PMRC
Pakistan Mortgage Refinance Company Limited

Reaching beyond Reach

Annual Report 2020

PMRC was formed with the aim to address the severe shortage of housing in the country not only by making housing finance available but also by increasing affordability through the provision of long-term liquidity and introduction of fixed rate financing.

We as a Company value the desire of all those individuals who can not afford to either build a house or move to a bigger one; better suited to their needs.

PMRC envisions to make housing accessible and affordable by increasing financial inclusion of low and middle income segments viz-a-viz providing investment opportunities to capital market participants by offering new asset products.

Corporate Information

Board of Directors

Mr. Rehmat Ali Hasnie	Chairman
Mr. Mudassir H. Khan	Managing Director / CEO
Mr. Farrakh Qayyum	Independent Director
Mr. Abid Naqvi	Independent Director
Mr. Imran Sarwar	Director
Ms. Mehreen Ahmed	Director
Mr. Naveed Nasim	Director
Mr. Syed Taha Afzal	Director
Mr. Risha A. Mohyeddin	Director
Dr. Iftikhar Amjad	Director

Board Committees

Shareholders' Committee
Mr. Rehmat Ali Hasnie (Chairman)
Ms. Mehreen Ahmed
Mr. Imran Sarwar

Audit Committee
Mr. Abid Naqvi (Chairman)
Mr. Risha A. Mohyeddin
Ms. Mehreen Ahmed

Nomination Committee
Mr. Risha A. Mohyeddin (Chairman)
Mr. Rehmat Ali Hasnie
Mr. Mudassir H. Khan

Human Resource Committee
Mr. Farrakh Qayyum (Chairman)
Mr. Syed Taha Afzal
Mr. Mudassir H. Khan

Risk Committee
Mr. Imran Sarwar (Chairman)
Mr. Naveed Nasim
Mr. Mudassir H. Khan

CFO & Group Head Operations
Mr. Omair Farooqi, FCA

Company Secretary
Mr. Naved Hanif

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

Legal Advisors
M/s. Abdul Hayee Kureshi & Co.

Registered Office
Finance & Trade Center, 4th Floor, Block-A
Shahrah-e-Faisal, Karachi -74400, Pakistan

Website
www.pmrc.com.pk

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Vision

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

Mission

Promote expansion of affordable housing finance.

Establish high standards of mortgage practices for housing finance.

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

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

Core Values

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

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

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

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

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

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

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

Entity Rating*

VIS Credit Rating Company Limited (VIS) has reaffirmed entity ratings of PMRC as 'AAA/A-1+' (Triple A/A-One Plus). Outlook on assigned ratings is stable.

Long Term
AAA (Triple A)

The long-term rating of 'AAA' indicates highest credit quality.

Short Term
A-1+(A One Plus)

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

*Entity ratings have been assigned on April 5, 2021.

Credit Guarantee Scheme

A Credit Guarantee Trust, with Pakistan Mortgage Refinance Company (PMRC) as Trustee, has been set up by the Government of Pakistan with the support of State Bank of Pakistan (SBP) and funded by the World Bank. In line with Government's vision to promote affordable housing specially for the low- and informal-income segments, the Credit Guarantee Trust will provide risk coverage of up to 40% to primary mortgage financiers on first loss basis. The guarantee will partially alleviate the credit risk of primary mortgage financiers and provide a conducive environment for banks to finance housing for the low-income. Keeping in view the dynamics of mortgage market and to facilitate market growth, the scheme has been designed for both conventional and Islamic banks.

The Islamic mode of Credit Guarantee scheme is based on the concept of Kafalah/Guarantee and Conditional Tabarru'/Gift. Under this Guarantee & Conditional Tabarru' arrangement where the Trust is providing risk coverage to the qualified IPFIs incurring/classifying loss (of profit/rental & unit financing amount) as per Prudential Regulations in respect of their eligible low-cost housing portfolio. At any point of time, if the facility is settled in full by the customer or regularized through restructuring or the qualified IPFI sells the asset in the market and recovers the loss through proceeds and/or any other source(s), the recovery amount so received shall be returned to the Trust up to the amount of Guarantee & Tabarru' arrangement paid by the Trust to the qualified IPFI.

> PMRC, as trustee, is providing Credit Guarantee to cover up to 40% losses under low-income mortgage portfolio. Besides conventional product, the facility is also available as one of its kind Shahriah compliant structure.

PMRC developed working models with Partner Financial Institutions (PFIs)

To promote fixed rate long term mortgages, PMRC and its PFIs join hands to launch fixed rate mortgages up to 20 years.

Fixed rate mortgages were neither promoted nor offered in Pakistan, which was mainly due to the nonavailability of long-term source of funds and uncertainty in cost of funds. PMRC filled this vacuum by offering long term fixed rate financing facilities to PFIs, enabling them to launch fixed rate mortgages and that too on very attractive rates.

Till now four PFIs, including Islamic Banks, has been enabled to launch fixed rate mortgages which has received a very welcoming response from the end customers. Many more PFIs are now working towards this model, as it will not only will create stability for end customer but will also be affordable.

To promote fixed rate long term mortgages, PMRC and its PFIs join hands to launch fixed rate mortgages up to 20 years.

Refinance facility for Microfinance Institutions (MFBs)

To enable MFBs, PMRC developed and provided financing facility for micro-housing loan targeting towards the low-income group.

Cost of operations and funds has always been an issue for MFBs, effect of which is reflected as higher markup rates on their products, due to which their ability to take exposure is relatively low. Customers of MFBs largely belong to economically fragile sector which neither have adequate access to housing finance nor affordability to purchase a house out of their sources and on the other hand housing finance option offered by MFBs are priced at a much higher rate.

PMRC addressed the issue by offering funds at concessional rates and on viable terms which helped them reduce the product rates for the end consumer making housing possible and accessible for them.

To enable MFBs, PMRC developed and provided financing facility for micro-housing loan targeting towards the low-income group.

Engagement with Non-Banking Finance Companies (NBFCs)

To support NBFCs and upcoming housing finance companies, PMRC provided product advisory and developed financing facility for them.

NBFCs are an important sector and have been keenly interested in doing housing, for which they have a product but the competitiveness in rates against the commercial banks and source for long term funds is missing which is the main cause of hindrance to enter and run such product successfully.

PMRC enabled the existing NBFCs through long term funding at concessional rates besides arranging workshops, webinars and table discussions where market impediments were discussed in presence of regulator for drafting possible solutions. Moreover, upcoming housing finance companies were guided and given product level advisory.

> To support NBFCs and upcoming housing finance companies, PMRC provided product advisory and developed financing facilities for them.

Capital Market Development

An important objective of PMRC is the development of the local bond and sukuk markets. Besides being the Company's principal source of funding, the development of capital market will enable the introduction of new asset classes which will open doors for the investors to inject the underutilized liquidity aimed towards the development of the housing market.

Raised PKR 1 Billion through privately placed fixed rate bond backed by mortgage receivables.

PMRC working on its development goal, raised PKR 1 Billion through privately placed fixed rate bond backed by mortgage receivables. PMRC along with Pak Kuwait Investment Company successfully placed this Mortgage Refinance bond which is the first ever bond issuance in Pakistan that is solely for Mortgage Refinancing.

In order to support our strategy of continued investment for growth in the Mortgage industry, PMRC is designing a Sukuk which will be an innovative and one of its kind instrument, which will allow the investors from the Islamic Financial market to explore Shahriah compliant money channels which will not only be secured and profitable but will also bring Islamic funds in the housing market development.

Collaborations

PMRC as a member, represented Pakistan on panel of The Association of Asian Secondary Mortgage Organization (ASMMA) and International Secondary Mortgage Market Association (ISMMA).

ASMMA and ISMMA are informal non-profit organizations which are open to all secondary mortgage corporations in Asia. They provide a basis and a platform for exchange of ideas, views and experiences with an aim to promote housing finance markets to enable the citizens in the economies of their member countries to improve access to housing finance and ultimately reach the goal of adequate, safe and affordable housing for all.

PMRC's efforts and growth were lauded and appreciated at large by these international forums and PMRC is recognized as knowledge partner for the new and upcoming Mortgage Liquidity Facilities (MLF), following which MLFs from Kenya, Saudi Arabia, Uzbekistan and Tajikistan sought technical assistance from PMRC, under which operation plan, development at treasury and capital market instruments and business products were discussed and MLFs were given road map to navigate and align their operations accordingly.

PMRC as a member, represented Pakistan on panel of The Association of Asian Secondary Mortgage Organization (ASMMA) and International Secondary Mortgage Market Association (ISMMA).

Partnerships

PMRC worked with the World Bank and Naya Pakistan Housing Development Authority (NAPHDA) in promoting low-cost housing finance. IFC strengthened its partnership with PMRC and became a shareholder.

PMRC has been playing an important role as implementation body for the World Bank Housing Project and on the parallel ground has proven to be sound on advising NAPHDA on the low-cost housing project. PMRC showcasing its partner level support with the two institutions, developed the subsidy model for the multimillion-dollar project of low-cost housing and advised on its parameters.

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>
> IFC strengthened its partnership with PMRC and became a shareholder.

Insurance Product for Temporary Income Loss

In line with the mission to bring new and innovative products to the market, PMRC hosted Mortgage Insurance sessions to facilitate banks and insurance companies on development of Temporary Income Loss Insurance product.

Participants from major Insurance Companies of Pakistan along with representatives from major Banks were invited over a series of brain storming sessions. These sessions were aimed at strengthening the mortgage market in Pakistan by offering new insurance product that provide insurance cover in case of temporary loss of income which can be due to partial disability, job loss etc. to the mortgages specially for the low-income segment which is a vulnerable segment to absorb the economic shocks.

As a result of these continuous efforts, a product for the purpose came into existence which now stands available to all market participants offering and dealing in affordable housing particularly low income.

PMRC facilitated banks and insurance companies to discuss and develop Temporary Income Loss Insurance product to reduce the credit risk of Primary Mortgage Lenders arising from low-income housing finance customer.

Chairman's Statement

I am delighted that in a short span of two years, the PMRC has established itself as a key player of the financial sector. Its reputation has not only resonated domestically, but also at a number of international forums.

The year 2020 was a difficult year for the world including Pakistan as we were hit by the COVID-19 pandemic in March. The Government imposed lockdowns across the country, leading to challenging economic conditions particularly for certain businesses and daily wage earners. The Government, however, successfully managed this threat using smart lock downs, closing of public places, and implementation of SOPs, which resulted in lowering the number of COVID-19 cases and the economy's pace started to gradually pick up. As things started to improve, the world was hit by a second wave of the virus and Pakistan also witnessed a rise in the number of cases around November 2020. The Government continued with its strategy and the success of its smart management of the pandemic in Pakistan was recognized internationally and the country's economy did not suffer in the same manner as other regional countries. To support the economy the Government and the State Bank of Pakistan (SBP) introduced unprecedented measures which provided the necessary support for economic stability. After a series of significant rate cuts, the policy rate stabilized at 7% from June 2020. Simultaneously, Pakistan's current account began showing a month-on-month surplus; a trend that has continued past 2020.

I am delighted that in a short span of two years, the Pakistan Mortgage Refinance Company (PMRC) has established itself as a key player of the financial sector. Its reputation has not only resonated domestically, but also at a number of international forums. As a public-private partnership with the investment and backing of its shareholders, Government of Pakistan, SBP and the World Bank Group, its primary focus is to ensure liquidity in the banking sector for housing loans. It also bridges the demand-supply gap for housing finance through provision of affordable and fixed rate medium to long-term financing for Primary Mortgage Lenders (PMLs).

To assist and support, the increased focus of the Government on promoting housing and construction, a number of important measures were taken by policy makers to stimulate construction particularly the supply of low-cost housing. These include the creation of the Naya Pakistan Housing Authority. Furthermore, the SBP also notified as a policy, the mandatory targets that required all banks to allocate 5% of their private sector lending portfolio to housing and construction. Lastly, the Government and the SBP also announced a scheme for financing low-cost housing units for low-income families which provided a detailed structure for mark-up subsidy and credit risk guarantees for banks that extend loans under the Scheme. All of these actions indicate the potential for the housing and construction sector advances with banks to grow rapidly in the coming years. The challenge for PMRC will be to keep pace with the funding requirements of the primary housing market as a liquidity provider of size and significance.

I am confident that PMRC will continue to play a key role in market development by providing medium to long term fixed-rate funds to PMLs along with increasing affordability and reducing credit risk for the end-borrower. I foresee that being the lender of first resort for the regulated financial institutions, PMRC would continue to assist financial inclusion and other PMLs in realizing the vision of the Government for low-cost housing.

PMRC during the year issued its first fixed rate bond. The Company will continue to introduce new products, both Shariah compliant as well as conventional, to deepen and widen the local capital markets.

On that note, I would like to take this opportunity to thank my fellow Board members, our shareholders for their unwavering support, our regulators and other stakeholders for their assistance and guidance. I would also like to thank the MD/CEO, the management and staff for their hard work, dedication and relentless efforts have established PMRC as one of the fastest growing DFIs, with a balance sheet size of Rs. 28 Billion in just two years. The integrated strategy of the Company to provide the most suitable products to PMLs and become an agile, responsive, and sustainable organization has established it as a key market facilitator. I am certain that PMRC's journey to establish itself as an internationally recognized, credible financial institution will continue in its current positive trajectory.

Rehmat Ali Hasnie
Chairman

CEO's Statement

I am glad that PMRC moved forward with the Government and SBP's vision of improving access to housing finance particularly for the low income.

Despite a tough year fraught by COVID-19 pandemic, Pakistan Mortgage Refinance Company (PMRC) significantly grew its business and established its role in the market as a secondary mortgage liquidity facility. It continued its journey addressing medium to long-term funding constraints of the financial sector, increasing accessibility and affordability of home finance, and ensuring sound lending practices amongst the primary mortgage lenders (PMLs).

Having started commercial operations in November 2018, PMRC achieved many milestones in terms of market reach and disbursements besides securing 'AAA' entity rating in a short span of time. I am glad that PMRC moved forward with the Government and SBP's vision of improving access to housing finance particularly for the low income. The World Bank Group has supported this objective with its housing project and a credit line of USD 140 Million was on-lent by the Government of Pakistan for its operations. In addition to these funds, PMRC also raised Rs. 1 Billion during the year through its first fixed rate bond which was in line with its other objective of promoting the capital markets with new conventional and Islamic instruments. Flow of liquidity through secondary mortgage facility also provides scalability and diversification and reduces intermediation costs and risks for PMLs. Another landmark achievement for PMRC was launch of a Credit Loss Guarantee scheme as Trustee for the Government of Pakistan. This risk sharing mechanism was developed to encourage PMLs to enter and lend to the low and middle-income group. I am confident that these steps will lead to the expansion of primary residential mortgage market and homeownership in Pakistan.

Regardless of the instability amidst the pandemic, PMRC closed the year with total advances of about Rs. 15 Billion with a growth of 94 percent over 2019, and total assets of the Company grew by 47 percent reaching over Rs. 28 Billion. We signed multiple agreements with PMLs and as major contribution to the sector many partner organizations developed and launched fixed rate products catering to middle and low-income segment based on our funding. We also partnered with and provided funding to new segments for housing/ mortgage finance including microfinance banks, microfinance institutions, non-bank finance companies as well as a modaraba Company. In addition, our new products for Government/ provincial Government employees and pensioners were developed based on client demand and market needs. I am very hopeful that with these new segments and products, our goal of developing the housing finance market particularly for the low and middle income will witness significant growth in the coming years. Another advantage of these new segments is diversity in the lending clientele and geographical coverage of these clients across Pakistan. Our particular emphasis has also been on developing new products and extending Islamic financing; the market has grown significantly over the last 4 – 5 years despite all challenges and Islamic banks have increased their market share to 53% of the overall housing finance market and we expect this growth to continue.

PMRC strengthened its ties and continued to play its role in contributing to the Naya Pakistan Housing Program and working with SBP, SECP, Naya Pakistan Housing Development Authority (NAPHDA), the World Bank Group and other stakeholders including the builders and developers for promotion of low-cost housing. To further facilitate lending to the low-income segment PMRC enabled the insurance industry in design of an insurance product for temporary income loss to cover salary or business income disruptions.

Our efforts to build partnerships continued where Asian Secondary Mortgage Markets Association (ASMMA) and International Secondary Mortgage Markets Association (ISMMA) provided unique opportunities for collaboration. PMRC assisted Saudi, Kenya and Uzbekistan mortgage refinance companies on technical and operational matters and in turn received support of Korean Mortgage Refinance Company and Cagamas of Malaysia.

PMRC recognizes the importance of staff whose efforts have been the main factor in its growth and would like to see PMRC become an employer of choice. We understand the benefits of diversity and have managed to improve our gender balance where female staff now constitute 27 percent of our professional staff. A specialized training on gender sensitivity was also arranged to ensure a congenial and respectful workplace environment.

We specifically recognize support of the World Bank Group which has been our important partner in development of the housing finance agenda. In addition, IFC has invested in PMRC and is now a shareholder. We believe it to be a landmark achievement for us as it enhances our profile and credibility in the market.

I would like to thank our board members whose persistence and hard work has helped PMRC grow and realize market recognition. My priority remains strengthening PMRC further and making it a premier institution for the banking and financial industry. I would also like to express my gratitude to our shareholders and other stakeholders including the Ministry of Finance, NAPHDA, the Security and Exchange Commission and the State Bank of Pakistan for their continued support. Lastly, my fellow colleagues and the entire team of PMRC for their untiring efforts; without their support, none of these results would have been possible. Together we look forward to even greater achievements in 2021.

Mudassir H. Khan
Managing Director /
Chief Executive Officer

Directors' Report

On behalf of the Board, we are pleased to submit the Directors' report along with the Annual Audited Financial Statements of Pakistan Mortgage Refinance Company Limited (PMRC) for the year ended December 31, 2020.

Performance Overview

At the start of the year, Pakistan's economy yielded a notable improvement and the economy started moving progressively along the adjustment path, however the unfortunate outbreak of COVID-19 severely impacted the nation's economy like many other major economies of the world.

Despite the COVID-19 situation, PMRC successfully disbursed Rs. 8.75 Billion in FY 20, which is the highest disbursement in a single year by any Development Finance Institution in its core business.

Several institutions benefited from PMRC's Long Term fixed rate funding such as Bank Islami launching a 3-year fixed rate mortgage product at 8.99% pa. PMRC has successfully developed and robustly deployed a working model with partner banks such as HBL, Bank Alfalah, Bank Islami, JS Bank, and the Bank of Punjab, who have been able to rejuvenate their fixed mortgage products based on PMRC funding and rates.

PMRC successfully issued its first privately placed a fixed rate 2-year bond in FY2020 of PKR 1 Billion. Taking advantage of strong credit rating, PMRC was able to issue bond at sub-par PKRV rates. Based on the first issuance, PMRC received an overwhelming response from the capital market and structured a first of its kind Sukuk based on Mortgage Receivables along with Meezan Bank. PMRC plans to issue the Sukuk in the 1st Quarter of FY2021.

In line with the Government's initiative for the promotion of Low-Cost Housing, PMRC has created a Risk Sharing Facility (RSF) for Low-Cost Housing to motivate banks for mortgage financing in this segment. Islamic Shariah structure for RSF has also been approved by leading Islamic banks and banks with Islamic window. This is the first Shariah Compliant Credit Guarantee Scheme for Low-Cost Housing in the region.

PMRC also assisted the World Bank and Naya Pakistan Housing & Development Authority in its development of a workable model for low-cost and affordable housing finance.

Although credit off take remained a challenge due to pandemic; the Company was still able to close the advances portfolio at Rs. 14.9 Billion as on December 31, 2020 as compared to Rs. 7.7 Billion on December 31, 2019, a commendable growth of 93 percent in a year.

The Company's total assets crossed the level of Rs. 28 Billion as on December 31, 2020 as against Rs. 19.57 Billion as of December 31, 2019. Investment portfolio recorded a 16 percent growth from Rs. 8.8 Billion to close at Rs. 10.2 Billion.

The strong growth in assets translated in profit before tax of Rs. 1.4 Billion as against Rs. 0.9 Billion during last year. Earnings per share (EPS) for the year 2020 remained at Rs. 3.92 per share as compared to Rs. 2.46 per share during last year.

Financial Highlights	2020	2019
	Rs. In "000"	
Financial Position		
Shareholders' Equity	6,055,007	4,616,028
Total Assets	28,835,374	19,576,545
Subordinated Debt	7,050,716	7,050,716
Borrowing-TFC	1,000,000	-
Borrowings	14,248,741	7,565,788
Advances	14,967,077	7,729,232
Investments	10,202,696	8,821,820
Financial Performance		
Net Interest Income	1,793,691	1,192,579
Profit after tax	1,436,338	901,842
Ratios		
EPS	3.92	2.46
Disbursements Cumulative	16,550,000	7,800,000

Macroeconomic Review

During FY 20, Pakistan's GDP growth contracted as the economy suffered due to the COVID-19 pandemic. GDP contracted by 0.4% in FY 20, due to the global economic slowdown. Real GDP growth is projected to be 1.5% in FY 21 with the Government's supportive monetary policy. The combined effect of the decline in the GDP growth rate and the massive devaluation of the Pakistan Rupee resulted in reduction of per capita GDP from USD 1,568 in FY 19 to USD 1,363 in FY 20. The impact of decline in per capita GDP coupled with rising inflation will have an impact on consumer purchasing power.

Average headline inflation increased to 10.7% in FY 20 compared with 6.8% in FY 19 and declined to 8.00% at year end 2020, primarily because of the suppressed demand and slowdown in the economy resulting from the COVID-19 pandemic including lockdowns and shutting down of businesses.

Due to the measures taken by the State Bank of Pakistan the Current Account Deficit (CAD) turned into deficit of USD 3 Billion in FY 20 compared to a deficit of USD 13.4 Billion in FY 19. The decline was primarily driven by lower imports in machinery and raw material due to the slowdown in industrial and economic activity, as well as alignment of the exchange rate. Export, foreign direct investment did not show any marked improvement. However, Pakistan's improvement in ease of doing business coupled with improved CAD and expected positive economic indicators and foreign investor sentiments could boost foreign direct investment in FY 21.

The market-based exchange rate, contraction in manufacturing, a large drop in global oil prices and growth in worker's remittances proved helpful in building up the foreign exchange reserves. The total foreign exchange reserves reached to USD 20 Billion in December 2020.

Future Outlook

The economy has slowly been picking up the pace on the road to restoration post COVID-19. Fitch Solutions has projected a mere 0.8 per cent growth rate for the fiscal year. The Asian Development Bank has said that Pakistan's economy 'is recovering', with the IMF projecting a 1 per cent growth rate with even higher inflation and unemployment. Although, once the IMF program restarts, further austerity will dampen some of the Government's attempts to expand fiscal support and spending.

The State Bank of Pakistan has kept the policy rate stable at 7% since June 2020, and it is expected to keep the policy rate stable in the current FY.

Steep fall in global oil prices and high base effect (Oct-20 onwards) have countered supply shocks resulting from torrential rains and locust attacks which led to a spike in inflation. PKR appreciation against USD in recent months coupled with softening of food prices is expected to keep CPI at 8.8% in FY21. MOF has set inflation target at 8.5% whereas SBP expects it to settle at 7-9% during FY21.

The current account is expected to post a deficit of USD 2.5bn in FY21. It is expected that the trade balance will also further swing to the deficit, in 2HFY21 particularly, as domestic seasonality increases and global uncertainty prevails. Import growth is expected to outpace export growth, hence dragging the current account balance with an expectation of a 2% jump in the total imports.

Workers' remittance is expected to continue the momentum of USD 2 Billion. However, as the year unfolds, remittances flow might weaken with international economies returning to normalcy.

Pakistan will be relying on financing from the IMF and other bilateral partners to meet its external debt requirements in FY21. It is assumed that the net increase in FX reserves during FY21 would amount to USD 1.5 Billion, which is likely to be raised from Euro bonds and Sukuk; USD 200-300 Million Panda bonds inclusive.

Human Resource

PMRC believes that excellent care of employees breeds excellent service. A key strength of PMRC is its depth of leadership talent, and the contribution and commitment of the employees. It has expanded its team comprising of resourceful, talented, and competent professionals collaborating to promote housing finance in Pakistan.

The management of PMRC believes that developing our employee's career is an investment for both our employees and PMRC. For those employees who are constantly striving to attain individual goals while recognizing the power of working collaboratively, we offer skill development program, onsite training courses to enhance job related skills and access to job related conferences and seminars.

PMRC has also developed a comprehensive **"Management Trainee Program"** which is a development program designed for young graduates. As a Management Trainee, young graduates get a chance to discover different functions of PMRC, which allows them to gain knowledge and experience of different functions. This program further ensures that the trainees get the insights and greater understanding of real business scenarios.

The management has also taken steps to develop the concept of Gender Sensitivity to reduce barriers for personal and economic development of its employees. A full day training session was arranged for the employees to help sensitize them towards gender issues.

Corporate Social Responsibility

PMRC is committed to ensuring that our business is conducted in all aspects according to rigorous ethical, professional, and legal standards. PMRC understands its responsibility towards the staff, stakeholders, customers, suppliers, the environment, and the planet.

PMRC donated Rs. 3.5 Million to the Prime Minister's COVID-19 Pandemic Relief Fund 2020.

The scheme provides food and other necessities free of cost to the needy and deserving segments of our society. This was implemented to provide maximum support to the underprivileged population of Pakistan and assist our nation to tackle the effects of the COVID-19 pandemic.

PMRC encourages its employees to implement CSR. Hence, they also contributed to the fund where the single day salary was donated as per the employee's discretion.

Movement in Reserves

Particulars	2020	2019
	Rs. In "000"	
Opening Balance	4,696,272	3,713,090
Unappropriated Profit	1,149,070	721,474
Transfer to Statutory Reserve	287,268	180,368
Other comprehensive income	5,753	81,340
Balance as at 31 December	6,138,363	4,696,272

Risk Management Framework

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 value and sustainability, whilst guided by a prudent and robust framework of risk management policies. Despite the low risk business model of the Company as it only deals with banks and regulated Financial Institutions, it places great emphasis on the importance of risk management and has put in place clear and comprehensive risk management framework to identify, monitor, manage and control the relevant risk factors.

Capital Ratios and MCR

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

The Company has entered into subscription agreement, shareholders agreement and buyback agreement with International Finance Corporation, a member of the World Bank Group to issue fully paid ordinary shares of Rs. 500 Million. These funds were received by PMRC in January 2021. This injection along with organic growth of the Company will lead to achieve the target of MCR well before the stipulated timeline.

Capital Adequacy Ratio stands at 143.62%. PMRC's capital and related ratios remain well above regulatory requirements.

Credit Ratings

Based on PMRC's low exposure to credit & market risk, strong projected capitalization indicators, strong sponsors, experienced & professional management team and sound risk management controls, VIS Credit Rating Company Limited (VIS) has assigned entity ratings of "AAA/A-1+" (Triple A/A-One Plus). Outlook on the assigned ratings is "Stable".

Statement of Internal Controls

The Board is pleased to endorse the statement made by the management relating to internal controls. The statement on Internal Controls is included in the annual report.

While concerted efforts were made to follow SBP Guidelines on Internal Controls, identification, evaluation and management of risks within each of the DFI's activities; and evaluation and change of procedures remains an ongoing process.

Corporate Governance

The Board of Directors has adopted the Code of Corporate Governance issued by Securities and Exchange Commission of Pakistan (SECP) on voluntary basis as the Board is committed to ensuring the best Governance practices.

The Directors are pleased to report that:

- The financial statements, prepared by the management of the Company, present fairly the state of affairs of the Company, the results of its operations, cash flows and changes in equity.
- Proper books of accounts have been maintained.
- Appropriate accounting policies have been consistently applied in the preparation of the financial statements, except for the changes in accounting policies as described in Note 4 to the financial statements. Accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable to Company in Pakistan, have been followed in preparation of financial statements.
- The system of internal control in the Company is sound in design and is effectively implemented and monitored.
- There are no significant doubts regarding PMRC's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance except for those as explained in the Statement of Compliance.
- Profit amounting to Rs. 287.268 Million has been transferred to Statutory Reserve for the year 2020.
- The Board of Directors consists of eight (8) male (excluding Chief Executive Office) and one (1) female member. The detailed composition of the Board is given in the Statement of Compliance with the Code of Corporate Governance.
- Details of Directors' training programs are given in the Statement of Compliance with the Code of Corporate Governance.
- The Company engaged Pakistan Institute of Corporate Governance (PICG) to carry out its Board evaluation for 2020 under self-assessment. PICG carried out the evaluation, covering the three basic components as required by the Listed Companies (Corporate Governance) regulations and (for banks) SBP's Guidelines on Performance Evaluation of Board of Directors, which are; Board as a whole, Board Committees and Individual members of the Board. The Board self-assessment was carried out through an online portal-based questionnaire. The entire process ensured the anonymity of responses received. The deliverables of the assessment process were:
    a) Board Assessment Report including Board Committees
    b) Individual Board Member Evaluation Report
    c) Analysis of Results Report

Change in Directorship

Dr. Iftikhar Amjad, a representative director of Ministry of Finance-Government of Pakistan was appointed on January 30, 2020.

Composition of the Board and Board Committees

The composition of the Board and its Committees, names of members of Board Committees are given in the Statement of Compliance with the Code of Corporate Governance.

Compensation of Directors

The Board has approved the remuneration policy of directors including independent directors, thereby, the Board shall, from time to time, determine and approve the remuneration of the non-executive and executive members of the Board for attending Board Meetings. Such level of remuneration shall be appropriate and commensurate with the level of responsibility and expertise offered by the members of the Board, and shall be aimed at attracting and retaining members needed to govern the Company successfully, and creating value addition. The Board shall ensure that the prevailing level of remuneration of the Board does not any time compromise the independence of independent members of the Board. No single member of the Board shall determine his / her own remuneration. The Non-Executive Directors, including Independent Directors, are eligible for fees and logistic expenses for attending meetings of the Board and Board Committees as approved by the Board of Directors.

Meetings of the Board

Below are the details of number of Board and Committee Meetings held and attended during the year 2020:

Sr. No	Name	Board Meetings		BRC Meetings		BHRC Meetings		BAC Meetings	
		Held	Attended	Held	Attended	Held	Attended	Held	Attended
1	Rehmat Ali Hasnie	6	6						
2	Imran Sarwar	6	5	4	4				
3	Mehreen Ahmed	6	6					4	4
4	Farrakh Qayyum	6	6			2	2		
5	Abid Naqvi	6	4					4	3
6	Risha A. Mohyeddin	6	6					4	4
7	Naveed Nasim	6	5	4	4				
8	Syed Taha Afzal	6	6			2	2		
9	Mudassir H. Khan	6	6	4	3	2	2		
10	Iftikhar Amjad*	2	2						

* Elected on January 30, 2020. Fit and Proper test clearance conveyed by SBP on October 2, 2020, therefore, he attended two Board Meetings held subsequent to his FPT Clearance

Pattern of Shareholding

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

Auditors

The current auditors, Messrs KPMG Taseer Hadi & Co. Chartered Accountants, are completing their term as defined in the Code of Corporate Governance. Accordingly, the Board of Directors, on the recommendation of the Board Audit Committee, recommends the appointment of Messrs A. F. Ferguson & Co. Chartered Accountants, a member firm of PWC, as the auditors of the Company for the financial year ending 2021.

Appreciation and Acknowledgement

On behalf of the Board and the Management, we would like to express our gratitude to our Shareholders for placing their trust in PMRC; SBP, SECP and other regulatory bodies for their support, guidance and oversight as well as the World Bank Group. We would also like to extend our appreciation to our colleagues for the diligent work towards meeting customer expectations and their dedication towards achieving the goals and objectives.

For and on behalf of the Board of Directors.

Rehmat Ali Hasnie
Chairman

Mudassir H. Khan
Managing Director /
Chief Executive Officer

Date: March 5, 2021

Profiles of the
Board of Directors

Mr. Rehmat Ali Hasnie
Chairman

SEVP & Group Chief -
Inclusive Development Group (NBP)

Mr. Rehmat Ali Hasnie has been a member of the Board of PMRC since May 2015 and the Chairman of the Board of Directors since April 2017. He is a financial markets professional with a MA in Development Banking from The American University (USA) and presently serving at National Bank of Pakistan (NBP) in the capacity of SEVP & Group Chief of the Inclusive Development Group (IDG). IDG is NBP's most recent and ambitious initiative to position the Bank as an institution focused on the priority financing sectors of Pakistan's economy. In this regard, the focus of IDG is SME and Agriculture lending. Earlier, Mr. Hasnie was heading investment banking at NBP. His has over 26 years of work experience in the financial sector including stints in economics research, capital markets, investment banking, treasury and credit markets at various institutions in Pakistan. He has served on numerous Boards as a nominee Director of NBP including of Pakistan Mercantile Exchange Limited, Fauji Akbar Portia Marine Terminals Limited, Agritech Limited, First Credit Investment Bank Limited and First National Bank Modaraba.

Mr. Abid Naqvi
Independent Director

Mr. Abid Naqvi is the CEO of ACL Capital (Pvt.) Limited, a business development Company affiliated with Associated Constructors Ltd. He is also on the Board of Associated Constructors Limited, Alfalah GHP Investment Management Limited and Atlas Honda Limited. He has worked in the fields of Commercial and Development Banking and Stock Brokerage for a period of over 31 years. He has also worked as CEO of Taurus Securities Limited, a renowned name in the stock brokerage industry. He is a graduate from the University College London, UK in the field of Economics and Finance.

Mr. Farrakh Qayyum
Independent Director

Mr. Farrakh Qayyum retired as Secretary to Government of Pakistan. He served as Secretary Economic Affairs Division, Finance, Petroleum and Natural Resources, Telecommunications and Information Technology, Privatization, and Science and Technology. Mr. Qayyum has extensive experience in policy and strategy formation and implementation, institutional development, economic and financial evaluation, in managing multi-disciplinary teams for financial and development projects, and in working closely with commercial banks and multilateral and bilateral donor agencies. Mr. Qayyum has played an instrumental role in the Government's financial sector and telecommunications sector reforms and successful privatization of PTCL and some of Pakistan's key financial institutions, and negotiated and signed the Pak-Iran Gas Supply Agreement. He has also served as Trade and Economic Minister at the Embassy of Pakistan in Washington DC, Special Assistant to the Finance Minister, and Additional Secretary (Econ) at the Prime Minister's Secretariat.

Mr. Qayyum holds a Master Degree in Economics with a major in International Trade and Finance from the University of San Francisco, USA. He has received certifications from the Kennedy School of Government, Harvard University, the Overseas Economic Cooperation Fund and several other prestigious organizations. He has represented Pakistan as Alternate Governor the World Bank and Asian Development Bank in their annual meetings. He also served as Executive Director on the Board of Islamic Development Bank. Mr. Qayyum represented the Government on the Boards of Directors of State Bank of Pakistan, National Bank of Pakistan, and Pakistan International Airlines. He has also been on the Boards of Directors of Allied Bank Ltd., Pak China Investment Company, and PAIR Investment Company Ltd. He was a Member of the Economic Advisory Committee, constituted by the Ministry of Finance.

Mr. Qayyum is, presently, the Chief Executive Officer of GEI Pakistan Pvt. Ltd., an affiliate Company of Saif Group, and focused on delivering affordable and clean energy and power solutions for Pakistan.

Dr. Iftikhar Amjad
Director

Dr. Iftikhar Amjad is presently the Joint Secretary, External Finance Division, representing Ministry of Finance, Government of Pakistan on the Board of PMRC. He also served as Deputy Secretary (Financial & Capital Markets) External Finance Division, Additional Commissioner and Assistant Commissioner Inland Revenue, Federal Board of Revenue, Deputy Secretary China, Japan and Paris Club, Economic Affairs Division of Government of Pakistan and Director Planning and Policy, Board of Investment, Prime Minister's Secretariate.

Dr. Amjad has extensive experience in Government Service, including implementation of policy and strategy, institutional development, economic and financial evaluation, financial and development projects, and working closely with commercial banks. Dr. Amjad holds a MBBS Degree from the Rawalpindi Medical College, Punjab University.

Mr. Imran Sarwar

Director

Mr. Imran Sarwar serves as the Group Executive, Risk and Credit Policy and Group Chief Risk Officer at United Bank Limited. Mr. Sarwar holds degrees in Business & Accounting from Ohio Wesleyan University and LLB from Punjab University. With over 26 years of diversified banking experience covering Corporate, Institutional, Investment Banking and Risk, he has worked in Pakistan, Australia, UK and UAE. Before joining UBL, he was Head of Corporate and Institutional Banking UAE for Standard Chartered Bank. He joined UBL in August 2017.

Ms. Mehreen Ahmed

Director

Ms. Mehreen Ahmed currently serves as the Group Head - Retail Banking at Bank Alfalah. In this role, she is responsible for managing the Bank's Retail, Commercial, SME & Consumer businesses across the country. Her operational network comprises over 525 branches and she leads the banks sales effort for one of the widest product suites in the market. She is also managing high-impact new businesses including Wealth Management, Premier Banking, and Payroll Banking alongside, Marketing, Communications, and Deposit Products. She joined Bank Alfalah in 2012 as the Group Head for Consumer Business and New Initiatives.

Her banking career spans over 25 years across Pakistan's leading financial institutions including Standard Chartered, MCB, and Soneri Bank Limited. She holds an MBA in Finance and Marketing from the Institute of Business Administration (IBA), University of Karachi. Ms. Mehreen Ahmed also represents Bank Alfalah on the boards of the Pakistan Mortgage Refinance Company (PMRC) and Alfalah GHP, and is also a member on the Client Councils of leading international payment schemes.

Mr. Mudassir H. Khan

Managing Director & CEO

Mr. Mudassir H. Khan is the MD/CEO of Pakistan Mortgage Refinance Company. Mr. Khan holds an Executive Masters in Business Administration (update) from Stern School of Business, New York, USA and a Masters in Finance from St. John's University, New York, USA. He is also an Electrical Engineer from University of Oklahoma, USA. With over 28 years of diversified banking experience primarily covering Retail, Corporate & Investment Banking, Operations, Risk and Development Banking. Before joining PMRC, Mr. Khan worked with National Bank of Pakistan for four years as SEVP/Group Chief Retail & Commercial Banking and as Group Chief Payments & Digital Banking. Prior to that, he was with HBL for nine years, holding different portfolios as SEVP Group Head Global Operations, CIO, CCO and Head of Basel and Operational Risk. He also worked with the World Bank for more than fourteen years in the area of Financial Sector, South Asia Region, based in Pakistan and also worked in Afghanistan, Bangladesh, Nepal, Maldives; as well as in the Africa Region in Ghana, Uganda, Kenya and Sierra Leone. Before joining the World Bank, he worked in the field of Corporate and Investment Banking with Citibank, N.A and Bear Stearns in Pakistan and in USA.

Mr. Khan had been a speaker at many conferences locally and internationally related to housing finance, banking & digital transformation, banking operations and reforms and risk management. He had also served in many Boards as Director and was the Chairman of NBP Fullerton Asset Management (NAFA) and of First Women Bank Limited (FWBL).

Mr. Naveed Nasim

Director

Mr. Naveed Nasim serves as the Group Head – Corporate Banking at Allied Bank Limited (ABL). Mr. Naveed possesses BBA (Hons) and MBA degree from Institute of Business Administration, Karachi with specialization in Finance. He is a Certified Trade Finance Professional (CTFP) and is a Diplomaed Associate of Institute of Bankers, Pakistan. He possesses diversified banking experience of more than 21 years. Prior to his current position, he has served in the positions of Head of Risk Analytics, Head of Risk Architecture, Group Head -- Enterprise Risk Management and Group Head - Financial Institutions, International, & Home Remittance Business at ABL. Prior to joining ABL, he served as Area Manager Commercial Credit for Habib Bank Limited.

Mr. Risha A. Mohyeddin

Director

Mr. Risha A. Mohyeddin is the Global Treasurer for HBL, responsible for Sales & Trading businesses (covering Fixed Income, FX, Derivatives & Structured Products, Equities) and Treasury/Balance Sheet Management activities, for the Bank's global franchise. Previously he has served as Regional Treasurer for Barclays Bank in Dubai and headed businesses in National Bank of Pakistan and United Bank Ltd., Pakistan. Previously he worked at Citibank as Country Treasurer for Pakistan, and Regional Head of Structuring, based in Bahrain. During his career, Mr. Mohyeddin has worked closely with market bodies and regulatory agencies to help advance the regulatory structure of markets in several countries in the region, including Pakistan, Egypt and the UAE. He has an MBA from Melbourne Business School, Australia and a Masters in Finance from Boston College, US.

Mr. Syed Taha Afzal

Director

Mr. Syed Taha Afzal is working as EVP, Head Consumer Banking at Askari Bank Limited since 2019. He is responsible for looking after Consumer Banking, Alternative distribution products/channels. He has more than 24 years of experience in banking in multiple geographies. He also remained associated with Citibank, Standard Chartered, ABN AMRO, MCB, JPMorgan as Regional Risk Manager looking after EMEA region based out of London, UK, UBL EVP Head of Consumer Banking Pakistan, Head of Retail & Commercial Products at UBL UK, London United Kingdom. He has vast experience in development & management of Retail Assets, Liabilities, Risk advisory, Digital Banking Products and businesses.

He has an MBA, specialized in Advance Strategic Management & Small Business Management from Cardiff Business School, Cardiff Wales, He has also done director's certification from Pakistan Institute of Corporate Governance.

Management Team

Mr. Mudassir H. Khan
Managing Director & CEO

Mr. Zulfiqar Alam
Group Head - Business & Product

Mr. Omair Farooqi
CFO & Group Head Operations

Mr. Rashid Masood Alam
Group Head Internal Audit

Mr. Malik Mansoor
Head Risk

Mr. Naved Hanif
Company Secretary

Ms. Anam Murtaza
Head HR & Administration

Mr. Farrukh Zaheer
Head of Treasury & FI

Mr. Zahid Hussain Gokal
Head Compliance

Office Inauguration

The Company premises was changed with a focus on providing better working environment, accessibility, safety and keeping in mind future expansion. The new workspace is more suitable for the employees, along with being spacious and accessible. After careful planning and several preparation steps, renovation work at the new location was executed and the staff shifted to new office within a span of three months. An inauguration ceremony was held, where Ms. Sima Kamil, Deputy Governor, SBP was invited as a Chief Guest, along with other distinguished guests from banks.

Employee Wellbeing

PMRC prides itself on being an equal opportunity employer. We are committed to create and sustain a culture to manage the employee's overall wellbeing. For employees' wellbeing, our focus is on their physical, social, and mental health. For staff's increased morale, productivity, and business effectiveness, the following initiatives were introduced as mentioned below:

Mental Wellbeing

- **Culture of Continuous Learning and Development:** PMRC believes in investing in its employees. To refine employee skills and competencies, multiple types of relevant trainings are offered to each employee. Further, employees are rotated in different departments to ensure enriching experiences and adding value to their professional development, as advised by the State Bank of Pakistan.

- **Employee Engagement:** PMRC encourages celebrating various occasions, holding lunches or dinners, and organizing team-building activities for its employees. We believe these measures will help in the social wellbeing of the employees by strengthening the bond among team members. Further, we also recognize employee's contribution by organizing farewell for outgoing employees.

- **Leave Policy:** We are dedicated to providing the most productive and flexible workplace for our teams, along with a work-life balance. We understand the importance of generous leave policies as it helps our staff to recharge themselves and serve as a mechanism for dealing with work stress. Hence, it is mandatory for all our employees to take annual leaves. We also encourage our employees by providing Leave Fare Assistance (LFA) to help them relax. PMRC has entitled its staff to the following leaves: **Casual and Sick Leaves, Annual Leaves, Maternity and Paternity Leave, and Religious/Pilgrimage Leave for its Muslims and non-Muslims employees.**

- **Open-door Policy:** PMRC promotes mutual trust, collaboration, open and transparent discussion. Hence, we encourage our staff to implement an open-door policy. This helps to build strong communication between the staff and the Management.

- **Employee Recognition Policy:** PMRC is committed to honoring its staff who contributed through their efforts and actions to the success of the organization. We believe that employees can be recognized and praised in various ways, including letters of commendation, monetary and non-monetary awards, and celebrations.

- **Workplace Diversity and Inclusion:** PMRC supports all different individuals and their ideas/values. As an inclusive work environment, we ensure that our workforce consists of a diverse pool of talents. We strive to create a culture where everyone feels included and a sense of belonging.

- **Technological Advancements:** PMRC believes in making things convenient and easy for its employees. Hence, we have various systems installed for employee and management use. This user-friendly software serves as a platform for employees to track their goals, better manage their resources, and update their managers. This also helps to achieve PMRC's aim to reduce paperwork and promote environmental-friendly practices.

- **Market-competitive Compensation:** PMRC has a market-competitive salary structure. To ensure compensation benefits are aligned with industry norms, periodic compensation and benefits survey is conducted for the entire organization. We want employees to feel secure in their financial future. Hence, we also offer provident and gratuity fund for the employees.

- **Professional Development Program:** PMRC promotes staff professional development by reimbursing training and education costs. We facilitate degree program for our staff as well as certifications. We understand how important education is for our staff to acquire the professional skills needed to compete in a changing environment.

- **Work-life Balance:** PMRC understands how a good work-life balance leads to fewer levels of stress, a lower risk of burnout, and a greater sense of well-being for its employees. We are committed to providing environments that support work-life balance and a healthy lifestyle.

- **Zero Tolerance Policy:** We have the responsibility to create a safe workplace for our employees that is civilized and supportive of the diversity and dignity of all our staff. Therefore, we have zero-tolerance for harassment, bullying, and discrimination against any employee. We promote a culture of respect and mutual trust.

- **New Talent Induction:** We empower our employees to do more and reach their optimal potential. We provide exposure to our Management Trainee Officers (MTOs) by giving them a comprehensive orientation with department heads and placing them in various department for 3 months during their program.

Physical Wellbeing

- **Gym:** To promote exercise and fitness, we have built a gym inside the office. A gym instructor is also available for the facility of the employees. We strongly believe in creating a physically fit and engaging environment for our workforce.

- **Financial Support:** To support our employees' financial needs, PMRC has a loan policy while purchasing/constructing the house or an automobile, along with advance house rent, for themselves on subsidized markup. We also offer emergency personal loans for our employees without markup.

- **Employee-made Artwork:** PMRC promotes a culture of creativity for the mental wellbeing of its employees. To showcase employees and their family members' artistic abilities, we showcase artwork inside our office premises.

- **Staff Health Care:** PMRC cares for its employees and their family members deeply. Hence, we arrange staff insurance, including group life insurance and group health insurance. This is available for any employee's dependents. We also provide maternity benefits, out-patient medical, and competitive retirement benefits.

- **Contemporary Work Premises:** PMRC promotes a supportive and positive work environment to ensure a happier workforce. Hence, after careful planning and several preparations, new office space was found with better facilities and amenities. This initiative was taken for the convenience and betterment of our employees.

- **Mandatory Staff Medical Assessment:** PMRC strives to create a healthy and productive workforce. With every hiring, we ensure complete medical checkups to ensure optimal employee health. We aim to promote a positive healthy work environment.

COVID-19 Measures

PMRC always strive to ensure that the health and the well-being of our staff is our top priority. Our mission remains to improve the health, safety and productivity of employees by creating a conducive work environment that promotes and supports healthy behaviors in all aspects of life. This is especially crucial during the COVID-19 pandemic, which has directly affected the social, economic and health conditions across the country.

Therefore, the following COVID-19 measures were carried out in 2020 for the PMRC staff:

Work from Home Policy

PMRC successfully implemented Work from Home (WFH) Policy for the first time during the COVID-19 pandemic on March 2020. This was implemented to protect our employees from the transmission of virus.

COVID-19 Precautionary Measures

All precautionary measures were implemented in the office premises to curb the spread of virus:

- Hand sanitizers placed in the office premises to mitigate the transmission of COVID-19.
- Temperature of all employees monitored via temperature gauge at the office entrance by the office guard.
- Closure of gym to avoid transmission of the virus.
- Discontinuation of employee attendance marking via thumbprints; card swapping introduced.
- Disinfection of office premises.
- COVID-19 kits distributed to all staff.

Furthermore, COVID–19 advisory emails were also rolled out to all staff consisting of safety measures that the employees can take to protect themselves from the virus.

COVID-19 Testing for Employees

PMRC organized COVID-19 testing for all employees at regular intervals where the testing cost was incurred by the Company. Further, complete closure of office was observed when COVID-19 positive cases were reported until all the employees were tested negative.

Laptops for Employees

PMRC arranged laptops for all employees so that they can safely work from home during the COVID-19 outbreak.

COVID-19 Leave Policy

PMRC introduced COVID-19 Leave Policy in which if any employee has tested positive for COVID-19 and all their leaves are exhausted, they will be entitled to additional leaves until they test negative.

Enhancement of Employee Health Coverage

Health coverage limits were increased for all employee grades so that the maximum COVID-19 medical cost(s) can be covered. Further, additional budget has been allocated in order to cover employee medical expenses in the event their health condition deteriorates.

Employee Flu Shots

PMRC organized employee flu shots for all employees to prevent anxiety and discomfort associated with seasonal flu mistaken for the COVID-19.

Employee Stress Management

To alleviate employee stress due to the COVID-19 outbreak, PMRC undertook the following steps:

- Employee salaries remained the same. Moreover, bonuses were disbursed to recognize employee's efforts in COVID-19 lockdown conditions.
- Employee communication made stronger by providing wellbeing content to all staff at regular intervals.
- Awareness sessions were conducted regarding COVID-19 for all staff.
- Doctors were called at office for COVID-19 related training sessions.

COVID-19 Donations

PMRC donated Rs. 3.5 Million to the Prime Minister's COVID-19 Pandemic Relief Fund 2020. This was carried out to provide maximum support to the underprivileged population of Pakistan and tackle the effects of the Coronavirus pandemic. In addition, PMRC employees also contributed to the Prime Minster Relief fund where the single day salary was donated as per the employee's discretion and the same was adjusted from their account.

COVID-19 Training

PMRC, for its employees, arranged an awareness session following COVID-19 outbreak. The session was conducted by representatives of Pakistan Red Crescent Society which covered the information about the virus and its safety measures.

Events Highlights

RSF Event

PMRC as trustee signed Master Guarantee Agreements with six leading Islamic and conventional banks including Meezan Bank, Habib Bank, BankIslami, Faysal Bank, JS Bank and Soneri Bank. This is a major step for the Government's Naya Pakistan Housing Program and making affordable housing possible for all. The ceremony was presided by SBP Deputy Governor, Mr. Jamil Ahmed as chief guest and attended by CEOs of the banks.

BOP Signing

Pakistan Mortgage Refinance Company (PMRC) and The Bank of Punjab (BOP) join hands together for providing and promoting affordable housing finance in the country by signing a Credit Guarantee Agreement. The agreement was signed by Mr. Mudassir H. Khan, CEO PMRC and Mr. Zafar Masud, CEO BOP.

PKIC Bond

PMRC working on its development goal, raised PKR 1 Billion through privately placed fixed rate bond backed by mortgage receivables. PMRC along with Pak Kuwait Investment Company successfully placed this Mortgage Refinance bond which is the first ever bond issuance in Pakistan that is solely for Mortgage Refinancing.

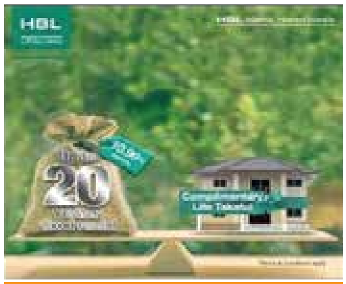
Bank Offering

PMRC enabled its partner financial institutions, including Islamic Banks, to launch fixed rate mortgages up to 20 years.

3 years fixed rate product at 8.99%

5 years fixed rate product at 9.99%

12 years fixed rate product floor 7% capped at 12%



20 years fixed rate product at 10.99%

NBFI & Modaraba Conference

For the promotion of housing finance companies as a source of developing housing sector in Pakistan, a conference for NBFI & Modaraba companies was organized by Pakistan Mortgage Refinance Company (PMRC), Securities and Exchange Commission of Pakistan (SECP) and NBFI & Modaraba Association of Pakistan in Karachi.

ORIX Modaraba Signing

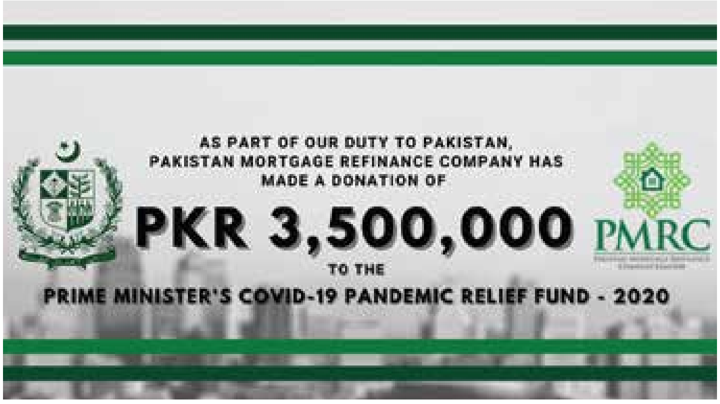
Pakistan Mortgage Refinance Company Limited (PMRC) signed Islamic Mortgage Refinance Facility with ORIX Modaraba (ORIX) in a ceremony held at the PMRC Head Office in Karachi. A specifically structured Islamic Refinance Facility will enable non-banking financial institutions to avail long-term funding from PMRC for extending housing finance. The agreement was signed by Mr. Mudassir H. Khan MD/CEO PMRC and Mr. Raheel Qamar CEO Orix Modaraba. The ceremony was witnessed by the Commissioner SECP, Mr. Farrukh H. Sabzwari via Video Link and senior officials from SECP.

Employee Engagement

We frequently celebrate events ranging from national occasions to parties for our PMRC family, helping us engage our employees.

COVID-19 Relief Fund 2020

Pakistan Mortgage Refinance Company (PMRC) has donated PKR 3.5 Million to the Prime Minister's Corona Relief Fund 2020, as part of our civic duty to the nation in its fight against the pandemic. Additionally, we are proud to announce that our employees have also contributed to the fund to their best capacity. Therefore, we at PMRC, aim to provide maximum support to the underprivileged population of Pakistan in these testing times.



AML Training

Anti-Money Laundering (AML) and Combating Financing Terrorism (CFT) in-house session was successfully conducted for the PMRC employees. The session focused on enriching the knowledge of the PMRC staff from the basic concepts of AML and CFT to the latest tools and techniques available in the market to ensure balance between Compliance of Laws and Business Development.

Gender Sensitivity Training

PMRC arranged a training session at Pakistan Institute of Management for its employees on Diversity Inclusion and Gender Sensitization. The purpose of training was to stimulate personal development of each and every employee while improving the organizational culture.

Our Achievements

Mortgage Refinancing Company of Uzbekistan (MRCU) studied the operating model of PMRC and inspiring from the efforts, they lauded the success PMRC has achieved in this short span of time.

PMRC co-hosted along with State Bank of Pakistan and Security Exchange Commission of Pakistan webinar series on creating affordability for low-cost housing and setting up a housing finance Company.

PMRC actively participated on Pakistan Bankers Association's call for the standardization of mortgage documentation and processing. PMRC presented its detailed working which was appreciated by the forum.

International Finance Corporation (IFC), invested PKR.500 Million as Tier 1 capital. This marks the World Bank Group's first ever equity investment in the housing finance sector of Pakistan.

VIS Rating Agency reaffirmed PMRCs long term credit rating of 'AAA'.

PMRC has disbursed Rs. 8.7 Billion Refinance facilities to banks and a DFI which is a maximum ever disbursement in a single year among all DFIs.

PMRC has achieved the milestone of being the fasted growing DFI by closing loan book on PKR 15 Billion in just 2 years' time.

PMRC through its partner financial institution, Bank of Khyber, made first transaction in KPK region through which Govt. employees can benefit by availing mortgages at subsidized rates.

PMRC was recognized as knowledge sharing partner in ASMMA, ISMMA and IFC conferences for liquidity facilities and based on their recommendation, PMRC provided technical assistance to Kenyan, Saudi and Tajikistan Mortgage Refinance Co.

In response to COVID-19 pandemic, PMRC provided substantial relief to its customers for passing the financial benefit to end borrowers.

Market Development

Capital Market Development	Finalized 1st PKR 1 Bln Bond Issuance Transaction with Pak Kuwait Investment Company.
Market Engagement	Collaborated with the World Bank to organize a conference on Housing Finance for local and foreign participants.
E&S	Arranged E&S Training for Partner Financial Institutions.
Housing Finance Companies	Round table conference with SECP and IFC for promotion of Housing Finance Companies.
Documentation	Actively participated with PBA and SBP for development of standardized mortgage documents.
Capacity Building	Conducted training for Management Trainee Batch of HBFC.
Market Development	Provided suggestions on Non Banking Finance Companies and Housing Finance Regulations.
Naya Pakistan Housing Program	Worked with Naya Pakistan Housing Authority for low income housing.

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2, Beaumont Road
Karachi, 75530 Pakistan
Telephone +92 (21) 3568 5847, Fax +92 (21) 3568 5095

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

We have reviewed the enclosed Statement of Compliance with the best practices of Corporate Governance (the Code) prepared by the Board of Directors of Pakistan Mortgage Refinance Company Limited ('the Company') for the year ended December 31, 2020. The code is no longer applicable on Development Finance Institutions (DFIs) vide BPRD Circular no. 14 dated October 20, 2016 issued by the State Bank of Pakistan. However, DFIs are expected to continue to follow the best practices on corporate governance.

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

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

The Code requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out procedures to assess and determine the Company's process for identification of related parties and that whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Company for the year ended December 31, 2020.

Further, we highlight below instance of non-compliance with the requirement of the Code as reflected in the paragraph reference where it is stated in the Statement of Compliance:

S. No.	Reference	Description
i.	Composition of the Board.	One (1) position of independent director is vacant as explained in the statement.

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants

Date: March 9, 2021

Karachi

Statement of Internal Controls

The management of the Pakistan Mortgage Refinance Company Limited (PMRC) is responsible for establishing the Internal Control System with the main objectives of ensuring effectiveness and efficiency of operations; reliability of financial reporting; safeguarding of assets; and compliance with applicable laws and regulations. The Internal Control System evolves over the years, as it is an ongoing process and includes a set of rules, policies, and procedures the Company implements to provide direction, increase efficiency and strengthen adherence to policies. The Internal Control System continues to be reviewed, refined and improved from time to time and immediate corrective action is taken to minimize risks which are inherent in Company's business and operations.

The Board of Directors (BoD) of PMRC is responsible for ensuring that an adequate and effective Internal Control System exists in the Company and that the senior management is maintaining and monitoring the performance of that system accordingly. The BoD is evaluating the Internal Control system through Board level sub committees i.e. Audit Committee. Management has adopted different strategies to ensure effective monitoring and improvement of internal controls. These include Internal Audit, Risk Management and Compliance function in which assurance responsibilities are divided into three lines of defense i.e. first being the business function, Risk Management & Compliance being the second line of defense and Internal Audit being the third line of defense respectively. Besides, management also implements the suggestions for improvement provided by the external auditors of the Company.

All significant and material findings of the internal audit reviews are reported to the Board Audit Committee (BAC). The BAC actively monitors implementations of recommendation to ensure that identified risks are mitigated to safeguard the interest of the Company.

PMRC's internal control system has been designed to provide reasonable assurance to the Company's management and to BoD to achieve the objectives of Internal Controls. Nevertheless; Internal Control Systems, no matter how well designed, have inherent limitations that they may not entirely eliminate the risk of any control breach.

PMRC follows the SBP's instructions on Internal Controls over Financial Reporting (ICFR) and has completed SBP's stage wise implementation roadmap. As part of this exercise, PMRC has documented a comprehensive ICFR Framework. PMRC's external auditors are engaged annually to provide a Long Form Report on ICFR, which is submitted to the SBP.

The BoD endorses the management's evaluation and efforts in the Directors' Report to have adopted above mentioned internationally accepted standards to improve controls, processes and to ensure effective risk management.

Dated: March 5, 2021

Head of Internal Audit

Head of Compliance

Chief Financial Officer

Managing Director / Chief Executive Officer

Code of Corporate Governance

Statement of Compliance with Listed Companies (Code of Corporate Governance) Regulations, 2019

Pakistan Mortgage Refinance Company Limited
Year ended: December 31, 2020

The Company is an unlisted public Company and has been notified as a Development Financial Institution (DFI) by the Finance Division - Government of Pakistan. SBP vide its BPRD circular 14 of 2016 dated October 20, 2016 has clarified that the "Code of Corporate Governance" issued by Securities & Exchange Commission of Pakistan (SECP) shall no longer be applicable on DFIs.

For the purpose of better governance, the Board of Directors has however, adopted the Code of Corporate Governance issued by SECP on voluntary basis, except for the matters as specified in the Shareholders' Agreement dated July 2, 2020 (the agreement), such as the appointment of directors including independent directors will be dealt in accordance with the agreement.

The Company has complied with the requirements of the Regulations in the following manner.

The Directors are elected as per agreement dated July 2, 2020 entered into between the Shareholders.

Composition of the Board according to the Agreement

As per the agreement the number of Directors comprising the Board shall be ten (10) (excluding the Chief Executive Officer of the Company). The Company shall have at least three (3) Independent Directors. No more than two (2) Directors shall be Public Sector Nominee Directors. International Finance Corporation (IFC) shall have the right to nominate one (1) Director (the "IFC Nominee Director") and the Company and Other Shareholder Parties shall, in accordance with the agreement, ensure that such nominee is promptly appointed as a Director subject to fit and proper clearance under Applicable Law. At present IFC has not yet nominated any person being his nominee Director.

The present total number of directors elected are Nine (9), excluding Chief Executive Officer / Managing Director, as per the following. One position of independent director is vacant.

a	Male	8
b	Female	1

1. The composition of the present Board excluding Chief Executive Officer / Management Director is as follows:

i	Independent Directors	2
ii	Non-Executive Directors	9
iii	Executive Directors	0
iv	Female Directors	1

2. The Directors have confirmed that none of them is serving as a Director on more than seven listed companies, including this Company;

3. The Company has prepared a code of conduct and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures;

4. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. The Board has ensured that complete record of particulars of the significant policies along with their date of approval or updating is maintained by the Company;

5. All the powers of the Board have been duly exercised and decisions on relevant matters have been taken by the Board / Shareholders as empowered by the relevant provisions of the Act and these Regulations;

6. The meetings of the Board were presided over by the Chairman and, in his absence, by a Director elected by the Board for this purpose. The Board has complied with the requirements of Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of the Board;

7. The Board has a formal policy and transparent procedures for remuneration of Directors in accordance with the Act and these Regulations.

8. Five (5) of the Directors on Board and One (1) of the Executives have completed Directors Training Program offered by the institutes that meet criteria specified by the Commission. Detail is as under.
   1. Mr. Rehmat Ali Hasnie, Chairman / Director
   2. Mr. Abid Naqvi, Director
   3. Mr. Imran Sarwar, Director
   4. Mr. Risha A. Mohyeddin, Director
   5. Syed Taha Afzal, Director
   6. Mr. Zulfiqar Alam, Group Head Business and Products

9. The Board has approved appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment and complied with relevant requirements of the Regulations;

10. Chief Financial Officer and Chief Executive Officer duly endorsed the financial statements before approval of the Board;

11. The Board has formed committees comprising of members given below.

a	**Audit Committee**
	Mr. Abid Naqvi (Chairman, Independent Director)
	Mr. Risha A. Mohyeddin (Member)
	Ms. Mehreen Ahmed (Member)
b	**HR Committee**
	Mr. Farrakh Qayyum (Chairman, Independent Director)
	Mr. Syed Taha Afzal (Member)
	Mr. Mudassir H. Khan (Member)
c	**Risk Committee**
	Mr. Imran Sarwar (Chairman)
	Mr. Naveed Nasim (Member)
	Mr. Mudassir H. Khan (Member)
d	**Corporate Governance & Nomination Committee**
	Mr. Risha A. Mohyeddin (Chairman)
	Mr. Rehmat Ali Hasnie (Member)
	Mr. Farrakh Qayyum (Member)
	Mr. Mudassir H. Khan (Member)

12. The terms of reference of the aforesaid committees have been formed, documented and advised to the committee for compliance;

13. The frequency of meetings of the committee were as per following:

a	Audit Committee	Quarterly
b	Human Resource Committee	Half Yearly
c	Risk Committee	Quarterly
d	Corporate Governance & Nomination Committee	Once a year and otherwise as required

14. The Board has set up an effective internal audit function and Head of Internal Audit is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company;

15. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan, that they and all their partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan and that they and the partners of the firm involved in the audit are not a close relative (spouse, parent, dependent and non-dependent children) of the Chief Executive Officer, Chief Financial Officer, Head of Internal Audit, Company Secretary or Director of the Company;

16. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, these Regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard;

17. We confirm that all requirements of regulations 3, 7, 8, 27, 32, 33 and 36 of the Regulations have been complied with; and

18. Explanation for non-compliance with requirements, other than regulations 3, 7, 8, 27, 32, 33 and 36 are below:
    (i) Regulation 6(1): Number of independent directors on Board is governed through the shareholders agreement.

For and on behalf of the Board of Directors.

Rehmat Ali Hasnie
Chairman

Mudassir H. Khan
Managing Director /
Chief Executive Officer

Date: March 5, 2021

Financials

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Chartered Accountants
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INDEPENDENT AUDITOR'S REPORT

To the Members of Pakistan Mortgage Refinance Company Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of **Pakistan Mortgage Refinance Company Limited** ("the Company"), which comprise the statement of financial position as at 31 December 2020, and the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of the profit, the comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

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

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

Management is responsible for the other information. The Other information comprises the information included in the Company's Annual Report for the year ended 31 December 2020 but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of Management and the Board of Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

We also provide to the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG Taseer Hadi & Co.

Report on Other Legal and Regulatory Requirements

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

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

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

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

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

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

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants

Date: March 9, 2021

Karachi

Statement of Financial Position

As at 31 December 2020

	Note	2020	2019
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	5	**30,122**	50,780
Balances with other banks	6	**3,111,722**	2,382,641
Lendings to financial institutions		**-**	-
Investments	7	**10,202,696**	8,821,820
Advances	8	**14,967,077**	7,729,232
Fixed assets	9	**157,749**	78,340
Intangible assets	10	**6,882**	9,220
Deferred tax assets		**-**	-
Other assets	11	**359,126**	504,512
		28,835,374	19,576,545
LIABILITIES			
Bills payable		**-**	-
Borrowings	12	**15,248,741**	7,565,788
Deposits and other accounts		**-**	-
Liabilities against assets subject to finance lease		**-**	-
Subordinated debt	13	**7,050,716**	7,050,716
Deferred tax liabilities		**-**	-
Other liabilities	14	**397,554**	263,769
		22,697,011	14,880,273
NET ASSETS		**6,138,363**	4,696,272
REPRESENTED BY			
Share capital	15	**3,658,506**	3,658,506
Reserves		**478,643**	191,375
Surplus on revaluation of assets	16	**83,356**	80,244
Unappropriated profit		**1,917,858**	766,147
		6,138,363	4,696,272
CONTINGENCIES AND COMMITMENTS	17		

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

Managing Director / Chief Executive Officer	Chief Financial Officer	Director	Director	Director

Profit and Loss Account

For the year ended 31 December 2020

	Note	2020	2019
		(Rupees in '000)	
Mark-up / return / profit / interest earned	18	**2,508,960**	1,529,275
Mark-up / return / interest expensed	19	**715,269**	336,696
Net mark-up / interest income		**1,793,691**	1,192,579
NON MARK-UP / INTEREST INCOME			
Fee and commission income		**-**	-
Dividend income		**-**	-
Foreign exchange income		**-**	-
Income / (loss) from derivatives		**-**	-
Gain on securities	20	**-**	20
Other income	21	**3,152**	900
Total non-markup / interest income		**3,152**	920
Total income		**1,796,843**	1,193,499
NON MARK-UP / INTEREST EXPENSES			
Operating expenses	22	**315,170**	272,060
Workers Welfare Fund		**29,633**	19,564
Other charges	23	**-**	33
Total non-markup / interest expenses		**344,803**	291,657
Profit before provisions		**1,452,040**	901,842
Provisions and write offs - net	24	**15,702**	-
Extra ordinary / unusal items		**-**	-
PROFIT BEFORE TAXATION		**1,436,338**	901,842
Taxation	25	**-**	-
PROFIT AFTER TAXATION		**1,436,338**	901,842
		(Rupees)	
Basic and diluted earnings per share	26	**3.92**	2.46

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

Managing Director / Chief Executive Officer	Chief Financial Officer	Director	Director	Director

Statement of Comprehensive Income

For the year ended 31 December 2020

	2020	2019
	(Rupees in '000)	
Profit after taxation for the year	**1,436,338**	901,842
Other comprehensive income		
Items that may be reclassified to profit and loss account in subsequent periods:		
Movement in surplus on revaluation of investments	**3,112**	80,244
Items that will not be reclassified to profit and loss account in subsequent periods:		
Remeasurement gain on defined benefit obligations	**2,641**	1,096
Total comprehensive income	**1,442,091**	983,182

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

Managing Director / Chief Executive Officer	**Chief Financial Officer**	**Director**	**Director**	**Director**

Statement of Changes In Equity

For the year ended 31 December 2020

	Share capital	Statutory reserve	Surplus / (deficit) on revaluation of Investments	Unappropriated profit	Total
			(Rupees in '000)		
Balance as at 01 January 2019	3,658,506	11,007	-	43,577	3,713,090
Comprehensive income for the year					
Profit after taxation for the year ended 31 December 2019	-	-	-	901,842	901,842
Other comprehensive income					
Remeasurement gain on defined benefit obligations	-	-	-	1,096	1,096
Movement in surplus / (deficit) on revaluation of assets	-	-	80,244	-	80,244
Total comprehensive income for the year ended 31 December 2019	-	-	80,244	902,938	983,182
Transfer to statutory reserve	-	180,368	-	(180,368)	-
Balance as at 01 January 2020	3,658,506	191,375	80,244	766,147	4,696,272
Comprehensive income for the year					
Profit after taxation for the year ended 31 December 2020	**-**	**-**	**-**	**1,436,338**	**1,436,338**
Other comprehensive income					
Remeasurement gain on defined benefit obligations	**-**	**-**	**-**	**2,641**	**2,641**
Movement in surplus / (deficit) on revaluation of assets	**-**	**-**	**3,112**	**-**	**3,112**
Total comprehensive income for the year ended 31 December 2020	**-**	**-**	**3,112**	**1,438,979**	**1,442,091**
Transfer to statutory reserve	**-**	**287,268**	**-**	**(287,268)**	**-**
Balance as at 31 December 2020	**3,658,506**	**478,643**	**83,356**	**1,917,858**	**6,138,363**

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

Managing Director / Chief Executive Officer	Chief Financial Officer	Director	Director	Director

Cash Flow Statement
For the year ended 31 December 2020

	Note	2020	2019
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		**1,436,338**	901,842
Adjustments:			
Depreciation		**27,697**	22,965
Actuarial Gain on defined benefit plan		**2,641**	1,096
Amortization		**2,892**	2,600
Fixed asset write off		**4,145**	-
Impairment of fixed assets		**11,557**	-
Gain on sale of fixed assets		**(9)**	-
Gain on sale of securities		**-**	(20)
Interest expense - lease liability against right-of-use assets		**3,603**	4,109
		52,526	30,750
		1,488,864	932,592
(Increase) / decrease in operating assets			
Lendings to financial institutions		**-**	912,000
Advances		**(7,237,845)**	(6,529,232)
Others assets (excluding advance taxation)		**140,721**	(435,762)
		(7,097,124)	(6,052,994)
Increase in operating liabilities			
Borrowings from financial institutions		**7,682,953**	7,565,788
Other liabilities (excluding current taxation)		**114,480**	223,072
		7,797,433	7,788,860
Income tax refund / (paid)		**4,111**	(2,423)
Net cash flow from operating activities		**2,193,284**	2,666,035
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		**(415,312)**	(8,741,556)
Net investments in held-to-maturity securities		**(962,452)**	1,009,632
Investments in operating fixed assets		**(107,106)**	(56,735)
Proceeds from sale of fixed assets		**9**	110
Net cash flow used in investing activities		**(1,484,861)**	(7,788,549)
CASH FLOW FROM FINANCING ACTIVITIES			
Receipts of subordinated debt		**-**	7,050,716
Net cash flow from financing activities		**-**	7,050,716
Increase in cash and cash equivalents		**708,423**	1,928,202
Cash and cash equivalents at beginning of the year	27	**2,433,421**	505,219
Cash and cash equivalents at end of the year	27	**3,141,844**	2,433,421

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

Managing Director / Chief Executive Officer	Chief Financial Officer	Director	Director	Director

1 STATUS AND NATURE OF BUSINESS

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

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

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

2 BASIS OF PRESENTATION

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

2.1 Statement of compliance

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

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

- Provisions of and directives issued under the Companies Act, 2017, and

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

- Banking Companies Ordinance, 1962.

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

The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies in Pakistan through BSD Circular Letter No. 10 dated 26 August 2002 till further instructions. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7 Financial Instruments: Disclosures' through its notification S.R.O 411(1) / 2008 dated 28 April 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

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

There are certain amendments to existing accounting and reporting standards that have become applicable for accounting periods beginning on or after 1 January 2020. These are considered either not to be relevant or not to have any significant impact on these financial statements.

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

As per the SBP's BPRD Circular No. 4 dated 23 October 2019, the applicability of IFRS 9 to banks in Pakistan has been deferred to accounting periods beginning on or after January 1, 2021. The impact of the application of IFRS 9 in Pakistan on the Company's financial statements is being assessed and implementation guidelines are awaited.

2.4 Critical accounting estimates and judgments

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

	Note
- Classification and valuation of investments	4.3 & 7
- Useful lives of fixed and intangible assets, depreciation and amortisation	4.4, 9 & 10
- Accounting for defined benefit plan	4.8 & 29
- Advances	4.5 & 8
- Valuation of right of use assets and their related lease liability	4.4

3 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for:

- Retirement benefits which are at present value as referred to in note 4.8.
- Right-of-use assets and their related lease liability which are measured at their present values in note 4.4.
- Investments classified as available-for-sale which are measured at fair value in note 7.

3.1 Functional and presentation currency

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year.

4.1 Cash and cash equivalents

Cash and cash equivalent as referred to in the cash flow statement comprises cash and balances with treasury banks and balances with other banks.

4.2 Lendings to financial institutions

Purchase under resale agreement (Reverse REPO)

This includes Securities purchased with a corresponding commitment to resell at a specified future date (reverse repo). The difference between purchase and resale price shall be recognized over the period of transaction as mark-up, return, interest earned.

Clean Lending

Clean lendings with Financial Institutions are stated net of provision. Return on such lending is accrued to the profit and loss account on a time proportion basis except for markup impaired / delinquent lendings, which is recognised on receipt basis.

4.3 Investments

4.3.1 Classification

The category of the investment shall be decided at the time of acquisition. The investments shall be classified in the following categories as per SBP guidelines:

Held to maturity

These are investments with fixed or determinable payments and fixed maturities and the Company has the positive intent and ability to hold them till maturity.

Available for sale

Investments which are not eligible to be classified as 'held for trading' or 'held to maturity' shall be classified as 'available-for-sale'.

4.3.2 *Initial recognition and measurement*

- An investment shall be measured at their fair value plus transaction costs that are directly attributable to the acquisition or issue of the investment.

4.3.3 *Subsequent Measurement*

After initial recognition, quoted securities (other than those classified as held to maturity) are carried at market value.

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

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

4.3.4 *Impairment of Investments*

Provision for diminution in the value of debt securities is made as per the requirements of Pridential Regulations issued by SBP.

When a debt security classified as held to maturity is considered to be impaired, the impairment is directly charged to the profit & loss account. Any subsequent reversal of an impairment loss, up to the cost of investment is credited to profit & loss account.

When a debt security classified as available-for-sale is impaired the cumulative loss that had been recognized under equity shall be reclassified from equity to profit or loss as a reclassification adjustment even though the Investment has not been derecognized. If in a subsequent period, the fair value of debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the loss will be reversed through Profit & Loss account. The amount of the cumulative loss that is reclassified shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that Investment previously recognized in profit or loss.

4.3.5 *Reclassification of Investments from one category to another*

Any reclassification of securities from one category to another shall be made in accordance with the regulatory requirements.

4.3.6 *Trade date accounting*

All purchase and sale of investment that require delivery within the time frame established by regulations or market convention shall be recognized at trade date. Trade date is a date on which Company commits to purchase and sell the investments.

4.4 Fixed assets

Capital work in progress

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

Property and equipment - owned

Operating fixed assets are stated at cost less accumulated depreciation and impairment loss, if any. Depreciation is charged to profit and loss account on straight line basis so as to charge the assets over their expected economic lives at the rates specified in note 10.2. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Full month depreciation is charged in the month the assets are available for use and no depreciation is charged in the month of disposal.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Intangible assets

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

Right of Use Assets and Corresponding Lease Liability

The Company is following an on-balance sheet lease accounting model for leases. The Company shall recognize a right of use asset representing right of using the underlying asset and a corresponding lease liability representing its obligations to make lease payments. The right of use asset is initially recognized at the amount of lease liability plus any indirect cost incurred by the Company. Subsequently, the right of use asset is measured at cost less accumulated depreciation. These liabilities are initially measured as the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method.

Impairment - Non Financial Assets

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

4.5 Advances

Advances are stated net off provision for non performing advances. Provision for non performing advances is determined in accordance with the requirements of the prudential regulations and is charged to profit and loss account, Advances are written off when there is no realistic prospect of recovery.

Musharakah Mortgage Finance / Facility

In Musharakah Mortgage Finance / Facility, the Company enters into the housing / mortgage finance with the customer (IBI / IFI) based on Shirkat-ul-'Aqd (Business Partnership). Initially, the Company shall purchase the units at face value or on an agreed price as well as customer will commingle its share. The profit-sharing ratio (PSR) will be pro-rata or any other ratio agreed at the time of signing the contract. The Company and customer have agreed that if the profit realized is above the desired ceiling, the profit in excess of such a ceiling will be distributed at mutually agreed rate. Profit on Musharakah Mortgage Finance will be booked on an accrual basis.

4.6 Borrowings

4.6.1 *Secured*

Sale under repurchase agreements (REPO)

This includes Securities sold with a simultaneous commitment to repurchase at a specified future date (repo). These securities are retained in the financial statements as investments and the counter party liability is included in borrowings from Financial Institutions. The difference in sale and repurchase value is recognised over the period of the contract and recorded as an expense.

Term Finance Certificates

The Company initially recognize TFC's at its fair value plus transaction costs that are directly attributable to the issue of the financial liability. Interest is booked on an accrual basis.

4.6.2 *Unsecured*

Clean Borrowing from Financial Institutions

Clean borrowings with Financial Institutions are stated net of provision. Return on such lending is accrued to the profit and loss account on a time proportion basis except for markup impaired / delinquent lendings, which is recognised on receipt basis.

Borrowings from the World Bank

Borrowing from the World Bank is recorded at the amount of proceeds received. Mark-up accrued on such borrowings is recognized separately as part of other liabilities and is charged to the profit and loss account over the period on an accrual basis.

4.7 Subordinated Debt

Subordinated debt is recorded at the amount of proceeds received. Mark-up accrued on subordinated loans is recognized separately as part of other liabilities and is charged to the profit and loss account over the period on an accrual basis.

4.8 Staff retirement benefits

Defined benefit plan

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

Defined contribution plan

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

Actuarial gains and losses

Actuarial gains and losses that arise out of experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income with no subsequent recycling through the profit and loss account. Gains and losses on remeasurement of the liability for compensated absences are recognised in the profit and loss account.

Past Service Cost

Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment. The Company recognises past service cost as an expense when the plan is amended.

Employees compensated absences

The Company accounts for all accumulating compensated absences when employees render service that increases their entitlement as per Human Resource Policy of the Comapny.

4.9 ***Revenue recognition***

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

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

4.10 Taxation

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

Current

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

Deferred

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

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

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

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

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

4.11 Off setting

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

4.12 Other provisions

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

4.13 Financial assets and liabilities

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

4.14 Earnings per share

The Company presents basic and diluted earnings per share (EPS). Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. There were no convertible dilutive potential ordinary shares in issue at 31 December 2020.

4.15 Statutory reserve

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

4.16 Segment reporting

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

4.16.1 Business Segment

Mortgage financing

To providing refinancing 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.

4.16.2 Geographical segments

The Company operates in Pakistan only.

	Note	2020	2019
		(Rupees in '000)	
5 CASH AND BALANCES WITH TREASURY BANKS			
With State Bank of Pakistan in			
Local currency current account	5.1	**30,087**	50,672
With National Bank of Pakistan in			
Local currency current account		**31**	26
Local currency deposit account - NIDA	5.2	**4**	82
		35	108
		30,122	50,780

5.1 These represent local currency current accounts maintained under the Cash Reserve Requirement of the SBP.

5.2 This represents the amount placed in National Bank of Pakistan (National Income Daily Account-NIDA) carrying mark-up at the rate ranging from 5% to 6% (2019: 9.90% to 11.25%) per annum.

		2020	2019
		(Rupees in '000)	
6 BALANCES WITH OTHER BANKS			
In Pakistan			
In current account		**16**	21
In deposit account	6.1	**3,111,706**	2,382,620
		3,111,722	2,382,641

6.1 These include term deposit receipt (TDRs) of Habib Bank Limited - Islamic amounting to Rs. 1,000 million (2019 : NIL) maturing on 21 January 2021 (2019: NIL). These carry mark-up at the rate of 7.75% (2019: NIL) per annum.

7 INVESTMENTS

7.1 Investments by type

	Note	2020 Cost / amortised cost	2020 Provision for diminution	2020 Surplus / (deficit)	2020 Carrying value	2019 Cost / amortised cost	2019 Provision for diminution	2019 Surplus / (deficit)	2019 Carrying value
		(Rupees in '000)							
Available for sale securities									
Federal Government Securities	7.3								
- Market Treasury Bills		2,958,337	-	10,025	2,968,362	5,376,539	-	11,139	5,387,678
- Pakistan Investment Bonds		6,198,551	-	73,331	6,271,882	3,365,037	-	69,105	3,434,142
		9,156,888	-	83,356	9,240,244	8,741,576	-	80,244	8,821,820
Held to maturity securities									
Federal Government Securities	7.4								
- Market Treasury Bills		-	-	-	-	-	-	-	-
- Pakistan Investment Bonds		962,452	-	-	962,452	-	-	-	-
		962,452	-	-	962,452	-	-	-	-
Total Investments		10,119,340	-	83,356	10,202,696	8,741,576	-	80,244	8,821,820

7.2 Investments by segments

	2020 Cost / amortised cost	2020 Provision for diminution	2020 Surplus / (deficit)	2020 Carrying value	2019 Cost / amortised cost	2019 Provision for diminution	2019 Surplus / (deficit)	2019 Carrying value
Federal Government Securities								
- Market Treasury Bills	2,958,337	-	10,025	2,968,362	5,376,539	-	11,139	5,387,678
- Pakistan Investment Bonds	7,161,003	-	73,331	7,234,334	3,365,037	-	69,105	3,434,142
	10,119,340	-	83,356	10,202,696	8,741,576	-	80,244	8,821,820
Total Investments	10,119,340	-	83,356	10,202,696	8,741,576	-	80,244	8,821,820

	Cost 2020	Cost 2019
	(Rupees in '000)	
7.3 Available for sale securities / Quality of AFS securities are as follows:		
Federal Government Securities - Government guaranteed		
Market Treasury Bills	2,958,337	5,376,539
Pakistan Investment Bonds	6,198,551	3,365,037
	9,156,888	8,741,576
7.4 Held to maturity securities are as follows:		
Federal Government Securities - Government guaranteed		
Market Treasury Bills	962,452	-

7.4.1 The market value of securities classified as held-to-maturity as at 31 December 2020 is Rs. 1,017 million (2019: Nil).

	Cost	
	2020	2019
	(Rupees in '000)	
7.5 Investments given as collateral		
Market Treasury Bills	**-**	881,305
Pakistan Investment Bonds	**3,695,385**	1,021,876
	3,695,385	1,903,181

7.6 Particulars relating to Held to Maturity securities are as follows:

Federal Government Securities - Government guaranteed		
Pakistan Investment Bonds	**962,452**	-

8 ADVANCES

	Note	Performing		Non-Performing		Total	
		2020	2019	**2020**	2019	**2020**	2019
		(Rupees in '000)					
Loans, cash credits, running finances, etc.	8.1.1	**14,967,077**	7,729,232	**-**	-	**14,967,077**	7,729,232
Advances - gross		**14,967,077**	7,729,232	**-**	-	**14,967,077**	7,729,232
Provision against advances							
- Specific		**-**	-	**-**	-	**-**	-
- General		**-**	-	**-**	-	**-**	-
		-	-	**-**	-	**-**	-
Advances - net of provision		**14,967,077**	7,729,232	**-**	-	**14,967,077**	7,729,232

	2020	2019
	(Rupees in '000)	
8.1 Particulars of advances (Gross)		
In local currency	**14,967,077**	7,729,232

8.1.1 This includes Islamic Refinancing under Musharakah Agreement amounting to Rs. 3.4 billion.

9 FIXED ASSETS	Note	**2020**	2019
		(Rupees in '000)	
Capital work in progress	9.1	**16,852**	900
Property and equipment	9.2	**140,897**	77,440
		157,749	78,340

9.1 Capital work-in-progress		
Advances to contractor	**16,852**	900
	16,852	900

Capital work-in-progress is stated at cost. It represents civil work and fixture in Head Office. These are transferred to specific assets as and when assets become available for use.

9.2 Property and Equipment

	2020				
	Building on Leasehold land	**Furniture and fixture**	**Electrical, office and computer equipment**	**Vehicles**	**Total**
	(Rupees in '000)				
At 01 January 2020					
Cost	**45,240**	**26,463**	**22,651**	**13,505**	**107,859**
Accumulated depreciation	**(13,572)**	**(6,317)**	**(6,111)**	**(4,419)**	**(30,419)**
Net book value	**31,668**	**20,146**	**16,540**	**9,086**	**77,440**
Year ended 31 December 2020					
Opening net book value	**31,668**	**20,146**	**16,540**	**9,086**	**77,440**
Additions	**117,010**	**998**	**6,944**	**-**	**124,952**
Disposals	**(45,240)**	**-**	**(900)**	**-**	**(46,140)**
Accumulated depreciation - disposal	**27,144**	**-**	**900**	**-**	**28,044**
Depreciation charge	**(15,522)**	**(3,198)**	**(6,276)**	**(2,701)**	**(27,697)**
Impairment loss recognised in the profit and loss account - net	**-**	**(11,422)**	**(135)**	**-**	**(11,557)**
Write off - net	**-**	**(4,145)**	**-**	**-**	**(4,145)**
Closing net book value	**115,060**	**2,379**	**17,073**	**6,385**	**140,897**
At 31 December 2020					
Cost	**117,010**	**27,461**	**28,695**	**13,505**	**186,671**
Accumulated depreciation	**(1,950)**	**(25,082)**	**(11,622)**	**(7,120)**	**(45,774)**
Net book value	**115,060**	**2,379**	**17,073**	**6,385**	**140,897**
Rate of depreciation (percentage)		**10%-20%**	**20%-50%**	**20%**	

	2019				
	Building on Leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Total
	(Rupees in '000)				
At 01 January 2019					
Cost	-	25,155	14,073	13,505	52,733
Accumulated depreciation	-	(3,233)	(2,715)	(1,718)	(7,666)
Net book value	-	21,922	11,358	11,787	45,067
Year ended 31 December 2019					
Opening net book value	-	21,922	11,358	11,787	45,067
Additions	45,240	1,308	8,966	-	55,514
Disposals	-	-	(232)	-	(232)
Depreciation charge	(13,572)	(3,084)	(3,552)	(2,701)	(22,909)
Closing net book value	31,668	20,146	16,540	9,086	77,440
At 31 December 2019					
Cost	45,240	26,463	22,651	13,505	107,859
Accumulated depreciation	(13,572)	(6,317)	(6,111)	(4,419)	(30,419)
Net book value	31,668	20,146	16,540	9,086	77,440
Rate of depreciation (percentage)		10%-20%	20%-33%	20%	

9.2.1 Details of disposal of fixed assets during the year

	Cost	Net book value	Sale price	Mode of disposal	Particulars of the purchaser
	(Rupees in '000)				
Laptop	123	1	1	Sale to Employee	Mr. Zulfiqar Alam
Laptop	77	1	0.7	Sale to Employee	Mr. Badar Munir
Laptop	77	1	0.7	Sale to Employee	Ms. Anam Murtaza
Laptop	77	1	0.7	Sale to Employee	Mr. Jamil Akhtar
Laptop	77	1	0.7	Sale to Employee	Mr. Shah Miftah ul Azim
Mobile	50	1	0.5	Sale to Employee	Ms. Anam Murtaza
Mobile	50	1	0.5	Sale to Employee	Mr. Jamil Akhtar
Mobile	50	1	0.5	Sale to Employee	Mr. Badar Munir
Mobile	60	1	0.6	Sale to Employee	Mr. Zulfiqar Alam
Mobile	60	1	0.6	Sale to Employee	Mr. Shah Miftah ul Azim
Mobile	50	1	0.5	Sale to Employee	Mr. Shayaan Afsar
Mobile	149	1	1.5	Sale to Employee	MD / CEO

9.2.2 Details of fully depreciated assets

	2020	2019
	(Rupees in '000)	
The cost of fully depreciated fixed assets that are still in the Company's use is as follows:		
Electrical, office and computer equipment	**1,308**	234

10 INTANGIBLE ASSETS

	2020	2019
At 01 January		
Cost	**11,687**	11,300
Accumulated amortisation	**(2,467)**	(188)
Net book value	**9,220**	11,112
Year ended 31 December		
Opening net book value	**9,220**	11,112
Additions: directly purchased	**-**	387
Amortisation charge	**(2,338)**	(2,279)
Closing net book value	**6,882**	9,220
At 31 December		
Cost	**11,687**	11,687
Accumulated amortisation	**(4,805)**	(2,467)
Net book value	**6,882**	9,220
Rate of amortisation (percentage)	**20%**	20%
Useful life	**5 years**	5 years

11 OTHER ASSETS

	Note	2020	2019
		(Rupees in '000)	
Mark-up / return / profit / interest accrued in local currency	11.1	**316,095**	463,319
Advances, deposits, advance rent and other prepayments		**16,404**	10,455
Advance taxation (payments less provisions)		**26,627**	30,738
		359,126	504,512
Less: Provision held against other assets		**-**	-
Other assets - total		**359,126**	504,512

11.1 This includes mark-up accrued in local currency on islamic refinancing under musharakah agreement and Islamic TDR amounting to Rs. 45 million (2019: Rs. 58 million).

12	BORROWINGS	Note	2020	2019
			(Rupees in '000)	
	Secured - Repurchase agreement borrowings	12.1	**3,960,000**	1,919,496
	Secured - Term Finance Certificate	12.2	**1,000,000**	-
	Unsecured	12.3	**10,288,741**	5,646,292
	Total		**15,248,741**	7,565,788

12.1 These carry mark-up rate of 7% to 7.20% per annum and are secured against Government securities face value of Rs. 3.96 billion.

12.2 The Company has issued Term Finance Certificate amounting to Rs. 1,000 million with maturity of two years at a fixed rate of 10.20% per annum. The rate has been reduced to 8.20% per annum effective June 01, 2020. The principal is payable at maturity whereas interest is payable in four half yearly instalments.

12.3 On 17 June 2019, the Government of Pakistan on-lent Rs. 5.64 billion under the World Bank - Housing Finance Project for 30 years at fixed rate of 3% per annum. This has been disbursed in one tranche as a loan against project based lending. Subsequently on 23 January 2020, the Government of Pakistan on-lent Rs. 4.64 billion under the World Bank - Housing Finance Project for 30 years at fixed rate of 3% per annum.

12.4	Particulars of borrowings with respect to currencies	2020	2019
		(Rupees in '000)	
	In local currency	**15,248,741**	7,565,788

13 SUBORDINATED DEBT

On 22 February 2019, the Government of Pakistan lend Rs. 7.051 billion under the World Bank - Housing Finance Project for 30 years at fixed rate of 3% per annum. This has been disbursed in one tranche as a Sub-ordinated Loan, and if needed, can be converted into non-participatory Additional Tier 1 Capital.

	2020	2019
	(Rupees in '000)	
Issue amount	**7,050,716**	7,050,716
Issue date	**22 February 2019**	22 February 2019
Maturity date	**21 February 2049**	21 February 2049
Rating	**N/A**	N/A
Security	**Unsecured**	Unsecured
Profit payment frequency	**Semi Annual**	Semi Annual
Redemption	**N/A**	N/A
Mark-up	**3%**	3%

14	OTHER LIABILITIES	2020	2019
		(Rupees in '000)	
	Mark-up / return / interest payable in local currency	**136,390**	82,922
	Accrued expenses	**31,572**	31,002
	Provision for Government levies	**49,196**	19,531
	Lease liability against right-of-use assets	**111,231**	29,865
	Payable to defined benefit plan	**4,339**	12,067
	Payable against purchase of fixed assets	**1,304**	4,680
	Payable to defined contribution plan	**10**	20,783
	Provision for employees' benefit	**63,512**	62,919
		397,554	263,769

15 SHARE CAPITAL

15.1 Authorised capital

2020	2019		2020	2019
(Number of shares)			(Rupees in '000)	
1,000,000,000	1,000,000,000	Ordinary shares of Rs. 10 each	**10,000,000**	10,000,000

15.2 Issued, subscribed and paid up capital

365,850,600	365,850,600	Ordinary shares of Rs. 10 each fully paid in cash	**3,658,506**	3,658,506

15.3 Major shareholdings of the Company are:

Number of shares held			Percentage of Shareholding	
December 31, 2020	December 31, 2019	**Names of Shareholders**	**December 31, 2020**	December 31, 2019
120,000,000	120,000,000	Ministry of Finance – Islamic Republic of Pakistan	**32.80%**	32.80%
60,000,000	60,000,000	National Bank of Pakistan	**16.40%**	16.40%
50,000,000	50,000,000	Habib Bank Limited	**13.67%**	13.67%
50,000,000	50,000,000	United Bank Limited	**13.67%**	13.67%
30,000,000	30,000,000	Askari Bank Limited	**8.20%**	8.20%
30,000,000	30,000,000	Bank Alfalah Limited	**8.20%**	8.20%
20,000,000	20,000,000	Allied Bank Limited	**5.47%**	5.47%
5,000,000	5,000,000	Bank AL Habib Limited	**1.37%**	1.37%
667,500	667,500	House Building Finance Company Limited	**0.17%**	0.17%
183,000	183,000	Summit Bank Limited	**0.05%**	0.05%
100	100	Directors	**0.00%**	0.00%

16 SURPLUS ON REVALUATION OF ASSETS

	2020	2019
	(Rupees in '000)	
Surplus on revaluation of - Available for sale securities	**83,356**	80,244

17 CONTINGENCIES AND COMMITMENTS

There are no contingencies and commitments as at 31 December 2020 (2019: nil).

18 MARK-UP / RETURN / PROFIT / INTEREST EARNED

	Note	2020	2019
		(Rupees in '000)	
On:			
Loans and advances	18.1	**922,588**	576,084
Investments		**1,382,857**	587,257
Lendings to financial institutions		**16,401**	25,018
Balances with banks	18.2	**187,114**	340,916
		2,508,960	1,529,275

18.1 This includes mark-up earned in local currency on islamic refinancing under musharakah agreement amounting to Rs. 159 million (2019: Rs. 58 million).

18.2 This includes mark-up earned in local currency on islamic balances with banks amounting to Rs. 22.8 million (2019: Rs. 11.1 million).

19 MARK-UP / RETURN / INTEREST EXPENSED

	Note	2020	2019
		(Rupees in '000)	
On:			
Borrowings		**299,093**	91,888
Subordinated debt		**211,521**	181,387
Interest Expense - Repo Borrowing		**128,013**	59,312
Interest Expense - TFC		**69,315**	-
Interest Expense - Clean Borrowing		**3,724**	-
Lease liability against right-of-use assets		**3,603**	4,109
		715,269	336,696

20 GAIN ON SECURITIES

Realised gain on Federal Government Securities		**-**	20
- Market Treasury Bills			

21 OTHER INCOME

		9	-
Gain on sale of fixed assets		**3,143**	-
Right of use assets		**-**	900
Insurance proceeds		**3,152**	900

22 OPERATING EXPENSES

Total compensation expense	22.1	**228,304**	190,350
Property expense			
Rent and taxes		**-**	-
Insurance		**464**	586
Utilities cost		**1,555**	1,448
Security (including guards)		**581**	572
Repair and maintenance		**2,633**	1,714
Depreciation on right-of-use assets	9.2	**15,522**	13,572
		20,755	17,892
Information technology expenses			
Software maintenance		**1,114**	4,013
Hardware maintenance		**498**	191
Depreciation	9.2	**6,276**	3,608
Amortisation	10	**2,338**	2,279
IT Security		**500**	-
Network charges		**1,452**	1,328
		12,178	11,419
Other operating expenses			
Directors' fees and allowances		**6,250**	3,810
Director's evaluation expense		**452**	-
Legal and professional charges		**21,556**	24,028
Outsourced services costs	28.1	**3,600**	3,073
Travelling and conveyance		**1,668**	4,395
Depreciation	9.2	**5,899**	5,785
Training and development		**970**	1,141
Postage and courier charges		**184**	134
Communication		**822**	482
Stationery and printing		**621**	2,766
Marketing, advertisement and publicity		**2,233**	929
Auditors remuneration	22.2	**2,369**	1,962
Insurance		**1,251**	1,378
Donations	22.3	**3,500**	900
Vehicle repair and maintenance		**157**	212
Entertainment		**262**	-
Staff engagement		**34**	-
Others		**2,105**	1,404
		53,933	52,399
		315,170	272,060

22.1 Total compensation expense

	Note	2020	2019
		(Rupees in '000)	
Managerial Remuneration			
i) Fixed	22.1.1	**144,010**	110,542
ii) Variable of which;			
a) Provision for cash bonus / awards		**60,000**	60,000
Charge for defined benefit plan		**10,470**	8,225
Contribution to defined contribution plan		**9,184**	7,928
Medical		**1,283**	1,015
Conveyance		**73**	115
Compensated absences		**2,970**	1,804
Others		**314**	721
		228,304	190,350

22.1.1 This includes remuneration of staff pertaining to islamic business amounting to Rs. 4.8 million (2019: Rs. 2.3 million).

22.2 Auditors' remuneration

	2020	2019
	(Rupees in '000)	
Audit fee	**450**	289
Half Yearly Review	**175**	183
Special certifications and sundry advisory services	**1,644**	1,400
Out of pocket expenses	**100**	90
	2,369	1,962

22.3 Detail of donations made during the year is as follows:

	2020	2019
Prime Minister COVID-19 Pandemic relief fund	**3,500**	-
SOS children's villages of Pakistan	**-**	400
The citizens foundation	**-**	500
	3,500	900

23 OTHER CHARGES

	2020	2019
Penalties imposed by State Bank of Pakistan	**-**	33

24 PROVISIONS & WRITE OFFS - NET

	2020	2019
Fixed assets written off directly	**4,145**	-
Provision against impairment of fixed assets	**11,557**	-
	15,702	-

25 TAXATION

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

26 BASIC & DILUTED EARNINGS PER SHARE

	2020	2019
	(Rupees in '000)	
Profit for the year	**1,436,338**	901,842
	(Number in '000)	
Weighted average number of ordinary shares	**365,851**	365,851
	(Rupees)	
Basic and diluted earnings per share	**3.92**	2.46

26.1 Diluted earnings per share has not been presented separately as the Company does not have any convertible instruments in issue as at 31 December 2020 which would have any effect on the earnings per share.

27 CASH AND CASH EQUIVALENTS

	Note	2020	2019
		(Rupees in '000)	
Cash and balance with treasury banks	5	**30,122**	50,780
Balance with other banks	6	**3,111,722**	2,382,641
		3,141,844	2,433,421

28 STAFF STRENGTH

	2020	2019
	(Number)	
Permanent	**28**	24
On Company contract	**6**	3
Company's own staff strength at the end of the year	**34**	27

28.1 In addition to the above, 09 employees (2019: 08 employees) of outsourcing services companies were assigned to the Company as at the end of the year to perform janitorial services.

29 DEFINED BENEFIT PLAN

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

29.1 Number of Employees under the scheme

	2020	2019
	(Number)	
The number of employees covered under the Gratuity scheme are	**29**	25

29.2 Principal actuarial assumptions

The actuarial valuations were carried out as at 31 December 2020 using the following significant assumptions:

	2020	2019
	(Per annum)	
Discount rate	**10.25%**	12.50%
Expected rate of salary increase	**9.00%**	11.5% to 15%
Mortality rates	**SLIC (2001-05)-1**	SLIC (2001-05)-1
Rates of employee turnover	**Light**	Light

29.3 Reconciliation of (receivable from) / payable to defined benefit plan

	Gratuity Fund	
	2020	2019
	(Rupees in '000)	
Opening Value	**12,067**	4,938
Present value of obligations	**7,829**	7,129
Contribution made by the Company during the year	**(15,557)**	-
Payable	**4,339**	12,067

29.4 Movement in defined benefit obligations

Obligations at the beginning of the year	**12,067**	4,938
Current service cost	**10,470**	7,079
Past service cost	**-**	-
Interest cost	**-**	1,146
Benefits paid by the Company	**(15,557)**	-
Re-measurement (gain) / loss	**(2,641)**	(1,096)
Obligations at the end of the year	**4,339**	12,067

29.5 Charge for defined benefit plan

29.5.1 Cost recognised in profit and loss

Current service cost	**8,458**	7,079
Past service cost	**-**	-
Net interest on defined benefit asset / liability	**2,012**	1,146
	10,470	8,225

29.5.2 Re-measurements recognised in OCI during the year

(Gain) / loss on obligation		
- Financial assumptions	**(670)**	(1,233)
- Experience adjustment	**(1,971)**	137
Total Re-measurements recognised in OCI	**(2,641)**	(1,096)

29.6 Sensitivity analysis

Increase / decrease is due to:		
0.5% increase in discount rate	**19,152**	11,398
0.5% decrease in discount rate	**21,471**	12,793
0.5% increase in expected rate of salary increase	**21,427**	12,768
0.5% decrease in expected rate of salary increase	**19,181**	11,415

	2020 (Rupees in '000)
29.7 Expected charge / (reversal) for the next financial year	**9,502**

29.8 Maturity profile

The weighted average duration of the obligation is 11.42 years.

Distribution of timing of benefit payments	
within the next 12 months (next annual reporting period)	**167**
between 2 and 5 years	**22,855**
between 5 and 10 years	**18,235**
	41,257

29.9 Funding Policy

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

29.10 Significant risk

Changes in bond yields

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

Inflation risk

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

Life expectancy / Withdrawal risk

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

Final salary risk

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

Retention risk

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

Compliance risk

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

Legal / political risk

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

Mortality risk

The risk that the actual mortality experience is different. The effect depends on the beneficiaries' service / age distribution and the benefits.

30 DEFINED CONTRIBUTION PLAN (PROVIDENT FUND)

30.1 Provident Fund

The general description of the plan is included in note 4.8.

	Provident fund	
	2020	2019
	(Rupees in '000)	
Contributions made during the year:		
Employer's Contribution	**7,559**	5,826
Employees' Contribution	**7,559**	5,826

The number of employees covered under the defined contribution plan are 29 (2019: 25).

31 COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

31.1 Total Compensation Expense

Items	Directors				Managing Director / Chief Executive Officer		Key Management Personnel	
	Chairman		Non-Executive					
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	(Rupees in '000)							
Fees / remuneration	**840**	560	**5,410**	3,250	**-**	-	**-**	-
Managerial remuneration	**-**	-	**-**	-	**31,875**	26,715	**68,410**	50,939
Medical	**-**	-	**-**	-	**155**	126	**505**	821
Others	**-**	-	**-**	-	**79**	853	**88**	775
Bonus	**-**	-	**-**	-	**22,200**	750	**24,372**	3,299
Total	**840**	560	**5,410**	3,250	**54,309**	28,444	**93,375**	55,834
Number of persons	**1**	1	**8**	7	**1**	1	**11**	8

31.2 Remuneration paid to Directors for participation in Board and Committee Meetings

2020

Sr. No.	Name of Director	For Board Meetings	For Board Committees			
			Board Audit Committee	Board Risk Committee	Board Human Resource Committee	Total Amount Paid
		(Rupees in '000)				
1	Mr. Farrakh Qayyum	**690**	**-**	**-**	**80**	**770**
2	Mr. Imran Sarwar	**575**	**-**	**190**	**-**	**765**
3	Mr. Rehmat Ali Hasnie	**840**	**-**	**-**	**-**	**840**
4	Ms. Mehreen Ahmed	**690**	**110**	**-**	**-**	**800**
5	Mr. Abid Naqvi	**460**	**150**	**-**	**-**	**610**
6	Mr. Syed Taha Afzal	**690**	**-**	**-**	**40**	**730**
7	Mr. Naveed Nasim	**575**	**-**	**110**	**-**	**685**
8	Mr. Risha A. Mohyeddin	**690**	**130**	**-**	**-**	**820**
9	Mr. Iftikhar Amjad	**230**	**-**	**-**	**-**	**230**
	Total Amount Paid	**5,440**	**390**	**300**	**120**	**6,250**

2019

Sr. No.	Name of Director	For Board Meetings	For Board Committees			Total Amount Paid
			Board Audit Committee	Board Risk Committee	Board Human Resource Committee	
		(Rupees in '000)				
1	Mr. Syed Tariq Ali	345	120	-	-	465
2	Mr. Risha A. Mohyeddin	345	70	-	-	415
3	Mr. Rehmat Ali Hasnie	560	-	-	-	560
4	Mr. Rashid Nawaz Tipu	345	-	120	-	465
5	Mr. Imran Sarwar	345	-	90	-	435
6	Ms. Mehreen Ahmed	345	-	-	20	365
7	Mr. Farrakh Qayyum	460	-	-	80	540
8	Mr. Abid Naqvi	345	220	-	-	565
	Total Amount Paid	**3,090**	**410**	**210**	**100**	**3,810**

31.3 Chief Executive is entitled to Company's maintained cars with fuel in accordance with the terms of the employment and also entitled to medical and life insurance benefits in accordance with the policy of the Company. In addition, the Chief Executive is also provided with driver, corporate club membership, security arrangements and payment of travel bills in accordance with the terms of employment.

32 FAIR VALUE MEASUREMENTS

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

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

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

33 FAIR VALUE OF FINANCIAL ASSETS

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

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

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

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

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

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	(Rupees in '000)			
On balance sheet financial instruments				
Financial assets - measured at fair value				
Investments				
Federal Government Securities	**-**	**9,240,244**	**-**	**9,240,244**
Financial assets - disclosed but not measured at fair value				
Investments	**-**	**962,452**	**-**	**962,452**

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

	2019			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
On balance sheet financial instruments				
Financial assets - measured at fair value				
Investments				
Federal Government Securities	-	8,821,820	-	8,821,820
Financial assets - disclosed but not measured at fair value				
Investments	-	-	-	-

34 RELATED PARTY TRANSACTIONS

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

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

Transactions with related parties, other than those disclosed elsewhere in these financial statements, are summarised as follows:

	2020			2019		
	Directors	**Key management personnel**	**Other related parties**	Directors	Key management personnel	Other related parties
	(Rupees in '000)					
Statement of financial position						
Balances with other banks						
In current accounts	**-**	**-**	**47**	-	-	47
In deposit accounts	**-**	**-**	**1,000,056**	-	-	50,539
	-	**-**	**1,000,103**	-	-	50,586
Lendings to financial institutions						
Opening balance	**-**	**-**	**-**	-	-	-
Addition during the period	**-**	**-**	**4,975,119**	-	-	-
Repaid during the period	**-**	**-**	**(4,975,119)**	-	-	-
Transfer in / (out) - net	**-**	**-**	**-**	-	-	-
Closing balance	**-**	**-**	**-**	-	-	-
Advances						
Opening balance	**-**	**722**	**2,466,672**	-	-	1,200,000
Addition during the year	**-**	**91,824**	**3,600,000**	-	1,000	1,300,000
Repaid during the year	**-**	**(2,922)**	**(1,438,903)**	-	(278)	(33,328)
Transfer in / (out) - net	**-**	**-**	**-**	-	-	-
Closing balance	**-**	**89,624**	**4,627,769**	-	722	2,466,672
Other Assets						
Interest / mark-up accrued	**-**	**-**	**53,862**	-	-	86,728
Borrowings						
Opening balance	**-**	**-**	**-**	-	-	-
Borrowings during the period	**-**	**-**	**59,795,267**	-	-	-
Settled during the period	**-**	**-**	**(56,835,267)**	-	-	-
Transfer in / (out) - net	**-**	**-**	**-**	-	-	-
Closing balance	**-**	**-**	**2,960,000**	-	-	-
Other Liabilities						
Interest / mark-up payable	**-**	**-**	**2,034**	-	-	-
Payable to staff retirement fund	**-**	**-**	**4,349**	-	-	32,850
Closing balance	**-**	**-**	**6,383**	-	-	32,850
RELATED PARTY TRANSACTIONS						
Profit and loss account						
Income						
Mark-up / return / interest earned	**-**	**1,032**	**379,118**	-	-	246,371
Expense						
Mark-up / return / interest paid	**-**	**-**	**79,220**	-	-	-
Operating expenses	**6,250**	**147,684**	**18,073**	3,810	84,278	14,243

The Company has sub-ordinated loan and borrowings amounting to Rs. 7.05 billion and Rs. 10.29 billion respectively from Ministry of Finance.

The Company has provided refinancing facility to House Building Finance Corporation with outstanding amount of Rs. 2.9 billion.

35 CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

During the year 2013, SBP issued revised instructions on the computation of CAR based on Basel III Capital Reform as issued by the Basel Committee on Banking Supervision. These instructions became effective from 31 December 2013 with full implementation by 31 December 2020.

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

	2020	2019
	(Rupees in '000)	
Minimum Capital Requirement (MCR):		
Paid-up capital (net of losses)	**3,658,506**	3,658,506
Capital Adequacy Ratio (CAR):		
Eligible Common Equity Tier 1 (CET 1) Capital	**6,048,125**	4,606,808
Eligible Additional Tier 1 (ADT 1) Capital	**-**	-
Total Eligible Tier 1 Capital	**6,048,125**	4,606,808
Eligible Tier 2 Capital	**83,356**	80,244
Total Eligible Capital (Tier 1 + Tier 2)	**6,131,481**	4,687,052
Risk Weighted Assets (RWAs):		
Credit Risk	**2,291,292**	1,344,869
Market Risk	**-**	-
Operational Risk	**1,977,938**	920,195
Total	**4,269,230**	2,265,064
Common Equity Tier 1 Capital Adequacy Ratio	**141.67%**	203.39%
Tier 1 Capital Adequacy Ratio	**141.67%**	203.39%
Total Capital Adequacy Ratio	**143.62%**	206.93%
Leverage Ratio (LR):		
Eligible Tier-1 Capital	**6,048,125**	4,606,808
Total Exposures	**26,604,850**	19,358,850
Leverage Ratio	**22.73%**	23.80%
Liquidity Coverage Ratio (LCR):		
Total High Quality Liquid Assets	**5,300,836**	6,930,825
Total Net Cash Outflow	**3,857**	1,812
Liquidity Coverage Ratio	**137429%**	382601%
Net Stable Funding Ratio (NSFR):		
Total Available Stable Funding	**24,387,582**	17,303,816
Total Required Stable Funding	**16,186,841**	5,644,875
Net Stable Funding Ratio	**150.66%**	306.54%

35.1 The full disclsoures on the Capital Adequacy, Leverage Ratio & Liquidity Requirements as per SBP instructions issued from time to time have been placed on the website. The link to the full disclosure is available at http://www.pmrc.com.pk.

36 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 value and sustainability, whilst guided by a prudent and robust framework of risk management policies. Despite the low risk business model of the Company as it only deals with banks and regulated Financial Institutions, it places great emphasis on the importance of risk management and has put in place clear and comprehensive risk management framework to identify, monitor, manage and control the relevant risk factors.

COVID-19 does not have a direct impact on the risk profile of the Company and its overall risk management policies. However, risk committee is continuously monitoring the impact on the Company.

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 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.

36.1 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 and threshold. 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.

36.1.1 *Lendings to financial institutions*

	Gross lendings		Non-performing lendings		Provision held	
	2020	2019	**2020**	2019	**2020**	2019
	(Rupees in '000)					
Credit risk by public / private sector						
Public / Government	**-**	**-**	**-**	-	**-**	-
	-	**-**	**-**	-	**-**	-

36.1.2 *Investment in debt securities*

	Gross investments		Non-performing investments		Provision held	
	2020	2019	**2020**	2019	**2020**	2019
	(Rupees in '000)					
Credit risk by industry sector						
Others (Government)	**10,202,696**	8,821,820	**-**	-	**-**	-
	10,202,696	8,821,820	**-**	-	**-**	-
Credit risk by public / private sector						
Public / Government	**10,202,696**	8,821,820	**-**	-	**-**	-
	10,202,696	8,821,820	**-**	-	**-**	-

36.1.3 *Advances*

	Gross advances		Non-performing advances		Provision held	
	2020	2019	**2020**	2019	**2020**	2019
	(Rupees in '000)					
Credit risk by industry sector						
Financial	**14,967,077**	7,800,000	**-**	-	**-**	-
	14,967,077	7,800,000	**-**	-	**-**	-
Credit risk by public / private sector						
Public / Government	**1,259,661**	2,300,000	**-**	-	**-**	-
Private	**13,707,416**	5,500,000	**-**	-	**-**	-
	14,967,077	7,800,000	**-**	-	**-**	-

36.1.4 *Concentration of Advances*

The total exposure (oustanding) of the Company is against 13 borrowers (funded and non-funded exposures) aggregated to Rs. 14.8 billion excluding staff loans (2019: 06 Borrowers with Rs. 7.7 billion).

36.1.5 Advances - Province / Region-wise Disbursement & Utilization

Province / Region	2020						
	Disbursements	Utilization					
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
	(Rupees in '000)						
Sindh	**8,750,000**	**1,500,000**	**5,350,000**	**1,000,000**	**-**	**900,000**	**-**
Total	**8,750,000**	**1,500,000**	**5,350,000**	**1,000,000**	**-**	**900,000**	**-**

Province / Region	2019						
	Disbursements	Utilization					
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
	(Rupees in '000)						
Sindh	6,600,000	1,000,000	5,600,000	-	-	-	-
Total	6,600,000	1,000,000	5,600,000	-	-	-	-

36.2 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".

36.2.1 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 to the best extent possible (i.e. the Company will be match funding).

36.2.2 Balance sheet split by trading and banking books

	2020			2019		
	Banking book	**Trading book**	**Total**	Banking book	Trading book	Total
	(Rupees in '000)					
Cash and balances with treasury banks	**30,122**	**-**	**30,122**	50,780	-	50,780
Balances with other banks	**3,111,722**	**-**	**3,111,722**	2,382,641	-	2,382,641
Lendings to financial institutions	**-**	**-**	**-**	-	-	-
Investments	**10,202,696**	**-**	**10,202,696**	8,821,820	-	8,821,820
Advances	**14,967,077**	**-**	**14,967,077**	7,729,232	-	7,729,232
Fixed assets	**157,749**	**-**	**157,749**	78,340	-	78,340
Intangible assets	**6,882**	**-**	**6,882**	9,220	-	9,220
Other assets	**359,126**	**-**	**359,126**	504,512	-	504,512
	28,835,374	**-**	**28,835,374**	19,576,545	-	19,576,545

36.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

	Effective Yield / Interest rate	Total	2020 Exposed to Yield / Interest risk									Non-interest bearing financial instruments
On-balance sheet financial instruments			Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
							(Rupees in '000)					
Assets												
Cash and balances with treasury banks	5.25%	30,122	4	-	-	-	-	-	-	-	-	30,118
Balances with other banks	9.25%	3,111,722	3,111,706	-	-	-	-	-	-	-	-	16
Lending to financial institutions		-	-	-	-	-	-	-	-	-	-	-
Investments	11.41%	10,202,696	-	3,968,262	1,501,200	2,600,743	2,132,491	-	-	-	-	-
Advances	8.94%	14,967,077	19,989	536,250	680,395	2,144,044	3,408,958	6,958,092	1,148,474	70,875	-	-
Other assets		359,126	-	-	-	-	-	-	-	-	-	359,126
		28,670,743	3,131,699	4,504,512	2,181,595	4,744,787	5,541,449	6,958,092	1,148,474	70,875	-	389,260
Liabilities												
Bills payable		-	-	-	-	-	-	-	-	-	-	-
Borrowings	4.99%	15,248,741	3,960,000	-	-	-	1,000,000	411,550	823,099	2,880,850	6,173,242	-
Deposits and other accounts		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	3.00%	7,050,716	-	-	-	-	-	282,029	564,057	1,974,196	4,230,434	-
Other liabilities		397,554	-	-	-	-	-	-	-	-	-	397,554
		22,697,011	3,960,000	-	-	-	1,000,000	693,579	1,387,156	4,855,046	10,403,676	397,554
On-balance sheet gap		5,973,732	(828,301)	4,504,512	2,181,595	4,744,787	4,541,449	6,264,513	(238,682)	(4,784,171)	(10,403,676)	(8,294)
Total Yield / Interest Risk Sensitivity Gap			(828,301)	4,504,512	2,181,595	4,744,787	4,541,449	6,264,513	(238,682)	(4,784,171)	(10,403,676)	
Cumulative Yield / Interest Risk Sensitivity Gap			(828,301)	3,676,211	5,857,806	10,602,593	15,144,042	21,408,555	21,408,555	21,408,555	21,408,555	

	Effective Yield / Interest rate	Total	2019 Exposed to Yield / Interest risk									Non-interest bearing financial instruments
On-balance sheet financial instruments			Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
							(Rupees in '000)					
Assets												
Cash and balances with treasury banks	11.25%	50,780	82	-	-	-	-	-	-	-	-	50,698
Balances with other banks	13.00%	2,382,641	2,382,620	-	-	-	-	-	-	-	-	21
Lending to financial institutions		-	-	-	-	-	-	-	-	-	-	-
Investments	13.87%	8,821,820	494,733	1,021,800	1,437,723	3,455,221	2,412,343	-	-	-	-	-
Advances	9.76%	7,729,232	107	2,015,780	2,034,442	355,776	1,507,100	1,816,027	-	-	-	-
Other assets		504,512	-	-	-	-	-	-	-	-	-	504,512
		19,488,985	2,877,542	3,037,580	3,472,165	3,810,997	3,919,443	1,816,027	-	-	-	555,231
Liabilities												
Advance against share capital		-	-	-	-	-	-	-	-	-	-	-
Borrowings	5.71%	7,565,788	1,919,496	-	-	-	-	-	451,703	1,129,258	4,065,331	-
Deposits and other accounts		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	3.00%	7,050,716	-	-	-	-	-	-	564,057	1,410,142	5,076,517	-
Other liabilities		263,769	-	-	-	-	-	-	-	-	-	263,769
		14,880,273	1,919,496	-	-	-	-	-	1,015,760	2,539,400	9,141,848	263,769
On-balance sheet gap		4,608,712	958,046	3,037,580	3,472,165	3,810,997	3,919,443	1,816,027	(1,015,760)	(2,539,400)	(9,141,848)	291,462
Total Yield / Interest Risk Sensitivity Gap			958,046	3,037,580	3,472,165	3,810,997	3,919,443	1,816,027	(1,015,760)	(2,539,400)	(9,141,848)	
Cumulative Yield / Interest Risk Sensitivity Gap			958,046	3,995,626	7,467,791	11,278,788	15,198,231	17,014,258	17,014,258	17,014,258	17,014,258	

Reconciliation to total assets	2020	2019
	(Rupees in '000)	
Balance as per balance sheet	28,835,374	19,576,545
Less: Non financial assets		
Fixed assets	157,749	78,340
Intangible assets	6,882	9,220
	164,631	87,560
Total financial assets	28,670,743	19,488,985

Reconciliation to total liabilities	2020	2019
	(Rupees in '000)	
Balance as per balance sheet	22,697,011	14,880,273
	-	-
Total financial liabilities	22,697,011	14,880,273

36.3 Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. It includes legal risk but excludes strategic and reputational risk.

The Board of Directors has approved an Operational Risk Management Policy which defines the Operational Risk Framework of the Company. The Operational Risk Framework is defined as per the Company's business model. The Company has a monoline business and by size of fixed / immovable assets, the Company is not a large sized entity, with limited scale of physical operations, one office location, and a limited number of required Human and IT resources. The Company is hence exposed to low expsoure to operational risk.

The Operational Risk Management policy defines objective of Operational Risk Management which is to identify, measure, monitor and control Operational Risk exposures of the Company to keep it in line with Company's risk tolerance and business strategy. The policy also defines roles and responsibilities of individuals involved in Operational Risk Management along with Operational Risk thresholds and tolerances.

The Board has also approved IT policy and IT Security policy. Company has placed a comprehensive IT- Security framework that fits its business model. IT Security is managed through implementation measures for system design, cyber security, confidentiality, integrity, data encryption and secured tunnel.

Operational risk disclosures – Basel II Specific

The Company uses Basic Indicator Approach to calculate capital charge for operational risk as per Basel regulatory framework. This approach is considered to be the most suitable in view of the business model of the Company.

36.4 Liquidity Risk

Liquidity risk is the potential for loss to an institution arising from either its inability to meet its obligations or to fund increase in assets as they fall due without incurring unacceptable cost or losses.

The Board of Directors has approved Liquidity Risk Management Policy and Asset Liablity Management Policy which defines liquidity risk framework for the Company.

Liquidity Risk Policy outlines guidelines for liquidity risk management. These guidelines broadly define; Strategies for managing liquidity positions by devising limits, monitoring tools such as setting liquidity ratios, cashflow needs, reporting mechanisms etc., contingency planning, early warning indicators for raising red flags and roles and responsibiliites of individuals involoved in liquidity risk management.

The Board has also approved ToRs of ALCO under Asset Liability Management Policy. ALCO is entrusted to efficiently manage the Company's overall assets and liabilities portfolio. The elements of financial losses are mitigated by way of closely monitoring the influence of interest rates and market dynamics on the Company's balance sheet. ALCO also acts as a decision making unit responsible for balance sheet management including strategic management of interest rates and liquidity risks.

The Company periodically calculates LCR, NSFR ratios as well as Maturity Gaps to monitor liquidity positions. Regulatory Stress Testing is performed on quarterly basis.

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

2020

(Rupees in '000)

	Total	Upto 1 Day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 Month	Over 1 to 2 Months	Over 2 to 3 Months	Over 3 to 6 Months	Over 6 to 9 Months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 Years	Over 5 Years
Assets														
Cash and balances with treasury banks	30,122	30,122	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	3,111,722	2,111,722	-	-	1,000,000	-	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	10,202,696	-	-	-	-	2,968,362	-	-	2,600,743	-	2,132,490	1,501,200	-	999,901
Advances	14,967,077	-	-	-	19,989	410,310	125,939	282,686	391,406	1,783,896	3,484,191	5,110,457	1,308,250	2,049,953
Fixed assets	157,749	-	-	-	3,959	2,178	2,175	6,512	6,436	6,387	24,474	20,410	33,269	51,949
Intangible assets	6,882	-	-	-	194	194	194	582	582	582	2,328	2,226	-	
Other assets	359,126	12,268	11,811	88,615	22,045	78,527	88,191	20,465	571	571	30,545	713	1,426	3,378
	28,835,374	2,154,112	11,811	88,615	1,046,187	3,459,571	216,499	310,245	2,999,738	1,791,436	5,674,028	6,635,006	1,342,945	3,105,181
Liabilities														
Borrowings	15,248,741	-	3,960,000	-	-	-	-	-	-	-	1,000,000	411,550	823,099	9,054,092
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	7,050,716	-	-	-	-	-	-	-	-	-	-	282,029	564,057	6,204,630
Other liabilities	397,554	-	4,204	-	11,225	-	93,514	117,357	5,562	76,709	22,246	22,246	44,491	-
	22,697,011	-	3,964,204	-	11,225	-	93,514	117,357	5,562	76,709	1,022,246	715,825	1,431,647	15,258,722
Net assets	6,138,363	2,154,112	(3,952,393)	88,615	1,034,962	3,459,571	122,985	192,888	2,994,176	1,714,727	4,651,782	5,919,181	(88,702)	(12,153,541)
Share capital	3,658,506													
Reserves	478,643													
Unappropriated profit	1,917,858													
Surplus on revaluation of assets	83,356													
	6,138,363													

2019

(Rupees in '000)

	Total	Upto 1 Day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 Month	Over 1 to 2 Months	Over 2 to 3 Months	Over 3 to 6 Months	Over 6 to 9 Months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 Years	Over 5 Years
Assets														
Cash and balances with treasury banks	50,780	50,780	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	2,382,641	2,382,641	-	-	-	-	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	8,821,820	-	-	-	494,733	-	-	1,437,724	3,455,220	-	2,412,342	-	-	1,021,801
Advances	7,729,232	-	-	-	107	15,673	2,000,107	2,034,442	317,961	37,815	1,507,100	1,816,027	-	-
Fixed assets	78,340	-	-	-	2,037	2,937	2,034	6,082	6,111	6,111	23,772	13,482	7,993	7,781
Intangible assets	9,220	-	-	-	195	195	195	583	585	585	2,338	2,338	2,206	-
Other assets	504,512	27,572		88,676	177	75,265	124,772	132,978	15,618	138	31,290	3,738	1,104	3,184
	19,576,545	2,460,993	-	88,676	497,249	94,070	2,127,108	3,611,809	3,795,495	44,649	3,976,842	1,835,585	11,303	1,032,766
Liabilities														
Borrowings	7,565,788	-	1,919,496	-	-	-	-	-	-	-	-	-	451,703	5,194,589
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	7,050,716	-	-	-	-	-	-	-	-	-	-	-	564,057	6,486,659
Other liabilities	263,769	4,680	2,566	-	-	150	74,301	83,688	3,425	26,196	68,763	-	-	-
	14,880,273	4,680	1,922,062	-	-	150	74,301	83,688	3,425	26,196	68,763	-	1,015,760	11,681,248
Net assets	4,696,272	2,456,313	(1,922,062)	88,676	497,249	93,920	2,052,807	3,528,121	3,792,070	18,453	3,908,079	1,835,585	(1,004,457)	(10,648,482)
Share capital	3,658,506													
Reserves	191,375													
Unappropriated profit	766,147													
Surplus / (Deficit) on revaluation of assets	80,244													
	4,696,272													

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

2020

	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	30,122	30,122	-	-	-	-	-	-	-	-
Balances with other banks	3,111,722	3,111,722	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	10,202,696	-	2,968,362	-	2,600,743	2,132,490	1,501,200	-	999,901	-
Advances	14,967,077	19,989	536,250	282,686	2,175,459	3,484,442	5,110,358	1,308,039	2,049,854	-
Fixed assets	157,749	3,331	4,351	6,510	12,818	24,464	20,589	33,736	51,950	-
Intangible assets	6,882	195	389	584	1,169	2,337	2,149	59	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	359,126	134,740	166,718	20,465	1,142	30,545	713	1,426	3,377	-
	28,835,374	3,300,099	3,676,070	310,245	4,791,331	5,674,278	6,635,009	1,343,260	3,105,082	-
Liabilities										
Bills payable	-	-	-	-	-	-	-	-	-	-
Borrowings	15,248,741	3,960,000	-	-	-	1,000,000	411,550	823,099	2,880,850	6,173,242
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Subordinated debt	7,050,716	-	-	-	-	-	282,029	564,057	1,974,196	4,230,434
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	397,554	15,429	93,514	117,357	82,270	22,246	22,246	44,492	-	-
	22,697,011	3,975,429	93,514	117,357	82,270	1,022,246	715,825	1,431,648	4,855,046	10,403,676
Net assets	6,138,363	(675,330)	3,582,556	192,888	4,709,061	4,652,032	5,919,184	(88,388)	(1,749,964)	(10,403,676)

Share capital	3,658,506
Reserves	478,643
Unappropriated profit	1,917,858
Surplus on revaluation of assets	83,356
	6,138,363

2019

	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	50,780	50,780	-	-	-	-	-	-	-	-
Balances with other banks	2,382,641	2,382,641	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	8,821,820	494,733	-	1,437,724	3,455,221	2,412,342	-	-	1,021,800	-
Advances	7,729,232	107	2,015,780	2,034,442	355,776	1,507,100	1,816,027	-	-	-
Fixed assets	78,340	2,037	4,971	6,082	12,222	23,772	13,482	7,993	7,781	-
Intangible assets	9,220	195	390	584	1,169	2,338	2,338	2,206	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	504,512	116,425	200,037	132,978	15,756	31,290	3,738	1,104	2,800	384
	19,576,545	3,046,918	2,221,178	3,611,810	3,840,144	3,976,842	1,835,585	11,303	1,032,381	384
Liabilities										
Advance against share capital	-	-	-	-	-	-	-	-	-	-
Borrowings	7,565,788	1,919,496	-	-	-	-	-	451,703	1,129,259	4,065,330
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Subordinated debt	7,050,716	-	-	-	-	-	-	564,057	1,410,143	5,076,516
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	263,769	7,246	74,452	83,688	29,621	68,762	-	-	-	-
	14,880,273	1,926,742	74,452	83,688	29,621	68,762	-	1,015,760	2,539,402	9,141,846
Net assets	4,696,272	1,120,176	2,146,726	3,528,122	3,810,523	3,908,080	1,835,585	(1,004,457)	(1,507,021)	(9,141,462)

Share capital	3,658,506
Reserves	191,375
Unappropriated profit	766,147
Surplus / (Deficit) on revaluation of assets	80,244
	4,696,272

37 EVENTS AFTER THE REPORTING DATE

The Company has entered into a subscription agreement dated June 30, 2020, shareholder's agreement dated July 02, 2020 and buy back agreement dated July 02, 2020 with International Finance Corporation (IFC), a member of the World Bank Group to issue fully paid ordinary shares up to Rs. 500 million. These funds were subsequently received by the Company on January 05, 2021.

38 GENERAL

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

38.2 Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.

38.3 The comparative figures have been re-arranged and reclassified for comparison purposes or additionally incorporated in these financial statements wherever necessary to facilitate comparison and better presentation. There were no significant classifications during the year.

39 DATE OF AUTHORISATION

These financial statements were authorised on 05 March 2021 by the Board of Directors of the Company.

Managing Director / Chief Executive Officer	Chief Financial Officer	Director	Director	Director

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