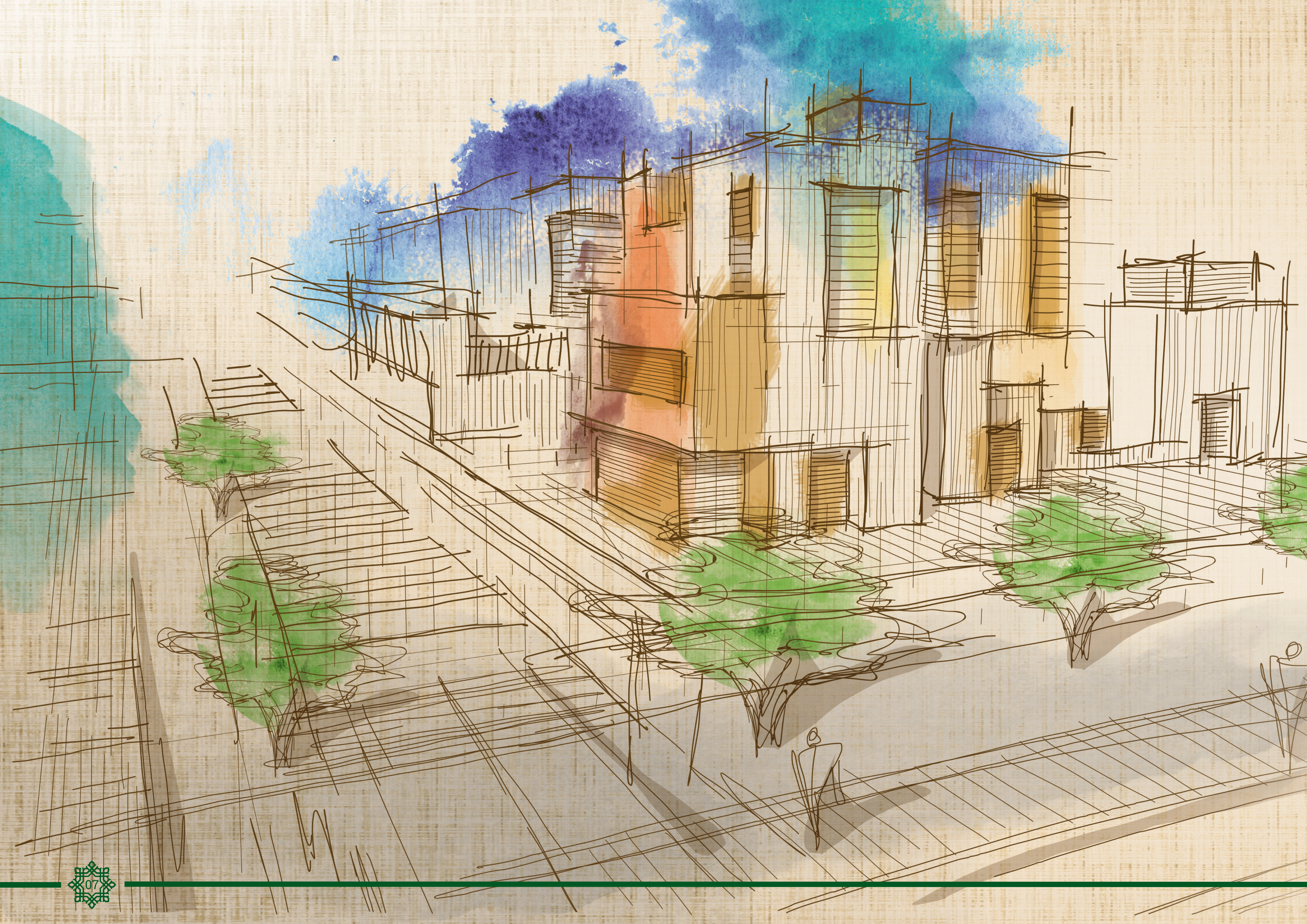
Responsibility
We are a responsible organization with a commitment to deliver. We strive for excellence and take full responsibility of our decisions and actions.

Innovation
We continuously explore new approaches to business and open to opportunities that will create value for stakeholders.

Excellence
In the pursuit of excellence in our delivery, we continuously enhance the quality and performance of our service levels through collaboration, development and technology.

Respect
Respect and trust in the capabilities of our employees are our driving force.

Teamwork
We foster the spirit of one-team through encouraging collaborative efforts to achieve common goal.



PMRC'S PRODUCTS

PMRC refinances mortgage loans originated by the qualified financial institutions. PMRC is offering following products to Banks/DFIs/House Finance Companies (together knowns as "Customers") under both conventional and Islamic modes:

GENERAL HOUSING

Under the General Housing product, existing mortgage loans of qualified financial institutions are purchased or refinanced at book value i.e. the principal balance outstanding on a date which is closest to the purchase date. To be qualified for the General Housing product, among other qualification criteria, the loan should be fully disbursed to or for the account of the mortgagor and there is no obligation for the Customer to advance additional funds thereunder.

LOW AND MIDDLE-INCOME GROUPS

In an effort to make housing finance affordable to the low & middle income groups, PMRC provides liquidity to qualified financial institutions at lower than market rates for extending housing finance to low and middle income segments. It is expected that the proposed scheme will encourage even those financial institutions, for extending housing finance, that are currently not active in providing low cost housing finance.

ENTITY RATING*

Long-Term

AAA (TRIPLE A)

VIS Credit Rating Company Limited (VIS) has assigned initial entity ratings to Pakistan Mortgage Refinance Company Limited (PMRC) of 'AAA' (Triple A). Outlook on the assigned ratings is 'Stable'. The long-term rating of 'AAA' indicates highest credit quality.

Short-Term

A-1+ (A ONE PLUS)

The short-term rating of 'A-1+' (A One Plus) signifies highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free GoP's short term obligations.

*Entity ratings have been assigned on May 7, 2019

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Rehmat Ali Hasnie	Chairman
Mr. Mudassir H. Khan	Managing Director/CEO
Mr. Farrakh Qayyum	Independent Director
Mr. Abid Naqvi	Independent Director
Mr. Imran Sarwar	Director
Ms. Mehreen Ahmed	Director
Mr. Rashid Nawaz Tipu	Director
Mr. Syed Tariq Ali	Director
Mr. Risha A. Mohyeddin	Director

Company Secretary
Mr. Naved Hanif

Auditors
M/s. KPMG Taseer Hadi & Co.
Chartered Accountants

Legal Advisors
Abdul Hayee Kureshi & Co.

Registered Office
6th Floor, Bahria Complex-I,
M.T. Khan Road, Karachi-74000, Pakistan

Website
www.pmrc.com.pk

BOARD COMMITTEES

Board Shareholders' Committee

Mr. Rehmat Ali Hasnie	Chairman
Ms. Mehreen Ahmed	
Mr. Imran Sarwar	

Board Nomination Committee

Mr. Risha A. Mohyeddin	Chairman
Mr. Rehmat Ali Hasnie	
Mr. Mudassir H. Khan	

Board Risk Committee

Mr. Rashid Nawaz Tipu	Chairman
Mr. Imran Sarwar	
Mr. Mudassir H. Khan	

Board Audit Committee

Mr. Abid Naqvi	Chairman
Mr. Syed Tariq Ali	
Mr. Risha A. Mohyeddin	

Board Human Resource Committee

Mr. Farrakh Qayyum	Chairman
Ms. Mehreen Ahmed	
Mr. Mudassir H. Khan	

CHAIRMAN'S STATEMENT

Pakistan Mortgage Refinance Company (PMRC) was a result of the phenomenal contribution of all the shareholders and efforts of the State Bank, Government of Pakistan and the World Bank Group. Though created as a public-private partnership its majority ownership was kept in the hands of the private sector. Our aim was to address the severe shortage of housing in the country not only by making housing finance available but also by increasing affordability through provision of long-term liquidity and introduction of fixed rate financing. Although the discussions for PMRC's setup had started much earlier, it got notified as a DFI in 2017 and upon completion of its capital structure received its commencement certificate from SBP in June of 2018.

The mortgage market performance over time portrays the true potential which remains and could be achieved. Pakistan's total mortgage finance stands at only 0.2 percent of GDP compared to 3.5 percent in Bangladesh, 10 percent in India and over 30 percent in Malaysia. The total outstanding housing finance in Pakistan stood at around PKR. 92 Billion at year end 2018, with only 62,000 borrowers. The country's housing deficit is estimated at 10 million units; with additional demand of approximately 700,000 units a year and new construction of over 350,000 units; the incremental deficit is estimated at approximately 400,000 units per annum. PMRC is expected to bridge this gap by providing medium to long- term fixed rate funds to the financial institutions; increasing affordability and reducing credit risk. It will also play a role in assisting with and improving underwriting practices, standardization, maturity mismatch and overall risk mitigation. Another objective of PMRC is to introduce new classes of conventional and Islamic products and to deepen and widen the local capital markets.

I believe that the current level of available housing vis-a-vis ever increasing demand signify the role of PMRC. I foresee that being the lender of first resort for the regulated financial institutions, PMRC would immensely help towards financial inclusion and in realizing the dream of every Pakistani to own a home.

Finally, I would like to take this opportunity to thank my fellow Board members, the management and staff of PMRC for their hard work and dedication, our shareholders for their unwavering support, our regulators and other stakeholders for their assistance and guidance. I would also like to thank Mr. Kokularupan; the first CEO of PMRC for his unwearied efforts and I am delighted that Mr. Mudassir H. Khan took over as the new CEO and quite certain that he would take this Company to new heights.

Rehmat Ali Hasnie
Chairman

CHIEF EXECUTIVE OFFICER'S STATEMENT

The creation of PMRC marks an important milestone in achieving the Government's objective to improve access to housing finance. It received immense support from the World Bank and a credit line of US$140 million on-lent by the Government of Pakistan for its operations. In addition, PMRC will also raise medium to long term funding through local capital markets. This will enable us to promote the primary mortgage market with longer tenors and fixed rate funds and enhance affordability of home mortgages and increase the number of qualifying borrowers particularly from the low and middle-income groups. Flow of liquidity through secondary mortgage facility also provides scalability and diversification and reduces intermediation costs and risks for primary lending institutions. PMRC also intends to introduce risk sharing scheme for low and middle-income housing finance and we are confident that this along with other benefits will lead to the expansion of primary residential mortgage market and home ownership in Pakistan.

Despite challenging macroeconomic situation during 2018, the outstanding housing finance of banks and DFIs grew approximately 12%. However, during the same period the number of borrowers decreased by about 10% depicting financial exclusion. This is a real concern and PMRC is geared to enhancing mortgage finance with a focus on low and middle-income housing and increasing their affordability. Pakistan, like other developing countries, has been facing acute shortage of housing and this is more profound at the bottom-of-the-pyramid comprising of the poor and financially under-served segments of society. Unlike other countries in South Asia; Pakistan's mortgage to GDP ratio stands at only 0.2 percent which calls for more robust measures to provide for a conducive environment which encourages primary mortgage lending. More importantly risks associated with recovery must be reduced through effective foreclosure laws, developer finance should be facilitated with legal and regulatory framework and processes for registration and validity of property documents must be in place.

The year 2018 also saw a rising interest rate environment where the SBP Policy Rate increased by 4.25 percent. This posed a real challenge for PMRC and in order to overcome this we provided additional discount on our lending to the banks/DFIs. These rates were also fixed for three years to give certainty and encourage banks to on-lend keeping in mind affordability of the end borrower.

We made two disbursements towards end of the year taking our advances to Rs. 1.2 billion at year end and our profit before tax for the year 2018 reached Rs. 56 million. Our efforts continued as we started 2019 and to-date we have signed Agreements with five more banks/ DFIs and disbursed a total of Rs. 3.2 billion. We encourage our partner banks to develop new products which cater to low and middle-income group and promote home ownership for women; giving an additional discount of 0.2 percent on our refinancing. While providing funding we also ask our partner institutions to maintain environmental and social safeguards in their on-lending portfolio for housing. In addition, our particular emphasis has been on developing refinancing product and extending Islamic financing; the market that has grown significantly over the last 4 – 5 years despite all challenges and has reached nearly fifty percent of the total outstanding housing finance. PMRC received SBP consent for Islamic refinancing Musharakah product and will soon be signing agreements with Islamic banks to refinance Islamic mortgage portfolios.

I would like to thank my predecessor; Mr. Kokularupan, whose persistence and hard work helped setup the Company and attain stability. It is my priority to strengthen PMRC and make this institution the lender of first resort for the banking and financial industry. The Government's Naya Pakistan Housing Program is an ambitious yet a necessary initiative that will not only improve mortgage penetration in the country but would have a multiplier effect for the economy. PMRC supports this initiative for betterment of the housing market and more so for the middle and low-income group.

I take this opportunity to convey my sincere gratitude to all our Shareholders. I am also thankful to the Ministry of Finance, State Bank of Pakistan and the Security and Exchange Commission of Pakistan for their continued support, to our Board of Directors for their valuable guidance, to all the partner banks and to the entire team of PMRC who have provided steadfast support and remain a source of strength.

Mudassir H. Khan
Chief Executive Officer

Sitting Left to Right: Mr. Zulfiqar Alam, Mr. Mudassir H. Khan, Mr. Shah M. Azim Azmi.
Standing Left to Right: Mr. Badar Munir, Mr. Malik Mansoor Ali, Mr. Jamil Akhtar, Mr. Rashid Masood Alam, Ms. Anam Murtaza, Mr. Shayaan Afsar, Mr. Naved Hanif, Mr. Shahzad Khan.

MANAGEMENT TEAM

Mr. Mudassir H. Khan
Managing Director/Chief Executive Officer

Mr. Shah M. Azim Azmi
Head of Treasury & Marketing

Mr. Naved Hanif
Company Secretary

Mr. Jamil Akhtar
Head of Operations

Ms. Anam Murtaza
Head of Human Resource and Administration

Mr. Shayaan Afsar
VP, Legal & Compliance

Mr. Zulfiqar Alam, FCA
Group Head Business and Operations / CFO

Mr. Rashid Masood Alam
Head of Internal Audit

Mr. Malik Mansoor Ali
Head of Risk

Mr. Badar Munir
Head of Information Technology

Mr. Shahzad Khan
SVP, Treasury & Marketing

SIGNING CEREMONIES IN 2018

PMRC signed four Master Refinance Agreements in 2018 which demonstrates its resolve and commitment to act as an enabler in the financial market.

BANK ALFALAH LIMITED

Master Refinance Agreement signing ceremony was held at Bank Alfalah Head office in Karachi on 15th August, 2018. Ms. Mehreen Ahmed; Group Head Retail Banking signed the MRA.

JS BANK LIMITED

Master Refinance Agreement signing ceremony between PMRC and JS Bank was held at PMRC office in Karachi on 17th September, 2018. Mr. Basir Shamsie, President & C.E.O. of JS Bank accompanied with JS Bank's officials attended the MRA signing ceremony.

SIGNING CEREMONIES IN 2018

THE BANK OF KHYBER

Master Refinance Agreement signing ceremony between PMRC and the Bank of Khyber was held at Bank of Khyber's office in Peshawar on 30th October, 2018. Muhammad Shahbaz Jameel; acting Managing Director of Bank of Khyber signed the agreement.

ASKARI BANK LIMITED

Master Refinance Agreement signing ceremony between PMRC and Askari Bank was held at Askari Bank's office in Karachi on 31st October, 2018. Mr. Rashid Nawaz Tipu; Group Head Branch Banking signed the agreement on Askari Bank's behalf.

DIRECTORS' REPORT

DIRECTORS' REPORT

For the year ended 31 December 2018

On behalf of the Board, we feel pleasure in submitting the Directors' Report along with the Audited Annual Financial Statements of Pakistan Mortgage Refinance Company Limited (PMRC) for the year ended December 31, 2018. These Financial Statements have been prepared in compliance with the requirements of BPRD Circular No. 2, dated 25 January 2018.

PMRC has been set up by the Government of Pakistan, the State Bank of Pakistan (SBP) and World Bank as a joint initiative of public and private sector banks/DFIs with the technical assistance of the International Finance Corporation (IFC) as a Mortgage Liquidity Facility (MLF). The creation of PMRC marks a significant milestone in promoting affordable and accessible home mortgage finance and development of capital markets in Pakistan. PMRC will serve as a secure source of long-term funding while ensuring sound and uniform lending practices amongst Primary Mortgage Lenders (PMLs) in Pakistan as well as introduce new classes of conventional and Islamic investment grade assets to deepen and widen the local capital market.

Mortgage Liquidity Facility in Pakistan

Globally, MLF is created as a collaborative effort between the Government, Central Bank and mortgage originators (banks) with an objective to act as an intermediary between mortgage originators (banks) and capital markets to bolster the supply of market liquidity at a lower price. In the absence of MLF, banks generate liquidity either through their deposit base (short term) or issuance of bonds. Deposits are short term in nature and are repriced at regular intervals thus exposing banks to both liquidity and market risks. Furthermore, banks require the necessary infrastructure and staff to attract and retain deposit (cost of acquisition of deposits) which increases their cost of funding.

MLF is therefore a self-sustaining fund created by its stakeholders to reduce the cost of funding for PMLs whilst generating long-term liquidity from the capital markets. Share capital contributed by the banks is invested in Government Securities to meet the operating cost of MLF while the funds raised from the capital market is passed on to PMLs with a minimal intermediation cost. However, before PMRC is able to issue bonds through capital markets, the World Bank Group (WBG) has provided support to strengthen the balance sheet of the Company to enable it to tap the capital markets and promote low cost fixed rate funds to PMLs enable them to extend affordable fixed rate home mortgages particularly to the middle and low-income groups.

PMRC will develop a market-oriented mechanism to raise long term liquidity. This will enable PMRC to promote the primary mortgage market by providing long term funds at fixed rate by raising funds from capital markets. PMRC will pass on the cost of funding through bond issuance with an intermediation margin. Similar to other liquidity facilities, WBG has provided concessional funds for PMRC to kick-start its operations. These will enable PMRC to further increase its efforts to act as catalyst to promote affordable fixed rate financing for housing in Pakistan. In this development process, the Company expects to remain profitable and through this profitability build up its equity base. The GOP support for strengthening PMRC and promoting the entire efforts is evident not just from its equity contribution to the equity of the Company but also in extending numerous incentives especially with regards to taxation that have been provided to PMRC and its instruments. In 2018, PMRC disbursed Rs. 1.2 Billion to financial institutions for refinancing mortgage portfolios.

Minimum Capital Requirement

As of the statement of financial position date, the Company's paid - up capital stands at Rs. 3.65 billion. SBP has allowed the Company to operate with an Initial Paid Up Capital (net of losses) - Minimum Capital Requirement (MCR) level of at least Rs. 3.5 billion subject to MCR compliance with applicable paid up capital requirement within a period of five years from the commencement of its operations/business.

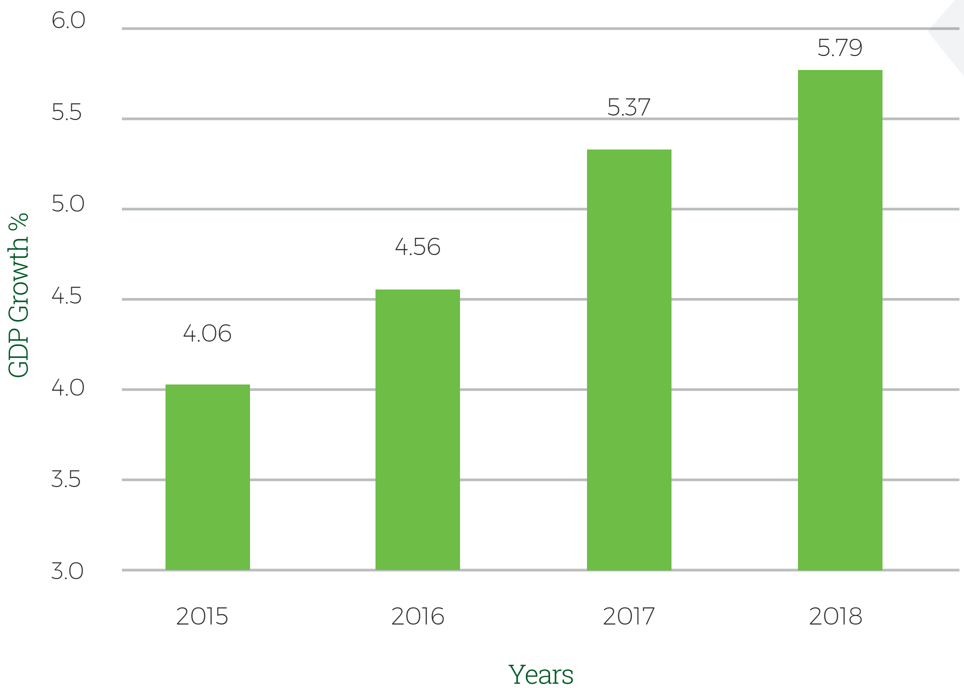
On 22 February 2019, the Government of Pakistan lent Rs. 7.051 billion under World Bank - Housing Finance Project. This has been disbursed in a single tranche as a Sub-Ordinated Loan, and can be converted into non-participatory Additional Tier 1 Capital at the option of PMRC and with appropriate regulatory approval.

DIRECTORS' REPORT

For the year ended 31 December 2018

Economic perspective

Economy has improved over the last two years with GDP growth of 5.8% in year 2018. It grew from 5.4% in 2017 to 5.8% in 2018 supported by major infrastructure projects and low interest rates. Major improvements were reflected by the performance of services and agriculture sector coupled with some recovery in Industrial sector as well. However, foreign exchange reserves of Pakistan decreased to US$ 13.7 Billion at year 2018 end as compared to December, 2017 position of US$20.17 Billion. Pakistan is facing pressure on balance of payments and the resultant higher fiscal deficit was financed through increased government borrowing from both domestic and external sources. Whereas, current account deficit of July, 2018 – December 2018 stood at $ 7.9 Billion.



* Source: State Bank of Pakistan.

Core Inflation increased to 8.4% in December, 2018 as compared to 5.5% in December, 2017 and CPI increased substantially to 6.2% in December, 2018 as compared to 4.6% in December, 2017. Pak rupee has depreciated; the weighted average US$ Exchange Rate of Inter-Bank Market depreciated by 25.6% to PKR138.86 as at end December, 2018.

Commercial banks and the government-owned House Building Finance Corporation provide the formal housing finance in the country. Their combined volume of outstanding housing finance stands at around PKR. 92 Billion currently with 62,000 borrowers; putting this number into perspective, this amount is equivalent to only 0.2 percent of GDP. State Bank of Pakistan issued separate Housing Finance PRs in May 2014 to encourage banks to follow housing finance more rigorously.

The annual demand for new homes is approximately 700,000 a year, whereas, only about half of this demand is met. Specifically, financing limitations and high cost of borrowing could not empower the lower-to-middle income segments of the society to afford housing. The rapid increase in land prices over the past decade, poor legal infrastructure, a shortage of long-term funding at fixed rates, inaccessibility to housing finance for low-income, rural, and informal population groups makes it difficult to address the challenge of providing affordable low-cost housing for most of the population.

The present Government has initiated a new housing scheme; which intends to reduce the backlog of shortage of houses in Pakistan; consequently, promotes access to housing and also contributes in the economic development of Pakistan. It envisages to diminish the shortfall of over 10 million houses in Pakistan, render long term loans at a discounted rate than the current market price and increase borrower's affordability. This initiative would enhance the contribution of other allied industries, create more jobs and ameliorate economic stability. Conceptual similarity incites PMRC to support this initiative through its refinancing facility, capacity building mechanisms, underwriting criteria and environmental and social sustainability measures.

DIRECTORS' REPORT

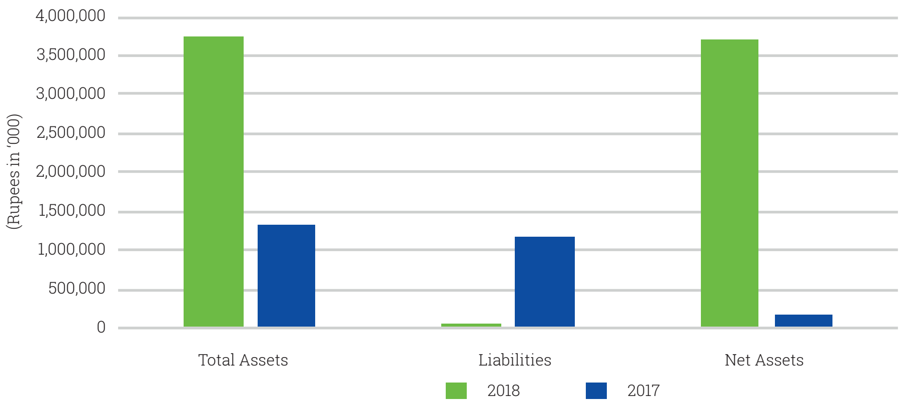
For the year ended 31 December 2018

Financial Highlights

	2018	2017
	(Rupees in '000)	
Financial Position		
Shareholders' Equity	3,713,090	150,344
Total Assets	3,749,678	1,320,721
Advances	1,200,000	-
Investments	1,009,632	-
Financial Performance		
Net interest income	223,605	72,687
Profit before tax / (loss)	56,758	(5,666)
Profit after tax / (loss)	55,037	(3,919)
Ratios		
EPS	Rs 0.22	Rs (0.26)
ROA	1.42%	-0.30%
ROE	2.17%	-2.57%

Financial Position

Balance Sheet Composition



Shareholding

Name of the Shareholders	Rupees	Shareholding %
Ministry of Finance - Islamic Republic of Pakistan	1,200,000,000	32.80%
National Bank of Pakistan	600,000,000	16.40%
Habib Bank Limited	500,000,000	13.67%
United Bank Limited	500,000,000	13.67%
Bank Alfalah Limited	300,000,000	8.20%
Askari Bank Limited	300,000,000	8.20%
Allied Bank Limited	200,000,000	5.47%
Bank Al Habib Limited	50,000,000	1.37%
House Building Finance Company Limited	6,675,000	0.18%
Summit Bank Limited	1,830,000	0.05%
Directors	1,000	0.00%
Total	**3,658,506,000**	**100%**

Corporate Governance and Financial Reporting

The Board of Directors states that:

- The financial statements prepared by the management of PMRC present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.

DIRECTORS' REPORT

For the year ended 31 December 2018

- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and any departure therefrom has been adequately disclosed.

- As a continuous process, efforts have been made to effectively implement the internal control system. An effective and sound system of internal control is in the process of being designed in accordance with the requirements of the regulatory authorities.

- There is no doubt regarding PMRC's ability to continue as a going concern.

- Key operating and financial data for the year 2018 in summarized form is included in the annual report.

- Tax outstanding amount and reason thereon are properly disclosed in the attached financial statements.

PMRC is committed to the best Corporate Governance Practices. The Company believes this is critical to the creation and delivery of long-term sustainable value in a manner consistent with its obligations as a responsible corporate organization.

The Board of Directors provides oversight of the Internal Control and Risk Management policies and practices of PMRC. The Board is supported in its oversight function by various Board Committees. The Committees' roles and responsibilities are set out in their respective charters. The Charters are reviewed and updated periodically to ensure their contents remain relevant in contemporary industry operations. The Charters also define the roles, responsibilities, scope of authority, composition and procedures for reporting to the Board.

The Board of Directors

The Board of PMRC is committed to effective corporate governance practices and is ultimately accountable to the shareholders for creating and delivering value through the promotion of home ownership via affordable mortgage loans and provision of long-term financing to Mortgage Lending Institutions.

The Board determines and formulates the policies and strategies of the Company and oversees the strategic plan towards achieving the long-term goals of the PMRC. It supervises the overall performance of the Company through:

- The review of quarterly and year-end financial statements;
- Identification and management of investment risks;
- Monitoring the performance of the Company against agreed targets.

The structure of the Board has been as follows:

Mr. Rehmat Ali Hasnie	Chairman
Mr. Mudassir H. Khan	Managing Director/CEO
Mr. Farrakh Qayyum	Independent Director
Mr. Abid Naqvi	Independent Director
Mr. Imran Sarwar	Director
Ms. Mehreen Ahmed	Director
Mr. Rashid Nawaz Tipu	Director
Mr. Syed Tariq Ali	Director
Mr. Zahid Parekh**	Director
Mr. Muhammad Tanvir Butt*	Director
Mr. Ahmed Saeed Siddiqui*	Director
Mr. Imran Ahmed*	Director
Mr. NK Rupan*	Managing Director/CEO

* Resigned during the year.

** Resigned subsequent to the year end.

Board Committees

The Board carries out its oversight functions through its various Board Committees. This makes for efficiency and allows for a deeper attention to specific matters of the Board. The purpose, composition, structure, functions and scope of authority for each committee are as determined by its terms of reference. The Board, in line with corporate governance best practices has delegated some of its powers to its committees, in a manner that enables the Board to focus on more strategic business and operational matters.

Provided below are the names of the Directors of the relevant Subcommittees.

Board Shareholders' Committee

Mr. Rehmat Ali Hasnie
Ms. Mehreen Ahmed
Mr. Imran Sarwar

Board Nomination Committee

Mr. Risha A. Mohyeddin**
Mr. Rehmat Ali Hasnie
Mr. Mudassir H. Khan

Board Risk Committee

Mr. Rashid Nawaz Tipu
Mr. Imran Sarwar
Mr. Mudassir H. Khan

Board Audit Committee

Mr. Abid Naqvi
Mr. Zahid Parekh*
Mr. Syed Tariq Ali
Mr. Risha A. Mohyeddin**

Board Human Resource Committee

Mr. Farrakh Qayyum
Ms. Mehreen Ahmed
Mr. Mudassir H. Khan

* Resigned subsequent to the year end.
** Appointed subsequent to the year end.

Credit Rating

PMRC would be assigned credit rating by June 2019.

Corporate Social Responsibility

PMRC acknowledges its responsibility in a manner that its activities influence its customers, employees and stakeholders. It strives to proactively encourage community growth and development, thereby contributing in building a sustainable future.

Environmental and Social (E&S) sustainability is a core part of PMRC's commitment to responsible financing. PMRC has developed comprehensive ESRM Policy and Procedures which stipulate guiding principles and underlying processes for effective implementation of PMRC's commitment to E&S sustainability. It covers the integration of ESRM practices in its refinancing activities.

PMRC, therefore, is committed to support PMLs to institutionalize, and implement adequate policies, procedures, and practical tools for environmental and social risk screening of primary mortgages originated by them that would be subsequently presented to PMRC for refinancing.

PMRC will, therefore, exercise reasonable efforts to support its Customers in meeting PMRC's E&S requirements. This E&S Capacity Building Plan is prepared to address:

- Capacity Enhancement at PMRC level;
- Support to its Customers in developing systems and capacity for E&S risk management measures specific to lending in the housing finance sector and assistance in enhancing Customers' E&S screening procedures and tools.

DIRECTORS' REPORT

For the year ended 31 December 2018

Human Resources

PMRC had 27 employees at the end of the year 2018. PMRC is an equal opportunity employer. It is the policy of the Company that the training, career development and promotion of the employees is conducted in a fair manner. A number of principles mentioned below form the cornerstone of human resource policy;

- Business-driven;
- Enabling individual and institutional growth;
- Merit-based;
- Clear, consistent and credible;
- Transparent and fair; and
- Anchored to market reality and competitiveness.

Events after the reporting date

There have not been any material events that occurred subsequent to the date of the statement of the financial position that require adjustments to the enclosed financial statements, except those which have already been made or disclosed.

Auditors

The present auditors M/s. KPMG Taseer Hadi & Company, Chartered Accountants, retired and being eligible offer themselves for re-appointment in the forthcoming Annual General Meeting. Therefore, on the suggestion of the Audit Committee, the Board of Directors recommends the shareholders to appoint M/s. KPMG Taseer Hadi & Company Chartered Accountants as the statutory auditor of the company for the next term.

Acknowledgements

On behalf of the Board and the Management, we would like to express our gratitude to our shareholders for placing their trust in Pakistan Mortgage Refinance Company; State Bank of Pakistan, Securities and Exchange Commission of Pakistan and other regulatory bodies for their consistent direction and oversight. We would also like to extend our appreciation to our colleagues for their diligent work towards meeting customer expectations and their dedication towards achieving the goals and objectives.

For and on behalf of the Board of Directors,

Rehmat Ali Hasnie
Chairman

Mudassir H. Khan
Chief Executive Officer

Date: 5th March 2019

STATEMENT OF INTERNAL CONTROLS

For the year ended 31 December 2018

The Management of the Pakistan Mortgage Refinance Company Limited (PMRCL) is responsible for establishing the Internal Control System with the main objectives of ensuring effectiveness and efficiency of operations; reliability of financial reporting; safeguarding of assets; and compliance with applicable laws and regulations. The Internal Control System evolves over the years, as it is an ongoing process and is included in PMRC's policies, procedures, financial limits, etc. This system continues to be reviewed, refined and improved from time to time and immediate corrective action is taken to minimize risks which are inherent in company's business and operations.

The Board of Directors of PMRC is responsible for ensuring that an adequate and effective Internal Control System exists in the company and that the senior management is maintaining and monitoring the performance of that system accordingly. The board is evaluating the Internal Control System through board level sub committees i.e. Internal Audit Committee and Risk Management Committee. Besides Internal Audit's /Risk's Evaluation of internal controls, the external auditor, during the course of statutory audit, evaluate internal controls of the company.

All significant and material findings of the internal audit review are reported to the Audit Committee of the Board of Directors. The Audit/Risk Committees actively monitor implementations to ensure that identified risks are mitigated to safeguard the interest of the company.

PMRC's internal control system has been designed to provide reasonable assurance to the company's management and Board of Directors to achieve the objectives of Internal Controls but all Internal Control Systems, no matter how well designed, have inherent limitations that they may not entirely eliminate misstatements. However, monitoring of control activities is also an ongoing process that includes identification, evaluation, management and reporting of significant risk faced by the company.

While concerted efforts were made to follow SBP Guidelines on Internal Controls, identification, evaluation and management of risks within each of the DFI's activities; and evaluation and change of procedures remains an ongoing process. Hence PMRC will start a detailed exercise for documentation and benchmarking of existing processes and controls including financial reporting related controls on internationally accepted standards – the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework. The exercise is expected to fully complete in 2020. Any gaps arising from such exercise shall be identified and implemented employing a risk-based, proactive approach across PMRC.

The Board of Directors being ultimately responsible for the Internal Control System endorses the management evaluation and efforts to adopt above mentioned internationally accepted standards to improve controls, processes and to ensure effective risk management.

Date: 5th March 2019

Head of Internal Audit	Head of Risk	GH Business & Operation/CFO

AUDITOR'S REPORT

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2, Beaumont Road
Karachi 75530 Pakistan
+92 (21) 35685847, Fax +92 (21) 35685095

INDEPENDENT AUDITOR'S REPORT

To the Members of Pakistan Mortgage Refinance Company Limited Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Pakistan Mortgage Refinance Company Limited (the Company), which comprise the statement of financial position as at 31 December 2018, and the profit and loss account, the statement of comprehensive income, the statement of changes in equity, the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, 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 the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of the profit and other comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2, Beaumont Road
Karachi 75530 Pakistan
+92 (21) 35685847, Fax +92 (21) 35685095

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. Other information comprises the information included in the Company's Directors' Report for the year ended 31 December 2018, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact, We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2, Beaumont Road
Karachi 75530 Pakistan
+92 (21) 35685847, Fax +92 (21) 35685095

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2, Beaumont Road
Karachi 75530 Pakistan
+92 (21) 35685847, Fax +92 (21) 35685095

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);

b) the statement of financial position, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account;

c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and

d) No zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980}.

Other Matter

The engagement partner on the audit resulting in this independent auditor's report is Muhammad Taufiq.

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants

Date: 5 March 2019
Karachi.

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018	2017
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	5	653	14,083
Balances with other banks	6	504,566	1,240,575
Lendings to financial institutions	7	912,000	-
Investments	8	1,009,632	-
Advances	9	1,200,000	-
Fixed assets	10	45,067	32,740
Intangible assets	11	11,112	-
Deferred tax assets	12	-	1,721
Other assets	13	66,648	31,602
		3,749,678	1,320,721
LIABILITIES			
Bills payable		-	-
Borrowings		-	-
Deposits and other accounts		-	-
Liabilities against assets subject to finance lease		-	-
Advance against share capital	14	-	1,159,905
Subordinated debt		-	-
Deferred tax liabilities		-	-
Other liabilities	15	36,588	10,472
		36,588	1,170,377
NET ASSETS		3,713,090	150,344

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018	2017
		(Rupees in '000)	
REPRESENTED BY			
Share capital	16	3,658,506	150,001
Reserves		11,007	-
Surplus / (deficit) on revaluation of assets		-	-
Unappropriated profit		43,577	343
		3,713,090	150,344
CONTINGENCIES AND COMMITMENTS	17		

The annexed notes 1 to 35 form an integral part of these financial statements.

President / Chief Executive	Chief Financial Officer	Director	Director	Director

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2018

	Note	2018	2017
		(Rupees in '000)	
Mark-up / return / interest earned	18	223,605	72,687
Mark-up / return / interest expensed		-	-
Net mark-up / interest income		223,605	72,687
NON MARK-UP / INTEREST INCOME			
Fee and commission income		-	-
Dividend income		-	-
Foreign exchange income		-	-
Income / (loss) from derivatives		-	-
Gain / (loss) on securities		-	-
Other income	19	30	2,134
Total non-markup / interest income		30	2,134
Total income		223,635	74,821
NON MARK-UP / INTEREST EXPENSES			
Operating expenses	20	166,877	80,487
Workers welfare fund		-	-
Other charges		-	-
Total non-markup / interest expense		166,877	80,487

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2018

	Note	2018	2017
		(Rupees in '000)	
Profit / (loss) before provisions		56,758	(5,666)
Provisions and write offs - net		-	-
Extraordinary / unusual items		-	-
PROFIT / (LOSS) BEFORE TAXATION		56,758	(5,666)
Taxation	21	(1,721)	1,747
PROFIT / (LOSS) AFTER TAXATION		55,037	(3,919)
		(Rupees)	
Basic and diluted earnings / (loss) per share	22	0.22	(0.26)

The annexed notes 1 to 35 form an integral part of these financial statements.

President / Chief Executive   Chief Financial Officer   Director   Director   Director

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	(Rupees in '000)	
Profit / (loss) after taxation for the year	55,037	(3,919)
Other comprehensive income		
Items that may be reclassified to profit and loss account in subsequent periods:		
Effect of translation of net investment in foreign branches	-	-
Movement in surplus / (deficit) on revaluation of investments - net of tax	-	-
	-	-
Items that will not be reclassified to profit and loss account in subsequent periods:		
Remeasurement loss on defined benefit obligations - net of tax	(796)	-
Movement in surplus on revaluation of operating fixed assets - net of tax	-	-
Movement in surplus on revaluation of non-banking assets - net of tax	-	-
	(796)	-
Total comprehensive income	54,241	(3,919)

The annexed notes 1 to 35 form an integral part of these financial statements.

President / Chief Executive	Chief Financial Officer	Director	Director	Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital	Statutory reserve	Amount available for issue of shares	Revenue reserve	Surplus / (deficit) on revaluation of Investments	Surplus / (deficit) on revaluation of Fixed / non banking assets	Unappropriated profit	Total
	(Rupees in '000)							
Balance as at 01 January 2017	1	-	150,000	-	-	-	4,262	154,263
Loss after taxation	-	-	-	-	-	-	(3,919)	(3,919)
Other comprehensive income - net of tax	-	-	-	-	-	-	-	-
Transfer to statutory reserve	-	-	-	-	-	-	-	-
Transactions with owners, recorded directly in equity. Issue of share capital	150,000	-	-	-	-	-	-	150,000
Amount received against issue of shares	-	-	(150,000)	-	-	-	-	(150,000)
Opening Balance as at 01 January 2018	**150,001**	-	-	-	-	-	**343**	**150,344**
Profit after taxation	-	-	-	-	-	-	55,037	55,037
Other comprehensive income - net of tax	-	-	-	-	-	-	(796)	(796)
Transfer to statutory reserve	-	11,007	-	-	-	-	(11,007)	-
Transactions with owners, recorded directly in equity								
Issue of share capital	3,508,505	-	-	-	-	-	-	3,508,505
Closing Balance as at 31 December 2018	**3,658,506**	**11,007**	-	-	-	-	**43,577**	**3,713,090**

The annexed notes 1 to 35 form an integral part of these financial statements.

President / Chief Executive   Chief Financial Officer   Director   Director   Director

CASH FLOW STATEMENT

For the year ended 31 December 2018

	2018	2017
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit / (loss) before taxation	56,758	(5,666)
Less: Dividend income	-	-
	56,758	(5,666)
Adjustments:		
Depreciation	6,398	1,222
Amortization	188	-
Provision and write-offs	-	-
Gain on sale of fixed assets	(23)	-
Finance charges on leased assets	-	-
Others	-	-
	6,563	1,222
	63,321	(4,444)
(Increase) / decrease in operating assets		
Lendings to financial institutions	(912,000)	-
Held-for-trading securities	-	-
Advances	(1,200,000)	-
Others assets (excluding advance taxation)	(26,665)	35,089
	(2,138,665)	35,089
Increase in operating liabilities		
Bills payable	-	-
Borrowings from financial institutions	-	-
Deposits	-	-
Other liabilities (excluding current taxation)	25,320	499
	25,320	499
Payments against off-balance sheet obligations	-	
Income tax paid	(8,381)	(9,362)
Net cash flow (used in) / from operating activities	(2,058,405)	21,782

CASH FLOW STATEMENT

For the year ended 31 December 2018

	Note	2018	2017
		(Rupees in '000)	
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		-	-
Net investments in held-to-maturity securities		(1,009,632)	-
Dividends received		-	-
Investments in operating fixed assets		(30,323)	(32,722)
Proceeds from sale of fixed assets		321	-
Effect of translation of net investment in foreign branches		-	-
Net cash flow used in investing activities		(1,039,634)	(32,722)
CASH FLOW FROM FINANCING ACTIVITIES			
Receipts / payments of subordinated debt		-	-
Receipts / payments of lease obligations		-	-
Issue of share capital		2,348,600	-
Dividend paid		-	-
Remittances made to / received from head office		-	-
Net cash flow from financing activities		2,348,600	-
Effects of exchange rate changes on cash and cash equivalents		-	-
Decrease in cash and cash equivalents		(749,439)	(10,940)
Cash and cash equivalents at beginning of the year	23	1,254,658	1,265,598
Cash and cash equivalents at end of the year	23	505,219	1,254,658

The annexed notes 1 to 35 form an integral part of these financial statements.

President / Chief Executive	Chief Financial Officer	Director	Director	Director

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1 STATUS AND NATURE OF BUSINESS

Pakistan Mortgage Refinance Company Limited (PMRC), "the Company" is an unlisted public limited company incorporated in Pakistan on 14 May 2015 under repealed Companies Ordinance, 1984. The Company has been notified as a Development Financial Institution (DFI) by the Finance Division - Government of Pakistan on 27 October 2017. State Bank of Pakistan (SBP) issued Certificate of Business Commencement on 12 June 2018.

The Company is engaged in promoting, developing and improving the housing finance market of Pakistan, to provide refinance facilities to banks and financial institutions against their existing conventional and Islamic housing finance portfolios and to develop and promote the capital market in Pakistan. Its registered and principal office is situated at Bahria Complex I, MT Khan Road, Karachi.

SBP has allowed the Company to operate with an Initial Paid Up Capital (net of losses) - Minimum Capital Requirement (MCR) level of at least Rs. 3.5 billion subject to MCR compliance with applicable paid up capital requirement within a period of five years from the commencement of its operations/business. Furthermore, during the forbearance period of five years, the Company will not be allowed to declare and make any cash dividend payment to its shareholders.

2 BASIS OF PRESENTATION

2.1 Separate financial statements

These financial statements have been prepared in conformity with the format of financial statements prescribed by the State Bank of Pakistan (SBP) vide BPRD Circular No. 02, dated 25 January 2018.

2.2 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting standards comprise of:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017;

- Directives issued by the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan (SECP).

Whenever the requirements of the Companies Act, 2017 or the directives issued by the SBP and the SECP differ with the requirements of the IFRS, requirements of the Companies Act, 2017 and the said directives shall prevail.

The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies in Pakistan through BSD Circular Letter 10 dated 26 August 2002 till further instructions. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7 Financial Instruments: Disclosures' through its notification S.R.O 411(I)/2008 dated 28 April 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

2.3 Standards, interpretations of and amendments to published accounting and reporting standards that are effective in the current year

There are certain new and amended standards, interpretations and amendments that are mandatory for the Company's accounting periods beginning on or after 01 January 2018 but are considered not to be relevant or do not have any significant effect on the Company's operations and therefore not detailed in these financial statements.

State Bank of Pakistan prescribed a new format for financial statements of DFIs effective from the year ended 31 December 2018. Accordingly, these financial statements are prepared in accordance with the new format. The changes impacting (other than certain presentation changes) these financial statements include:

- Inclusion of surplus / deficit on revaluation of investments as part of equity (previously shown below equity).

- Other reversal of provisions / write offs have now been combined under provisions and write off - net

In addition, Companies Act, 2017 also became effective for the financial statements for the year ended 31 December 2018. As the Company's financial statements are prepared in accordance with the format prescribed by SBP, it did not have a direct impact on the financial statements except for the disclosure of related parties transactions, as required by fifth schedule of Companies Act, 2017 and the definition of related parties as given in IAS 24 - Related parties has been followed.

2.4 Standards, interpretations of and amendments to published accounting and reporting standards that are not yet effective

The following standards, amendments and interpretations of accounting and reporting standards as applicable in Pakistan will be effective for accounting periods beginning on or after 01 January 2019:

- IFRS 16 'Leases' (effective for annual period beginning on or after 01 January 2019). IFRS 16 replaces existing leasing guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases- Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases.

- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The application of interpretation is not likely to have an impact on the Company's financial statements.

- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 July 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. The Company is currently in the process of assessing the impact of this standard on the financial statements of the Company and expects that the amendments are not likely to have an impact on the Company's financial statements.

- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 July 2018 and 1 January 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

- Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2019). The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The application of this amendment is not likely to have impact on the Company's financial statements.

- Amendments to IAS 19 'Employee Benefits'- Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income. The application of amendments is not likely to have an impact on the Company's financial statements.

- Amendment to IFRS 3 'Business Combinations' – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after January 1, 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The amendment is effective for transactions in the future and therefore would not have an impact on past financial statements.

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after January 1, 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgments when preparing their general purpose financial statements in accordance with IFRS Standards

- Annual Improvements to IFRS Standards 2015–2017 Cycle. The new cycle of improvements addresses improvements to following accounting and reporting standards:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangement - the amendment aims to clarify the accounting treatment when a company increases its interest in a joint operation that meets the definition of a business. A Company remeasures its previously held interest in a joint operation when it obtains control of the business. A Company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

- IAS 12 Income Taxes - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transaction that generates the distributable profits.

- IAS 23 Borrowing Costs - the amendment clarifies that a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The above amendments are effective from annual periods beginning on or after 1 January 2019 and are not likely to have an impact on Company's financial statements.

2.5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which forms the basis of making judgment about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in period of revision and future periods if the revision affects both current and future periods. The estimates and judgments that have a significant effect on the financial statements are in respect of the following:

	Note
Useful lives of fixed and intangible assets, depreciation and amortisation	4.5, 10 & 11
Accounting for defined benefit plan	4.9 & 25
Advances	4.7 & 9

3 BASIS OF MEASUREMENT

3.1 These financial statements have been prepared under the historical cost convention except for retirement benefits which are at present value as referred to in note 4.9.

3.2 Functional and presentation currency

These financial statements have been presented in Pakistani Rupees, which is the Company's functional and presentation currency. The amounts are rounded to the nearest thousand rupees except as stated otherwise.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year, except for changes explained in note 4.1:

4.1 SBP revised the format for presentation of the DFI's financial statements for the year ended 31 December 2018. There is no impact of the revised format on these financial statements except for changes disclosed in note 2.3 to the financial statements and certain changes in presentations of these financial statements.

4.2 Cash and cash equivalents

Cash and cash equivalent as referred to in the cash flow statement comprise cash and balances with treasury banks and balances with other banks excluding any term deposit with original terms of greater than three months.

4.3 Investments

The Company classifies its investments as follows:

Held for trading

These are investments acquired principally for the purpose of generating profits from short - term fluctuations in price or dealer's margin or are securities included in a portfolio in which a pattern of short - term trading exists.

Held to maturity

These are investments with fixed or determinable payments and fixed maturities which the company has the intention and ability to hold till maturity.

Available for sale

These are investments which do not fall under held for trading and held to maturity categories.

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the Company commits to purchase or sell the investments. Investments (other than held for trading) are initially measured at fair value plus transaction cost associated with the investment. Investments classified as held for trading are initially measured at fair value, and transaction costs are expensed in the profit and loss account.

After initial recognition, quoted securities (other than those classified as held to maturity) are carried at market value. Unquoted securities are valued at cost less impairment in value, if any. Held to maturity securities are carried at amortised cost.

Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is included in the statement of comprehensive income and is shown in the statement of financial position as part of equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realised upon disposal or in case of impairment of securities. The unrealised surplus / (deficit) arising on revaluation of quoted securities which are classified as held for trading is taken to the profit and loss account.

Premium or discount on debt securities classified as available for sale and held to maturity is amortised using effective interest method and taken to the profit and loss account.

4.4 Impairment

Available-for-sale equity securities

Provision for diminution in the values of securities (except for debt securities) is made after considering impairment, if any, in their value and is taken to profit and loss account. Impairment is booked when there is an objective evidence of significant or prolonged decline in the value of such securities. Provision for impairment against debt securities is made in accordance with the requirements of the Prudential Regulations of SBP. In case of unquoted equity securities, the breakup value of the security should be considered to determine impairment amount.

Non-financial assets

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts and the resulting impairment loss is taken to profit and loss account.

4.5 Operating fixed assets and depreciation

Capital work in progress

Capital work in progress is stated at cost less impairment, if any.

Property and equipment - owned

Operating fixed assets are stated at cost less accumulated depreciation and impairment loss, if any. Depreciation is charged to profit and loss account on straight line basis so as to charge the assets over their expected economic lives at the rates specified in note 10.1. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Full month depreciation is charged in the month the assets are available for use and no depreciation is charged in the month of disposal.

Subsequent costs are included in the asset's carrying amount or recognised 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposal of assets are included in profit and loss account. The Company reviews the rate of depreciation / useful life, residual values and value of assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of operating fixed assets with a corresponding effect on depreciation charge and impairment.

Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and impairment, if any. Amortisation is based on straight line method by taking into consideration the estimated useful life of assets at the rates specified in note 11. Intangible assets are amortised on prorata basis i.e. full month amortisation in the month of purchase and no amortisation in the month of disposal.

4.6 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss account except to the extent that it relates to the items recognised directly in equity or surplus on revaluation of assets, in which case it is recognised in equity or surplus on revaluation of assets.

Current

Provision for current tax is based on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date and any adjustments to the tax payable in respect of previous years. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities.

Deferred

Deferred tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences, except in respect of taxable temporary differences associated with investment in foreign operations, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

The carrying amount of deferred income tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit or taxable temporary differences will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

During the year, the Company has been exempted from income tax as the Company is included in Second Schedule of Finance Act, 2018. Accordingly, the Company has reversed tax / deferred tax in the current year.

4.7 Advances

These are stated net of provisions for non - performing advances. Provision for non - performing advances is determined in accordance with the requirements of the Prudential Regulations and is charged to the profit and loss account. Advances are written-off when there are no realistic prospects of recovery.

4.8 Revenue recognition

(a) Mark-up / return / interest income is recognised on a time proportion basis taking into account effective yield on the asset, except where recovery is considered doubtful, the income is recognised on receipt basis. Interest / return / mark-up on rescheduled / restructured advances and investments is recognised as permitted by the Prudential Regulations issued by the SBP.

(b) Gain or loss on sale of investments are recognised in profit and loss account in the year in which they arise.

(c) Dividend income is recognised when the Company's right to receive the dividend is established.

(d) Fee and commission income are recognised as services are performed.

4.9 Employees' benefits

Defined benefit plan

The Company provide gratuity for all its confirmed employees. The Company's costs and contributions are determined based on actuarial valuation carried out at each year end using Projected Unit Credit Actuarial Method. All actuarial gains and losses are recognised in 'other comprehensive income' as they occur and are not reclassified to profit and loss in subsequent periods.

Defined contribution plan

The Company provides provident fund benefit for all its regular permanent employees. Equal monthly contributions are made both by the Company and its employees to the fund at the rate of 10% of the basic salary in accordance with the terms of employment.

Compensated absences

The Company accounts for all accumulating compensated absences when employees render service that increases their entitlement to future compensated absences.

4.10 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 recognised amount and the Company intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off - set and the net amount is reported in the financial statements.

4.11 Other provisions

Other provisions are recognised when the Company has a legal or constructive obligation as a result of a past event, and it is probable that outflow of resources embodying economic benefits would be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and are adjusted to reflect the current best estimate.

4.12 Financial assets and liabilities

Financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provision of the instrument. Financial assets are de-recognised when the contractual right future cash flows from the asset expires or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognised when obligation specific in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognised in the profit or loss account of the current period.

4.13 Dividend and appropriation to reserves

Dividend and appropriation to reserves, except appropriation which is required by the law after the balance sheet date, is recognised as liability in the Company's financial statements in the period in which these are approved.

4.14 Earnings per share

The Company presents basic and diluted earnings per share (EPS). Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. There were no convertible dilutive potential ordinary shares in issue at 31 December 2018.

4.15 Segment information

A segment is distinguishable component of the Company that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

4.15.1 Geographical segments

The Company operates only in Pakistan.

4.16 Statutory reserve

Every DFI incorporated in Pakistan is required to transfer 20% of its profit to a statutory reserve until the reserve equals share capital, thereafter 10% of the profit of the DFI is to be transferred to this reserve.

4.17 Borrowings / deposits

Borrowings / deposits are recorded at the amount of proceeds received. The cost of borrowings / deposits is recognised on an accrual basis as an expense in the period in which it is incurred

5 CASH AND BALANCES WITH TREASURY BANKS

	Note	2018	2017
		(Rupees in '000)	
In hand			
Local currency		-	-
Foreign currency		-	-
		-	-
With State Bank of Pakistan in			
Local currency current account		500	-
		500	-
With National Bank of Pakistan in			
Local currency current account		-	-
Local currency deposit account - NIDA	5.1	153	14,083
		153	14,083
Prize bonds		-	-
		653	14,083

5.1 This represents the amount placed in National Bank of Pakistan (National Income Daily Account-NIDA) carrying mark-up at the rate ranging from 3.75% to 8% (2017 : 3.75%) per annum.

6 BALANCES WITH OTHER BANKS

	Note	2018	2017
		(Rupees in '000)	
In Pakistan			
In current account		179	275
In deposit account	6.1	504,387	1,240,300
		504,566	1,240,575
Outside Pakistan			
In current account		-	-
In deposit account		-	-
		-	-
		504,566	1,240,575

6.1 These include term deposit receipt (TDRs) of Rs. 500 million (2017 : Rs. 1,240 million) maturing on 14th January 2019 (2017: maturing between 19th January 2018 to 26th January 2018). These carry mark-up at the rate of 11.2% (2017: 3.75% to 6.75%) per annum.

7 LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2018	2017
		(Rupees in '000)	
Clean money lendings	7.1	12,000	-
Certificate of Investments	7.2	900,000	-
		912,000	-
Less: provision held against Lending to Financial Institutions		-	-
Lending to Financial Institutions - net of provision		912,000	-

7.1 This pertains to clean money lendings to Pak Oman Investment Company Limited amounting to Rs. 12 million (2017 : Nil) maturing on 4th January 2019. These carry mark-up at the rate of 10.25% per annum.

7.2 This pertains to certificate of investments (COIs) of Pak Oman Investment Company Limited amounting to Rs. 900 million (2017 : Nil) maturing on 17th January 2019. These carry mark-up at the rate of 10.3% per annum.

7.3 Particulars of lending

	2018	2017
	(Rupees in '000)	
In local currency	912,000	-
In foreign currencies	-	-
	912,000	-

8 INVESTMENTS

8.1 Investments by type:

	Note	2018 Cost / amortised cost	2018 Provision for diminution	2018 Surplus / (deficit)	2018 Carrying value	2017 Cost / amortised cost	2017 Provision for diminution	2017 Surplus / (deficit)	2017 Carrying value
		(Rupees in '000)							
Held-to-maturity securities									
Federal Government Securities	8.3	1,009,632	-	-	1,009,632	-	-	-	-
		1,009,632	-	-	1,009,632	-	-	-	-
Total Investments		1,009,632	-	-	1,009,632	-	-	-	-

8.2 Investments by segments:

	2018 Cost / amortised cost	2018 Provision for diminution	2018 Surplus / (deficit)	2018 Carrying value	2017 Cost / amortised cost	2017 Provision for diminution	2017 Surplus / (deficit)	2017 Carrying value
	(Rupees in '000)							
Federal Government Securities:								
Market Treasury Bills	1,009,632	-	-	1,009,632	-	-	-	-
	1,009,632	-	-	1,009,632	-	-	-	-
Total Investments	1,009,632	-	-	1,009,632	-	-	-	-

8.3 Held to Maturity securities are as follows:

	Cost 2018	Cost 2017
	(Rupees in '000)	
Federal Government Securities - Government guaranteed		
Market Treasury Bill	1,009,632	-

8.3.1 The market value of securities classified as held-to-maturity as at 31 December 2018 amounted to Rs. 1,017 million (2017 : Nil).

9 ADVANCES

	Performing 2018	Performing 2017	Non Performing 2018	Non Performing 2017	Total 2018	Total 2017
	(Rupees in '000)					
Loans, cash credits, running finances, etc	1,200,000	-	-	-	1,200,000	-
Advances - gross	1,200,000	-	-	-	1,200,000	-
Provision against advances						
- Specific	-	-	-	-	-	-
- General	-	-	-	-	-	-
	-	-	-	-	-	-
Advances - net of provision	1,200,000	-	-	-	1,200,000	-

9.1 Particulars of advances (Gross)

	Note	2018	2017
		(Rupees in '000)	
In local currency		1,200,000	-
In foreign currencies		-	-
		1,200,000	-

10 FIXED ASSETS

	Note	2018	2017
Capital work-in-progress		-	-
Property and equipment	10.1	45,067	32,740
		45,067	32,740

10.1 Property and Equipment

	2018			
	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Total
	(Rupees in '000)			
As at 01 January 2018				
Cost	25,155	3,618	5,235	34,008
Accumulated depreciation	(248)	(625)	(395)	(1,268)
Net book value	24,907	2,993	4,840	32,740
Year ended 31 December 2018				
Opening net book value	24,907	2,993	4,840	32,740
Additions	-	10,753	8,270	19,023
Disposals	-	(298)	-	(298)
Depreciation charge	(2,985)	(2,090)	(1,323)	(6,398)
Closing net book value	21,922	11,358	11,787	45,067
As at 31 December 2018				
Cost	25,155	14,073	13,505	52,733
Accumulated depreciation	(3,233)	(2,715)	(1,718)	(7,666)
Net book value	21,922	11,358	11,787	45,067
Rate of depreciation (percentage)	10%-20%	20%-33%	20%	

	2017			
	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Total
	(Rupees in '000)			
As at 01 January 2017				
Cost	-	1,286	-	1,286
Accumulated depreciation	-	(46)	-	(46)
Net book value	-	1,240	-	1,240
Year ended 31 December 2017				
Opening net book value	-	1,240	-	1,240
Additions	25,155	2,332	5,235	32,722
Disposals	-	-	-	-
Depreciation charge	(248)	(579)	(395)	(1,222)
Closing net book value	24,907	2,993	4,840	32,740
As at 31 December 2017				
Cost	25,155	3,618	5,235	34,008
Accumulated depreciation	(248)	(625)	(395)	(1,268)
Net book value	24,907	2,993	4,840	32,740
Rate of depreciation (percentage)	10%-20%	20%-33%	20%	

10.1.1 Details of disposal of fixed assets during the year

	Cost	Net book value	Sale price	Mode of disposal	Particulars of the purchaser
	(Rupees '000)				
Laptop	123	42	42	Final settlement	Mr. Kokularupan Narayanasamy, Ex-CEO
Mobile	98	62	62	Final settlement	

11 INTANGIBLE ASSETS

	2018	
	Computer software	Total
	(Rupees in 000)	
As at 01 January 2018		
Cost	-	-
Accumulated amortisation and impairment	-	-
Net book value	-	-
Year ended 31 December 2018		
Opening net book value	-	-
Additions:		
- developed internally	-	-
- directly purchased	11,300	11,300
- through business combinations	-	-
	11,300	11,300
Impairment loss recognised in the profit and loss account - net	-	-
Disposals	-	-
Amortisation charge	(188)	(188)
Exchange rate adjustments	-	-
Other adjustments	-	-
Closing net book value	11,112	11,112
As at 31 December 2018		
Cost	11,300	11,300
Accumulated amortisation and impairment	(188)	(188)
Net book value	11,112	11,112
Rate of amortisation (percentage)	20%	20%
Useful life	5 years	5 years

12 DEFERRED TAX ASSETS

	2018			
	At 01 Jan 2018	Recognised in P&L	Recgonised in OCI	At Dec 31 2018
	---------- (Rupees in '000) ----------			
Deductible Temporary Differences on				
- Tax losses carried forward	2,582	(2,582)	-	-
- Post retirement employee benefits	-	-	-	-
- Compensated absences	463	(463)	-	-
	3,045	(3,045)	-	-
Taxable Temporary Differences on				
- Accelerated tax depreciation	(1,324)	1,324	-	-
	1,721	(1,721)	-	-

	2017			
	At 01 Jan 2017	Recognised in P&L A/C	Recgonised in OCI	At Dec 31 2017
	---------- (Rupees in '000) ----------			
Deductible Temporary Differences on				
- Tax losses carried forward	-	2,582	-	2,582
- Compensated absences	148	315	-	463
	148	2,897	-	3,045
Taxable Temporary Differences on				
- Accelerated tax depreciation	(174)	(1,150)	-	1,324
	(26)	1,747	-	1,721

12.1 During the year, the Company has been exempted from income tax as the Company is included in Second Schedule of Finance Act 2018. Accordingly, the Company has reversed deferred tax in the current year.

13 OTHER ASSETS

	Note	2018	2017
		(Rupees in '000)	
Income/ Mark-up accrued in local currency - net of provision		26,661	2,850
Advances, deposits, advance rent and other prepayments		11,672	8,818
Advance taxation (payments less provisions)		28,315	19,934
		66,648	31,602
Less: Provision held against other assets		-	-
Other Assets - total		66,648	31,602

14 ADVANCE AGAINST SHARE CAPITAL

	Note	2018	2017
Ministry of finance	14.1	-	1,159,905
		-	1,159,905

14.1 The amount represents an advance received from Government of Pakistan - Ministry of Finance for the issuance of share capital. During the year 115.9 million (2017: Nil) shares are issued against the said amount.

15 OTHER LIABILITIES

	2018	2017
	(Rupees in '000)	
Payable to defined contribution plan	14,715	-
Payable against purchase of fixed assets	5,551	3,697
Salaries payable	2,025	4,324
Accrued expenses	14,297	2,451
	36,588	10,472

16 SHARE CAPITAL

16.1 Authorized Capital

2018	2017		2018	2017
(Number of shares)				
1,000,000,000	1,000,000,000	Ordinary shares of Rs.10 each	10,000,000	10,000,000

16.2 Issued, subscribed and paid up

2018	2017		2018	2017
(Number of shares)				
		<u>Ordinary shares</u>		
365,850,600	15,000,100	Fully paid in cash	3,658,506	150,001

16.2.1 During the year, the Company has made a right issue of 350,850,500 shares at a price of Rs. 10 each to its existing shareholders in proportion to their shareholdings which was approved by the Board of Directors in their meeting held on March 10, 2018. All the shares were subscribed by the existing shareholders as per the Shareholders' Agreement.

16.3 Major shareholdings of the Company are:

Number of shares held		Name of Shareholder	Shareholding %	
31 December 2018	31 December 2017		31 December 2018	31 December 2017
120,000,000	4,009,500	Ministry of Finance – Islamic Republic of Pakistan	32.80%	26.73%
60,000,000	2,673,000	National Bank of Pakistan	16.40%	17.82%
50,000,000	1,530,000	Habib Bank Limited	13.67%	10.20%
50,000,000	1,530,000	United Bank Limited	13.67%	10.20%
30,000,000	1,836,000	Askari Bank Limited	8.20%	12.24%
30,000,000	1,224,000	Bank Alfalah Limited	8.20%	8.16%
20,000,000	1,224,000	Allied Bank Limited	5.47%	8.16%
5,000,000	123,000	Bank AL Habib Limited	1.37%	0.82%
667,500	667,500	House Building Finance Company Limited	0.18%	4.45%
183,000	183,000	Summit Bank Limited	0.05%	1.22%
100	100	Directors	0.00%	0.00%

17 CONTINGENCIES AND COMMITMENTS

There are no contingencies and commitments as at 31 December 2018 (2017 : Nil).

18 MARK-UP/RETURN/INTEREST EARNED

	2018	2017
	(Rupees in '000)	
on Loans and advances	10,578	-
on Investments	61,964	-
on Lendings to financial institutions	89,833	-
on Balances with banks	61,230	72,687
	223,605	72,687

19 OTHER INCOME

	2018	2017
Gain on sale of fixed assets-net	23	-
Bid fee for purchase of assets	7	-
Reversal of a creditor	-	2,134
	30	2,134

20 OPERATING EXPENSES

	Note	2018	2017
		(Rupees in '000)	
Total compensation expense	20.1	109,381	60,221
Property expense			
Rent & taxes		13,570	10,120
Insurance		506	317
Utilities cost		990	-
Security (including guards)		528	-
Repair & maintenance (including janitorial charges)		1,965	583
		17,559	11,020
Information technology expenses			
Hardware maintenance		285	-
Depreciation		2,090	579
Amortisation		188	-
Network charges		1,241	-
		3,804	579
Other operating expenses			
Directors' fees and allowances		4,878	2,469
Legal & professional charges		19,911	2,770
Travelling & conveyance		2,431	747
Depreciation		4,308	644
Training & development		318	-
Postage & courier charges		66	-
Communication		322	402
Stationery & printing		468	636
Marketing, advertisement & publicity		579	269
Auditors Remuneration	20.2	823	358
Others		2,029	372
		36,133	8,667
		166,877	80,487

20.1 Total compensation expense

	2018	2017
	(Rupees in '000)	
Managerial Remuneration		
i) Fixed	92,862	60,221
ii) Variable		
of which;		
a) Cash Bonus / Awards etc.	-	-
b) Bonus & Awards in Shares etc.	-	-
Charge for defined benefit plan	7,242	-
Contribution to defined contribution plan	6,046	-
Rent & house maintenance	-	-
Utilities	-	-
Medical	546	-
Conveyance	123	-
Compensated absences	1,781	
Others	781	-
Sub-total	109,381	60,221
Sign-on Bonus	-	-
Severance Allowance	-	-
Grand Total	109,381	60,221

20.2 Auditors' remuneration

Audit fee	593	358
Fee for other statutory certifications	-	-
Fee for audit of foreign branches	-	-
Fee for audit of employee funds	-	-
Special certifications and sundry advisory services	150	-
Tax services	-	-
Out-of-pocket expenses	80	-
	823	358

21 TAXATION

Current	-	-
Prior years	-	-
Deferred	(1,721)	1,747
	(1,721)	1,747

		2018	2017
		(Rupees in '000)	
21.1	**Relationship between tax expense and accounting profit**		
	Profit / (loss) before taxation	56,758	(5,666)
	Tax rate (2018: Nil , 2017: 30%)	-	-
	Tax effects of:		
	Deferred tax	(1,721)	1,747
	Expenses that are not deductible in determining taxable income	-	-
	Tax credit on prior period losses	-	-
		(1,721)	1,747

21.2 During the year, the Company has been exempted from income tax as the Company is included in Second Schedule of Finance Act 2018. Accordingly, the Company has reversed deferred tax in the current year.

22 BASIC & DILUTED EARNINGS/ (LOSS) PER SHARE

	2018	2017
	(Rupees in '000)	
Profit / (loss) for the year	55,037	(3,919)
	(Number)	
Weighted average number of ordinary shares	248,900,433	15,000,100
	(Rupees)	
Basic earnings / (loss) per share	0.22	(0.26)

22.1 Diluted earnings per share has not been presented as the Company does not have any convertible instruments in issue as at 31 December 2018 which would have any effect on the earnings per share.

23 CASH AND CASH EQUIVALENTS

	2018	2017
	(Rupees in '000)	
Cash and Balance with Treasury Banks	653	14,083
Balance with other banks	504,566	1,240,575
	505,219	1,254,658

23.1 Reconciliation of movement of liabilities to cash flows arising from financing activities

	Liabilities							Equity			
	Bills payable	Borrowings	Deposits and other accounts	Sub-ordinated debt	Advance against issued share capital	Liabilities against assets subject to finance lease	Other liabilities	Share capital	Reserves	Unappropriated profit	Total
	(Rupees in '000)										
Balance as at 01 January 2018	-	-	-	-	1,159,905	-	10,472	150,001	-	343	1,320,721
Changes from financing cash flows											
Receipts from issue of share capital	-	-	-	-	-	-	-	2,348,600	-	-	2,348,600
Dividend paid	-	-	-	-	-	-	-	-	-	-	-
Total changes from financing cash flows	-	-	-	-	-	-	-	2,348,600	-	-	2,348,600
Liability - related											
Changes in bills payable	-	-	-	-	-	-	-	-	-	-	-
Changes in borrowings	-	-	-	-	-	-	-	-	-	-	-
Changes in deposits and other accounts	-	-	-	-	-	-	-	-	-	-	-
Changes in liabilities against assets subject											-
to finance lease	-	-	-	-	-	-	-	-	-	-	-
Changes in Sub-ordinated debt	-	-	-	-	-	-	-	-	-	-	-
Changes in advance against issued share capital	-	-	-	-	-	-	-	-	-	-	-
Changes in other liabilities											-
- Cash based	-	-	-	-	-	-	25,320	-	-	-	25,320
- Non-cash based - actuarial loss on											-
remeasurements of defined benefit plan	-	-	-	-	-	-	796	-	-	(796)	-
Issue of share capital	-	-	-	-	-	-	-	-	-	-	-
Transfer of profit to reserve	-	-	-	-	-	-	-	-	11,007	(11,007)	-
Profit for the year	-	-	-	-	-	-	-	-	-	55,037	55,037
Advance against share capital	-	-	-	-	(1,159,905)	-	-	1,159,905	-	-	-
Transfer from surplus on revaluation of fixed											-
assets to unappropriated profit - net of tax	-	-	-	-	-	-	-	-	-	-	-
Exchange differences on translation of net											-
investment in foreign branches	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	(1,159,905)	-	26,116	1,159,905	11,007	43,234	80,357
Balance as at 31 December 2018	-	-	-	-	-	-	36,588	3,658,506	11,007	43,577	3,749,678

	Liabilities							Equity			
	Bills payable	Borrowings	Deposits and other accounts	Sub-ordinated debt	Advance against issued share capital	Liabilities against assets subject to finance lease	Other liabilities	Share capital	Reserves	Unappropriated profit	Total
	(Rupees in '000)										
Balance as at 01 January 2017	-	-	-	-	1,159,905	-	9,973	1	-	4,262	1,174,141
Changes from financing cash flows											
Receipts from sub - ordinated loans - net	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-	-
Total changes from financing cash flows	-	-	-	-	-	-	-	-	-	-	-
Liability - related											
Changes in bills payable	-	-	-	-	-	-	-	-	-	-	-
Changes in borrowings	-	-	-	-	-	-	-	-	-	-	-
Changes in deposits and other accounts	-	-	-	-	-	-	-	-	-	-	-
Changes in liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-
Changes in Sub-ordinated debt	-	-	-	-	-	-	-	-	-	-	-
Changes in advance against issued share capital	-	-	-	-	-	-	-	-	-	-	-
Changes in other liabilities											-
- Cash based	-	-	-	-	-	-	499	-	-	-	499
- Non-cash based - actuarial loss on											-
remeasurements of defined benefit plan	-	-	-	-	-	-	-	-	-	-	-
Advance against share capital	-	-	-	-	-	-	-	150,000	-	-	150,000
Transfer of profit to reserve	-	-	-	-	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	-	-	-	-	(3,919)	(3,919)
Other Adjustment	-	-	-	-	-	-	-	-	-	-	-
Transfer from surplus on revaluation of fixed											-
assets to unappropriated profit - net of tax	-	-	-	-	-	-	-	-	-	-	-
Exchange differences on translation of net											-
investment in foreign branches	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	499	150,000	-	(3,919)	146,580
Balance as at 31 December 2017	-	-	-	-	1,159,905	-	10,472	150,001	-	343	1,320,721

24 STAFF STRENGTH

	2018	2017
	(Number)	
Permanent	19	9
On Company contract	1	2
Others (Third Party Contract)	7	7
Company's own staff strength at the end of the year	27	18

25 DEFINED BENEFIT PLAN

25.1 General description

The Company provides gratuity for all its confirmed employees. The company's costs and contributions are determined based on actuarial valuation carried out at each year end using Projected Unit Credit Actuarial Method. All actuarial gains and losses are recognised in 'other comprehensive income' as they occur and are not reclassified to profit and loss in subsequent periods.

25.2 Number of Employees under the scheme

The number of employees covered under the defined benefit scheme are:	2018	2017
	(Number)	
Gratuity Fund	20	-

25.3 Principal actuarial assumptions

The actuarial valuations were carried out as at 31 December 2018 using the following significant assumptions:

	2018	2017
	(Per annum)	
Discount rate	13.75%	-
Expected rate of return on plan assets	-	-
Expected rate of salary increase	13.75%	-

25.4 Reconciliation of (receivable from) / payable to defined benefit plans

	Gratuity fund	
	2018	2017
	(Rupees in '000)	
Present value of obligations	4,938	-
Fair value of plan assets	-	-
(Receivable) / Payable	-	-
	4,938	-

	Gratuity fund	
	2018	2017
	(Rupees in '000)	

25.5 Movement in defined benefit obligations

	2018	2017
Obligations at the beginning of the year	-	-
Current service cost	3,260	-
Past service cost	3,331	-
Interest cost	651	-
Benefits paid by the company	(3,100)	-
Re-measurement loss / (gain)	796	-
Obligations at the end of the year	4,938	-

25.6 Charge for defined benefit plans

25.6.1 Cost recognised in profit and loss

	2018	2017
Current service cost	3,260	-
Past service cost	3,331	-
Net interest on defined benefit asset / liability	651	-
	7,242	-

25.6.2 Re-measurements recognised in OCI during the year

	2018	2017
Loss / (gain) on obligation		
- Demographic assumptions	-	-
- Financial assumptions	809	-
- Experience adjustment	(13)	-
Return on plan assets over interest income	-	-
Total re-measurements recognised in OCI	796	-

25.7 Sensitivity analysis

	2018	2017
1% increase in discount rate	4,601	-
1% decrease in discount rate	5,306	-
1 % increase in expected rate of salary increase	5,316	-
1 % decrease in expected rate of salary increase	4,589	-

	2018	2017
25.8 Expected charge / (reversal) for the next financial year	8,224	-

25.9 Maturity profile

The weighted average duration of the obligation is 14.24 years.

Distribution of timing of benefit payments:

	2018	2017
	(Rupees in '000)	
within the next 12 months (next annual reporting period)	67	-
between 2 and 5 years	1,947	-
between 5 and 10 years	42,704	-
	44,718	-

25.10 Funding Policy

The liabilities under the scheme in respect of members in service on the valuation date on a going concern basis and having regard to projected future salary increases, should be covered by the book reserve as of the valuation date and future additions to the book reserve.

25.11 Significant risk

Asset volitality

As the Defined Benefit Scheme is unfunded, there is no asset volatility and no risks arise because of this.

Changes in bond yields

The valuation of the Gratuity Liability is discounted with reference to bond yields. So any increase in Bond yields will lower the Gratuity Liability and vice versa.

Inflation risk

The salary inflation is the major risk that the gratuity fund liability carries. In a general economic sense and in a longer view, there is a case that if bond yields increase, the change in salary inflation generally offsets the gains from the decrease in discounted gratuity liability.

Life expectancy / Withdrawal rate

The risk of higher or lower withdrawal experience than assumed. The final effect could go either way depending on the beneficiaries' service/age distribution and the benefit.

Final salary risk

The risk that the final salary at the time of cessation of service is higher than assumed. Since the benefit is calculated on the final salary, the benefit amount increases similarly.

Retention risk

The risk that employee will not be motivated to continue the service or start working with the Company if no market comparable retirement benefit is provided.

Compliance risk

The risk that retirement benefits offered by the Company does not comply with minimum statutory requirements.

Legal / political risk

The risk that the legal / political environment changes and the Company is required to offer additional or different retirement benefits than what the Company projected.

26 DEFINED CONTRIBUTION PLAN

26.1 Provident Fund

The general description of the plan is included in note 4.9.

Contributions made during the year :

	(Rupees in '000)
Employer's Contribution	3,600
Employees' Contribution	3,600

The number of employees covered under the defined contribution plan are 20 (2017: 10).

27 COMPENSATION OF DIRECTORS AND EXECUTIVES

27.1 Total Compensation Expense

	Chief Executive		Directors		Executives	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Fees / remuneration	-	-	4,878	2,919	-	-
Managerial remuneration	27,487	18,600	-	-	46,041	27,350
Medical	440	-	-	-	54	-
Utilities	-	-	-	-	-	-
Membership fee	-	-	-	-	-	-
Others	-	3,692	-	-	-	5,582
	27,927	22,292	4,878	2,919	46,095	32,932
Number of persons	2	1	10	10	11	9

27.2 Chief Executive and an Executive are entitled to Company's maintained cars with fuel in accordance with the terms of their employment and are entitled to medical and life insurance benefits in accordance with the policy of the Company. In addition, the Chief Executive is also provided with drivers, club memberships, security arrangements and payment of travel bills in accordance with their terms of employment.

27.3 Executive means employees other than Chief Executive Officer and directors, whose basic salary exceeds twelve hundred thousand rupees in a financial year.

28 FAIR VALUE MEASUREMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Fair value of financial instruments is based on:

Federal Government Securities	PKRV rates (Reuters page)
Non Government Debt Securities	Market prices

Fair value of fixed term advances of over one year cannot be calculated with sufficient reliability due to non - availability of relevant active market for similar assets and liabilities.

29 FAIR VALUE OF FINANCIAL ASSETS

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

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

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

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

The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

On balance sheet financial instruments	2018 Level 1	Level 2	Level 3	Total
	---------- (Rupees in '000) ----------			
Financial assets - disclosed but not measured at fair value				
Investments	-	1,009,632	-	1,009,632
Off-balance sheet financial instruments - measured at fair value	-	-	-	-

In the opinion of the management, the fair value of the remaining financial assets and liabilities is not significantly different from their carrying values.

30 RELATED PARTY TRANSACTIONS

Related parties of the Company comprise of major shareholders, directors, retirement benefit funds and key management personnel and their close family members.

Transactions with related parties of the Company are carried out on contractual basis in terms of the policy as approved by the Board of Directors. The transactions with employees of the Company are carried out in accordance with the terms of their employment.

Transactions with related parties, other than those disclosed in note 27 are summarised as follows:

	2018			2017		
	Directors	Key management personnel	Other related parties	Directors	Key management personnel	Other related parties
	---------- (Rupees in '000) ----------					
Balances with other banks						
In current accounts	-	-	179	-	-	275
In deposit accounts	-	-	4,540	-	-	1,254,383
	-	-	4,719	-	-	1,254,658
Advances						
Opening balance	-	-	-	-	-	-
Addition during the year	-	-	1,200,000	-	-	-
Repaid during the year	-	-	-	-	-	-
Transfer in / (out) - net	-	-	-	-	-	-
Closing balance	-	-	1,200,000	-	-	-
Other Assets						
Interest / mark-up accrued	-	-	10,578	-	-	-

RELATED PARTY TRANSACTIONS	2018			2017		
	Directors	Key management personnel	Other related parties	Directors	Key management personnel	Other related parties
	(Rupees in '000)					
Income						
Mark-up / return / interest earned	-	-	56,447	-	-	72,687

31 CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

Capital adequacy

As per requirements of SBP, the DFI is required to comply with the capital adequacy framework which comprises of the following capital standards:

i) Minimum Capital Requirement (MCR):

The MCR standard sets the paid - up capital that the DFI is required to hold at all times.

As of the statement of financial position date, the Company's paid - up capital stands at Rs. 3.65 billion. SBP has allowed the Company to operate with an Initial Paid-Up Capital (net of losses) - MCR level of at least Rs. 3.5 billion subject to MCR compliance with applicable paid-up capital requirement within a period of five years from the commencement of its operations/business.

On 22 February 2019, the Government of Pakistan on lend Rs. 7.051 billion under World Bank - Housing Finance Project. This has been disbursed in one tranche as a Sub-ordinated Loan, and if needed, can be converted into non-participatory Additional Tier 1 Capital.

ii) Capital Adequacy Ratio:

The Capital Adequacy Ratio (CAR) assesses the capital requirement based on the risks faced by the DFI. The DFI are required to comply with the CAR as specified by SBP.

During the year 2013, SBP issued revised instructions on the computation of CAR based on Basel III Capital Reforms as issued by the Basel Committee on Banking Supervision. These instructions became effective from 31 December 2013 with full implementation intended by 31 December 2019. These instructions also specify the transitional arrangements from 2013 to 2019.

Accordingly, the DFI has assessed and reported its Capital Adequacy Ratio in the financial statements on the basis of Basel III requirements as prescribed by SBP.

	2018	2017
	(Rupees in '000)	
Minimum Capital Requirement (MCR):		
Paid-up capital (net of losses)	3,658,506	150,001
Capital Adequacy Ratio (CAR):		
Eligible Common Equity Tier 1 (CET 1) Capital	3,701,981	148,279
Eligible Additional Tier 1 (ADT 1) Capital	-	-
Total Eligible Tier 1 Capital	3,701,981	148,279
Eligible Tier 2 Capital	-	-
Total Eligible Capital (Tier 1 + Tier 2)	3,701,981	148,279
Risk Weighted Assets (RWAs):		
Credit Risk	462,937	294,137
Market Risk	-	-
Operational Risk	220,106	120,500
Total	683,043	414,637
Common Equity Tier 1 Capital Adequacy ratio	541.98%	35.76%
Tier 1 Capital Adequacy Ratio	541.98%	35.76%
Total Capital Adequacy Ratio	541.98%	35.76%
Leverage Ratio (LR):		
Eligible Tier-1 Capital	3,701,981	148,279
Total Exposures	3,728,972	1,321,900
Leverage Ratio	99.28%	11.22%
Liquidity Coverage Ratio (LCR):		
Total High Quality Liquid Assets	653	N/A
Total Net Cash Outflow	463	N/A
Liquidity Coverage Ratio	1.41	-
Net Stable Funding Ratio (NSFR):		
Total Available Stable Funding	3,701,981	N/A
Total Required Stable Funding	1,689,582	N/A
Net Stable Funding Ratio	219.11%	-

31.1 The full disclosures on the capital adequacy, leverage ratio & liquidity requirements as per SBP instructions issued from time to time have been placed on the website. The link to the full disclosure is available at https://www.pmrc.com.pk.

32 RISK MANAGEMENT

The Company has set up objectives and policies to manage the risks that arise in connection with financial instruments. The risk management framework and policies of the Company are guided by specific objectives to ensure that comprehensive and adequate risk management policies are established to mitigate the salient risk elements in operations of the Company. The establishment of the overall financial risk management objectives is consistent and in tandem with the strategy to create and enhance shareholders' value, whilst guided by a prudent and robust framework of risk management policies. In achieving the objective of maximizing returns to shareholders, the board of directors takes cognizance of the risk elements that the Company is confronted with in its operations. In view of the multi-faceted risks inherent in the financial sector, the Company places great emphasis on the importance of risk management and has put in place clear and comprehensive risk management mechanisms and strategies to identify, monitor, manage and control the relevant risk factors.

Risk management organisation

Risk Management Department ensures that risks remain within the boundaries as defined by the board, comply with the risk parameters and prudential limits, establish systems and procedures and work out remedial measures.

Risk Management Committee implements credit risk policy and monitors credit risk in light with credit policy and prudential regulations.

The Company's risk management, compliance and internal audit department support the risk management function. The compliance department ensures that all the directives and guidelines issued by SBP are being complied with. Internal audit department reviews the compliance of internal control procedures with internal and regulatory standards.

32.1 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Exposure to credit risk for the Company arises primarily from lending activities and investments in fixed income securities.

A multi-tiered approach is being followed in the management of credit risk with the organizational structure, roles and responsibilities clearly outlined in the Credit Policy Manual. The Board is responsible for final approval of overall risk tolerance, limits for sectors and pricing strategies. Various business units responsible for undertaking risks are expected to comply with the credit policy and adhere to the independent risk management function. This is ensured through the implementation of a credit approval and documentation process adopted by the Company.

The Company uses both external and internal ratings to evaluate risk. The Company obtains external ratings from PACRA and JCR-VIS whereas a comprehensive risk assessment matrix model is used for internal ratings.

32.1.1 Lendings to financial institutions

Credit risk by public / private sector

	2018	2017	2018	2017	2018	2017
	Gross lendings		Non-performing lendings		Provision held	
	(Rupees in '000)					
Public/ Government	912,000	-	-	-	-	-
Private	-	-	-	-	-	-
	912,000	-	-	-	-	-

32.1.2 Investment in debt securities

Credit risk by industry sector

	Gross investments		Non-performing investments		Provision held	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Agriculture, Forestry, Hunting and Fishing	-	-	-	-	-	-
Mining and Quarrying	-	-	-	-	-	-
Textile	-	-	-	-	-	-
Chemical and Pharmaceuticals	-	-	-	-	-	-
Cement	-	-	-	-	-	-
Sugar	-	-	-	-	-	-
Footwear and Leather garments	-	-	-	-	-	-
Automobile and transportation equipment	-	-	-	-	-	-
Electronics and electrical appliances	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Power (electricity), Gas, Water, Sanitary	-	-	-	-	-	-
Wholesale and Retail Trade	-	-	-	-	-	-
Exports / Imports	-	-	-	-	-	-
Transport, Storage and Communication	-	-	-	-	-	-
Financial	-	-	-	-	-	-
Insurance	-	-	-	-	-	-
Services	-	-	-	-	-	-
Individuals	-	-	-	-	-	-
Others (Government)	1,009,632	-	-	-	-	-
	1,009,632	-	-	-	-	-

Credit risk by public / private sector

Public/ Government	1,009,632	-	-	-	-	-
Private	-	-	-	-	-	-
	1,009,632	-	-	-	-	-

32.1.3 Advances

Credit risk by industry sector

	2018	2017	2018	2017	2018	2017
	Gross Advances		Non-performing Advances		Provision held	
	(Rupees in '000)					
Agriculture, Forestry, Hunting and Fishing	-	-	-	-	-	-
Mining and Quarrying	-	-	-	-	-	-
Textile	-	-	-	-	-	-
Chemical and Pharmaceuticals	-	-	-	-	-	-
Cement	-	-	-	-	-	-
Sugar	-	-	-	-	-	-
Footwear and Leather garments	-	-	-	-	-	-
Automobile and transportation equipment	-	-	-	-	-	-
Electronics and electrical appliances	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Power (electricity), Gas, Water, Sanitary	-	-	-	-	-	-
Wholesale and Retail Trade	-	-	-	-	-	-
Exports / Imports	-	-	-	-	-	-
Transport, Storage and Communication	-	-	-	-	-	-
Financial	1,200,000	-	-	-	-	-
Insurance	-	-	-	-	-	-
Services	-	-	-	-	-	-
Individuals	-	-	-	-	-	-
Others (Government)	-	-	-	-	-	-
	1,200,000	-	-	-	-	-

Credit risk by public / private sector

	2018	2017	2018	2017	2018	2017
Public/ Government	-	-	-	-	-	-
Private	1,200,000	-	-	-	-	-
	1,200,000	-	-	-	-	- z

32.1.4 Concentration of Advances

The Company's top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs 1.2 billion (2017: Nil) are as follows:

	2018	2017
	(Rupees in '000)	
Funded	1,200,000	-
Non Funded	-	-
Total Exposure	1,200,000	-

The sanctioned limits against these top 10 exposures aggregated to Rs 1.2 billion (2017 : Nil)

Total funded classified therein

	2018		2017	
	Non-performing advances	Provision held	Non-performing advances	Provision held
	(Rupees in '000)			
OAEM	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	-	-	-	-

32.1.5 Advances - Province / Region-wise Disbursement & Utilization

	2018						
	Disbursements	Utilization					
Province / Region		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
	(Rupees in '000)						
Punjab	-	-	-	-	-	-	-
Sindh	1,200,000	1,000,000	200,000	-	-	-	-
KPK including FATA	-	-	-	-	-	-	-
Balochistan	-	-	-	-	-	-	-
Islamabad	-	-	-	-	-	-	-
AJK including Gilgit-Baltistan	-	-	-	-	-	-	-
Total	1,200,000	1,000,000.00	200,000	-	-	-	-

	2017						
	Disbursements	Utilization					
Province / Region		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
	(Rupees in '000)						
Punjab	-	-	-	-	-	-	-
Sindh	-	-	-	-	-	-	-
KPK including FATA	-	-	-	-	-	-	-
Balochistan	-	-	-	-	-	-	-
Islamabad	-	-	-	-	-	-	-
AJK including Gilgit-Baltistan	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

32.2 Market Risk

Market risk is the risk of loss arising from movements in market rates or prices, such as interest rates, foreign exchange rates, and equity prices.

The Company's business model primarily caters to refinancing loans with recourse to the Customers by issuing bonds in the capital market. Its main line of business is funding refinancing loans. Any surplus funds (primarily from equity) shall be invested in safe investment instruments.

An important element of the Company's internal control system over its interest rate risk management process is regular evaluation and review by independent reviewers. These reviews should ensure compliance with established processes and procedures while accepting any significant change for effective control mechanism. However, all such reviews and evaluations must be conducted regularly by individuals who are independent of the function they are assigned to review.

Moreover, the Company shall not be operating a Trading Book. Market Risk on the asset side only arises in the instruments which are earmarked as "Available for Sale".

32.2.1 Interest rate / yield Risk

Interest rate risk is the risk of loss from adverse movements in interest rates. ALCO monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Company arising from fluctuation in the market interest rates and mismatching or gaps in the amount of financial assets and financial liabilities in different maturity time bands.

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The lending, funding and investment activities of the Company are exposed to interest rate risk. The Company shall provide refinance loans to Customer with similar repayment structure and tenor as the underlying bond issued to fund those loans (i.e. the Company will match funding).

32.2.2 Balance sheet split by trading and banking books

	2018			2017		
	Banking book	Trading book	Total	Banking book	Trading book	Total
	-- (Rupees in '000) --					
Cash and balances with treasury banks	653	-	653	14,083	-	14,083
Balances with other banks	504,566	-	504,566	1,240,575	-	1,240,575
Lendings to financial institutions	912,000	-	912,000	-	-	-
Investments	1,009,632	-	1,009,632	-	-	-
Advances	1,200,000	-	1,200,000	-	-	-
Fixed assets	45,067	-	45,067	32,740	-	32,740
Intangible assets	11,112	-	11,112	-	-	-
Deferred tax assets	-	-	-	1,721	-	1,721
Other assets	66,648	-	66,648	31,602	-	31,602
	3,749,678	-	3,749,678	1,320,721	-	1,320,721

32.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

	Effective Yield / Interest rate	Total	2018									
			Exposed to Yield/ Interest risk									Non-interest bearing financial instruments
			Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
		(Rupees in '000)										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	5.88%	653	153	-	-	-	-	-	-	-	-	500
Balances with other banks	10.62%	504,566	504,387	-	-	-	-	-	-	-	-	179
Lending to financial institutions	10.62%	912,000	912,000	-	-	-	-	-	-	-	-	-
Investments	10.23%	1,009,632	-	1,009,632	-	-	-	-	-	-	-	-
Advances	10.77%	1,200,000	-	1,113	15,076	17,139	41,160	1,125,512	-	-	-	-
Other assets		66,648	-	-	-	-	-	-	-	-	-	66,648
		3,693,499	1,416,540	1,010,745	15,076	17,139	41,160	1,125,512	-	-	-	67,327
Liabilities												
Bills payable		-	-	-	-	-	-	-	-	-	-	-
Borrowings		-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Subordinated debt		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		36,588	-	-	-	-	-	-	-	-	-	36,588
		36,588	-	-	-	-	-	-	-	-	-	36,588
On-balance sheet gap		3,656,911	1,416,540	1,010,745	15,076	17,139	41,160	1,125,512	-	-	-	30,739
Off-balance sheet financial instruments												
Documentary credits and short-term trade-related transactions		-	-	-	-	-	-	-	-	-	-	-
Commitments in respect of:												
- forward foreign exchange contracts		-	-	-	-	-	-	-	-	-	-	-
- forward government securities transactions		-	-	-	-	-	-	-	-	-	-	-
- derivatives		-	-	-	-	-	-	-	-	-	-	-
- forward lending		-	-	-	-	-	-	-	-	-	-	-
Other commitments		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap			1,416,540	1,010,745	15,076	17,139	41,160	1,125,512	-	-	-	30,739
Cumulative Yield / Interest Risk Sensitivity Gap			1,416,540	2,427,285	2,442,361	2,459,500	2,500,660	3,626,172	3,626,172	3,626,172	3,626,172	-

	Effective Yield / Interest rate	Total	2017 Exposed to Yield/ Interest risk Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-interest bearing financial instruments
	(Rupees in '000)											
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks		-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	3.75-6.75%	1,254,658	1,254,658	-	-	-	-	-	-	-	-	-
Lending to financial institutions		-	-	-	-	-	-	-	-	-	-	-
Investments		-	-	-	-	-	-	-	-	-	-	-
Advances		-	-	-	-	-	-	-	-	-	-	-
Other assets		11,668	-	-	-	-	-	-	-	-	-	11,668
		1,266,326	1,254,658	-	-	-	-	-	-	-	-	11,668
Liabilities												
Advance against share capital		1,159,905	-	-	-	-	-	-	-	-	-	1,159,905
Borrowings		-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Subordinated debt		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		10,472	-	-	-	-	-	-	-	-	-	10,472
		1,170,377	-	-	-	-	-	-	-	-	-	1,170,377
On-balance sheet gap		95,949	1,254,658	-	-	-	-	-	-	-	-	(1,158,709)
Off-balance sheet financial instruments												
Commitments in respect of:												
- forward foreign exchange contracts		-	-	-	-	-	-	-	-	-	-	-
- forward government securities transactions		-	-	-	-	-	-	-	-	-	-	-
- derivatives		-	-	-	-	-	-	-	-	-	-	-
- forward lending		-	-	-	-	-	-	-	-	-	-	-
Other commitments		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap			1,254,658	-	-	-	-	-	-	-	-	(1,158,709)
Cumulative Yield / Interest Risk Sensitivity Gap			1,254,658	-	-	-	-	-	-	-	-	-

32.3 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. Operational risk is inherent in the company's business and operational activities.

The Company has instituted sound internal controls through policies, plans and processes approved by the Board of Directors for controlling and mitigating potential operational risk. The system of internal controls include financial, operational and compliance controls and is performed on continuous basis by the senior management and all levels of employees within the Company.

The objectives of internal controls include the safeguarding of assets from inappropriate use or from loss and fraud, ensuring that liabilities are identified and managed and that the quality of internal and external reporting is maintained.

The Company has also formulated guidelines for information security, employee conduct and for prevention of fraud and forgery to ensure smooth functioning of the Company's operations.

Operational risk disclosures – Basel II Specific

The Company uses Basic Indicator Approach to calculate capital charge for operational risk as per Basel regulatory framework.

32.4 Liquidity Risk

Liquidity risk is the risk of loss to the Company arising from its inability to meet obligations as they fall due or to fund growth in assets, without incurring unacceptable losses.

Objectives of liquidity management in the Company are that:

- A reasonable amount of liquid assets are maintained at all times.
- Measurement and projection of funding requirements during various scenarios.
- Excess funds are profitably deployed.

Besides, the Board will be responsible for formulation of over-all policy, the following will be involved in Liquidity Risk Management Process with roles and responsibilities defined hereunder:

- Risk Management Department
- Finance Department
- Treasury Department
- Asset Liability Committee

32.4.1 Maturities of Assets and Liabilities - based on contractual maturity of the assets and liabilities of the Company

2018

	Total	Upto 1 Day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 Month	Over 1 to 2 Months	Over 2 to 3 Months	Over 3 to 6 Months	Over 6 to 9 Months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 Years	Over 5 Years
	(Rupees in '000)													
Assets														
Cash and balances with treasury banks	653	653	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	504,566	4,566	-	500,000	-	-	-	-	-	-	-	-	-	-
Lending to financial institutions	912,000	-	12,000	-	900,000	-	-	-	-	-	-	-	-	-
Investments	1,009,632	-	-	-	-	1,009,632	-	-	-	-	-	-	-	-
Advances	1,200,000	-	-	-	-	1,113	-	15,076	1,285	15,854	41,160	1,125,512	-	-
Fixed assets	45,067	-	-	-	742	1,484	-	2,226	-	4,429	9,186	14,959	12,041	-
Intangible assets	11,112	-	-	-	185	185	185	556	556	556	2,222	2,222	4,445	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	66,648	-	-	-	14,595	8,316	-	8,509	-	-	29,801	-	-	5,427
	3,749,678	5,219	12,000	500,000	915,522	1,020,730	185	26,367	1,841	20,839	82,369	1,142,693	16,486	5,427
Liabilities														
Bills payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	36,588	-	-	-	1,850	10,998	-	16,302	-	7,438	-	-	-	-
	36,588	-	-	-	1,850	10,998	-	16,302	-	7,438	-	-	-	-
Net assets	3,713,090	5,219	12,000	500,000	913,672	1,009,732	185	10,065	1,841	13,401	82,369	1,142,693	16,486	5,427
Share capital	3,658,506													
Reserves	11,007													
Unappropriated profit	43,577													
Surplus / (Deficit) on revaluation of assets	-													
	3,713,090													

2017

	Total	Upto 1 Day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 Month	Over 1 to 2 Months	Over 2 to 3 Months	Over 3 to 6 Months	Over 6 to 9 Months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 Years	Over 5 Years
	(Rupees in '000)													
Assets														
Cash and balances with treasury banks	14,083	14,083	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	1,240,575	-	-	-	1,240,575	-	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fixed assets	32,740	-	-	-	364	817	-	1,226	-	2,428	5,148	9,712	13,045	-
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	1,721	-	-	-	-	-	-	-	1,721	-	-	-	-	-
Other assets	31,602	-	-	-	3,702	1,483	-	470	-	627	19,933	-	-	5,387
	1,320,721	14,083	-	-	1,244,641	2,300	-	1,696	1,721	3,055	25,081	9,712	13,045	5,387
Liabilities														
Advance against share capital	1,159,905	-	-	-	-	1,159,905	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	10,472	-	-	-	4,141	5,406	-	925	-	-	-	-	-	-
	1,170,377	-	-	-	4,141	1,165,311	-	925	-	-	-	-	-	-
Net assets	150,344	14,083	-	-	1,240,500	(1,163,011)	-	771	1,721	3,055	25,081	9,712	13,045	5,387
Share capital	150,001													
Reserves	-													
Unappropriated profit	343													
Surplus / (Deficit) on revaluation of assets	-													
	150,344													

32.4.2 Maturities of assets and liabilities - based on expected maturities of the assets and liabilities of the Company

2018

	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	653	653	-	-	-	-	-	-	-	-
Balances with other banks	504,566	504,566	-	-	-	-	-	-	-	-
Lending to financial institutions	912,000	912,000	-	-	-	-	-	-	-	-
Investments	1,009,632	-	1,009,632	-	-	-	-	-	-	-
Advances	1,200,000	-	1,113	15,076	17,139	41,160	1,125,512	-	-	-
Fixed assets	45,067	742	1,484	2,226	4,429	9,186	14,959	12,041	-	-
Intangible assets	11,112	185	370	556	1,111	2,222	2,222	4,446	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	66,648	14,595	8,316	8,509	-	29,803	-	-	5,425	-
	3,749,678	1,432,741	1,020,915	26,367	22,679	82,371	1,142,693	16,487	5,425	-
Liabilities										
Bills payable	-	-	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	36,588	1,850	10,998	16,302	7,438	-	-	-	-	-
	36,588	1,850	10,998	16,302	7,438	-	-	-	-	-
Net assets	3,713,090	1,430,891	1,009,917	10,065	15,241	82,371	1,142,693	16,487	5,425	-
Share capital	3,658,506									
Reserves	11,007									
Unappropriated profit	43,577									
Surplus / (Deficit) on revaluation of assets	-									
	3,713,090									

2017

	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	14,083	14,083	-	-	-	-	-	-	-	-
Balances with other banks	1,240,575	1,240,575	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-
Advances	-	-	-	-	-	-	-	-	-	-
Fixed assets	32,740	364	817	1,226	2,428	5,148	9,712	13,045	-	-
Intangible assets	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	1,721	-	-	-	1,721	-	-	-	-	-
Other assets	31,602	3,702	1,482	-	470	-	627	19,933	5,388	-
	1,320,721	1,258,724	2,299	1,226	4,619	5,148	10,339	32,978	5,388	-
Liabilities										
Advance against share capital	1,159,905	-	1,159,905	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	10,472	4,141	5,406	925	-	-	-	-	-	-
	1,170,377	4,141	1,165,311	925	-	-	-	-	-	-
Net assets	150,344	1,254,583	(1,163,012)	301	4,619	5,148	10,339	32,978	5,388	-
Share capital	150,001									
Reserves	-									
Unappropriated profit	343									
Surplus / (Deficit) on revaluation of assets	-									
	150,344									

33 EVENTS AFTER THE REPORTING DATE

There is no event occurring between the statement of financial position date and the date that the financial statements are authorized for issue which is required to be reflected in the financial statements.

34 GENERAL

Captions, as prescribed by BPRD Circular No.2 of 2018 issued by SBP, in respect of which there are no amounts, have not been reproduced in these financial statements, except for captions of the statement of financial position and profit and loss account.

35 DATE OF AUTHORISATION

These financial statements were authorised on March 05, 2019 by the Board of Directors of the Company.

President / Chief Executive	Chief Financial Officer	Director	Director	Director

PMRC
Pakistan Mortgage Refinance Company Limited

Address: 6th Floor, Bahria Complex-I, M.T., Khan Road, Karachi-74000, Pakistan
Telephone: +92 21 3563 3367, **Fax:** +92 21 3563 3365, **Email:** info@pmrc.com.pk