KPMG Taseer Hadi & Co.
Chartered Accountants

Pakistan Mortgage Refinance Company Limited

Financial Statements
For the year ended
31 December 2017

KPMG

KPMG Taseer Hadi & Co.
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Auditors' Report to the Members

We have audited the annexed statement of financial position of **Pakistan Mortgage Refinance Company Limited** ("the Company") as at 31 December 2017 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the repealed Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the international standards on auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of account have been kept by the Company as required by the repealed Companies Ordinance, 1984;

b) in our opinion:

   i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the repealed Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied, except for the change disclosed in note 5.1 to the accompanying financial statements, with which we concur;

   ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

c) in our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the repealed Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of the loss, its cash flows and changes in equity for the year then ended; and

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

KPMG Taseer [illegible]

KPMG Taseer Hadi & Co.
Chartered Accountants
Muhammad Taufiq

Date: 10 March 2018

Karachi

Pakistan Mortgage Refinance Company Limited
Statement of Financial Position
As at 31 December 2017

	Note	2017	2016
		(Rupees)	
ASSETS			
Cash and balances with treasury banks		-	-
Balances with other banks	7	**1,254,657,818**	1,265,597,422
Lendings to financial institutions		-	-
Investments		-	-
Advances		-	-
Operating fixed assets	8	**32,740,083**	1,240,009
Deferred tax assets	9	**1,720,616**	-
Other assets	10	**31,601,804**	57,329,215
		1,320,720,321	1,324,166,646
LIABILITIES			
Bills payable		-	-
Borrowings		-	-
Deposits and other accounts		-	-
Sub-ordinated loans		-	-
Advance against share capital	11	**1,159,905,000**	1,159,905,000
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	26,665
Other liabilities	12	**10,471,216**	9,971,843
		1,170,376,216	1,169,903,508
NET ASSETS		**150,344,105**	154,263,138
REPRESENTED BY			
Share capital	13	**150,001,000**	1,000
Reserves		-	-
Amount available for issue of shares		-	150,000,000
Unappropriated profit		**343,105**	4,262,138
		150,344,105	154,263,138
Surplus on revaluation of assets - net of tax		-	-
		150,344,105	154,263,138
CONTINGENCIES AND COMMITMENTS	14		

The annexed notes from 1 to 27 form an integral part of these financial statements.

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Chief Financial Officer | Chief Executive | Director | Director | Chairman

Pakistan Mortgage Refinance Company Limited
Profit and Loss Account
For the year ended 31 December 2017

	Note	2017	2016
		(Rupees)	
Mark - up / return / interest earned	15	**72,686,736**	53,712,669
Mark - up / return / interest expensed		-	-
Net mark - up / return / interest income		**72,686,736**	53,712,669
Provision against non-performing loans and advances		-	-
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		-	-
Net mark - up / return / interest income after provisions		**72,686,736**	53,712,669
NON MARK-UP / INTEREST INCOME			
Fees, commission and brokerage income		-	-
Dividend income		-	-
Income from dealing in foreign currencies		-	-
Gain on sale / redemption of securities - net		-	-
Unrealised gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income		**2,134,240**	-
Total non mark - up / interest income		**2,134,240**	-
		74,820,976	53,712,669
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	16	**80,487,290**	47,468,650
Other (provisions) / write - offs		-	-
Other charges		-	-
Total non mark - up / interest expenses		**80,487,290**	47,468,650
Extra - ordinary / unusual items		-	
(LOSS) / PROFIT BEFORE TAXATION		**(5,666,314)**	6,244,019
Taxation - Current	17	-	(1,487,811)
- Prior years	17	-	
- Deferred	17	**1,747,281**	(26,665)
		1,747,281	(1,514,476)
(LOSS) / PROFIT AFTER TAXATION		**(3,919,033)**	4,729,543
Unappropriated profit / (loss) brought forward		**4,262,138**	(467,405)
Profit available for appropriation		**343,105**	4,262,138
		(Rupees)	
Basic and diluted (loss) / earnings per share	18	**(0.26)**	47,295.43

The annexed notes from 1 to 27 form an integral part of these financial statements.

Chief Financial Officer	Chief Executive	Director	Director	Chairman

Pakistan Mortgage Refinance Company Limited
Statement of Comprehensive Income
For the year ended 31 December 2017

	2017	2016
	(Rupees)	
(Loss) / profit after taxation for the year	**(3,919,033)**	4,729,543
Other comprehensive income	-	-
Comprehensive (loss) / income transferred to equity	**(3,919,033)**	4,729,543
Components of comprehensive income not reflected in equity	-	-
Total comprehensive (loss) / income	**(3,919,033)**	4,729,543

The annexed notes from 1 to 27 form an integral part of these financial statements.

Chief Financial Officer **Chief Executive** **Director** **Director** **Chairman**

Pakistan Mortgage Refinance Company Limited
Cash Flow Statement
For the year ended 31 December 2017

	Note	2017	2016
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / Profit before taxation		**(5,666,314)**	6,244,019
Less: Dividend income		-	-
		(5,666,314)	6,244,019
Adjustments for:			
Depreciation	*16*	**1,222,170**	46,217
Amortization		-	-
Provision against non-performing advances		-	-
Provision for diminution in the value of investments / other assets		-	-
Loss / (gain) on sale of fixed assets		-	-
Finance charges on leased assets		-	-
		1,222,170	46,217
		(4,444,144)	6,290,236
(Increase) / decrease in operating assets			
Lendings to financial institutions		-	-
Held-for-trading securities		-	-
Advances		-	-
Others assets (excluding advance taxation)		**35,089,456**	(46,757,688)
		35,089,456	(46,757,688)
Increase / (decrease) in operating liabilities			
Bills payable		-	-
Borrowings from financial institutions		-	-
Deposits		-	-
Other liabilities (excluding current taxation)		**499,373**	9,504,538
		499,373	9,504,538
		31,144,685	(30,962,914)
Payments of provision against off-balance sheet obligations		-	-
Income tax paid		**(9,362,045)**	(12,059,338)
Net cash flow from operating activities		**21,782,640**	(43,022,252)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		-	-
Net investments in held-to-maturity securities		-	-
Dividend income		-	-
Investments in operating fixed assets	*8*	**(32,722,244)**	(1,286,226)
Sale proceeds of property and equipment disposed-off		-	-
Net cash flow from investing activities		**(32,722,244)**	(1,286,226)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts / payments of sub-ordinated loan		-	-
Receipts / payments of lease obligations		-	-
Issue of share capital		-	900
Advance against issued share capital		-	109,905,000
Dividend paid		-	-
Net cash flow from financing activities		-	109,905,900
Effects of exchange rate changes on cash and cash equivalents		-	-
(Decrease) / Increase in cash and cash equivalents		**(10,939,604)**	65,597,422
Cash and cash equivalents at beginning of the year		**1,265,597,422**	1,200,000,000
Cash and cash equivalents at end of the year	*19*	**1,254,657,818**	1,265,597,422

The annexed notes from 1 to 27 form an integral part of these financial statements.

Chief Financial Officer | **Chief Executive** | **Director** | **Director** | **Chairman**

Pakistan Mortgage Refinance Company Limit

Statement of Changes in Equity

For the year ended 31 December 2017

	Share Capital	Amount available for issue of shares	Reserves	Unappropriated profit	Total
	(Rupees)				
Balance as at 01 January 2016	100	-	-	(467,405)	(467,305)
Total comprehensive income for the year ended 31 December 2016	-	-	-	-	-
Profit after taxation	-	-	-	4,729,543	4,729,543
Other comprehensive income	-	-	-	-	-
	-	-	-	4,729,543	4,729,543
Transfer to statutory reserve	-	-	-	-	-
Transactions with owners, recorded directly in equity	-	-	-	-	-
Issue of share capital	900	-	-	-	900
Amount received against issue of shares	-	150,000,000	-	-	150,000,000
Cash dividend	-	-	-	-	-
Balance as at 31 December 2016	1,000	150,000,000	-	4,262,138	154,263,138
Total comprehensive income for the year ended 31 December 2017					
Loss after taxation	-	-	-	(3,919,033)	(3,919,033)
Other comprehensive income	-	-	-	-	-
	-	-	-	(3,919,033)	(3,919,033)
Transfer to statutory reserve	-	-	-	-	-
Transactions with owners, recorded directly in equity	-	-	-	-	-
Issue of share capital	150,000,000	-	-	-	150,000,000
Amount received against issue of shares	-	(150,000,000)	-	-	(150,000,000)
Cash dividend	-	-	-	-	-
Balance as at 31 December 2017	**150,001,000**	**-**	**-**	**343,105**	**150,344,105**

The annexed notes from 1 to 27 form an integral part of these financial statements.

Chief Financial Officer	Chief Executive	Director	Director	Director	Chairman

1. LEGAL STATUS AND NATURE OF BUSINESS

Pakistan Mortgage Refinance Company (PMRC) was incorporated on 14 May 2015 under the repealed Companies Ordinance, 1984 as unlisted Public Limited Company. The Company has been notified as a Development Financial Institution (DFI) by the State Bank of Pakistan as on 27 October 2017. The principal activity of the Company is to carry on the business of 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. The registered office of the Company is situated at Karachi, Sindh.

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 BSD Circular No. 04, dated 17 February 2006. Furthermore, SBP vide BPRD Circular No. 02 dated 25 January 2018 has notified a new format of financial statements effective from the accounting year ending 31 December 2018. The new format would result in additional disclosures and certain changes in the financial statements presentation.

2.2 Statement of compliance

These financial statements of the Company have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under repealed Companies Ordinance, 1984, the requirements of repealed Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and regulations / directives issued by the Securities and Exchange Commission of Pakistan (SECP) and SBP. In case where requirements differ, the provisions of repealed Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the requirements of the said regulations / directives have been followed.

The Companies Ordinance, 1984 was repealed by enactment of the Companies Act, 2017 on 30 May 2017. SECP vide its Circular No. 23 of 2017 has clarified that all those companies whose financial year closes on or before 31 December 2017 shall prepare financial statements in accordance with the provisions of repealed Companies Ordinance, 1984.

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention.

The financial statements are prepared in Pakistani rupees which is the Company's functional and presentation currency.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and associated assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The judgments, estimates and associated assumptions are based on historical experiences, current trends and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the estimates.

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Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods.
In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following:

- Useful life of operating assets and methods of depreciation and amortization (Note 5.4)
- Taxation - Current (Note 5.5)
- Taxation - Deferred (Note 5.5)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all year presented, except for the change in format for preparation of financial statements as disclosed in note 5.1.

5.1 Changes in accounting policy

The Company has been notified as a Development Financial Institution (DFI) by the State Bank of Pakistan as on 27 October 2017. Accordingly, the Company has changed its presentation and disclosure of preparing the financial statements on the format as prescribed by State Bank of Pakistan (SBP) vide BSD Circular No. 04, dated 17 February 2006.

5.2 Cash and cash equivalents

For the preparation of cash flow statement, cash and cash equivalents include cash and balances with treasury banks and balances with other banks excluding any term deposit with original terms of greater than three months.

5.3 Investments

The Company classifies its investments as follows:

Held for trading

These are securities, which are acquired with the intention to trade by taking advantages of short term market/ interest rate movements and are carried at market value. Cost of investment is determined on weighted average basis. These securities are required to be sold within 90 days from the date of their classification as 'Held for trading' under normal circumstances, in accordance with the requirements of State Bank of Pakistan.

Held to maturity

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

Available for sale

Investments that do not fall under the 'held for trading' or 'held to maturity categories' are classified as 'available for sale'.

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 investment.

Initial Recognition

Investments other than those categorised as held for trading are initially recognised at fair value which includes transaction costs associated with the investment. Investments classified as held for trading are initially recognised at fair value, and transaction costs are expensed in the profit and loss account.

Subsequent Measurement

Investments in government securities and quoted investments, categorized as 'held for trading' and 'available for sale' are valued at rates quoted on PKRV and Pakistan Stock Exchange (PSE) as at the date of statement of financial position respectively. Any surplus or deficit arising as a result of revaluation of securities categorised as 'held for trading' is taken to profit and loss account ant that of 'available for sale' is taken to the statement of financial position, and shown below equity in accordance with the requirements of State Bank of Pakistan.

Investments classified as 'held-to-maturity' are stated at their amortized cost less impairment In value, if any.

Unquoted equity securities are valued at the lower of cost and break-up value less impairment losses, if any. Break-up value of unquoted equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

Premium or discount on acquisition of investments is amortised through the profit and loss account over the remaining period till maturity using effective interest method.

Impairment

Impairment loss on investments in respect of available for sale (except term finance certificates) and held to maturity recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an investment below its cost is also considered an objective evidence of impairment. Provisions for diminution in the value of debt securities is made as per the Prudential Regulations issued by the State Bank of Pakistan. In case of impairment of available for sale securities, the cumulative loss that has been recognised below equity is removed and recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in profit and loss account.

5.4 Operating fixed assets

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 write-off the assets over their expected economic lives at the rates specified in note 8.1 to these financial statements. 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.

Normal repairs and maintenance are charged to profit and loss account as and when incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in operating fixed assets.

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.

5.5 Taxation

Current

Provision for current taxation is based on the taxable income at the current rates of taxation after taking into account available tax credit and rebates, if any. The charge for current tax also includes adjustments, where considered necessary relating to prior years, which arises from assessments /developments made during the year. The charge for current tax is calculated using prevailing tax rates enacted at the balance sheet date and, any adjustments to tax payable relating to prior years.

Deferred

Deferred tax is recognised using the balance sheet method on all temporary differences between the amounts attributed to the assets and liabilities for financial reporting purposes and amounts used for taxation purpose. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits would be available against which it can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is not probable that related tax benefits will be realised.

5.6 Revenue recognition

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.

5.7 Impairment

The carrying amount of the Company's assets (other than deferred tax asset) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss account. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

5.8 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.

5.9 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.

5.10 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 discharge, cancel or expire. 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.

5.11 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.

5.12 Earnings per share

The Company presents earnings per share (EPS) data for its ordinary shares. 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 the year.

5.13 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.

5.13.1 Geographical segments

The Company operates only in Pakistan.

6. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS

6.1 Standards, interpretations and amendments effective in current year

There are certain new and amended standards and interpretations that are mandatory for the Company's accounting periods beginning on or after January 1, 2017 but are considered not to be relevant or do not have any significant effect on the Company's financial statements except as disclosed in note 5.1.

6.2 Standards, interpretations and amendments not effective at the year end

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 1, 2018:

- Classification and Measurement of Share - based Payment Transactions - amendments to IFRS 2 clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash - settled share - based payments; (b) classification of share - based payments settled net of tax withholdings; and (c) accounting for a modification of a share - based payment from cash - settled to equity - settled. The new requirements could affect the classification and / or measurement of these arrangements and potentially the timing and amount of expense recognised for new and outstanding awards. The amendments are not likely to have an impact on Company's financial statements.

- Annual Improvements to IFRSs 2014 - 2016 Cycle [Amendments to IAS 28 'Investments in Associates and Joint Ventures'] (effective for annual periods beginning on or after 1 January 2018) clarifies that a venture capital organisation and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non - investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Company's financial statements.

- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognised. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognised. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The application of interpretation is not likely to have an impact on Company's financial statements.

- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2018) 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 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 recognised. 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 analysing the potential impact of changes required in revenue recognition policies on adoption of the standard.

- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 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. The Company is currently awaiting instructions from SBP as applicability of IAS 39 was deferred by SBP till further instructions.

- 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 amendments are not likely to have an impact on Company's financial statements.

- Annual Improvements to IFRS Standards 2015 – 2017 Cycle - the improvements address amendments to following approved accounting 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 recognised 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 period beginning on or after 1 January 2018 and are not likely to have an impact on Company's financial statements for the year ended 31 December 2017.

- In addition, the Companies Act, 2017 was enacted on 30 May 2017 and according to the circular referred to in note 2.2, for financial statements purposes would be applicable to financial statements for period after 1 January 2018. The Companies Act, 2017 requires certain additional disclosures and Section 235 of the repealed Companies Ordinance, 1984 relating to treatment of surplus arising out of revaluation of assets has not been carried forward in the Companies Act, 2017.

7. BALANCES WITH OTHER BANKS

	Note	2017 (Rupees)	2016
In Pakistan			
Current accounts		274,809	15,597,422
Deposit accounts	7.1	14,383,009	150,000,000
Term deposit receipt	7.2	1,240,000,000	1,100,000,000
		1,254,657,818	1,265,597,422
Outside Pakistan:			
Current accounts		-	-
Deposit accounts		-	-
		1,254,657,818	1,265,597,422

7.1 These carry mark-up at the rate of 3.70 (2016: 3.70) percent per annum.

7.2 These include term deposit receipts (TDRs) of Rs. 1,240 million (2016: Rs. 1,100 million) maturing between 19th January 2018 to 26th January 2018 (2016: January 2017). These carry mark-up rates ranging from 3.75 to 6.75 (2016: 5.00 to 6.50) percent per annum.

8. OPERATING FIXED ASSETS

	Note	2017 (Rupees)	2016
Capital in work-in-progress		-	-
Property and equipment	8.1	32,740,083	1,240,009
Intangible assets		-	-
		32,740,083	1,240,009

8.1 Property and equipments

31 December 2017

	Cost			Depreciation			Book Value	
	As at 1 January 2017	Additions / (deletions)	As at 31 December 2017	As at 1 January 2017	Charge / (Deletion)	As at 31 December 2017	as at 31 December 2017	Rate of Depreciation %
	(Rupees)							
Owned								
Office equipments	806,626	1,386,073	2,192,699	16,137	252,439	268,576	1,924,123	20%
Computer equipments	479,600	945,845	1,425,445	30,080	326,088	356,168	1,069,277	33%
Furniture	-	4,694,246	4,694,246	-	78,237	78,237	4,616,009	20%
Fixtures	-	20,461,030	20,461,030	-	169,925	169,925	20,291,105	10%
Vehicles	-	5,235,050	5,235,050	-	395,481	395,481	4,839,569	20%
	1,286,226	32,722,244	34,008,470	46,217	1,222,170	1,268,387	32,740,083	

31 December 2016

	Cost			Depreciation			Book Value	
	As at 1 January 2016	Additions / (deletions)	As at 31 December 2016	As at 1 January 2016	Charge / (Deletion)	As at 31 December 2016	as at 31 December 2016	Rate of Depreciation %
	(Rupees)							
Owned								
Office equipments	-	806,626	806,626	-	16,137	16,137	790,489	20%
Computer equipments	-	479,600	479,600	-	30,080	30,080	449,520	33%
Furniture	-	-	-	-	-	-	-	-
Fixtures	-	-	-	-	-	-	-	-
Vehicles	-	-	-	-	-	-	-	-
	-	1,286,226	1,286,226	-	46,217	46,217	1,240,009	

9. DEFERRED TAX ASSETS / (LIABILITIES)

	Note	2017 (Rupees)	2016
Deductible temporary differences arising in respect of:			
Compensated absences		462,768	148,405
Carry forward tax losses		2,581,630	-
		3,044,398	148,405
Taxable temporary differences arising in respect of:			
Accelerated tax depreciation allowances		(1,323,782)	(175,070)
	9.1	1,720,616	(26,665)

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9.1 Reconciliation of deferred tax

	Balance as at 01 January 2017	Recognised in profit and loss account	Recognised in other comprehensive income	Balance as at 31 December 2017
	(Rupees)			
Deductible temporary differences arising in respect of:				
Compensated absences	148,405	314,363	-	462,768
Carry forward tax losses	-	2,581,630	-	2,581,630
	148,405	2,895,993	-	3,044,398
Taxable temporary differences arising in respect of:				
Accelerated tax depreciation allowances	175,070	1,148,712	-	1,323,782
	(26,665)	1,747,281	-	1,720,616

	Balance as at 01 January 2016	Recognised in profit and loss account	Recognised in other comprehensive income	Balance as at 31 December 2016
	(Rupees)			
Deductible temporary differences arising in respect of:				
Compensated absences	-	148,405	-	148,405
Carry forward tax losses	-	-	-	-
	-	148,405	-	148,405
Taxable temporary differences arising in respect of:				
Accelerated tax depreciation allowances	-	175,070	-	175,070
	-	(26,665)	-	(26,665)

10. OTHER ASSETS

	Note	2017	2016
		(Rupees)	
Mark-up / return / interest receivable in local currency		2,850,240	46,214,588
Security deposits		5,386,480	342,000
Advances and prepayments		3,431,512	201,100
Taxation - net		19,933,572	10,571,527
		31,601,804	57,329,215

11. ADVANCE AGAINST SHARE CAPITAL

	Note	2017	2016
	11.1	1,159,905,000	1,159,905,000
Ministry of Finance		1,159,905,000	1,159,905,000

11.1 The amount represents the advance received from Government of Pakistan - Ministry of Finance for the issuance of share capital.

12. OTHER LIABILITIES

	2017	2016
	(Rupees)	
Salaries payable	4,324,303	4,495,103
Accrued expenses	2,450,029	5,476,740
Payable against purchase of fixed assets	3,696,884	-
	10,471,216	9,971,843

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13. SHARE CAPITAL

2017	2016		2017	2016
(Number of shares)			(Rupees)	

13.1 Authorized Capital

1,000,000,000	1,000,000,000	Ordinary shares of Rs.10 each	10,000,000,000	10,000,000,000

13.2 Issued, subscribed and paid-up

15,000,100	100	Ordinary shares of Rs. 10 each - Fully paid in cash	150,001,000	1,000

13.3 Major shareholders of the Company are:

Number of shares held			Percentage of Shareholding	
2017	2016	Name of Shareholder	2017	2016
4,009,500	-	Ministry of Finance – Islamic Republic of Pakistan	26.73	-
1,530,000	-	Habib Bank Limited	10.20	-
2,673,000	-	National Bank of Pakistan	17.82	-
1,836,000	-	Askari Bank Limited	12.24	-
1,530,000	-	United Bank Limited	10.20	-
1,224,000	-	Bank Alfalah Limited	8.16	-
1,224,000	-	Allied Bank Limited	8.16	-
667,500	-	House Building Finance Company Limited	4.45	-
183,000	-	Summit Bank Limited	1.22	-
123,000	-	Bank AL Habib Limited	0.82	-
10	-	Syed Tariq Ali (Director)	0.00	-
-	10	Saeed Ahmad (Ex - Director)	0.00	10.00
10	10	Rehmat Ali Hasnie (Director)	0.00	10.00
10	10	Ahmed Saeed Siddiqui (Director)	0.00	10.00
10	10	Aamir Hasan Irshad (Director)	0.00	10.00
10	10	Imran Ahmed (Director)	0.00	10.00
10	10	Khurrum Hussain (Director)	0.00	10.00
10	10	Mohammad Tanvir Butt (Director)	0.00	10.00
10	10	Rashid Nawaz Tipu (Director)	0.00	10.00
10	10	Syed Asif Ali (Director)	0.00	10.00
10	10	Zulfiqar Alvi (Director)	0.00	10.00

14. CONTINGENCIES AND COMMITMENTS

There are no contingencies and commitments as at year end (31 December 2016: Nil).

15. MARK-UP / RETURN / INTEREST EARNED

	Note	2017	2016
		(Rupees)	
On deposit with financial institutions		72,686,736	53,712,669
		72,686,736	53,712,669

16. ADMINISTRATIVE EXPENSES

	Note	2017	2016
Salaries, allowances and employees' benefits		37,928,550	13,009,649
Non-executive directors' fee / remuneration		2,468,600	-
Chief executive's remuneration	*21*	22,292,199	-
Traveling and accommodation		746,619	86,870
Rent, rates and taxes		10,120,369	444,062
Communications		404,027	60,213
Advertisement and business promotion		268,500	-
Membership and subscriptions		2,137,240	27,509,785
Printing, stationery and periodicals		636,204	154,594
Depreciation	*8.1*	1,222,170	46,217
Auditors' remuneration	*16.1*	358,466	82,500
Legal and professional charges		632,709	5,722,900
Repairs and maintenance		583,323	284,557
Insurance		316,628	-
Others		371,686	67,303
		80,437,290	47,468,650

16.1 Auditors' remuneration

	2017	2016
	(Rupees)	
Audit fee	**150,000**	75,000
Half yearly review	**50,000**	-
Special certifications and others	**112,000**	-
Out of pocket expenses	**46,466**	7,500
	358,466	82,500

17. TAXATION

For the year		
Current	-	1,487,811
Prior	-	-
Deferred	**(1,747,281)**	26,665
	(1,747,281)	1,514,476

17.1 Relationship between tax expense and accounting profit

(Loss)/Profit before taxation	**(5,666,314)**	6,244,019
Tax at the applicable rate of 30% (2016: 31%)	-	1,935,646
Tax effects of:		
Deferred tax	**(1,747,281)**	
Expenses that are not deductible in determining taxable income	-	(276,274)
Tax credit on prior period losses	-	(144,896)
	(1,747,281)	1,514,476

18. BASIC AND DILUTED (LOSS) / EARNINGS PER SHARE

(Loss) / profit after taxation	**(3,919,033)**	4,729,543
	(Numbers)	
Weighted average number of ordinary shares in issue	**15,000,100**	100
	(Rupees)	
Basic and diluted (loss) / earnings per share	**(0.26)**	47,295.43

18.1 There were no convertible dilutive potential ordinary shares outstanding on 31 December 2017 and 2016.

19. CASH AND CASH EQUIVALENTS

	Note	2017	2016
		(Rupees)	
Balances with other banks	7	**1,254,657,818**	1,265,597,422
		1,254,657,818	1,265,597,422

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19.1 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)										
Balance as at 01 January 2017	-	-	-	-	1,159,905,000	-	9,971,843	1,000	150,000,000	4,262,138	1,324,139,981
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	-	-	-	-	-	-	499,373	-	-	-	499,373
- Non-cash based - actuarial loss on remeasurements of defined benefit plan	-	-	-	-	-	-	-	-	-	-	-
Issue of share capital	-	-	-	-	-	-	-	150,000,000	(150,000,000)	-	-
Transfer of profit to reserve	-	-	-	-	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	-	-	-	-	(3,919,033)	(3,919,033)
Other comprehensive income - net of tax	-	-	-	-	-	-	-	-	-	-	-
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	499,373	150,000,000	(150,000,000)	(3,919,033)	(3,419,660)
Balance as at 31 December 2017	-	-	-	-	1,159,905,000	-	10,471,216	150,001,000	-	343,105	1,320,720,321

20. STAFF STRENGTH

	2017	2016
	(Numbers)	
Permanent	9	5
Temporary / contractual	2	-
Company's own staff strength at end of the year	11	5
Outsourced	7	4
Total staff strength	18	9

21. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2017	2016	2017	2016	2017	2016
	(Rupees)					
Fees / remuneration	-	-	2,918,600	-	-	-
Managerial remuneration	18,600,000	2,795,082	-	-	27,350,229	5,809,715
Medical	-	-	-	-	-	-
Utilities	-	-	-	-	-	-
Membership fee	-	-	-	-	-	-
Others	3,692,199	1,978,483	-	-	5,581,684	1,640,196
	22,292,199	4,773,565	2,918,600	-	32,931,913	7,449,911
Number of persons	1	1	10	10	9	2

21.1 The managing director and an executive are provided with free use of Company's maintained cars. Executive means employees other than managing director and directors, whose basic salary exceeds five hundred thousand rupees in a financial year.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

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:

Fair value of other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to non - availability of relevant active market for similar assets and liabilities.

In the opinion of management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently repriced.

22.1 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:

2017

	Note	Available for Sale	Held for Trading	Held to Maturity	Loans and Receivables	Other financial Assets	Other financial Liabilities	Total	Fair value Level 1	Level 2	Level 3	Total
		(Rupees)										
On balance sheet financial instruments												
Financial assets not measured at fair value												
- Bank balances	*22.1.1*	-	-	-	1,254,657,818	-	-	1,254,657,818	-	-	-	-
- Accrued profit receivable	*22.1.1*	-	-	-	2,850,240	-	-	2,850,240	-	-	-	-
- Advance, deposits and prepayment	*22.1.1*	-	-	-	8,817,992	-	-	8,817,992	-	-	-	-
		-	-	-	1,266,326,050	-	-	1,266,326,050	-	-	-	-
Financial liabilities not measured at fair value												
- Advance against Share Capital	*22.1.1*	-	-	-	-	-	1,159,905,000	1,159,905,000	-	-	-	-
- Other liabilities	*22.1.1*	-	-	-	-	-	10,471,216	10,471,216	-	-	-	-
		-	-	-	-	-	1,170,376,216	1,170,376,216	-	-	-	-
		-	-	-	1,266,326,050	-	(1,170,376,216)	95,949,834	-	-	-	-

2016

	Note	Available for Sale	Held for Trading	Held to Maturity	Loans and Receivables	Other financial Assets	Other financial Liabilities	Total	Fair value Level 1	Level 2	Level 3	Total
		(Rupees)										
On balance sheet financial instruments												
Financial assets not measured at fair value												
- Bank balances	*22.1.1*	-	-	-	1,265,597,422	-	-	1,265,597,422	-	-	-	-
- Accrued profit receivable	*22.1.1*	-	-	-	46,214,588	-	-	46,214,588	-	-	-	-
- Advance, deposits and prepayment	*22.1.1*	-	-	-	543,100	-	-	543,100	-	-	-	-
		-	-	-	1,312,355,110	-	-	1,312,355,110	-	-	-	-
Financial liabilities not measured at fair value												
- Advance against Share Capital	*22.1.1*	-	-	-	-	-	1,159,905,000	1,159,905,000	-	-	-	-
- Other liabilities	*22.1.1*	-	-	-	-	-	9,971,843	9,971,843	-	-	-	-
		-	-	-	-	-	1,169,876,843	1,169,876,843	-	-	-	-
		-	-	-	1,312,355,110	-	(1,169,876,843)	142,478,267	-	-	-	-

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).

22.1.1 The Company has not disclosed the fair values for these financial assets and liabilities, as these are for short term or reprice over short term. Therefore their carrying amounts are reasonable approximation of fair value.

23. RELATED PARTY TRANSACTIONS

The related parties comprised of Ministry of Finance, Habib Bank Limited, National Bank of Pakistan, Askari Bank Limited, United Bank Limited, Bank Alfalah Limited, Allied Bank Limited, House Building Finance Company Limited, Summit Bank Limited, Bank AL Habib Limited, directors and key management personnel.

Transactions with related parties of the Company are carried out on an arm's length 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 elsewhere in these financial statements are summarised as follows:

	2017				
	Members	Directors	Chief Executive	Key Management Personnel	Total
	(Rupees)				
Transactions during the year					
Mark-up earned	72,686,736	-	-	-	72,686,736
Rental paid	1,246,194	-	-	-	1,246,194
CEO salary	-	-	22,292,199	-	22,292,199
Key personal salary	-	-	-	32,931,913	32,931,913
Director fee paid	-	2,918,600	-	-	2,918,600
Balances at year end					
CEO salary payable	-	-	-	1,223,599	1,223,599
Compensated acbsences payable	-	-	590,982	889,668	1,480,650
Provident Fund Payable	-	-	1,380,000	1,311,192	2,691,192
Paid up capital	150,001,000	-	-	-	150,001,000
Cash and bank balances	1,254,657,818	-	-	-	1,254,657,818
Advance against share capital	1,159,905,000	-	-	-	1,159,905,000
Accrued profit receivable	2,850,240	-	-	-	2,850,240

24. CAPITAL ASSESSMENT AND ADEQUACY

24.1 Capital adequacy

As per requirements of SBP, the Company is required to comply with the capital adequacy framework which comprises 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.150 million as against the required MCR of Rs. 6 billion. The Company in process of commencement of business and has yet to comply with minimum capital requirement as prescribed by SBP.

ii) Capital Adequacy Ratio

The Company's objectives when managing capital are:

- to comply with the capital requirements set by the regulators of the Company;

- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- to acquire, develop and maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored frequently by the Company's management, employing techniques based on the guidelines issued by State Bank of Pakistan (SBP).

The Company calculates capital requirement as per Basel III regulatory framework, using the following approaches:

- Credit risk	Standardized approach- Comprehensive
- Market risk	Standardized approach - Maturity Method
- Operational risk	Basic indicator approach

The Company's CAR as at 31 December 2017 is 35.76% of its risk weighted exposure.

The capital adequacy ratio of the Company was subject to the Basel III capital adequacy guidelines stipulated by the State Bank of Pakistan through its circular BPRD Circular No. 06 of 2013 dated 15 August 2013 read with BSD Circular No. 08 dated June 27, 2006. These instructions are effective from 31 December 2013 in a phased manner with full implementation intended by 31 December 2019.

iii) Leverage ratio

The leverage ratio of the Company as on 31 December 2017 stood at 11.23% which is above the current minimum requirement of 3% set by SBP. As on 31 December 2017, Total Tier 1 capital of the Company amounts to Rs. 148 millions whereas the total exposure amounts to Rs. 1,321 millions.

24.2 Capital Structure

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

Common Equity Tier 1 capital (CET1), which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves, statutory reserves as per the financial statements and net unappropriated profits after all regulatory adjustments applicable on CET1 (refer note 24.4.1).

Additional Tier 1 Capital (AT1), which includes perpetual non-cumulative preference shares and Share premium resulting from the issuance of preference shares balance in share premium account after all regulatory adjustments applicable on AT1 (refer note 24.4.1).

Tier 2 capital, which includes Subordinated debt/ Instruments, share premium of issuance of Subordinated debt/ Instruments, general provisions for loan losses (up to a maximum of 1.25 % of credit risk weighted assets), Net of tax reserves on revaluation of fixed assets and equity investments up to a maximum of 45 % of the balance and foreign exchange translation reserves after all regulatory adjustments applicable on Tier-2 (refer note 24.4.1).

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table refer in note 24.7 summarizes the composition of regulatory capital and the ratios of the Company for the year ended 31 December 2017.

24.3 Scope of application

The Basel III Framework for capital adequacy is applicable to the Company both at the consolidated level (including subsidiaries) and also on standalone basis. Pakistan Mortgage Refinance Company Limited is the only Company in the Group to which Basel III capital adequacy framework applies.

24.4 Capital Adequacy Ratio (CAR) disclosure template:

24.4.1 Common Equity Tier 1 capital (CET1): Instruments and reserves

		2017	2016
		---------- (Rupees) ----------	
Common Equity Tier 1 capital (CET1): Instruments and reserves			
Fully Paid-up Capital/ Capital deposited with SBP		150,001,000	-
Balance in Share Premium Account		-	-
Reserve for issue of Bonus Shares		-	-
Discount on Issue of shares		-	-
General/ Statutory Reserves		-	-
Gain/(Losses) on derivatives held as Cash Flow Hedge		-	-
Unappropriated/unremitted profits/ (losses)		343,105	-
Minority Interests arising from CET1 capital instruments issued to third parties by consolidated company's subsidiaries (amount allowed in CET1 capital of the consolidation group)		-	-
CET 1 before Regulatory Adjustments		150,344,105	-
Total regulatory adjustments applied to CET1 (Note 24.4.2)		2,065,304	-
Common Equity Tier 1	(a)	148,278,801	-
Additional Tier 1 (AT 1) Capital			
Qualifying Additional Tier-1 capital instruments plus any related share premium			
of which: Classified as equity		-	-
of which: Classified as liabilities		-	-
Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)		-	-
of which: instrument issued by subsidiaries subject to phase out		-	-
AT1 before regulatory adjustments		-	-
Total regulatory adjustment applied to AT1 capital (Note 24.4.3)		-	-
Additional Tier 1 capital after regulatory adjustments		-	-
Additional Tier 1 capital recognized for capital adequacy	(b)	-	-
Tier 1 Capital (CET1 + admissible AT1)	(c=a+b)	148,278,801	-
Tier 2 Capital			
Qualifying Tier 2 capital instruments under Basel III plus any related share premium		-	-
Tier 2 capital instruments subject to phaseout arrangement issued under pre-Basel 3 rules		-	-
Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2)		-	-
of which: instruments issued by subsidiaries subject to phase out		-	-
General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets		-	-
Revaluation Reserves (net of taxes)		-	-
of which: Revaluation reserves on fixed assets		-	-
of which: Unrealized gains/losses on AFS		-	-
Foreign Exchange Translation Reserves		-	-
Undisclosed/Other Reserves (if any)		-	-
T2 before regulatory adjustments		-	-
Total regulatory adjustment applied to T2 capital (Note 24.4.4)		-	-
Tier 2 capital (T2) after regulatory adjustments		-	-
Tier 2 capital recognized for capital adequacy		-	-
Portion of Additional Tier 1 capital recognized in Tier 2 capital		-	-
Total Tier 2 capital admissible for capital adequacy	(d)	-	-
TOTAL CAPITAL (T1 + admissible T2)	(e=c+d)	148,278,801	-
Total Risk Weighted Assets (RWA) (Note 24.7)	(f)	414,637,618	-
Capital Ratios and buffers (in percentage of risk weighted assets)			
CET1 to total RWA	(a/f)	35.761%	-
Tier-1 capital to total RWA	(c/f)	35.761%	-
Total capital to total RWA	(e/f)	35.761%	-
DFI specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)			
of which: capital conservation buffer requirement		7.275%	-
of which: countercyclical buffer requirement		1.275%	-
of which: D-SIB or G-SIB buffer requirement		-	-
CET1 available to meet buffers (as a percentage of risk weighted assets)			
National minimum capital requirements prescribed by SBP			
CET1 minimum ratio		6.000%	-
Tier 1 minimum ratio		7.500%	-
Total capital minimum ratio		11.275%	-

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	2017	2016
	(Rupees)	
24.4.2 Common Equity Tier 1 capital: Regulatory adjustments		
Goodwill (net of related deferred tax liability)	-	-
All other intangibles (net of any associated deferred tax liability)	-	-
Shortfall in provisions against classified assets	-	-
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	2,065,304	-
Defined-benefit pension fund net assets	-	-
Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	-	-
Cash flow hedge reserve	-	-
Investment in own shares/ CET1 instruments	-	-
Securitization gain on sale	-	-
Capital shortfall of regulated subsidiaries	-	-
Deficit on account of revaluation from company's holdings of fixed assets/ AFS	-	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the company does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
Amount exceeding 15% threshold		
of which: significant investments in the common stocks of financial entities	-	-
of which: deferred tax assets arising from temporary differences	-	-
National specific regulatory adjustments applied to CET1 capital		
Investments in TFCs of other banks exceeding the prescribed limit	-	-
Any other deduction specified by SBP (mention details)	-	-
Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	-
Total regulatory adjustments applied to CET1	2,065,304	-
24.4.3 Additional Tier-1 & Tier-1 Capital: regulatory adjustments		
Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]	-	-
Investment in own AT1 capital instruments	-	-
Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities	-	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the company does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional tier-1 capital	-	-
Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
Total regulatory adjustment applied to AT1 capital	-	-
24.4.4 Tier 2 Capital: regulatory adjustments		
Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-	-
Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities	-	-
Investment in own Tier 2 capital instrument	-	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the company does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
Total regulatory adjustment applied to T2 capital	-	-
24.4.5 Risk Weighted Assets subject to pre-Basel III treatment		
Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)		
of which: deferred tax assets	-	-
of which: Defined-benefit pension fund net assets	-	-
of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity	-	-
of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	-	-
	-	-
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financial entities	-	-
Significant investments in the common stock of financial entities	-	-
Deferred tax assets arising from temporary differences (net of related tax liability)	462,768	-
	462,768	-
Applicable caps on the inclusion of provisions in Tier 2		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	-	-
Cap on inclusion of provisions in Tier 2 under standardized approach	-	-
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

24.5 Capital Structure Reconciliation

24.5.1 Reconciliation of accounting and regulatory scope of consolidation

	2017 As per published financial statements	2017 Under regulatory scope for capital adequacy
Assets		
Cash and balances with treasury banks	-	-
Balances with other banks	1,254,657,818	1,254,657,818
Lending to financial institutions	-	-
Investments	-	-
Advances	-	-
Operating fixed assets	32,740,083	32,740,083
Deferred tax assets	1,720,616	1,720,616
Other assets	31,601,804	31,601,804
Total assets	1,320,720,321	1,320,720,321
Liabilities & Equity		
Bills payable	-	-
Borrowings	-	-
Deposits and other accounts	-	-
Sub-ordinated loans	-	-
Advance Against Share Capital	1,159,905,000	1,159,905,000
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
Other liabilities	10,471,216	10,471,216
Total liabilities	1,170,376,216	1,170,376,216
Share capital / Head office capital account	150,001,000	150,001,000
Reserves	-	-
Unappropriated profit	343,105	343,105
Minority Interest	-	-
Surplus on revaluation of assets	-	-
Total liabilities & equity	1,320,720,321	1,320,720,321

24.5.2 Reconciliation for balance sheet items that require capital adjustments

	Reference	2017 As per published financial statements	2017 Under regulatory scope for capital adequacy
		(Rupees)	
Assets			
Cash and balances with treasury banks		-	-
Balances with other banks		1,254,657,818	1,254,657,818
Lending to financial institutions		-	-
Investments		-	-
of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold	(a)	-	-
of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold	(b)	-	-
of which: Mutual Funds exceeding regulatory threshold	(c)	-	-
of which: Reciprocal crossholding of capital instrument of CET 1	(d)	-	-
of which: Reciprocal crossholding of capital instrument of T 2	(e)		
Advances		-	-
Shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	(f)	-	-
General provisions reflected in Tier 2 capital	(g)	-	-
Fixed Assets		32,740,083	32,740,083
of which: Intangibles	(h)	-	-
Deferred Tax Assets		1,720,616	1,720,616
of which: DTAs that rely on future profitability excluding those arising from temporary differences	(i)	-	-
of which: DTAs arising from temporary differences exceeding regulatory threshold	(j)	-	-
Other assets		31,601,804	31,601,804
of which: Goodwill	(k)	-	-
of which: Defined-benefit pension fund net assets	(l)	-	-
Total assets		1,320,720,321	1,320,720,321
Liabilities & Equity			
Bills payable		-	-
Borrowings		-	-
Deposits and other accounts		-	-
Sub-ordinated loans		-	-
of which: eligible for inclusion in AT1	(m)	-	-
of which: eligible for inclusion in Tier 2	(n)	-	-
Advance Against Share Capital		1,159,905,000	1,159,905,000
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
of which: DTLs related to goodwill	(o)	-	-
of which: DTLs related to intangible assets	(p)	-	-
of which: DTLs related to defined pension fund net assets	(q)	-	-
of which: other deferred tax liabilities	(r)	-	-
Other liabilities		10,471,216	10,471,216
Total liabilities		1,170,376,216	1,170,376,216
Share capital		150,001,000	150,001,000
of which: amount eligible for CET1	(s)	150,001,000	150,001,000
of which: amount eligible for AT1	(t)	-	-
Reserves		-	-
of which: portion eligible for inclusion in CET1	(u)	-	-
of which: portion eligible for inclusion in Tier 2	(v)	-	-
Unappropriated profit/ (losses)	(w)	343,105	343,105
Minority Interest		-	-
of which: portion eligible for inclusion in CET1	(x)	-	-
of which: portion eligible for inclusion in AT1	(y)	-	-
of which: portion eligible for inclusion in Tier 2	(z)	-	-
Surplus on revaluation of assets		-	-
of which: Revaluation reserves on Fixed Assets	(aa)	-	-
of which: Unrealized Gains/Losses on AFS		-	-
In case of Deficit on revaluation (deduction from CET1)	(ab)	-	-
Total Equity		150,344,105	150,344,105
Total liabilities & Equity		1,320,720,321	1,320,720,321

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24.5.3 Reconciliation of computation of capital with balance sheet of the Bank

	Source based on reference number from Note 24.5.2	2017 Component of regulatory capital reported by bank
Common Equity Tier 1 capital (CET1): Instruments and reserves		
Fully Paid-up Capital/ Capital deposited with SBP		150,001,000
Balance in Share Premium Account	(s)	-
Reserve for issue of Bonus Shares		-
General/ Statutory Reserves	(u)	-
Gain/(Losses) on derivatives held as Cash Flow Hedge		-
Unappropriated/unremitted profits/ (losses)	(w)	343,105
Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	(x)	-
CET 1 before Regulatory Adjustments		150,344,105
Common Equity Tier 1 capital: Regulatory adjustments		
Goodwill (net of related deferred tax liability)	(k)-(o)	-
All other intangibles (net of any associated deferred tax liability)	(h)-(p)	-
Shortfall of provisions against classified assets	(f)	-
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		2,065,304
Defined-benefit pension fund net assets	(l-q) * x %	-
Reciprocal cross holdings in CET1 capital instruments	(d)	-
Cash flow hedge reserve		-
Investment in own shares/ CET1 instruments		-
Securitization gain on sale		-
Capital shortfall of regulated subsidiaries		-
Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	(ab)	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	(a) - (ac) - (ae)	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	(b) - (ad) - (af)	-
Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	(i)	-
Amount exceeding 15% threshold		
of which: significant investments in the common stocks of financial entities		-
of which: deferred tax assets arising from temporary differences		-
National specific regulatory adjustments applied to CET1 capital		
of which: Investment in TFCs of other banks exceeding the prescribed limit		-
of which: Any other deduction specified by SBP (mention details)		-
Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions		-
Total regulatory adjustments applied to CET1		2,065,304
Common Equity Tier 1		148,278,801
Additional Tier 1 (AT 1) Capital		
Qualifying Additional Tier-1 instruments.plus any related share premium		-
of which: Classified as equity	(t)	-
of which: Classified as liabilities	(m)	-
Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)		
of which: instrument issued by subsidiaries subject to phase out	(y)	-
AT1 before regulatory adjustments		-
Additional Tier 1 Capital: regulatory adjustments		
Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)		-
Investment in own AT1 capital instruments		-
Reciprocal cross holdings in Additional Tier 1 capital instruments		-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	(ac)	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	(ad)	-
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital		-
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		-
Total of Regulatory Adjustment applied to AT1 capital		-
Additional Tier 1 capital		-
Additional Tier 1 capital recognized for capital adequacy		-
Tier 1 Capital (CET1 + admissible AT1)		148,278,801
Tier 2 Capital		
Qualifying Tier 2 capital instruments under Basel III plus any related share premium		-
Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	(n)	-
Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	(z)	-
of which: instruments issued by subsidiaries subject to phase out		-
General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	(g)	-
Revaluation Reserves		-
of which: Revaluation reserves on fixed assets	portion of (aa)	-
of which: Unrealized Gains/Losses on AFS		-
Foreign Exchange Translation Reserves	(v)	-
Undisclosed/Other Reserves (if any)		-
T2 before regulatory adjustments		-
Tier 2 Capital: regulatory adjustments		
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital		-
Reciprocal cross holdings in Tier 2 instruments		-
Investment in own Tier 2 capital instrument		-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	(ae)	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	(af)	-
Amount of Regulatory Adjustment applied to T2 capital		-
Tier 2 capital (T2)		-
Tier 2 capital recognized for capital adequacy		-
Excess Additional Tier 1 capital recognized in Tier 2 capital		-
Total Tier 2 capital admissible for capital adequacy		-
TOTAL CAPITAL (T1 + admissible T2)		148,278,801

24.6 Main Features Template of Regulatory Capital Instruments

	Main Features		Common Shares
1	Issuer		Pakistan Mortgage Refinance Company Limited
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)		PMRCL
3	Governing law(s) of the instrument		Laws of Pakistan (SBP & SECP)
	Regulatory treatment		
4	Transitional Basel III rules		CET-1
5	Post-transitional Basel III rules		CET-1
6	Eligible at solo/ group/ group & solo		Group & Standalone
7	Instrument type		Ordinary Shares
8	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting date)		150,001,000
9	Par value of instrument		Rs 10
10	Accounting classification		Shareholders' Equity
11	Original date of issuance		2-Feb-16
12	Perpetual or dated		Perpetual
13	Original maturity date		N/A
14	Issuer call subject to prior supervisory approval		No
15	Optional call date, contingent call dates and redemption amount		N/A
16	Subsequent call dates, if applicable		N/A
	Coupons / dividends		
17	Fixed or floating dividend/ coupon		N/A
18	coupon rate and any related index/ benchmark		N/A
19	Existence of a dividend stopper		No
20	Fully discretionary, partially discretionary or mandatory		Fully discretionary
21	Existence of step up or other incentive to redeem		No
22	Noncumulative or cumulative		N/A
23	Convertible or non-convertible		N/A
24	If convertible, conversion trigger (s)		N/A
25	If convertible, fully or partially		N/A
26	If convertible, conversion rate		N/A
27	If convertible, mandatory or optional conversion		N/A
28	If convertible, specify instrument type convertible into		N/A
29	If convertible, specify issuer of instrument it converts into		N/A
30	Write-down feature		N/A
31	If write-down, write-down trigger(s)		N/A
32	If write-down, full or partial		N/A
33	If write-down, permanent or temporary		N/A
34	If temporary write-down, description of write-up mechanism		N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument		N/A
36	Non-compliant transitioned features		No
37	If yes, specify non-compliant features		N/A

24.7 Risk Weighted Assets

	Capital Requirements		Risk Weighted Assets	
	2017	2016	2017	2016
	(Rupees)			
Credit Risk				
On-Balance sheet				
Portfolios subject to standardized approach (Comprehensive)				
Sovereign	-	-	-	-
Public Sector entities	293,372	-	2,933,721	-
Banks	24,854,325	-	248,543,254	-
Corporate	-	-	-	-
Retail	-	-	-	-
Residential Mortgages	-	-	-	-
Past Due loans	-	-	-	-
Equity portfolio	-	-	-	-
Operating Fixed Assets	3,274,008	-	32,740,083	-
Other assets	992,027	-	9,920,267	-
	29,413,732	-	294,137,325	-
Off-Balance sheet				
Non-market related	-	-	-	-
Market related	-	-	-	-
	-	-	-	-
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach (Maturity Method)				
Interest rate risk				
General market risk	-	-	-	-
Specific market risk	-	-	-	-
Foreign exchange risk	-	-	-	-
	-	-	-	-
Operational Risk				
Capital Requirement for operational risks	9,640,023	-	120,500,292	-
	39,053,755	-	414,637,618	-

Capital Adequacy Ratios	Required		Actual	
	2017	2016	2017	2016
CET1 to total RWA	6.000%	-	35.761%	-
Tier-1 capital to total RWA	7.500%	-	35.761%	-
Total capital to total RWA	11.275%	-	35.761%	-
Leverage Ratio	3.000%	-	11.23%	-

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25. 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.

25.1 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 risks 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.

25.1.1 Credit risk: Disclosures on portfolio subject to Standardised Approach - Basel Specific

The Company uses the ratings issued by The Pakistan Credit Rating Agency Limited (PACRA) and JCR-VIS Credit Rating Company Limited (JCR - VIS) for its local currency exposures. These External Credit Assessments Institutions (ECAIs) have been approved by SBP.

Types of exposures	JCR-VIS	PACRA
Corporate	✓	✓
Banks	✓	✓
Sovereigns	✓	✓
SME's	-	-
Securitizations	-	-

The Company has not transferred public issue ratings onto comparable assets in the banking book in its calculations. ECAIs ratings and ECA scores are aligned with risk buckets as determined by SBP.

Credit exposures subject to Standardised Approach

Risk buckets	Amount outstanding / credit equivalent (rated and unrated)	Credit Risk Mitigation (CRM) deduction	Net amount
	----------------------	(Rupees)	----------------------
0%	19,933,572	-	19,933,572
20%	1,257,384,877	-	1,257,384,877
35%	-	-	-
50%	-	-	-
75%	-	-	-
100%	42,660,350	-	42,660,350
125%	-	-	-
150%	-	-	-
250%	-	-	-
	1,319,978,799	-	1,319,978,799

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25.1.2 Segment by class of business

	2017					
	Gross advances		**Deposits**		**Contingencies and Commitments**	
	(Rupees)	**%**	**(Rupees)**	**%**	**(Rupees)**	**%**
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	-	-	**1,254,657,818**	**100%**	-	-
Insurance	-	-	-	-	-	-
Services	-	-	-	-	-	-
Individuals	-	-	-	-	-	-
Others	-	-	-	-	-	-
	-	**-**	**1,254,657,818**	**100%**	**-**	**-**

	2016					
	Gross advances		Deposits		Contingencies and Commitments	
	(Rupees)	%	(Rupees)	%	(Rupees)	%
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	-	-	1,265,597,422	100%	-	-
Insurance	-	-	-	-	-	-
Services	-	-	-	-	-	-
Individuals	-	-	-	-	-	-
Others	-	-	-	-	-	-
	-	-	1,265,597,422	100%	-	-

25.1.3 Segment by sector

	2017					
	Advances (Gross)		**Deposits**		**Contingencies and commitments**	
	(Rupees)	**%**	**(Rupees)**	**%**	**(Rupees)**	**%**
Public / Government	-	-	14,083,055	1%	-	-
Private	-	-	1,240,574,763	99%	-	-
	-	-	1,254,657,818	100%	-	-

	2016					
	Advances (Gross)		Deposits		Contingencies and commitments	
	(Rupees)	%	(Rupees)	%	(Rupees)	%
Public / Government	-	-	700,000,000	55%	-	-
Private	-	-	565,597,422	45%	-	-
	-	-	1,265,597,422	100%	-	-

25.1.4 Geographical segment analysis

	2017			
	(Loss) / Profit before taxation	**Total assets employed**	**Net assets employed**	**Contingencies and commitments**
	(Rupees)			
Pakistan	(5,666,314)	1,320,720,321	150,344,105	-
Outside Pakistan	-	-	-	-
	(5,666,314)	1,320,720,321	150,344,105	-

	2016			
	(Loss) / Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees)			
Pakistan	6,244,019	1,324,166,646	154,263,138	-
Outside Pakistan	-	-	-	-
	6,244,019	1,324,166,646	154,263,138	-

25.2 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".

25.2.1 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 be match funding).

25.2.2 **Mismatch of interest rate sensitive assets and liabilities**

2017

	Effective yield / interest rate	Total	Exposed to yield / interest rate risk: Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years	Non interest bearing financial instruments
		(Rupees)										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks		-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	3.75 - 6.75%	1,254,657,818	1,254,657,818	-	-	-	-	-	-	-	-	-
Other assets		11,668,232	-	-	-	-	-	-	-	-	-	11,668,232
		1,266,326,050	1,254,657,818	-	-	-	-	-	-	-	-	11,668,232
Liabilities												
Advance against share capital		1,159,905,000	-	-	-	-	-	-	-	-	-	1,159,905,000
Other liabilities		10,471,216	-	-	-	-	-	-	-	-	-	10,471,216
		1,170,376,216	-	-	-	-	-	-	-	-	-	1,170,376,216
On-balance sheet gap		95,949,834	1,254,657,818	-	-	-	-	-	-	-	-	(1,158,707,984)
Total interest / yield risk sensitivity gap			1,254,657,818	-	-	-	-	-	-	-	-	
Cumulative interest / yield risk sensitivity gap			1,254,657,818	1,254,657,818	1,254,657,818	1,254,657,818	1,254,657,818	1,254,657,818	1,254,657,818	1,254,657,818	1,254,657,818	

2016

	Effective yield / interest rate	Total	Exposed to yield / interest rate risk: Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years	Non interest bearing financial instruments
		(Rupees)										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks		-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	3.75 - 6.40%	1,265,597,422	1,265,597,422	-	-	-	-	-	-	-	-	-
Other assets		46,757,688	-	-	-	-	-	-	-	-	-	46,757,688
		1,312,355,110	1,265,597,422	-	-	-	-	-	-	-	-	46,757,688
Liabilities												
Advance against share capital		1,159,905,000	-	-	-	-	-	-	-	-	-	1,159,905,000
Other liabilities		9,971,843	-	-	-	-	-	-	-	-	-	9,971,843
		1,169,876,843	-	-	-	-	-	-	-	-	-	1,169,876,843
On-balance sheet gap		142,478,267	1,265,597,422	-	-	-	-	-	-	-	-	(1,123,119,155)
Total interest / yield risk sensitivity gap			1,265,597,422	-	-	-	-	-	-	-	-	
Cumulative interest / yield risk sensitivity gap			1,265,597,422	1,265,597,422	1,265,597,422	1,265,597,422	1,265,597,422	1,265,597,422	1,265,597,422	1,265,597,422	1,265,597,422	

25.2.3 Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

25.2.4 Profit rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the market profit rates. The company is not exposed to any major profit rate risk as it mainly invests in equity securities.

25.2.5 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to change in foreign currency rates. However, the Company is not exposed to any foreign currency risk as its assets and liabilities are denominated in Pakistani rupees only.

	2017			
	Assets	**Liabilities**	**Off-balance sheet items**	**Net currency exposure**
	(Rupees)			
Pakistani Rupees	-	-	-	-
	-	-	-	-

	2016			
	Assets	Liabilities	Off-balance sheet items	Net currency exposure
	(Rupees)			
Pakistani Rupees	-	-	-	-
	-	-	-	-

25.3 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.

Beside the Board which 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

25.3.1 **Maturities of assets and liabilities - Based on contractual maturity of assets and liabilities**

	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)									
Assets										
Cash and balances with treasury banks	-	-	-	-	-	-	-	-	-	-
Balances with other banks	1,254,657,818	1,254,657,818	-	-	-	-	-	-	-	-
Other assets	11,668,232	3,702,438	1,482,095	470,237	626,982	-	-	-	5,386,480	
	1,266,326,050	1,258,360,256	1,482,095	470,237	626,982	-	-	-	5,386,480	-
Liabilities										
Advance against share capital	1,159,905,000	-	1,159,905,000	-	-	-	-	-	-	-
Others liabilities	10,471,216	4,140,885	5,405,331	925,000	-	-	-	-	-	-
	1,170,376,216	4,140,885	1,165,310,331	925,000	-	-	-	-	-	-
Net assets	95,949,834	1,254,219,371	(1,163,828,236)	(454,763)	626,982	-	-	-	5,386,480	-
Share capital	150,001,000									
Reserves	-									
Unappropriated profit	343,105									
Surplus on revaluation of assets - net of tax	-									
	150,344,105									

	2016									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	(Rupees)									
Assets										
Cash and balances with treasury banks	-	-	-	-	-	-	-	-	-	-
Balances with other banks	1,265,597,422	1,265,597,422	-	-	-	-	-	-	-	-
Other assets	46,757,688	46,214,588	543,100	-	-	-	-	-	-	-
	1,312,355,110	1,311,812,010	543,100	-	-	-	-	-	-	-
Liabilities										
Advance against share capital	1,159,905,000	-	-	-	-	1,159,905,000	-	-	-	-
Others Liabilities	9,971,843	-	6,432,938	3,538,905	-	-	-	-	-	-
	1,169,876,843	-	6,432,938	3,538,905	-	1,159,905,000	-	-	-	-
Net assets	142,478,267	1,311,812,010	(5,889,838)	(3,538,905)	-	(1,159,905,000)	-	-	-	-
Share capital	1,000									
Reserves	-									
Unappropriated profit	4,262,138									
Surplus on revaluation of investment - net of tax	-									
	4,263,138									

The contractual maturities of assets and liabilities do not significantly differ with the expected maturities except operating fixed assets and deferred tax assets which do not have any contractual maturities. The maturities of operating fixed assets and deferred tax assets have been reported based on their pattern of usage and recoverability of the underlying assets on which deferred tax asset has been recorded.

25.3.2 **Maturities of assets and liabilities - Based on the working prepared by the Asset and Liabilities Management Committee (ALCO)**

	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)									
Assets										
Cash and balances with treasury banks	-	-	-	-	-	-	-	-	-	-
Balances with other banks	1,254,657,818	1,254,657,818	-	-	-	-	-	-	-	-
Other assets	11,668,232	3,702,438	1,482,095	470,237	626,982	-	-	-	5,386,480	-
	1,266,326,050	1,258,360,256	1,482,095	470,237	626,982	-	-	-	5,386,480	-
Liabilities										
Borrowings from financial institutions										
Advance against share capital	1,159,905,000	-	1,159,905,000	-	-	-	-	-	-	-
Others liabilities	10,471,216	4,140,885	5,405,331	925,000	-	-	-	-	-	-
	1,170,376,216	4,140,885	1,165,310,331	925,000	-	-	-	-	-	-
Net assets	95,949,834	1,254,219,371	(1,163,828,236)	(454,763)	626,982	-	-	-	5,386,480	-
Share capital	150,001,000									
Reserves	-									
Unappropriated profit	343,105									
Surplus on revaluation of investment - net of tax	-									
	150,344,105									

	2016									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	(Rupees)									
Assets										
Cash and balances with treasury banks										
Balances with other banks	1,265,597,422	1,265,597,422	-	-	-	-	-	-	-	-
Other assets	46,757,688	46,214,588	543,100	-	-	-	-	-	-	-
	1,312,355,110	1,311,812,010	543,100	-	-	-	-	-	-	-
Liabilities										
Advance against share capital	1,159,905,000	-	-	-	-	1,159,905,000	-	-	-	-
Others liabilities	9,971,843	-	6,432,938	3,538,905	-	-	-	-	-	-
	1,169,876,843	-	6,432,938	3,538,905	-	1,159,905,000	-	-	-	-
Net assets	142,478,267	1,311,812,010	(5,889,838)	(3,538,905)	-	(1,159,905,000)	-	-	-	-
Share capital	1,000									
Reserves	-									
Unappropriated profit	4,262,138									
Surplus on revaluation of investment - net of tax	-									
	4,263,138									

The contractual maturities of assets and liabilities do not significantly differ with the expected maturities except operating fixed assets and deferred tax assets which do not have any contractual maturities. The maturities of operating fixed assets and deferred tax assets have been reported based on their pattern of usage and recoverability of the underlying assets on which deferred tax asset has been recorded.

25.4 Equity position risk

The Company shall not take exposure in equities . Hence, the Company will not be exposed to equity risk.

25.5 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 Specific

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

26. GENERAL

Amounts in these financial statements have been rounded off to the nearest rupee except stated otherwise.

27. DATE OF AUTHORISATION

These financial statements were authorised on 10th March 2018 by the Board of Directors of the Company.

Chief Financial Officer	Chief Executive	Director	Director	Chairman