

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

الحمد لله رب العالمين



# JOURNEY OF CONTINUOUS SUCCESS

## *A long term partnership*

Over the years, First Habib Modaraba (FHM) has become the sound, strong and leading Modaraba within the Modaraba sector. Our stable financial performance and market positions of our businesses have placed us well to deliver sustainable growth and continuous return to our investors since inception.

During successful business operation of more than 3 decades, FHM had undergone with various up and down and successfully countered with several economic & business challenges. Ever-changing requirement of business, product innovation and development were effectively managed and delivered at entire satisfaction of all stakeholders with steady growth on sound footing.

Consistency in perfect sharing of profits among the certificate holders along with increase in certificate holders' equity has made FHM a sound and well performing Modaraba within the sector.

Our long term success is built on a firm foundation of commitment. FHM's financial strength, risk management protocols, governance framework and performance aspirations are directly attributable to a discipline that regularly brings prosperity to our partners and gives strength to our business model which is based on true partnership.

Conquering with the challenges of our operating landscape, we have successfully journeyed steadily and progressively, delivering consistent results. With the blessing of Allah (SWT), we are today the leading Modaraba within the Modaraba sector of Pakistan, demonstrating our strength, financial soundness and commitment in every aspect of our business.

We thank Almighty Allah (SWT) for His blessing and bestowing upon us of Journey of Continuous Success. We are confident that in future we will continue to keep sound and stable position of FHM by following best business practices and good corporate governance by fulfilling all applicable regulatory and Shariah requirements.



To be the leading Islamic Financial Institution within Modaraba sector by providing the best innovative Sharia'h Compliant financial solutions at maximum satisfaction of customers.

vision



# mission

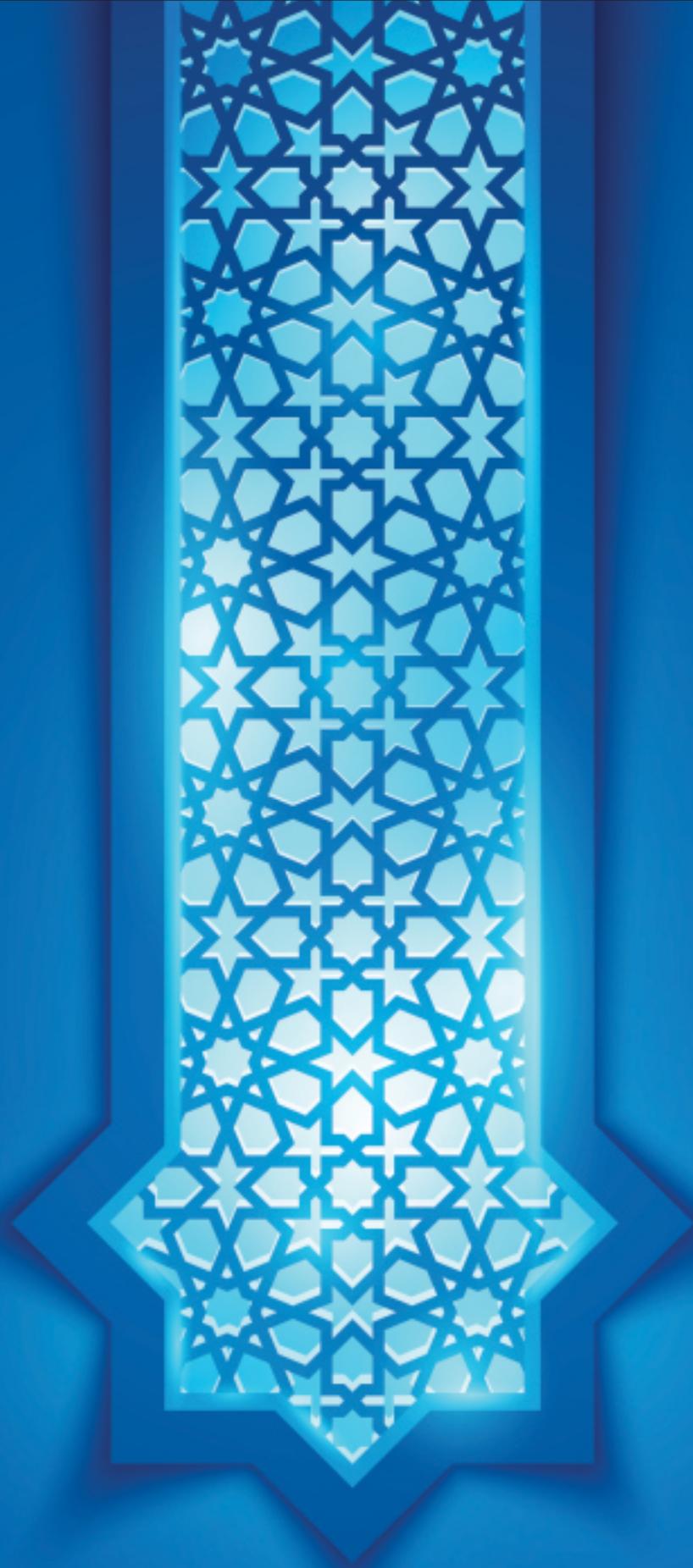
An institution built on Trust, Integrity, Good Governance with Commitment to add value to all stakeholders through an effective human resource management in a modern and progressive organizational culture, maintaining high ethical and professional standards.

CREDIT RATINGS - BY PACRA



# Contents

Vision and Mission	4	Value Added Statement	68
Credit Rating	6	Share Price Sensitivity Analysis	69
About First Habib Modaraba	8	Variance in Quarterly Report	69
Corporate Information	10	Dupont Analysis	70
Core Values	11	Notice of Annual Review Meeting	71
Code of Business Conduct and Ethics	12	ARM Decision and its Implementation	72
Strategic Corporate Objectives	13	Customer Satisfaction	73
Awards & Recognitions	14		
<b>Management Review and Representations</b>		<b>Corporate Governance</b>	
Chairmans' Message	26	Directors' Profile	74
Directors' Report	27	Certificate Holders' Information	75
Economic Review	28	Pattern of Certificate Holding	77
Business Review of FHM	29	Statement of Compliance	79
Business Outlook	30	Review Report to the Certificate Holders	81
Future Strategy	31	Board Committees	82
Directors' Report (Urdu)	39	Organizational Structure	83
Risk Management Framework	41	Role of Chairman and Chief Executive Officer	84
Information Technology	44	Performance Evaluation of the Board	85
Internal Control	45	Performance Evaluation of the Chief Exec. Officer	85
Our Corporate Approach	47	Report of the Audit Committee	86
Management Objectives & Strategies	48	Avoiding Conflict of Interest Policy	88
Critical Performance Indicators	49	Policy for Protection of Data of the Company	88
Significant Resources	50	IT Governance Policy	89
Targets for Financials and Non-Financial Measures	51	Environment and Social Responsibilities	90
Strategy To Overcome Liquidity Problem	52	Human Resource	91
Business Continuity Plan & DRP	53	Investors' Grievance Policy	92
Segment-Wise Review	54	Stakeholders Engagement	93
Energy Saving Measures	55	Whistle Blowing Policy	94
Quality Assurance	55		
Forward Looking Statement	56	<b>Other Supplementary Information</b>	
Risk and Opportunity Report	57	Memberships	96
Sustainability	58	FHM Awards Calendar	98
Corporate Social Responsibility	58	FHM Events Calendar	100
Energy Conservation	58	Products Detail	102
Customer Protection Measures	58	Shariah Advisor's Profile	104
Mitigating the adverse impact of industrial effluents	59	Shariah Advisor's Review Report	105
Environment protection measures	59		
Business ethics and anti-corruption measures	59	<b>Financial Statements</b>	
Occupational Safety and Health	59	Auditors' Report to the Certificate Holders	108
Contribution to National Exchequer	59	Balance Sheet	109
<b>Stakeholder's Information</b>		Profit & Loss Account	110
Key Financial Data for Six Years	60	Statement of Comprehensive Income	111
Summary of Cash Flow	61	Cash Flow Statement	112
Graphical Presentation of Financial Summary	62	Statement of Changes in Equity	113
Balance Sheet Composition	63	Notes to the Accounts	114
Horizontal Analysis	64		
Vertical Analysis	65	<b>Glossary</b>	<b>143</b>
Comments on Financial Ratios	66		



## ABOUT

# FIRST HABIB MODARABA

Modaraba sector of Pakistan are playing significant role for promotion of Islamic finance within Islamic Financial Services Industry of Pakistan. The concept of Modaraba was introduced in early 80s as the first Islamic Shariah business model with statutory framework and proper regulations. The Modaraba concept is derived from the Islamic traditions of trade and finance and it is based on system of sharing of profit. It is a kind of partnership wherein one party provides financing to other for the purpose of carrying business and sharing profits earned through mixture of investment and expertise which is truly based on Shariah.

First Habib Modaraba (FHM) is operating in Pakistan's financial market as Non-Bank Islamic Financial Institution as one of the pioneers within Modaraba sector. With an enviable track record of more than 3 decades is the success story of sheer hard work and commitment to provide the investors a sound and continuous return. Consistency in distribution of dividends among the certificate holders along with increase in certificate holders' equity has made FHM a top performing Modaraba within Modaraba sector.

FHM's client-focused approach and capital-efficient strategy paired with time-tested risk assessment and mitigation policies enabled management to remain on path of sustainable growth. Our constant commitment for performance excellence and good governance have not only kept us as leading Modaraba within the sector but also earned us recognition at national and international level. So far, FHM has secured several awards/accolades on best performance, best corporate report, best corporate disclosure and corporate excellence from reputable bodies, such as NBF and Modaraba Association, ICAP and ICMAP, Management Association of Pakistan, and SAFA an apex body of SAARC. Furthermore, since last several years FHM has been securing AA+ rating as long term rating from Pakistan Credit Rating Agency Ltd., (PACRA) which depict soundness of the entity and also matter of great satisfaction for our investors.

We sincerely believe that above all success and achievements are due to Blessing Allah (SWT) and hard dedicate work of entire staff members through excellent team work across all levels of the organization. We thank Almighty Allah and bow our head for His blessing and bestowing upon us of journey of continuous success.

We continue to expand and enhance our business outreach by following our Vision to be a leading Islamic Financial Institution within the Modaraba sector and Mission to build institution on Trust, Integrity and enhance value through performance excellent and good governance. Sound and satisfactory performance of FHM on year on year basis is outcome of our well planned corporate strategy and business focus which reach us to target market and capture right opportunities in right time.

## Corporate Information

### BOARD OF DIRECTORS

Mr. Wazir Mumtaz Ahmed	- Chairman (Non-Executive Director)
Mr. Muhammad Shoaib Ibrahim	- Chief Executive Officer
Mr. Mohammad Hashim	- (Non-Executive Director)
Mr. Syed Rasheed Akhtar	- (Non-Executive Independent Director)

### AUDITORS

Muniff Ziauddin & Company  
Chartered Accountants

### LEGAL ADVISOR

Mohsin Tayebaly & Company  
Ahmed & Qazi Advocates & Legal Consultants

### AUDIT COMMITTEE

Mr. Syed Rasheed Akhtar	- Chairman
Mr. Wazir Mumtaz Ahmed	- Member
Mr. Shakeel Ahmed	- Secretary
Mr. Mohammad Hashim	- Member

### HUMAN RESOURCE COMMITTEE

Mr. Syed Rasheed Akhtar	- Chairman
Mr. Wazir Mumtaz Ahmed	- Member
Mr. Mohammad Hashim	- Member

### COMPANY SECRETARY

Mr. Adnan Thanwey

### REGISTRAR

Central Depository Company of Pakistan.  
CDC House, 99-B  
Block 'B', S.M.C.H.S.  
Main Shahrah-e-Faisal  
Karachi.  
Ph: 021-111-111-500  
Fax: (92-21) 34326031

### BANKERS

Habib Metropolitan Bank Limited (Islamic Banking)  
Meezan Bank Limited  
Al Baraka Bank Pakistan Limited  
Bankislami Pakistan Limited  
Dubai Islamic Bank Pakistan Limited  
Soneri Bank Limited (Islamic Banking)

### REGISTERED OFFICE

5<sup>th</sup> Floor, HBZ Plaza (Hirani Centre)  
I.I. Chundrigar Road, Karachi.  
Tel: 021-32635949-51  
Fax: 021-32627373  
UAN : 111-346-346  
Web : [www.habibmodaraba.com](http://www.habibmodaraba.com)  
Email : [fhm@habibmodaraba.com](mailto:fhm@habibmodaraba.com)

### GEOGRAPHICAL PRESENCE - BRANCH OFFICES

#### Lahore Branch:

1st Floor, 5-Z Block, Phase III, Defence Housing  
Authority, Lahore.  
Tel: 042-35693074-76, Fax: 042-35693077

#### Islamabad Branch:

Office No. 508, 5th Floor, ISE Towers, Jinnah Avenue  
Blue Area, Islamabad.  
Tel: 051-28994571-73, Fax: 051-2894574

#### Multan Branch:

Mezzanine Floor, Abdali Tower,  
Abdali Road, Multan.  
Tel: 061-4500121-3, Fax: 061-4588810

# *Our Core Values are*

**1**

## **INTEGRITY**

Integrity means speaking and acting honestly and sincerely. Our unwavering belief in integrity is what allows our customer to entrust their business to us.

**2**

## **CUSTOMER FIRST**

Our corporate objective shall be customer oriented when assessing, designing and introducing new products, services and technology.

**3**

## **RESPONSIVE**

How we respond to our customers will influence their belief in our commitment to them. A proactive response is often unexpected and more effective for that. It clearly demonstrates our willingness to go beyond the expected.

**4**

## **TEAM WORK**

It is essence of our ability to succeed as a trusted and preferred financial institution to our clients. With common goals and team spirit, we will uphold our values and achieve our corporate goals.

**5**

## **QUALITY SERVICE**

Our core value is to develop customer service oriented culture with special emphasis on customer care and convenience. The essence of quality service is embodied through every interaction that we have, within ourselves and with our customers.

**6**

## **CORPORATE GOVERNANCE**

Our goal is to respond to a rapidly changing business environment in a timely manner through best business practices by reinforcing our ethical standards and good governance.

## Code of Business Conduct and Ethics

We adhere to the highest ethical standards and consider it to be a key business priority. Our Code of Ethics requires that it is necessary to ensure that the appropriate standards of behavior are followed to the letter and spirit in accordance with the approved and agreed Code of Conduct by the employees of FHM.

We being an Islamic Financial institution are more responsible to maintain ethical culture based on Islamic principles. FHM believes that the upholding of a well-founded ethical environment is critical for our valued customers, regulators and other stakeholders. Therefore, for nurturing of ethical culture, employees of FHM shall:

- Deliver professional services in accordance with the institution's policies and relevant technical and professional standards.
- Act with integrity, honesty, dignity and in an ethical manner when dealing with customers, regulators and other stakeholders.
- Uphold Shariah governance culture and atmosphere in line with Islamic principles.
- Not engage in any unprofessional conduct involving dishonesty, fraud, deceit or misrepresentation or commit any act that reflects adversely on honesty, trustworthiness or professional competency.
- Not make hindrances or restrain others from performing their professional obligations.
- Maintain update knowledge and comply with all applicable laws, rules and regulations.
- Maintain strong compliance culture.
- Respect confidentiality and privacy of customers, investors and others with whom they deal.
- Use reasonable care and exercise independent professional judgment.
- Should uphold fair view while choosing right and wrong.





# Strategic Corporate Objectives

**To be the leading Modaraba within the Modaraba sector as an Islamic Financial Institution.**

**To carry out all business transactions in line with approved mode of Shariah principles of Islamic finance.**

**To maintain high ethical and professional standards.**

**To build a high performance culture, with growth oriented focus.**

**To promote economically productive ethical activities.**

**To achieve sustainable growth and profitability in all areas of business.**

**To provide state of art services to customers and develop service oriented culture.**

**To broaden the area of technology to ensure operational efficiency, enhance delivering capability and high service standard.**

**To develop strong compliance culture and sound risk management framework.**

**To add Certificate Holders value through better performance and sound return on their investment.**

**To remain innovative and explore new avenues for growth and profitability.**

# Awards & Recognitions

**“TALENT WINS GAME BUT  
TEAM WORK WINS  
CHAMPIONSHIP”**

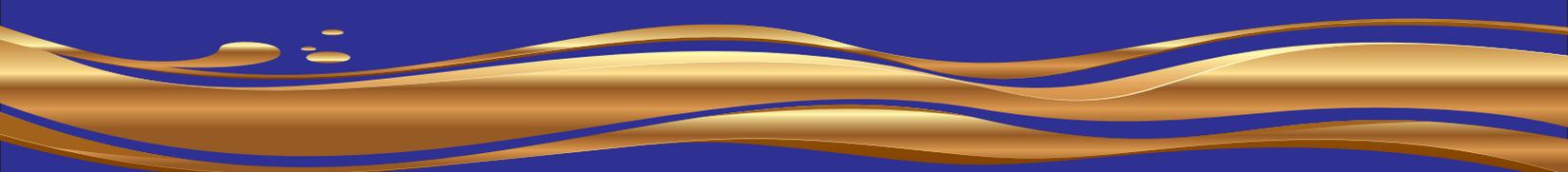
The most effective and successful teamwork happens when every individual of the institution work hard to achieve a common goal. Good team always develops through dedication, commitment and hard work. All the awards and recognition we have achieved is because of good team effort.

## **“The most awarded Modaraba in Pakistan”**

Recognition through award and accolades are not only a great standing or a mark of distinction but it also support to encourage and motivate all team member to make further efforts and drive higher for even bigger accomplishments as individual or as an organization.

Our constant commitment for performance excellence and good governance have not only kept us as leading Modaraba within the sector but also earned us appreciation at national and international level.

So far, FHM has secured several awards on best performance, best corporate report, best corporate disclosure and corporate excellence from reputable bodies, such as NBFI and Modaraba Association, ICAP and ICMAP, Management Association of Pakistan, and SAFA an apex body of SAARC.



**From The  
Pakistan  
Observer**

**1<sup>st</sup> Position  
Gold Medal  
from FPCCI**

**Best  
Modaraba  
Management  
Award**

**16 Awards  
from NBF and  
Modaraba  
Association of  
Pakistan**

**FPCCI  
Achievement  
Award**

**Best  
Performance  
Award**

**AWARDS**

**Best  
Presented  
Accounts and  
Disclosure  
Award**

**Corporate  
Excellence  
Award**

**Best  
Corporate  
Report Award**

**7 Awards from  
SAFA an Apex  
body of SAARC**

**8 Awards from  
Management  
Association of  
Pakistan**

**7 Awards for  
ICAP and  
ICMAP**

## BEST PERFORMING MODARABA AWARD



The NBFBI and Modaraba Association of Pakistan started giving Best performing Modaraba Award from the year 2000. The moto of this award to promote those entities within the NBFBI and Modaraba sector who are performing well and also adhering to best corporate and governance culture.

The association every year selects member's entity as per prescribed criteria for best performance award.

The assessment criteria comprises on:-

- Primarily qualification (Distribution of dividends)
- Financial Evaluation
- Analysis of other Financial Factors
- Corporate Governance
- Corporate Social Responsibility
- Entity Credit Rating.

Alhamdulillah, First Habib Modaraba (FHM) meets the said criteria almost in every year. So far FHM has received 16 awards as "Best Performing Modaraba Award" within last 18 years from said association.



# NBF & Modaraba Association of Pakistan





## CORPORATE EXCELLENCE AWARD



Management Association of Pakistan (MAP) has played a pivotal role for overall promotion of corporate excellence and committed for human capital development, creating awareness and recognizing best management practices to enhancing competitiveness.

Since last several years MAP put its efforts in recognizing and rewarding the best governed and managed companies in Pakistan by giving the Corporate Excellence Awards. The sole aim of award to recognizes and honor companies showing outstanding performance and demonstrating progress and enlightened management practices.

Alhamdulillah, First Habib Modaraba (FHM) has been successfully meeting criteria of Corporate Excellence award and securing awards from MAP since last several years. So far FHM has received eight awards in last nine years within financial category.

The recognition of Corporate Excellence Award from MAP acknowledges the strong commitment of FHM for promotion of best business practices, good governance and corporate excellence within FHM while maintaining financial discipline.



2016



2015



2013



2012



2010



2008



2009



2011



Institute of  
Chartered Accountants  
of Pakistan



Institute of Cost &  
Management Accountants  
of Pakistan

## BEST CORPORATE REPORT AWARD



The Joint Committee of the Institute of Chartered Accountants of Pakistan (ICAP) and the Institute of Cost & Management Accountants of Pakistan (ICMAP) promote best report culture with the aim to encourage local companies to follow transparency in preparing their annual reports according to international accounting standards.

Every year, Joint Committee of ICAP and ICMAP, comprising of prominent professionals working in prestigious organizations, evaluates and assess corporate reports in line with prescribed criteria. The criteria not only comprises on mandatory requirement of Companies Ordinance, the Code of Corporate Governance and International Financial Reporting Standard but also encourages adopting best business practices and good governance being followed all over the world.

Alhamdulillah, First Habib Modaraba is receiving Best Report Award from said joint committee since last seven consecutive years within the category of NBFIs sector and since two consecutive years FHM is securing First Position. The category NBFIs is consisting on Insurance, Leasing Companies, Investment banks, Mutual Funds and Modarabas. By the grace of God, FHM is only Modaraba in entire Modaraba sector has been receiving this award since last several years.



Institute of  
Chartered Accountants  
of Pakistan



Institute of Cost &  
Management Accountants  
of Pakistan



2015



2014



2010



2013



2009



2011



2012



## BEST PRESENTED ANNUAL REPORT AWARD



PAKISTAN



AFGHANISTAN



BHUTAN



NEPAL



MALDIVES



SRILANKA



INDIA



BANGLADESH

South Asian Federation of Accountant (SAFA) is an apex Body of SAARC and a Regional Grouping of the International Federation of Accountants (IFAC). SAFA consists of the institutes of chartered accountants and the institutes of cost & management accountants in the SAARC countries.

Every year, SAFA gives awards to different categories to corporate entities on the basis of evaluation of the published annual reports of companies within the SAARC countries. The aim of this award is to improve and promote transparency, accountability and governance in financial reporting.

The SAFA Award is considered as the most prestigious accolade for financial reporting in the South Asian region and signifies SAFA's recognition and reward for organizations which have achieved excellence in presentation and high quality disclosures.

Alhamdulillah, First Habib Modaraba (FHM) is receiving SAFA award since last seven consecutive years in the category of financial sector within Pakistan and SAARC countries level. By the grace of God, FHM is the only Modaraba within Modaraba and NBFi sector securing this award constantly during last seven years. .



2016



2015



2014



2013



2012



2011



2010

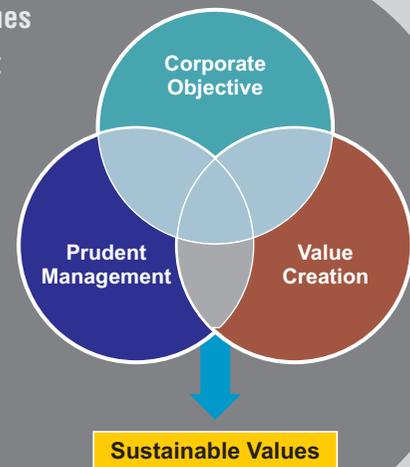
# *We deliver long term sustainable values*

We pledge towards building a long term sustainable values that will meet the needs of the present without compromising the future. Our growth strategy is based on creating value for our Certificate holders where we continue to create an environment that will develop, withstand and induce sustained growth among all stakeholders.

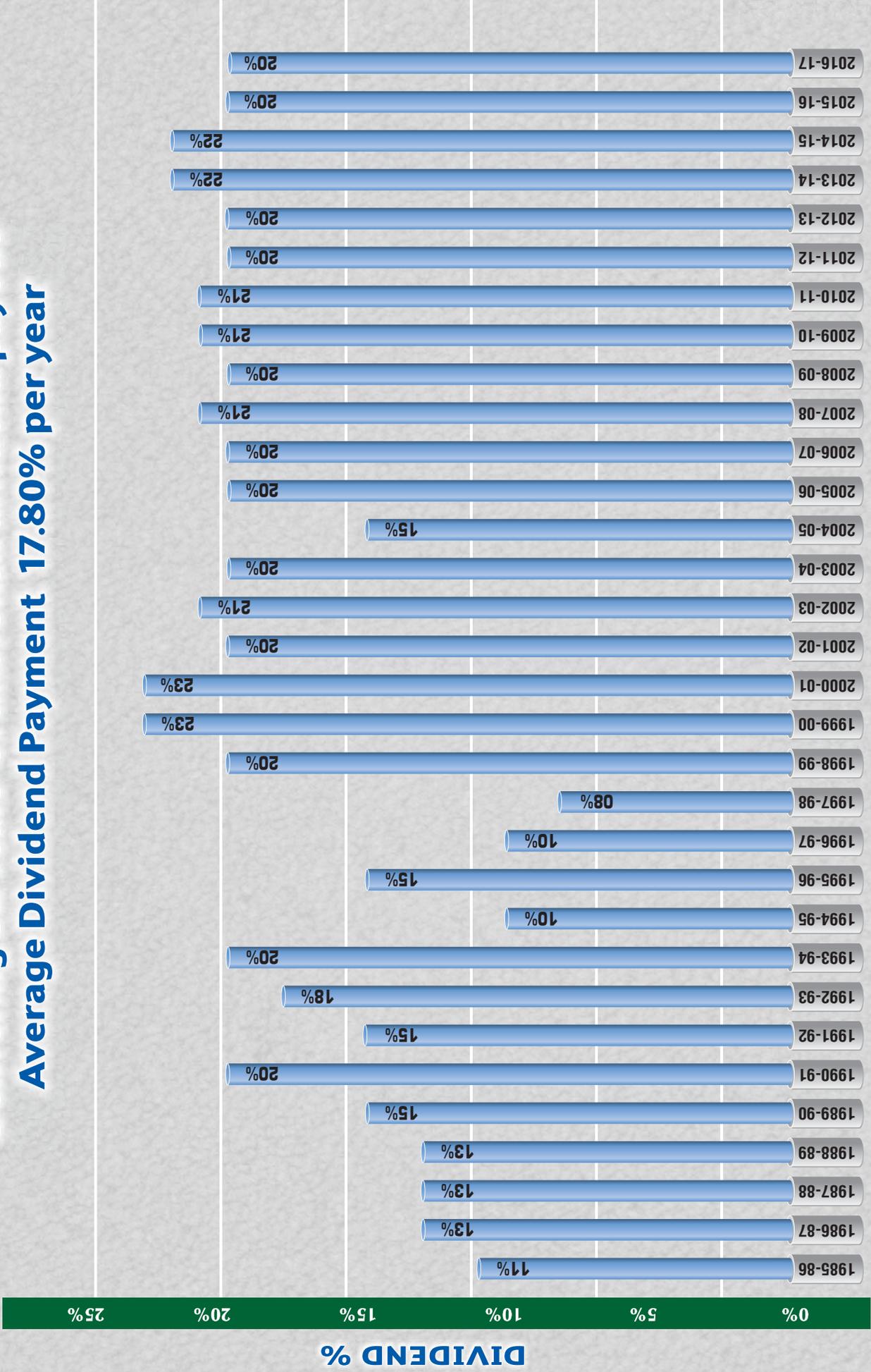
Islamic finance is a financial system that operates in accordance with Islamic principle of finance. Islamic economics is also based on core concept of balance which helps to ensure that the motives and objectives derived from said philosophy are equally beneficial for all. Modaraba concept is also based on said system. It is a kind of partnership wherein one party provides financing to other for the purpose of carrying business and sharing profits earned through mixture of investment and expertise which is truly based on sharing and equality.

We focus on our growing business need and simultaneously enhance our service quality for satisfactory delivery to our worthy customer. Besides, provide sustainable and long term return to investor and certificate holders, whilst satisfying the needs of other key stakeholders.

Sustainability, in all aspects, is a core objective of our business and we consider it our obligation to create long term sustainable value for all our stakeholders. Our focus is beyond short-term gains and we are really looking at is to create a long term sustainable business. The capabilities possessed by us facilitate our value creation process to achieve a competitive advantage, thereby delivering sustainable value to all our stakeholders. Our capabilities also enable us to adapt ourselves to the changing dynamics of the business environment whenever it is needed.



# Delivering 32 Years of unbroken dividend payout Average Dividend Payment 17.80% per year



## Chairman's Message

Dear Modaraba Certificate Holders,

I feel greatly honored and privileged in taking this opportunity to report to our valued Certificate Holders on the affairs of First Habib Modaraba (FHM). The Financial Year under review has been another successful year of FHM. The year was characterized by continued growth in terms of assets size and customer base. Overall size of balance sheet was increased by 16% and disbursement during the year grew by 14% which was one the highest disbursement in any single year of Modaraba operations.

Today, by the grace of Allah (SWT) the FHM is one of the strongest organizations in the Modaraba sector, having high ethical values which are the binding force for its growth momentum. Sound balance sheet footing, strong Shariah governance, and compliance with regulatory requirements, high standards of corporate governance, transparency and commitment to best business practices are the key to our success and also support well to earn the reputation of being the most respectable Modaraba within Modaraba sector of Pakistan.

The sustainable success is most likely to be achieved by only those institutions that take the broadest view of their responsibilities. In pursuit of creation of higher value for our certificates holders we have remained absolutely committed for value addition for our certificate holders and investors.

The main component of success of FHM is excellent team work across all levels of the organization. Due to hard and dedicated work of all staff members made FHM the premier Modaraba within the Modaraba sector. I owe my sincere gratitude and appreciation to all team members of FHM.

As leading Modaraba within Modaraba sector of Pakistan, our competitive standing and reputation stem from our drive to create value for our all stakeholders and for the society at large. Our financial strength, risk management protocols, governance framework and performance ambitions are directly attributable to a discipline that regularly brings prosperity to our Certificate Holders, investors and give strength to our business model.

Focused business strategy, determination, and efficient business operations are supported well for excellent result of FHM for 2016-17 and I am confident that with combination of these key elements, FHM will deliver even better result in coming years as well.

I express appreciation to my Board Members for their continued support, strategic guidance and for their prudent and invaluable contributions in formulating policies and guidelines in all areas of operations. I would like to thank each and every member of the Board for their guidance, valuable input and giving their precious time for Board meetings. In April, 2017 our director Mr. Abbas Ali Mohammed passed away. Mr. Abbas played vital role as director of FHM and remain integrate part of FHM's growth. May Allah (SWT) rest his soul in eternal peace.

I also wish to commend our Chief Executive Officer, Senior Executives and other all staff members of FHM for their hard work, dedication and focused efforts for excellent results of FHM. I place my sincere appreciation to our Certificate Holders, business partners and all other valued stakeholders for their conviction and the confidence place in our organization. I take this opportunity to thank Registrar of Modaraba, Securities & Exchange Commission of Pakistan, State Bank of Pakistan, Pakistan Stock Exchange, and other relevant regulatory bodies for their continued guidance and support extended to us.

**Wazir Mumtaz Ahmed**  
Chairman

## Directors' Report



On behalf of the Board of Directors, I am pleased to present the audited accounts of the Modaraba for the year ended June 30, 2017.

Profit before management fee	350,414,057
Modaraba Management Company's remuneration	(35,041,406)
Less: Services Sales Tax on Management Company's remuneration	(4,555,383)
Less: Workers Welfare Fund	(6,216,345)
Taxation - prior	(10,083,761)
Profit for the year	294,517,162
Unappropriated Profit b/f	33,038,459
Profit available for appropriation	327,555,621
Earning per certificates of Rs.5/- each	1.46

### APPROPRIATIONS

Cash Dividend @ 20% (Re.1/- per certificate of Rs.5/- each)	201,600,000
Transfer to statutory reserve @ 30% of profit	88,355,149
Unappropriated profit c/f	37,600,472
	327,555,621

### Dividend Payment

The board of directors has pleased to declare cash dividend of 20% i.e. Re.1.00 per certificate of Rs.5/- each for the period ended 30th June, 2017.

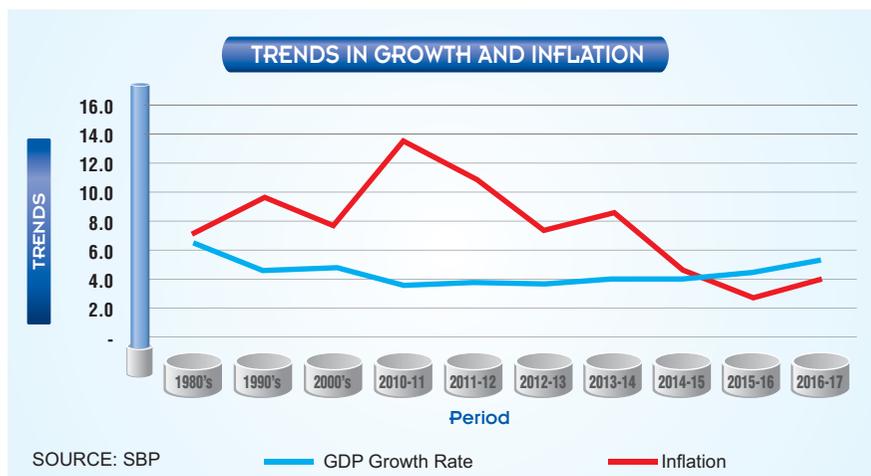
## Economic Review

Fiscal year of 2016-17 marked the continued improvement in economic growth. The GDP was estimated to grown by 5.28%, which is highest in the last ten years. However, this was short of the planned GDP growth of 5.7%. Another important milestone reached during the year is that Pakistan's GDP in absolute terms is now estimated to be higher than USD 300 billion, owing mainly to the fast pace of the economic activity, particularly in the backdrop of investments being financed through China Pakistan Economic Corridor (CPEC).

Pakistan is in its way to economic revival since last few years. The economy is experiencing a strong and sustainable recovery. Most of the macroeconomic indicators have shown a marked improvement. GDP growth rate recorded in 2016-17 which is the highest in last several years. The said achievement indicates continuous progress in the economic stability and accommodative macroeconomic policies of the government.

The outgoing fiscal year has witnessed an impressive growth in agriculture output and in the services sector. The revival in agriculture during the year was remained important. This was supported by favorable relevant policies including subsidy on fertilizer, reduction in sales tax on tractors, and increased access to finance. Better agriculture growth support for trade and manufacturing sectors. The accommodative monetary policy stance, substantial growth in private sector credit, inspired activities in the power sector, friendly and pro-growth policies for real sector growth were instrumental in achieving this impressive growth performance.

Overall steady growth in the last four years, successful completion of IMF program, and improvement in law & order situation, satisfactory

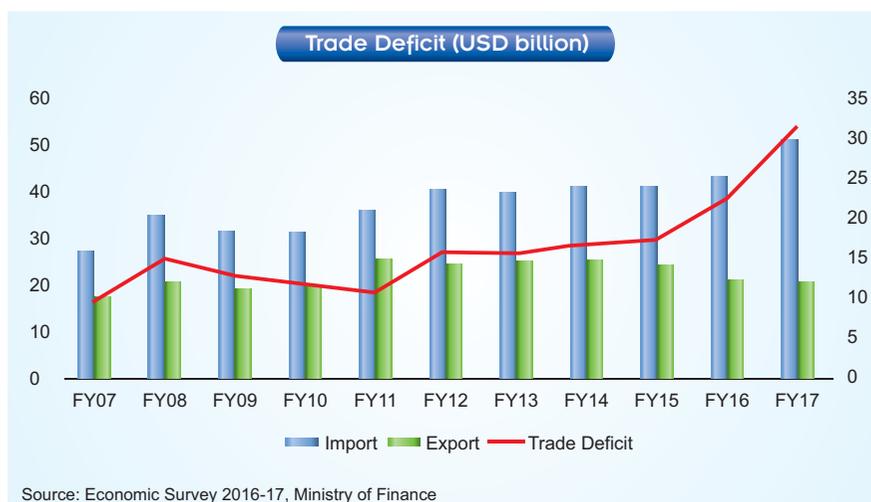


maintenance of foreign exchange reserves, together with low inflation significantly supported for improvement of Pakistan's perception. Key international agencies like Moody's and Standard and Poor have improved Pakistan's ratings and Pakistan was recently upgraded from the frontier market to an emerging market in the MSCI Index.

However, some key challenges still exist for the economy. While having good progress on economic front in FY 2016-17, there are some clouds on the horizon. According to recent World Bank update on Pakistan, shows concern that revenue growth is slowing, fiscal deficit is growing, export continue to fall and energy sector circular debt has again piled up.

The current account deficit widened on all time high including high deficit in foreign trade and huge debt stock in local and foreign currency. The government could not manage to improve in exports. Pakistan's exports have been declining for the last four years. This is making it more difficult for the government to contain the rapid fall in foreign exchange reserves. For the first time in more than a decade, remittances declined on a year-on-year basis in 2016-17.

These growing concerns required renewed policy emphasis on macroeconomic stability to prevent the country from losing impressive success on economic front in last four years.





## Business Review of FHM

Performance of First Habib Modaraba (FHM) for financial year 2016-17 remained satisfactory. Due to shrinkage in profits margins, the profitability of our Modaraba has affected significantly. However, by the grace of God, we have been able to manage profitability by increasing financing portfolio. Simultaneously the quality of financing assets was also successful maintain. Moreover, our recovery of financing portfolio was also remained satisfactory.

By the grace of Allah (SWT), 32 years of successful business operation of FHM has been completed as non-bank Islamic financial institutions within the Modaraba sector. Being the manager of FHM we have again stand by with our pledge and fulfilled our commitment and gave satisfactory financial result with better return to our Certificate Holders. The team of FHM has demonstrated business and operational strength which well reflected both in business volume and profitability despite of highly competitive environment within the Islamic financial sector.

The financial year under review experienced a challenging year in terms pressure on profit margin and intense competition with other market player within the Islamic financial sector particularly with Islamic commercial banks.

During the year, the business strategy was focused on enhancement of customer base and financing assets size. Due to said strategy financing portfolio and assets base grew significantly and supported Modaraba to sustain the profitability at a desire level.

Overall size of balance sheet was increased from Rs.7.163 billion to Rs.8.366 billion which reflect growth of around 17%. During the period, total financing of Rs.3.912 as compared to Rs.3.441 billion was made increase of around 16%. This is again the highest disbursement in any single year in the

history of FHM.

Out of total financing, around 77% disbursement was made in Diminishing Musharkah financing as compared to 67% of last year. This was also in line with our business strategy of balancing of financing product. Percentage of our vehicle financing portfolio was 84% of total disbursements made during the year. This is also in line with our credit risk strategy for sound and quality assets portfolio.

Karachi branch has done well and around 55% of total disbursement as country level was made through said branch. Other branches i.e., Lahore, Islamabad and Multan branch disbursed 45% of total financing.

The portfolio of Certificate of Investment (Musharkah) was increased to Rs.3.900 billion from Rs.3.150 billion. The COM portfolio has been enhanced by around 28% which is again excellent achievement of branches and highest amount in the business history of FHM. This is a clear reflection of the large number of mandates from clients who have reposed their faith in FHM based on our sound return and good service delivery.

The process of purchase of management right of FHM by Habib Metropolitan Modaraba Management (private) limited (HMMML), a fully own subsidiary of Habib Metropolitan Bank Limited, was completed in 3rd quarter of financial year after completion all required legal and statutory formalities. Now said Modaraba is fully functional under the new management of HMMML.

No doubt it is good move to be part of Habib Metro



Bank through its subsidiary of HMMML. The team members of FHM are extremely delighted and feel proud of being associated with a highly respectable and sound commercial bank within banking industry of Pakistan. We are confident that FHM will be greatly benefited with this association for further development and expansion of its business activities and for promotion of Islamic Finance within Islamic Financial Services Industry of Pakistan.

Way forward, we continue to expand and enhance our business outreach by following our Vision to be a leading Islamic Financial Institution within the Modaraba sector and Mission to build institution on Trust, Integrity and enhance value through best business practices.

We further explore new horizons of success with a vision of rising higher and enhancing our expertise for serving better to our worthy customer and best return to our investors by adhering all applicable laws and Shariah governance.



## Business Outlook

The global forecasts project a positive future outlook with both growth and international trade. According to World Bank report, Global growth is projected to strengthen to 2.7 percent in 2017, broadly in line with previous forecasts. Global manufacturing and trade including global commodity prices remained better as compared to last year. The growth in emerging market and developing economies is also expected to increase to 4.1 percent in 2017 and average 4.6 percent in 2018-19.

Economy of Pakistan did well in last year helped by lower global oil prices, investment in China-sponsored investment and improvement in energy supplies. It is also expected that country will attain growth rate at around 5.7 percent for financial year 2017-18. Pakistan is hoping to get a big boost from the investment in China Pakistan Economic Corridor that will attract investment in infrastructure projects which include roads, railway and power plants. The government during the past four years has done remarkably well in turning around perceptions about the state of the economy.

However, as reported earlier, some key challenges still exist for the economy. According to recent World Bank update on Pakistan, shows concern that revenue growth is slowing, fiscal deficit is growing, export continue to fall and energy sector circular debt has again piled up. These persistent fiscal pressures continue to hamper government's spending on key areas of human and social infrastructure development respectively.

Financial sector outlook remains immersed in challenges stemming from low lending rates environment leading to historically low spreads. The uptick in private sector credit off-take bodes well however, intense competition for quality credit opportunities along with fine pricing spreads are likely to continue.

Within the Islamic Financial industry of Pakistan, Modaraba sector as a non-banking financial institution is gradually growing along with other Islamic Financials institution within the country. Islamic banking and finance in Pakistan has witnessed significant growth during the last decade and now constitutes around 15 percent of the country's conventional financial size. However, there is huge market of Islamic finance is still untapped in Pakistan and along with other Islamic finance institutions the Modarabas have also huge potential for further growth within Islamic financial industry.

Modaraba model in Pakistan having the corporate status is a unique business model all over the world. It provides an opportunity of Halal business/investment to the general public and its custody to the skilled managers. It can carry out a universe of Shari'ah compliant businesses encompassing financial products and services, local and



international trading, manufacturing, distribution and various corporate functions under one umbrella and one license. Recently few new Modaraba entered in financial market and it is expected that further new entities will engaged in Islamic Finance business through Modaraba model.

We foresee further picking up of economic activity at country level under China-Pakistan Economic Corridor (CPEC) project which will support for growth of related industry and enhance base of capital investment. The Islamic Finance industry will also benefited through engagement of locally funded financial related project under Shariah compliant mode of financing.

FHM is well positioned as a progressive Modaraba and we shall continue working towards quality growth and best return to our investors. Our focused strategy remains towards accomplishment of steady performance under the challenging business environment through expanding quality customer base and outreach. We aim to continue with our efforts to maximize cost efficiencies focusing on greater synergy amongst our various functions. Our emphasis will be on delivering consistent returns to our investors, while maintaining enhanced service standards.

## Future Strategy

We expect that economic growth outlook will remain on track. So far the economy has performed well on many fronts driven by rising infrastructure spending, low commodity prices and gradually improving security situation boosting investor confidence.

However, there are increasing concerns around exports and external weaknesses and high trade and current account deficit. While the decline in exports with positive global forecasts for growth and trade, a meaningful contribution will take time and require further investment.



Pakistan's economy can be benefited with the positive potential of Chinese flows resulting from China Pakistan Economic Corridor (CPEC), multi-billion infrastructure development projects and industrial parks and economic zones to raise economic activities while mitigating the associated risks and challenges being posed to the protection of domestic industry.

FHM is well abreast with upcoming changes on economic front of the county. We foresee good business opportunity in the year 2017-18. However, simultaneously it would be challenging year in terms of profitability for financial institutions on account of low profit margin and declining trend of lending rates due to intense competition. We being non-banking financial institutions also struggling hard to cope with this challenge particularly generation of low cost funds generation which will supports us to finance quality customer at competitive rate.

Keeping in view of usual business challenges we have planned our business strategy on following lines for 2017-18:

- Concentrate on small and medium size financing portfolio. Expand financing portfolio in good SMEs and consumer financing.
- Enhance customer base within sound corporate entities.
- Enhance financing assets within heavy and light commercial vehicle.
- Establish auto financing desk within good located Banks's branches.
- Add more Shariah compliant financial product within the financing portfolio.
- To further develop IT infrastructure.
- Further strengthen our compliance and Shariah governance culture.
- Improve our risk management tool.

We are optimistic about the markets we serve and are keen to capitalize on any new opportunities that may arise. Our future strategy will remain firmly focused on growth and expansion with quality assets by further strengthening our existing partnerships with our Certificate Holders and investors.

### **Shariah Compliance and Audit Mechanism**

A fundamental requirement of an Islamic financial institution is that its whole business practices and operations are based on Shariah rules and principles. Islamic finance derives its value proposition from the application of Shariah contracts in financial transactions that provide for different risks and return profile.

Adherence to Shariah principles under such distinct contract preserves the validity and sanctity of any Islamic financial transactions. As such, FHM committed to upholding these principles via strict observance of the Shariah Governance Framework.

Adhering to the Shariah principles, Islamic financial system encourages risk – sharing, promotes entrepreneurship, discourages speculative behavior and emphasizes the sanctity of contracts.

Alhamdulillah, the management of First Habib Modarabas continuously focus on Shariah governance and compliance culture under guidance and supervision of our worthy Shariah advisor. However, continuous efforts have been made for its further improvement.

We feel that Shariah governance is our utmost responsibility and our team is fully committed as their prime objective for its perfection and flawless processes.

A complete Shariah Audit report of Shariah Advisor for the period ended 30th June, 2017, is also attached with annual report.

### **Corporate Social Responsibility**

Our business strategies are based on strong ethical foundation and concept of sustainable business to create maximum value for our stakeholders. Translating this believe our sustainability model is surrounding within our People, Organization and Planet.

Accordingly we have aligned our Corporate Social Responsibility (CSR)

initiatives to deliver on this commitment, and enhance community empowerment and responsible environmental management in a sustainable manner.

FHM, being a socially responsible corporate entity, has been a regular contributor to the society and communities. It has been our primary concern to ensure that contributing to community development should be continuously carried out.

Since last several years FHM has been donating non-profit organization working for improvement educations, healthcare etc. FHM continues to encourage events and projects which focus on children, health and education in under privileged members of society.

### **The Board of Directors and Audit Committee**

There have been no change in the Board of Directors of the Habib Metropolitana Modaraba Management Company (Pvt.) Limited (the Company), the management company of First Habib Modaraba since the Directors' report for the year ended June 30, 2016. except the change of Mr. Abbas Ali Mohammad who expired in February 2017

### **Directors Training & Orientation**

All directors are compliant with necessary requirements of Directors Training Certificate at The Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Business Administration (IBP).

### **Board Meeting Outside Pakistan**

During the year, all board meetings have been arranged at Karachi in Management Company's office and none of the meeting conducted outside Pakistan in order to avoid any extra expenses of outside meeting.

### **Pattern of Certificate Holders**

A Statement showing pattern of Certificate Holding of the Modaraba and additional information as at June 30, 2017 is included in this report.

### **Corporate and Financial Reporting Framework**

The financial statements, prepared by the management of the modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

- Proper books of accounts of the modaraba have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates used are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements and any departures there from have been adequately disclosed.
- The system of internal control, which is in place is sound in design and has been effectively implemented. It is being continuously reviewed by internal audit and other such procedures. The process of review will continue and any weakness in controls will be removed.
- Board is satisfied with the Modaraba's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data for the last six years in summarized form is included in this annual report.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as on June 30, 2017 except for those disclosed in the financial statements.



### Provident Fund and Gratuity

The value of investments of provident fund and gratuity based on audited accounts as at December 31, 2016 are Rs. 48.744 million and Rs. 21.628 million respectively.

### Attendance of Board meetings

Four meetings of Board of Directors were held during the year, attendance by each director is appended hereunder.

<b>Name of Directors</b>	<b>Number of meetings attended</b>
Mr. Wazir Mumtaz Ahmed	4
Mr. Muhammad Shoaib Ibrahim	4
Mr. Abbas Ali Muhammad	2
Mr. Rasheed Akhtar	4
Mr. Mohammed Hashim	4

### Auditors

Present auditors M/s. Muniff Ziauddin & Company, Chartered Accountants has completed their five years as auditors of FHM. According to Code of Corporate Governance they are not eligible to offer themselves for re-appointment as auditor for the year ending June 30, 2018.

### Acknowledgement

The Board would like to express its sincere thanks and gratitude for the continued support and guidance provided by Securities & Exchange Commission of Pakistan, Registrar Modaraba Companies, Financial Institutions and State Bank of Pakistan from time to time, customers of the Modaraba for their patronage and business, Certificate holders who have remained committed to First Habib Modaraba.

In the end, the Board appreciates dedication, high level of professionalism and hard work of employees of your Modaraba for achieving excellent results.

**Muhammad Shoaib Ibrahim**

Chief Executive Officer

Karachi: August 10, 2017

- لسٹنگ ضوابط میں دئے گئے اداراتی نظم و ضبط کے طریقوں تفصیل سے تجویز کردہ طریقہ کار سے انحراف نہیں کیا گیا ہے
- گذشتہ چھ سالوں کے آپریشن اور مالیات کے بنیادی اعداد و شمار مختصر آس سالانہ رپورٹ میں شامل ہیں۔
- ۳۰ جون ۲۰۱۶ پر ٹیکس، ڈیویڈنڈ، لیویز اور چارجز کی مد میں کوئی دستوری ادائیگیاں نہیں ہیں ماسوائے ان کے جو مالیاتی اسٹیٹمنٹس میں ظاہر کیے گئے ہیں۔

### پراویڈینٹ فنڈ اور گریجویٹی

31 دسمبر 2016 کے محاسب شدہ کھاتوں کی بنیاد پر پراویڈینٹ فنڈ اور گریجویٹی کی سرمایہ کاری کی مالیت بالترتیب 48.744 ملین روپے اور 21.628 ملین روپے تھی۔

### بورڈ کے اجلاس کی حاضری

سال میں بورڈ آف ڈائریکٹرز کے چار اجلاس ہوئے، ہر ڈائریکٹر کی حاضری نیچے منسلک ہے:

ڈائریکٹر کا نام،	اجلاس میں شرکت کی تعداد
جناب وزیر ممتاز احمد	۴
جناب محمد شعیب ابراہیم	۴
جناب عباس علی محمد	۲
جناب رشید اختر	۴
جناب محمد ہاشم	۴

### محاسب (Auditors)

موجودہ محاسب (Auditors) مینسز: منیف ضیاء الدین اینڈ کمپنی، چارٹرڈ اکاؤنٹینٹس، نے بطور FHM کے محاسب کے اپنے پانچ سالہ مکمل کر لیے ہیں۔ اداراتی نظم و ضبط کے ضابطے کے مطابق وہ 30 جون 2018 کے اختتام تک کے لیے اپنی دوبارہ تقرری کے لیے پیش نہیں کر سکتے۔

### اعتراف

بورڈ سیکریٹری اینڈ چیف ایگزیکٹو آفیسر، راجسٹرڈ مضماریہ کمپنی، مالیاتی اداروں اور بینک دولت پاکستان کا ان کی وقتاً فوقتاً ہنمائی اور مسلسل حمایت کا شکریہ اور اظہار ممنونیت کرنا چاہتا ہے اور مضماریہ کے معزز گاہکوں کا ان کی سرپرستی، کاروبار اور حاملین سرٹیفیکیٹس کافر سٹ حبیب مضماریہ کے ساتھ مخلص رہنے کا۔

آخر میں بورڈ آف مضماریہ کے ملازمین کی لگن، اونچے درجے کا پیشہ ورانہ اور سخت محنت سے کام کرنے کو بھی سراہتا ہے جس کی وجہ بہترین نتائج حاصل ہوئے۔

محمد شعیب ابراہیم  
چیف ایگزیکٹو آفیسر  
کراچی: ۱۰ اگست ۲۰۱۷

کوششیں جاری ہیں۔ ہم محسوس کرتے ہیں کہ شریعہ کا نظم و ضبط ہماری حتی المقدور ہماری ذمہ داری ہے اور ہماری ٹیم مکمل طور پر پر عزم ہے اس کو اپنے بنیادی مقصد کو مکمل طور پر جامع اور کسی بھی قسم کی غلطیوں سے پاک طریقہ بنا دیا جائے۔

30 جون 2017 کو اختتام پذیر مدت کے لیے شریعہ مشیر کی جانب سے ایک مکمل شریعہ آڈٹ رپورٹ اس سالانہ رپورٹ کے ساتھ منسلک ہے

### اداراتی سماجی ذمہ داری

ہماری کاروباری حکمت عملی کی بنیاد مضبوط اخلاقی بنیادوں پر ہے اور قائم رہنے والے کاروبار کے تصور پر ہے کہ اپنے شرکاء مفاد کے زیادہ سے زیادہ قدر پیدا کر سکیں۔ اس عقیدہ پر عمل پیرا ہونے کے لیے ہمارے کاروبار کے تسلسل کا ماڈل ہمارے لوگوں، ادارے اور پلانٹ کا احاطہ کرتا ہے۔ اس طرح سے ہم اس عزم کی تکمیل کے لیے اداراتی سماجی ذمہ داری (CSR) سے ہم آہنگ ہے اور اس طرح سے اپنے سماج کو زیادہ باختیار بنائیں اور ذمہ دار ماحولیاتی مینجمنٹ کو تسلسل سے جاری رکھیں۔

FHM جو ایک سماجی طور پر ذمہ دار ادارہ ہے، وہ سوسائٹی اور کمیونٹی کی سرگرمیوں میں توازن سے حصہ ڈالتا رہتا ہے۔ یہ ہمارا بنیادی مسئلہ رہا ہے کہ سماج کی ترقی کو تسلسل کے ساتھ جاری رہنا چاہیے۔

گذشتہ کئی سالوں سے FHM ان NGOs کی مدد کرتا رہا ہے جو تعلیم اور صحت کی بہتری کے لیے کام کرتی ہیں۔ FHM ایسے تمام پروگرام اور منصوبوں کی حوصلہ افزائی کرتا رہے گا جو معاشرے کے پسماندہ بچے اور پسماندہ علاقوں میں صحت اور تعلیم پر توجہ کر رہے ہیں۔

### بورڈ آف ڈائریکٹرز اور آڈٹ کمیٹی

30 جون 2016 کو اختتام پذیر سال کی ڈائریکٹر کی رپورٹ سے اب تک فرسٹ حبیب مضاربہ کی مینجمنٹ کمپنی یعنی حبیب مضاربہ مینجمنٹ (پرائیویٹ) لمیٹڈ کے بورڈ آف ڈائریکٹرز میں کوئی تبدیلی نہیں ہوئی ہے

### ڈائریکٹرز کی تربیت اور سمت بندی (Orientation)

تمام ڈائریکٹرز پہلے سے ہی تربیت یافتہ مستند ڈائریکٹرز ہیں اور وہ انسٹیٹیوٹ آف چارٹرڈ اکاؤنٹنٹس (ICAP) اور انسٹیٹیوٹ آف بزنس ایڈمنسٹریشن میں ڈائریکٹرز کے تربیتی پروگرامز میں شرکت کر چکے ہیں۔

### پاکستان سے باہر بورڈ کا اجلاس

سال کے دوران بورڈ کے تمام اجلاس کراچی میں مینجمنٹ کمپنی کے دفتر میں ہوئے اور باہر کے اجلاس کے اخراجات کو بچانے کے لیے کوئی بھی اجلاس پاکستان سے باہر نہیں ہوا۔

### سرٹیفیکیٹ کنڈرگان کارحجان (سرٹیفیکیٹس رکھنے کا حجان)

مضاربہ کے سرٹیفیکیٹس رکھنے کے حجان کا بیان اور 30 جون 2017 پر دستیاب اضافی معلومات اس رپورٹ میں شامل ہیں

### اداراتے اور مالیاتی رپورٹنگ کا ڈھانچہ

مضاربہ کی انتظامیہ کی تیار کردہ مالیاتی دستاویزات اس کے معاملات، آپریشن کے نتائج، کیش فلوا اور ایکویٹی میں ردوبدل کے معاملات کی بہتر تصویر پیش کرتے ہیں۔

- مضاربہ کے کھاتوں کی کتابوں کو مناسبت طور سے رکھا گیا
- مالیاتی دستاویزات کی تیاری میں مناسب اکاؤنٹنگ پالیسیوں کو استعمال کیا گیا ہے۔ اکاؤنٹنگ تخمینوں کی بنیاد مناسب اور محفوظ اندازے ہیں۔
- مالیاتی دستاویزات کی تیاری میں بین الاقوامی اکاؤنٹنگ اسٹینڈرڈز، جو پاکستان میں لاگو ہوتے ہیں، ان پر عملدرآمد کیا گیا اور اس سے انحراف کو مناسب طور پر ظاہر کیا گیا ہے۔
- اندرونی نگرانی کا نظام موجود ہے اور اس کا ڈیزائن مضبوط ہے اور اس کا موثر طور پر نفاذ کیا جا چکا ہے اور انٹرنل آڈٹ اور دیگر طریقوں سے اس کی مسلسل نگرانی ہوتی ہے۔ اس جائزے کا عمل جاری رہے گا اور نظام میں کسی بھی کمزوری کو دور کر دیا جائے گا۔
- بورڈ مضاربہ کی ایک جاری رہنے والے ادارے کے ہونے کی صلاحیت کے بارے میں مطمئن ہے۔

## مستقبل کی حکمت عملی

ہم توقع کرتے ہیں معیشت کی ترقی کا منظر نامہ درست راستے پر ہے گا۔ اب تک معیشت متعدد محاذوں پر بہتر کارکردگی دکھا چکی ہے جس کا محرک بڑھتے ہوئے ڈھانچاتی ترقی پر اخراجات، اجناس کی کم قیمتیں اور بتدریج سیکوریٹی کی صورت حال سرمایہ کاروں کے اعتماد میں اضافہ کر رہی ہے۔

تاہم، یہاں برآمدات کے بڑھتے ہوئے مسائی اور بیرونی کمزوریاں اور اونچی تجارت اور کھاتے کا خسارہ موجود ہیں۔ جبکہ برآمدات میں کمی کے ساتھ نمو کی عالمی مثبت اندازے اور تجارت، ایک با مقصد حصہ کچھ وقت لے گا اور مزید سرمایہ کاری درکار ہوگی۔

پاکستان کی معیشت کو چین پاکستان اقتصادی راہداری کے نتیجے میں پیدا ہونے والے بہاؤ کے سبب مثبت امکانات سے فائدہ اٹھا سکتا ہے، کثیر رقم کے ڈھانچاتی ترقیاتی منصوبے اور صنعتی پارکس اور معیشت کے زون سے معاشی سرگرمیاں کو بڑھانے جبکہ اس سے منسلک خطرات کو کم کرنے اور ملکی صنعت کو درپیش چیلنجز سے اس کا تحفظ کرنا۔

FHM آنے والی معیشت کے محاذ پر تبدیلیوں سے اچھی طرح آگاہ ہے۔ ہم سال 2017-18 میں اچھے کاروباری مواقع دیکھتے ہیں۔ تاہم، اس کے ساتھ یہ سال اداروں کی منافع بخشی کم منافع مارجن پر اور سخت مسابقت کی وجہ سے قرضوں کے نرخ میں کمی کارخانوں کی وجوہات کی بناء پر ایک چیلنجنگ سال بھی ہوگا۔ ہم غیر بینکاری مالیاتی ادارے ہونے کے ناطے اس چیلنج سے نپٹنے کے سخت کوشش کر رہے ہیں خاص طور پر کم لاگت کے فنڈز کو مہیا کرنا جو ہمارے لیے معاون ہوتا ہے کہ اپنے معیاری گاہکوں کی مدد مسابقتی نرخ پر کر سکیں۔

اس لیے اس لیے عمومی کاروباری چیلنجز کو مد نظر رکھتے ہوئے ہم نے سال 2017-18 کے لیے اپنے کاروبار کی حکمت عملی کی منصوبہ بندی ان خطوط پر کر چکے ہیں:

- چھوٹے اور درمیانی سائز کے پورٹ فولیو پر دھیان دیں۔ سرمایہ کاری کے پورٹ فولیو کی اچھے SMEs اور گاہکوں میں سرمایہ کاری کی توسیع کی جائے۔
- مستحکم اداراتی اداروں والے گاہکوں کی بنیاد بڑھائیں۔
- بھاری اور ہلکی تجارتی گاڑیوں میں آئٹا جات کی سرمایہ کاری کو بڑھایا جائے۔
- بہتر مقام پر موجود بینکوں کی برانچوں میں گاڑیوں کی سرمایہ کاری کی ڈیک کا قیام عمل میں لایا جائے۔
- سرمایہ کاری کے پورٹ فولیو میں مزید شریعہ کی تعمیل کرتی ہوئی مصنوعات ڈالی جائیں۔
- IT کے ڈھانے کو مزید ترقی دی جائے۔
- اپنی تعمیل کے عمل اور شریعہ کے نظم و ضبط کی ثقافت کو مزید مستحکم کیا جائے۔
- خطرات سے نپٹنے کے انتظامی آلات کو بہتر کیا جائے۔

ہم جس منڈی کی خدمات کرتے ہیں اس کے بارے میں پر امید ہیں اور کوئی بھی نئی پیدا ہونے والے مواقعوں کا فائدہ اٹھانے کے۔ آرز مند ہیں۔ ہماری مستقبل کی حکمت عملی کی توجہ سختی کے ساتھ معیاری اثاثہ جات کی ترقی اور توسیع پر مرکوز ہوگی تاکہ ہم اپنے موجودہ حاملین سٹیفیکٹس اور سرمایہ کاروں کے ساتھ شراکت داری کو مزید مضبوط کیا جاسکے۔

## شریعیہ کی تعمیل اور آڈٹ کا میکنزم

ایک اسلامی مالیاتی ادارے کی بنیادی ضرورت یہ ہے کہ اس کی تمام کاروباری مشقیں اور آپریشن کی بنیاد شریعیہ قوانین اور اصول ہیں۔ اسلامی سرمایہ کاری مالیاتی لین دین، جو مختلف خطرات اور منافع کا پروفاصل فراہم کرتا ہے، اس میں شریعیہ کے نفاذ سے قیمتی رائے پیدا کرتی ہے۔

کسی اسلامی مالیاتی لین دین میں شریعیہ کے اصولوں کے ساتھ استقامت کے ساتھ وابستگی ایسے منفرد سودے میں اس کے جواز اور نقد س کو محفوظ رکھتی ہے۔ اس طرح سے FHM پر عزم ہے کہ وہ شریعیہ نظم و ضبط کے ڈھانچے کی سخت نگرانی کے ذریعے ان اصولوں قائم رکھے گی۔

اسلامی مالیاتی نظام شریعیہ کے اصولوں کے ساتھ وابستگی کے ساتھ خطرہ میں شرکت داری کی حوصلہ افزائی کرتی ہے، کاروبار کرنے کی صلاحیت کو فروغ دیتی ہے، قیاس آرائی کے رویوں کی حوصلہ شکنی کرتی ہے اور معاہدے کے نقد س پر زور دیتی ہے۔

الحمد للہ، فرسٹ حبیب مضاربہ کی انتظامیہ کی مسلسل توجہ، قابل قدر شریعیہ مشیر کی زیر نگرانی اور راہنمائی میں، شریعیہ کے نظم و ضبط اور تعمیل کی ثقافت پر ہے۔ تاہم مزید بہتری کے لیے مسلسل

بے شک، حبیب میٹرو بینک کی ذیلی کمپنی HMMML کے ذریعے سے اس کا حصہ ہونا مضاربہ کے لئے بہت زیادہ سود مند ہے۔ FHM کی پوری ٹیم اس بات پر انتہائی خوش اور فخر محسوس کرتی ہے کہ پاکستان کی بینکاری کی صنعت کے ایک بہت قابل عزت اور مستحکم تجارتی بینک کے ساتھ واسطہ ہو رہے ہیں۔ ہم پر اعتماد ہیں کہ FHM اس اشتراک سے مزید کاروباری سرگرمیوں کی وسعت اور ترقی اور پاکستان کی اسلامی مالیاتی خدمات کی صنعت میں سرمایہ کاری کے فروغ کی سلسلے میں بہت فائدہ اٹھائے گی۔

آگے دیکھتے ہوئے، ہم اپنے کاروبار کے نصب العین پر عمل کرتے ہوئے مضاربہ سیکٹر میں ایک ممتاز اسلامی مالیاتی ادارہ ہوں گے تاکہ اپنے کاروبار کی توسیع اور رسائی کو بڑھانے کا عمل جاری رکھیں اور اپنی مہم سے ادارے کی تعمیر، اعتماد، دیانت داری اور بہترین کاروباری مشقوں کے ذریعے سے قدر میں اضافے کریں۔

ہم تمام لاگو قوانین اور شریعہ نظم و ضبط پر عمل کرتے ہوئے اپنے معزز گاہکوں کی بہتر خدمات اور بہترین منافع کو مزید بلند کرنے اور اپنی مہارت کو بڑھانے اور ادارے کو بلندی پر لے جانے کے مشن کے ساتھ کامیابیوں کے مزید نئے افق تلاش کرتے رہیں گے۔

## کاروباری منظر نامہ

عالمی اندازے نمو اور بین الاقوامی تجارت کا مستقبل کا مثبت منظر نامہ پیش کرتے ہیں۔ ورلڈ بینک کی رپورٹ کے مطابق، سال 2017 میں عالمی نمو کا 2.7 فیصد تک کا مضبوط اندازہ لگایا گیا ہے، جو کافی حد تک پچھلے اندازوں کے مطابق تھا۔ عالمی صنعتی پیداوار اور تجارت بشمول عالمی اجناس کی قیمتیں گزشتہ سال کے مقابلے میں بہتر ہیں۔ مزید اندازہ لگایا گیا ہے ابھرتی ہوئی منڈیوں اور ترقی پذیر معیشتوں میں سال 2017 میں اوسطاً 4.1 فیصد اور 2018-19 میں 4.6 فیصد ہوگی۔

گزشتہ سال، تیل کی کم تر قیمتوں، چین کے اسپانسرڈ منصوبوں میں سرمایہ کاری اور توانائی کی بہتر صورت حال کی وجہ سے پاکستان کی معیشت نے بہتری دکھائی۔ یہ توقع کی جا رہی ہے کہ مالیاتی سال 2017-18 میں ملک کی نمو 5.7 فیصد شرح حاصل کر لے گا۔ پاکستان امید کر رہا ہے کہ چین پاکستان اقتصادی راہداری میں سرمایہ کاری کو بہت فروغ ہو گا جو ڈھانچائی منصوبوں میں سرمایہ کاری کو متوجہ کرے گا جس میں سڑکیں، ریل اور توانائی کے پلانٹ شامل ہیں۔ گورنمنٹ نے گزشتہ چار سالوں میں معیشت کے معاملات کے بارے میں عام خیال کو بدلنے کے لئے غیر معمولی کام کیا ہے۔

تاہم، جیسا کہ پہلے بیان کیا جا چکا ہے، کہ معیشت کے لیے کچھ اہم درپیش مشکلات موجود ہیں۔ ورلڈ بینک کی پاکستان کے بارے میں حالیہ رپورٹ کے مطابق، مالگڈاری کی نمو میں کمی دکھائی ہے، مالیاتی خسارہ بڑھ رہا ہے، برآمدات مسلسل گر رہی ہے اور توانائی کے شعبے میں گردش فرسٹ پھر سے جمع ہو گیا ہے۔ یہ مستقل مالیاتی دباؤ حکومتی اخراجات کو انسانوں اور سماجی ڈھانچے کی ترقی میں رکاوٹ کا باعث ہو گا۔

مالیاتی سیکٹر کا منظر نامہ قرضوں کی فراہمی کم شرح کے ماحول کے نتیجے میں تاریخی طور پر کم پھیلاؤ کے پیدا ہونے والی صورت حال کے چیلنجز میں ڈوبا ہوا تھا۔ تاہم نجی شعبے میں قرضوں میں معمولی اضافے کا رجحان ایک اچھا شگن ہے، معیاری قرضہ کے مواقعوں کے ساتھ اچھی قیمت کے پھیلاؤ کے ساتھ شدید مسابقت جاری رہنے کا امکان ہے۔

پاکستان کی اسلامی مالیاتی صنعت میں مضاربہ سیکٹر ایک غیر بینکاری کا مالیاتی ادارہ ہے۔ ملک میں دیگر اسلامی مالیاتی اداروں کے ساتھ ساتھ یہ سیکٹر بھی رفتہ رفتہ ترقی کر رہا ہے۔ پاکستان میں اسلامی بینکاری اور فنانس نے گزشتہ دہائی میں خاصی ترقی کی ہے اور اب وہ ملک کی روایتی مالیاتی جسامت کا حصہ تقریباً 14 فیصد ہے۔ تاہم، پاکستان میں اسلامی سرمایہ کاری کی ایک بڑی منڈی کا ابھی تک فائدہ نہیں اٹھایا جا سکا ہے اور اسلامی مالیاتی صنعت میں دیگر اسلامی سرمایہ کاری کے اداروں کے ساتھ ساتھ مضاربہ کے شعبے میں بہت زیادہ ترقی کے وسیع امکانات ہیں۔

مضاربہ کے ماڈل کو ادارتی حیثیت حاصل ہے جو دنیا بھر میں ایک منفرد ماڈل ہے۔ یہ عوام الناس کو ایک حلال کاروبار / سرمایہ کاری کے مواقع فراہم کرتا ہے اور اس کی حفاظتی تحویل ماہر مینجرز کے پاس ہے۔ یہ شریعہ کی تعمیل کرتی ہوئی کاروبار کی ایک دنیا چلاتا ہے جو احاطہ کرتا ہے مالیاتی مصنوعات اور خدمات، مقامی اور بین الاقوامی تجارت، صنعتی پیداوار، تقسیم کاروبار، اور متعدد ادارتی کام جو ایک چھتری تلے اور ایک لائسنس کے تحت سرانجام دیے جاتے ہیں۔ پچھلے کچھ عرصے میں کچھ نئے مضاربہ منڈی میں داخل ہوئے اور یہ توقع ہے کہ مضاربہ ماڈل کے تحت مزید نئے ادارے اسلامی سرمایہ کاری کے کاروبار میں مصروف ہوں گے۔

ہم مستقبل میں امید کرتے ہیں ملک کی سطح پر معاشی سرگرمیوں کے بڑھنے سے، چین پاکستان اقتصادی راہداری منصوبے کی متعلقہ صنعت کی مدد کریں گے اور سرمایہ کاری کے کمیٹیٹل کی بنیاد کو بڑھائیں گی۔ اسلامی مالیاتی صنعت بھی شریعہ کی تعمیل کرتی ہوئی سرمایہ کاری کے تحت مقامی فنڈ مالیاتی سے متعلق منصوبوں میں شامل ہو کر فائدہ اٹھائے گی۔

FHM ایک ترقی پسند مضاربہ کی حیثیت سے اچھی طرح تیار ہے اور ہم معیار نمو کے لیے اور اپنے سرمایہ کاروں کے لیے بہترین منافع کے حصول کے لیے کام کرنا جاری رکھیں گے۔ ہماری حکمت عملی بھرپور توجہ، معیاری گاہکوں کی بنیاد اور رسائی میں توسیع کے ذریعے چیلنجنگ کاروباری ماحول میں متوازن کارکردگی کے حصول پر رہتی ہے۔ ہمارا ہدف ہے کہ ہم اپنے متعدد فنکشنز کے درمیان ہم آہنگی کے ذریعے اپنی لاگت کی کارکردگی کی صلاحیت کو زیادہ سے زیادہ بہتر کرنے کی کوشش کریں۔ ہمارا زور خدمات کے معیار کو بڑھانے کے ساتھ ساتھ اپنے سرمایہ کاروں کو لگاتار منافع کی فراہمی ہے۔

گذشتہ چار سالوں میں مجموعی متوازن ترقی، IMF پروگرام کی کامیابی سے تکمیل، بہتر امن وامان کی صورت حال، اطمینان بخش غیر ملکی زرمبادلہ کے ذخائر کو برقرار رکھنے کے ساتھ کم افراط زر نے غیر معمولی طور پر پاکستان کے بارے میں تصور کو بہتر کرنے میں مدد کی۔ ممتاز بین الاقوامی ایجنسیوں مثلاً موڈی اور اسٹینڈرڈ اینڈ پور، پاکستان کی درجہ بندی بہتر کر چکے ہیں اور حال ہی میں MSCI انڈیکس میں پاکستان کا درجہ فرسٹ منڈی سے بڑھا کر ابھرتی ہوئی منڈی میں کر دیا گیا ہے۔

تاہم، معیشت کے لیے کچھ مسائل ابھی تک موجود ہیں۔ جبکہ سال 17-2016 میں معاشی محاذ پر اچھی ترقی رہی، لیکن افق پر کچھ بادل ہیں۔ ورلڈ بینک کی تازہ ترین اطلاعات کے مطابق مالگڈاری میں نمو کم ہو رہی ہے، مالیاتی خسارہ بڑھ رہا ہے، برآمدت میں جاری کمی اور توانائی کے شعبے میں گردش قرضہ بڑھ چکا ہے۔

جاری کھاتے کا خسارہ تاریخی طور پر وسیع ترین ہو گیا بشمول غیر ملکی تجارت میں کمی اور ملکی اور غیر ملکی کرنسی میں انتہائی بڑا قرضہ جات کا اسٹاک۔ گورنمنٹ برآمدات میں بہتری نہ دکھا سکی۔ پاکستان کی برآمدات گذشتہ چار سالوں میں گرتی رہی ہے۔ یہ گورنمنٹ کے لیے تیزی سے زرمبادلہ کے ذخائر میں کمی کے عمل کو روکنے کو مشکل بنا رہی ہے۔ 17-2016 میں ایک دہائی سے زیادہ عرصہ میں پہلی مرتبہ سال بہ سال کی بنیاد پر ترسیل زرم کم ہوئی۔

یہ بڑھتے ہوئے مسائل کے حل کا تقاضہ ہے کہ گذشتہ چار سالوں میں معیشت کے محاذ پر حاصل متاثر کن کامیابی کو کھونے سے بچانے کے لیے پھر سے تجدید شدہ پالیسیوں کا زور رکھی معیشت کے استحکام کو پیدا کرنے کی ضرورت ہے۔

### فرسٹ حبیب مضاربہ کے کاروبار کا جائزہ

مالیاتی سال 17-2016 میں فرسٹ حبیب مضاربہ (FHM) کی کارکردگی اطمینان بخش رہی۔ منافع کی سطح کا سیکڑا ہمارے مضاربہ کے منافع بخشی کو خاصہ متاثر کر چکا ہے۔ تاہم، اللہ کی مہربانی سے، ہم اپنے پورٹ فولیو میں سرمایہ کاری میں اضافے کے ذریعے سے منافع بخشی کو سنبھال چکے ہیں۔ اس کے ساتھ اثاثہ جات کی سرمایہ کاری کے معیار کو بھی کامیابی سے برقرار رکھا۔ علاوہ ازیں، ہمارے پورٹ فولیو کی سرمایہ کاری کی وصولیاتی بھی اطمینان بخش رہی۔

اللہ کی مہربانی سے، مضاربہ سیکٹر میں اسلامی مالیاتی ادارے کے طور پر FHM اپنے کاروباری عمل کے 32 کامیاب سال مکمل کر چکا ہے۔ ہم بطور FHM کے ناظم، ہم دوبارہ اپنے عہدہ کے اپنے سرٹیفکیٹ کنندگان کے لیے اطمینان بخش مالیاتی نتائج کے ساتھ بہتر آمدنی کے حصول کے اپنے عزم کی تکمیل کے ساتھ کھڑے ہیں۔

FHM کی ٹیم، اسلامی مالیاتی سیکٹر میں انتہائی مسابقت کے ماحول کے باوجود اپنی کاروباری اور عملی طاقت دکھا چکی ہے جس کا عکس کاروباری حجم اور منافع بخشی میں نظر آتا ہے۔

زیر غور مالیاتی سال میں، منافع کی سطح پر دباؤ اور اسلامی مالیاتی سیکٹر میں منڈی کے دیگر کھلاڑیوں خاص طور تجارتی اسلامی بینکوں میں شدید مسابقت کے حوالے سے ایک چیلنجنگ سال کا تجربہ رہا۔

سال کے دوران کاروبار کی حکمت عملی کی توجہ گاہکوں کی بنیاد اور اثاثہ جات کی سرمایہ کاری کی جسامت میں اضافہ رہا۔ مذکورہ حکمت عملی کی وجہ سے سرمایہ کاری کا پورٹ فولیو اور اثاثہ جات کی بنیاد خاصی بڑھی اور مضاربہ کی منافع بخشی کو مطلوبہ درجے پر قائم رکھنے میں مدد کی۔

بیلنس شیٹ کی جسامت 7.163 ارب روپے سے بڑھ کر 8.366 ارب روپے ہو گئی جو تقریباً 14 فیصد نمو دکھاتا ہے۔ اس مدت میں کل سرمایہ کاری گذشتہ سال کے 3.441 ارب روپے کے مقابلے میں تقریباً ۴۱ فیصد اضافے کے ساتھ 3.912 ارب روپے رہی۔ یہ پھر FHM کی کسی ایک سال میں قرضہ جات کی فراہمی کی میں بلند ترین سطح ہے۔

کل فراہم کردہ قرضہ جات میں سے، گذشتہ سال کے 67 فیصد کے مقابلے میں، تقریباً ۳۳ فیصد گھٹے ہوئے مشارکہ سرمایہ کاری میں کیا۔ یہ عمل بھی ہماری سرمایہ کاری کی مصنوعات میں توازن رکھنے کی کاروباری حکمت عملی کے مطابق تھا۔ سال میں گاڑیوں میں سرمایہ کاری کا پورٹ فولیو کل فراہم کردہ قرضہ جات کا 8۱ فیصد رہا۔ یہ بھی ہمارے مستحکم اور معیاری اثاثہ جات کے لیے قرضہ کی خطرات کی حکمت عملی کے مطابق ہے۔

کراچی کی برانچ نے بہتر کارکردگی دکھائی اور ملکی سطح کا کل ادائیگی کا تقریباً 55 فیصد اس برانچ کے ذریعے سے ہوا۔ دیگر برانچوں یعنی لاہور، اسلام آباد اور ملتان کی برانچوں نے کل سرمایہ کاری کی 45 فیصد ادائیگی کی۔

سرمایہ کاری کا سرٹیفکیٹ (مشارکہ) کا پورٹ فولیو 3.150 ارب روپے سے بڑھ کر 3.900 ارب روپے ہو گیا۔ COM کا پورٹ فولیو تقریباً ۲۴ فیصد بڑھ گیا ہے جو برانچوں کی عمدہ کامیابی ہے اور FHM کی کاروباری تاریخ میں بلند ترین مالیت ہے۔ یہ ہماری مستحکم آمدنی اور اچھی خدمات کی فراہمی کی بنیاد پر گاہکوں کی جانب سے بڑی تعداد میں دیے گئے اختیار اس بات کی واضح عکاسی ہے کہ انہوں نے ہم پر دوبارہ اعتماد کا اظہار کیا ہے۔

حبیب میٹروپولیٹن مضاربہ مینجمنٹ (پرائیویٹ) لمیٹڈ (HMMML)، جو مکمل طور پر حبیب میٹروپولیٹن بینک لمیٹڈ کی ایک ذیلی کمپنی ہے، کی جانب سے فرسٹ حبیب مضاربہ (FHM) کے انتظامی حق کی خریداری کے مرحلے کے تمام قانونی اور دستوری لوازمات کی تکمیل سال کی تیسری سہ ماہی میں مکمل ہو گئے تھے۔ اب مذکورہ مضاربہ HMMML کی نئی انتظامیہ کے تحت مکمل طور پر کام کر رہا ہے۔

## ڈائریکٹر رپورٹ

بورڈ آف ڈائریکٹرز کی جانب سے 30 جون 2017 کو ختم ہونے والے سال کے لیے مضاربہ کے آڈٹ شدہ اکاؤنٹس پیش کرنا میرے لیے باعث مسرت ہے۔

350,414,054	میجمنٹ فیس سے قبل منافع
(35,041,402)	مضاربہ میجمنٹ کمپنی کی فیس
(4,555,383)	میجمنٹ کمپنی کی فیس پر سروسز سیلز ٹیکس
(6,216,335)	ورکرز ویلفیئر فنڈ
(10,083,261)	ٹیکسیشن - پرائر
294,514,162	ایک سال کا منافع
33,038,459	بچھلے سالوں کا غیر تقسیم شدہ منافع
324,555,621	قابل تقسیم منافع
1.41	پانچ روپے فی سٹیٹیکٹ / شیئر پر منافع

### منافع کی تقسیم

201,600,000	20 فی صد کے حساب سے نقد منافع برائے تقسیم (پانچ روپے کے سٹیٹیکٹ / پرائر ایک روپیہ) نقد منافع فی سٹیٹیکٹ
88,355,149	(Statutory Reserve) (یہ منافع کی 30 فی صد شرح سے منتقلی)
32,600,472	غیر تقسیم شدہ منافع
324,555,621	

### منافع کی ادائیگی

بورڈ آف ڈائریکٹرز انتہائی مسرت کے ساتھ 30 جون 2016 کو ختم ہونے والے سال کے لیے 20 فی صد (پانچ روپے کے سٹیٹیکٹ / پرائر ایک روپے کے حساب سے) نقد منافع دینے کا اعلان کرتا ہے۔

### معاشی جائزہ

مالیاتی سال 2016-17 میں معاشی نمو میں بہتری نمایاں رہی اور اندازہ ہے کہ مجموعی قومی پیداوار 5.28 فیصد بڑھی جو گزشتہ دس سالوں میں بلند ترین ہے۔ تاہم، یہ مجموعی قومی پیداوار کی 5.7 فیصد نمو کے ہدف سے کم رہی۔ سال میں ایک اور سنگ میل جو پاکستان کی مجموعی قومی پیداوار مطلق طور پر اب اندازہ ہے کہ وہ 300 بلین امریکی ڈالر سے زیادہ ہے جس کی وجہ بنیادہ طور پر معاشی سرگرمیوں کی تیز رفتار ہے، خاص طور پر چین پاکستان اقتصادی راہداری (CPEC) کے پس منظر میں جاری سرمایہ کاری ہے۔

پاکستان گزشتہ کئی سالوں سے معاشی بحالی کے راستے پر ہے۔ معیشت ایک مضبوط اور جاری رہنے والے بحالی کے تجربے سے گذر رہی ہے۔ کئی معیشت کے زیادہ تر اشاروں نے نمایاں بہتری دکھائی ہے۔ سال 2016-17 میں مجموعی قومی پیداوار میں جو اضافے کی شرح کا اندراج ہوا وہ گزشتہ سات سالوں میں بلند ترین ہے۔ مذکورہ کامیابی ظاہر کرتی ہے کہ معاشی استحکام اور حکومت کی حالات کے مطابق ڈھل جانے والی کئی معیشت کی مسلسل ترقی کو ظاہر کرتی ہے۔

ختم پذیر مالیاتی سال زرعی پیداوار اور خدمات کے شعبے میں متاثر کن ترقی دکھا چکا ہے۔ سال کے دوران زراعت کی بحالی اہم رہی تھی۔ اس کی معاونت متعلقہ سازگار پالیسیوں بشمول کھاد پر اعانت، ٹریکٹر سیز ٹیکس میں کمی اور قرضہ جات تک بڑھی ہوئی رسائی جیسے اقدامات نے کی تھی۔ زراعت کی بہتر ترقی نے تجارتی اور پیداواری شعبے میں مدد کی۔ سازگار مالیاتی پالیسی کا موقف، نجی شعبے میں قرضہ جات میں اضافہ، توانائی کے شعبے میں متاثر کن سرگرمیاں اور جائیداد کے شعبے کی نمو میں بڑھاوادیے والی پالیسیاں اس متاثر کن ترقی کی کارکردگی کے حصول میں آگے کار تھیں۔

# SHARE OF FIRST HABIB MODARABA WITHIN THE MODARABA SECTOR OF PAKISTAN AS ON JUNE 2016



## Risk Management Framework

Risk management is a broad term for business discipline that protects assets of an organization by reducing the potential loss before it occurs, mitigating the impact of the loss if it occurs, and executing a swift recovery after the loss occurs. The primary functions of risk management are to understand the portfolio of risk that the company takes or taking in the future given the expected rate of returns and risk appetite of the company.

A high quality of Risk Management is the priority in its all activity of FHM, and can be witnessed through operational result of FHM in last 32 years.

A comprehensive risk management system include maintaining a risk management review process, appropriate limit on risks taking, adequate systems of risk measurement, a comprehensive reporting system and effective internal controls are in place in FHM.

The activity of risks is governed by the principles, which are aligned with FHM.s strategy and business model and take into account the recommendations of the supervisory bodies, regulators and the market's best practices.

A culture of risks integrated throughout the organization. It embraces a series of attitudes, values, skills and ways of acting toward risks that are integrated into all processes, including taking decisions on change management and strategic and business planning. It is developed by strongly involving senior management in managing and taking decisions on risks, remuneration frameworks aligned with the risk appetite ,training processes at all levels, robust control mechanisms and a complete and detailed framework of the policies and processes for managing and

controlling risks.

The governance of risk management starts with our Board, which plays an important role in reviewing and approving risk management policies and practices. The firm's governance structure provides the protocol and responsibilities for decision-making on risk management issues and ensures their a d e q u a t e implementation.

We maintain a strong inter-departmental communication link on risk factors and encourage culture of collaboration in decision-making amongst all departments.

FHM's risk management capabilities are circle around a strong management structure sound information system, an effective risk-rating system and robust policies. The primary objective of risk management is to maintain the Company's financial strength and ensure efficient capital deployment to support business growth.

### Risk types

At FHM, we possess a comprehensive risk management framework that enables us to monitor, evaluate and manage the risks we assume in conducting our day-to-day activities. These include credit, market, liquidity and operational risk exposures which we can define as follows.

**Credit risk:** The risk of loss arising from the failure of a client or counter-party to meet their contractual obligations. At FHM, credit risk may arise on account of the following:

- Default risk



- Credit concentration risk
- Recovery risk
- Counter-party risk
- Related-party risk
- Environmental risk

**Market risk:** The risk of loss arising from changes in market variables such as interest rates, security prices, equity index levels, exchange rates, commodity prices and general credit spreads.

**Liquidity and funding risk:** The risk of being unable to either meet our payment obligations on maturity or to borrow funds from the market at an acceptable price to fund actual or proposed commitments.

### Operational Risk

Financial Institutions operate in an environment marked by growing uncertainty in business outlook, stricter regulatory supervision and rising costs of services. All these factors have re-defined the present and future of Financial Business environment. Reduced margins and target pressures often result in client-centric operational risks such as poor product pricing, and inadequate checks. All these challenges result in

a greater focus on defining an effective operational risk framework to manage uncertainties and other operational risks.

This has led to an increased emphasis on the importance of a sound operational risk management (ORM) practice. Today, ORM has become one of the most complex and fastest growing risk disciplines in financial institutions and FHM always be emphasis to address the Operational challenges faced during the operation which includes Strategic, Shariah noncompliance, IT and reputational risk .

Other related operational risk includes:

- Legal Risk
- Shariah Noncompliance Risk
- Reputational Risk
- Compliance Risk
- Strategic Risk

### Credit risk management

The goal of credit risk management is to maximize a FI's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

FHM always follow the best practices of the industry. Currently FHM is applying following procedure for extending financial facilities to its customers:

- Detail analysis and Market intelligence before sanctioning and disbursement.
- Analysis the marketability of the financing assets
- Availability of legal recourse in case of default of counter party. .
- Measuring the firm's current and potential credit exposure and losses resulting out of counter-party default.

- Reporting of credit exposures to the senior management and Board, regarding risk mitigates including its controls.

### Market risk management

Market risk refers to the risk of losses faced by financial institutions due to changes in equity prices, interest rates, credit spreads, and other indicators whose values are set in a public market.

At FHM, market risks may arise in the following forms:

- **Interest rate risk:** Interest rate risk

market risks. ALCO members analyze the changes in interest rates and Equity market conditions and conduct an analysis on the asset-liability maturity gap and product re-pricing thereby taking effective measures to monitor and control interest rate and equity market risks. These include maintaining of:

- Interest rate risk management review process.
- Appropriate limits on risk taking.
- Assess the risk appetite.
- Adequate systems of risk measurement.
- A comprehensive internal control and reporting system to monitor money and equity market movement.

Almost entire financing portfolio is linked with floating rate and review on quarterly/half yearly basis. FHM has an adequate system of internal controls to ensure the integrity of its interest rate risk management processes.

### Liquidity risk management

FHM possesses a comprehensive and conservative set of liquidity and funding policies to address both firm-specific and broader industry/market liquidity events. Our principal objective is to create a well-capitalized firm with a strong inherent ability of our core businesses to continue to generate revenue, even under adverse circumstances.

We manage liquidity risks according to the following principles:

### Asset-liability management:

- To assess the Holding period of financing assets with available matching funds



is the exposure of FHM's financial condition to adverse movements in interest rates arising from re-pricing and/ or maturity mismatches, changes in underlying rates and other characteristics of assets and liabilities in the normal course of business. To minimize such risk FHM is emphasizing to shift source of raising funds to reduce cost and close monitoring of maturity mismatches.

The Company's Asset Liability Management Committee (ALCO) regularly meets to assess prevailing

- Use of Maturity ladder to monitoring liquidity position
- Monitoring of cash inflow and outflow and strategy to manage any differences arises due to early maturities on financing assets and funding.

Liquidity requirements are managed on a regular basis by the treasury function which is also responsible to ensure that sufficient funds are available to meet short-term obligations, even in a crisis scenario and placement in financing assets. We aim to maintain a sound liquidity position to meet our liabilities when due, whether under normal or stressed conditions.

### Risk Management and control principles

For effective risk management in FHM following areas support us towards achieving an appropriate balance between risk and return.

- Improvement has been made in reporting system to senior management about risk disclosure mechanism.
  - Independent control functions to assess the risk appetite and effectiveness of the business's risk management capabilities
  - Effective training program for operational staff to gain the latest knowledge and market best practices.
  - Effective control system to monitor the repayment behavior of the customers and prepare future strategy to handle the problem customers. .
- FHM always believe on continuous improvement in operational activities to align with best practice in the market, directives from regulators and BOD. During the year Following are broader area of approaches which go through with the process during the year.



- Improvement in risk management methodology, techniques and alignment with market best practices.
- Improvement in online approval process with empowering branches for quick disposal of customers' needs with embedded system of strong control functions.
- Regular testing of disaster recovery sites (DR) through mock exercises.
- Emphasis on operational risk training to key staff of the FHM.
- Refresh and reinforce risk-appetite and stress-testing capabilities and embedding them across the operations to mitigate the operational risk.
- Improvement in system to control the security documents Strengthen security firewalls on application and hardware.
- Strengthen recovery process through regular review of customer's repayment behavior.
- Regular review of customers borrowing trend through eCIB.
- Improve Shariah audit mechanism to in line with market best practices to minimize the risk of Shariah non-compliance.
- Enhancing staff skills by providing training on an ongoing basis.
- Strengthen of credit risk of financing portfolio which includes customer appraisals, assets valuations and inspections, analysis of sector and products.
- Upgrade system to provide quick information obligor's financial health and relevant sector.

- Strengthen credit approval, credit reviews and monitoring functions and develop early warning mechanism.

We reaffirm that while implementing framework of strong risk management practices and channelizing dynamic tools, simultaneously FHM recognized the importance of sustaining such improvements over the medium to long term.

Keeping abreast of fast paced changes and staying robust at times of challenge would be the key focus. Proper risk management has become essential part of any institution particularly in Financial Institution. We do realize the importance of this key segment of business and aligning the same in accordance with market best practices.

## Information Technology

Technological advancements of the past decade offer great promise to fasten our day to day routine. The growth of digital information continues at an unprecedented rate and it has become core segment of financial sector. With the noticeable shift towards various driver-centric services high-speed broadband networks, fast internet connections, autonomous fiber optic networks, and high concentration of large-scale data centers are a major breakthrough for businesses especially in modern financial sector

Advancement in technology has long been a cornerstone of FHM business and many software processes has developed during the last few years and has now a strong impact in daily business processes providing new opportunities in combination with reduced workload, improve accuracy with lessening of chances of error.

In information technology business segment FHM focuses its competence for investments in information and communication technology. System support department thus offers FHM user to customers tailored solutions which are rounded off with additional complementary services covering all aspects of execution of financial transactions. It also handles the commercial aspects of complex projects in the software sector.

Unlike the traditional relational database management systems, which turn out to be quite expensive for processing massive volumes of data, FHM system support department continuous engage with technology specialist to



find solution that gives the most cost-effective storage solution for gigantic data sets provide complete confidence and reliability. FHM is also identifying Hadoop as a key tool to meets their business objectives.

A big advantage of Hadoop is that it enables organizations to cost-effectively store all their data both structured data from enterprise resource planning and customer relationship management systems as well as multi-structured data, such as Web server logs, sensor data, email and extensible markup language, or XML, data.

IT is the centerpiece of a successful financial business model. FHM technology Department aims to streamline processes, cost cut, eliminate human error, speed things up and boost productivity. In order to meet new challenges plan to invest in technology, upgrade technology infrastructure and deploy new technology solutions.

We firmly believe that without the support of technology the innovation and growth in business cannot be achieved. The management is fully aware with the significance of technological advancement and pays their full attention on this segment on priority basis.

### TRAINING & DEVELOPMENT:

Building the capabilities of staff through investment in skills and accelerating employees' professional and personal development are considered to be essential components. FHM is committed to polish the knowledge, skills and abilities of its employees through different training programs to gain competitive edge which is crucial for long term sustainability of the organization.

FHM –firmly believes in nurturing and investing in its employees with the ultimate objective of ensuring high employee morale and productivity. Our focus is to form and retain a motivated workforce to work towards achieving organizations vision and mission through our consistent focus on grooming through training and development.

During the year FHM employees were provided training opportunities in the areas of Islamic Finance, Credit, Risk Management and Personal Effectiveness in collaboration with different training institutes



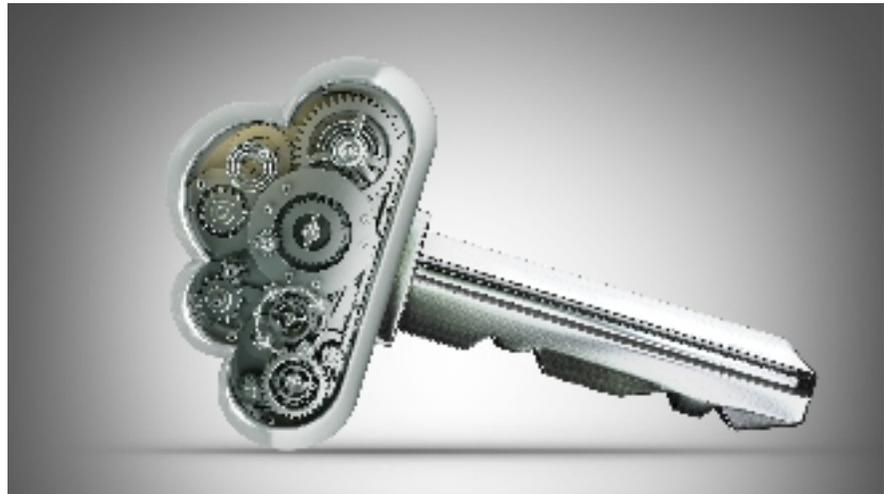
## Internal Control

Effective Internal control is very crucial for any organization. The assessment of any control environment can be possible when the institution having excellent internal control environment. The management of FHM is always very keen in establishing a system of control in order to safeguard the interest of the entire stakeholders whether they are regulator, Certificate Holders or investors. The effectiveness of internal control embedded in the design of the system itself for which deep thought process is needed encompasses with all the necessary vulnerability in order to detect any such risk.

The management of FHM is responsible to establish and maintain an adequate and effective system of internal controls and procedures. The core objective of internal control is as follows:

- Effectiveness and efficiency of operations ensure adherence to its policies and plans.
- Reliability of financial reporting.
- Safeguard its assets and resources.
- Compliance with applicable laws and regulations.
- Effective reporting throughout organization.

FHM always strive toward accomplish a better compliance culture which can be possible by having strong control environment. The management having the vision to implement a better compliance and control feature in order to encourage proactive approach in detecting any control breach on prompt basis. The department also ensures compliances of all regulatory other statutory requirement. FHM's internal policies



and procedures with specific emphasis on KYC, AML and Shariah audit mechanism. The scope of internal audit is independent function which review and assess the adequacy and effectiveness of the control activities across the FHM as well as to ensure implementation of and compliance with all the prescribed policies and procedures.

All significant and material findings of the internal audit reviews are reported to the Audit Committee of the Board of Directors. The Audit Committee actively monitors implementation to ensure that identified risks are mitigated to safeguard the interest of the institutions.

During the year following control mechanism further strengthen:

- Branch audit scope extended with major emphasis on sound internal control and efficient operation at branch level.
- More emphasis on IT infrastructure platform in order to determine the quality of deterrence and process which running the system for better monitoring and control.
- Further improving the SOP of the institution.
- Shariah audit and compliance monitoring further strengthen and every possible effort exerted in order to prevent any non-Shariah transactions.
- Actively engaged in the BCP/DRP mock exercise in order to ascertain the backup procedure and process for smooth running of the system in case of any unforeseen event happened.

FHM has taken proper and sufficient care in installing a system of internal control, which is reviewed, evaluated and updated on an ongoing basis. The Internal Control department conducts periodic review to provide reasonable assurance that the established policies and procedures of the FHM were consistently followed.

# “OUR COMMITMENT”

Commitment transforms a promise into reality. It evokes a strong sense of intention and focus. Commitment speaks boldly of intentions and has power to bring change. When we stand behind our words, we demonstrate commitment. Commitment exists when our actions meet the expectation of our words.

The sustainable success is to be achieved by only those institutions that take the broadest view of their responsibilities and commitment. At First Habib Modaraba (FHM), we are well conscientious and abide by the word “Commitment”. It is a bridge between our values, actions and intentions.

**“When we started our business operations we had made commitment before our Certificate Holders and investors to make FHM as successful venture”**

A strong commitment to progress and deliver has always been a key driver of our performance. Delivering more than expected has made possible through firm commitment at every level of our organization.

With an enviable track record of more than 3 decades is the success story of sheer hard work and commitment to provide the investors a sound and continuous return. Over the years FHM has been continuously recognizing for its excellent performance, good corporate governance, best report culture and sound and stable credit rating from various prestigious institutions.

Consistency in distribution of dividends among the certificate holders along with increase in certificate holders' equity has made FHM a sound and well performing Modaraba within the sector.

We always remain firmly committed to our values and corporate objectives. All our successes stem from one word i.e., commitment.

## ...OUR CORPORATE APPROACH

### **Profit Sharing**

The partnership of FHM has spread on more than 3 decades of successful business operation and now has grown manifold. Enriching every relationship and creating huge benefits through sharing profits every year in the shape of dividends to our Certificate Holders.

### **Shariah Governance**

Our sound Balance Sheet and the market position of our businesses have placed us well to deliver sustainable growth. We always stand by with our pledge, fulfilled our commitment and gave the satisfactory financial result with better return to our Certificate Holders every year.

### **Risk Management**

The management of FHM is fully committed for Shariah governance and Shariah compliance culture. Strong and effective Shariah governance and compliance culture within the Modaraba is prime objective of the management of Modaraba.

### **Technological Advancement**

We firmly believe that without the support of technology the innovation and growth in business cannot be achieved. The management is fully conscious with the significance of technological advancement and pays their full attention on this segment on priority basis.

### **Performance**

FHM's risk management capabilities are circled around a strong management structure, sound information system, an effective risk-rating system and robust policies. The primary objective of risk management is to maintain the Company's financial strength and ensure efficient capital deployment to support business growth.

### **Value addition**

It is core objective of our business and we consider it our obligation to create long term sustainable value for all our stakeholders. Our focus is beyond short-term gains and we always look to develop long term sustainable business proposition for value addition.

## Management Objectives, Strategies and Significant Changes

Management Objectives	Strategies to meet the objectives	Relationship between FHM Results and objectives
Sound Credit Rating	Quality assets growth, follow good governance and best business practices	Secured AA+ rating for long term and A1+ for short term from PACRA which the highest rating within Modaraba sector of Pakistan
To give best return to investors	Business volume was enhanced with the prudent and cautious lending strategy	Cash Dividend of 20% was announced
Prudent Growth	Expansion financing assets size in diversified and growing sector.	Financing assets was enhanced by 16% and overall assets size was increased by 17%
Sharia Governance	Established separate Shariah compliance department to oversee day to day operations.	Continuous improvement in Shariah governance and Shariah compliance culture.
Sustained Profitability	In order to maintain the profitability the volume of business and good number of customer were targeted and successfully achieved.	In a very competitive business environment, particularly in very low lending rates, the profitability of the Modaraba has been maintained.
Quality Assets growth	Tapped good corporate clients for financing in order to add good quality assets.	Despite of high volume of disbursement the assets quality were maintained with satisfactory recovery performance. .
Product diversity	Concentration was made on Diminishing Musharaka financing.	Diminishing Musharaka financing was increased by 40%.
Strengthening of Risk Management segment.	Revisit and refresh all the risk management and internal control mechanism and processes for effective controls.	Due to effective Risk Management and control mechanism the entity did not encounter with any major adverse operational flaws and also maintained business growth
Technological advancement	Data centers environments revamped and networking equipment upgraded at all branches..	Customer's service delivery was improved and high volume of business was also efficiently managed with the support of technological advancement.
Proper Corporate Disclosures	At finalization of annual financial report maximum information was made available for all stakeholders.	Due to proper disclosures the report was selected for the best report by ICAP and ICMAP.

### Significant changes in Modaraba's objectives

There are no significant changes in Modaraba's objectives



## Critical Performance Indicators

Performance of First Habib Modaraba for financial year 2016-17 remained satisfactory and we have been able to manage profitability by increasing financing portfolio. Simultaneously the quality of financing assets was also successful maintain. Being the manager of FHM we have again stand by with our pledge and full filled our commitment and gave satisfactory financial result with better return to our Certificate Holders. The team of FHM has demonstrated business and operational strength which well reflected both in business volume and profitability despite of highly competitive environment within the Islamic financial sector.

- The critical performance indicators during year 2016-17 were as follows:
- 17% growth in Balance Sheet size
- 16% growth in total financing assets
- 28% growth in Certificate of Investment (Musharaka)
- 40% growth in Diminishing Musharaka financing

Management Objectives	CPI	Future relevance
To strengthen and improve Sharia governance culture	Shariah Governance	The CPI shall remain relevant in future.
To maintain Profitability coping up the difficult business operating environment.	Profitability	The CPI shall remain relevant in future.
To add quality assets and grow the size.	Asset size	The CPI shall remain relevant in future.
To enhance the product range.	Product diversification	The CPI shall remain relevant in future.
Strengthening of Risk Management segment.	Risk Management	The CPI shall remain relevant in future.
To meet new challenges, upgrade technology infrastructure and deploy new technology solutions.	Technological advancement	The CPI shall remain relevant in future.
Proper Corporate Disclosure and transparency of information.	Corporate disclosures	The CPI shall remain relevant in future.
To give best return to investors.	Dividend	The CPI shall remain relevant in future.

### Strategies to be followed to further strengthen key performance indicators in 2017-18

- Further strengthen tool of risk management and Shariah governance.
- Enhance the support of technology for fast and better delivery to customer.
- Open new location for business expansion
- Add good small and medium size customer within the financing portfolio.
- Expand car financing product to small trader and corporate employees.
- Add new product within the financing portfolio
- Look forward for Shariah compliant investment opportunities within Islamic Capital and Debt market.

## Significant Resources:

### Our Key Resources

- Strong market reputation
- Good client network
- Well trained human resource
- Sound financials
- Effective technological support

These resources are greatly support for smooth business operations of the entity. The management always keeps on adding value on said resources as per changing environment.

### Liquidity & Financing arrangement

Liquidity management and financing arrangement process being managed by Treasury function. The responsibility of treasury function is to monitor and manage liquidity and financing requirements on daily basis. During the period under review, your Modaraba liquidity position was remained satisfactory and met the day to day requirements.

### Capital Structure

	As at 30th June, 2017 (Rupees)
Capital	1,008,000,000
General Reserve	640,000,000
Statutory Reserve	1,089,011,820
Certificate Premium Account	378,000,000
Un-appropriated profit	239,255,715
<b>Total</b>	<b><u>3,354,267,534</u></b>

Above capital structure is adequately maintained. Break-up value per modaraba certificate is Rs.16.63/- against the face value of Rs.5/-. Ratio of debt to equity is 54:46 and equity to asset is 41:59 which show strong capital structure and do not reflect any capital inadequacies.

### Significant changes in Financial Position:

- 17% growth in Balance Sheet size
- 16% growth in total financing assets
- 28% growth in Certificate of Investment (Musharaka)
- 40% growth in Diminishing Musharaka financing



## Targets for Financials and Non-Financial Measures

### Financial Targets:

At the beginning of the year the management of Modaraba has set following targets:

- ◆ Increase in size of assets
- ◆ Enhancement of financing assets portfolio
- ◆ Maintained profitability due to drastic cut in discount rate of SBP
- ◆ Control and minimize administration cost
- ◆ Add low cost deposit within deposit portfolio.
- ◆ Good dividend to Modaraba Certificate Holders

Alhamdulillah at the end of the year FHM has achieved most of above targets. .

### Non-Financial Targets:

#### a) Improvement of Service delivery of customer through technological advancement

- ◆ Upgrade technology infrastructure and deploy new technology solutions:
- ◆ Capacity enhancement in core application
- ◆ Upgrade system's hardware
- ◆ Relevant training to IT staff
- ◆ Customer's feedback

#### b) Strengthening of operational risk management tool

Following are broader area of approaches which go through with the process during the year.

- ◆ Staff training and capacity building
- ◆ Strengthen security wall on application
- ◆ Improve Shariah audit mechanism to minimize risk of Shariah non-compliance.

- ◆ Strengthen of credit risk of financing portfolio which includes customer appraisals
- ◆ Assets valuations and inspections, analysis of sector and products.
- ◆ Regular testing of disaster recovery sites through mock exercises

#### c) Staff grooming

- ◆ Appropriate training through workshops and seminars
- ◆ On job training
- ◆ Job rotation

#### d) Environment sustainability measures

It is our corporate objective to consume minimum natural resources and create low emission and waste. We also discourage those customers whose business is not environment friendly. FHM is fully aware on negative effect on environment and initiated following measure to minimize paper use by various departments.

- ◆ Minimize printing and physical movements of papers.
- ◆ Encourage soft storage culture of documents, files and papers.
- ◆ Customer communication encouraged through latest technological tool.

## Strategy To Overcome Liquidity Problem

Liquidity measures the ability of an institution to meet its short term funds obligations. It measures the ability of a company to pay off its short-term liabilities when they fall due. This is achieved by comparing a company's most liquid assets, those that can be easily converted to cash, with its short-term liabilities

FHM's liquidity risk governance structure is modelled in such a way so as to ensure that its liquidity position is optimized to support business requirements and support for deposit withdrawal, without compromising any unforeseen risk/loss to the FHM's reputation.

The Assets Liability Management Committee (ALCO) is a decision-making group coordinating the management of assets and liabilities with a goal of earning adequate returns, responsible for balance sheet planning and management from risk-return perspective and also responsible for the strategic management of interest rate and liquidity risks.

As per direction of ALCO, the treasury department keeps sizeable funds with banks to meet any contingency. As a liquidity management strategy, FHM has been keeping good amount in GOP Ijarah Sukuk which is sovereign and also carrying suitable profit return and negotiating for credit facilities with Islamic banks for continuous credit lines. Moreover, appropriate levels of liquid securities are also held for compliance with statutory requirements and ensure availability of surplus funds when required.



## Business Continuity Plan (BCP) Disaster Recovery Planning (DRP)

### Business Continuity Plan (BCP)

Business Continuity Plan is a far reaching approach intended to ensure that basic business procedures can be kept operational in case of a major internal or external interruption. BCP is critical to all types of businesses more importantly for those companies who heavily rely on technology to do business.

To remain functional in any unforeseen situation and to mitigate the same known risks within tolerable range, the management of FHM frequently reviews BCP to ensure that all relevant remedial actions are in place to handle any unpleasant condition.

### Disaster Recovery Plan (DRP)

DRP is the process which uses to recover software, data or application in any distress situations caused due to human error or through any natural disaster. DR plan is integrated to a large extent with BCP and designated key members are familiar with the specific actions they will need to take in case of any disaster. At FHM, our DR plan is adaptable and regularly update with the backup. Our relevant department also does the mock exercise at allocated DR sites to make sure Business Continuity Tests/ Simulation Drills are conducted in a timely & effective manner.

FHM have policies and procedures designed to ensure the business continuity, and to deal with major incidents including business continuity and disaster recovery. The management of FHM regularly reviews business continuity roles and responsibilities for the implementation, maintenance and validation of planning, analysis, communication, training and crisis management.

Contingency plans for core services, key systems and priority business processes revisit as part of existing management processes to ensure that continuity plans remain relevant. These plans provide each business unit with the necessary guidelines and procedures in case of an emergency. Continuous updates of these plans are performed



annually, to ensure that they are kept upto date with changes in systems and business operation. Business heads are accountable for their divisional recovery strategies, the validation of recovery capabilities and the provision of appropriate training and awareness and its importance in the organization.

Our relevant department has taken various measures to ensure the quick and smooth availability of BCP/DRP.

FHM have already arranged third Party BCP/DR solution from M/s. Cube XS Weatherly (Pvt) Ltd and maintaining DR side since last several years which also cover Tier 4 Data Centre and Disaster Recovery site.

IT performs BCP mock exercise to ensure.

- IT Recovery test restore of technology, (i.e. data, network).
- Going offsite to a back location tests recovery site preparedness, communication and utilities.
- Trained and informed personnel are typically performing recovery steps.
- Transaction testing verifies restore connectivity and access using a person that knows the business processes.
- FHM has also developed environment that provides a ready-to-go computer system in a prepared location with a minimizing network downtime.
- Take update on latest process and tools on BCP.

## Segment-wise Review

### Financing

- Ijara (Leasing)**

Lease financing of Rs.1,053 million were made out of total financing of Rs.3,913 million as compared to financing of Rs.3,439 million last year. Leading sector of disbursement was targeted during the year were Services, Pharmaceuticals, Refinery & Lubricant, Food & Allied, Chemicals, Logistic and Auto & Allied.

- Diminishing Musharakah**

Financing in Diminishing Musharaka of Rs.2,860 million was made as compare to Rs.2,317 million of last year increased by 23%. Keeping in view of our strategy on product diversification, we have been continuously concentrating on this mode of financing. Disbursement in this segment was 73% of total financing as compared to 67% of last year.

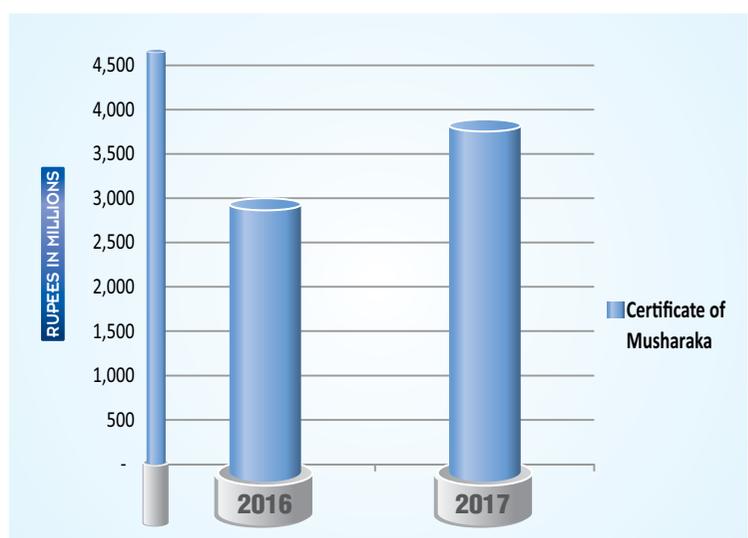
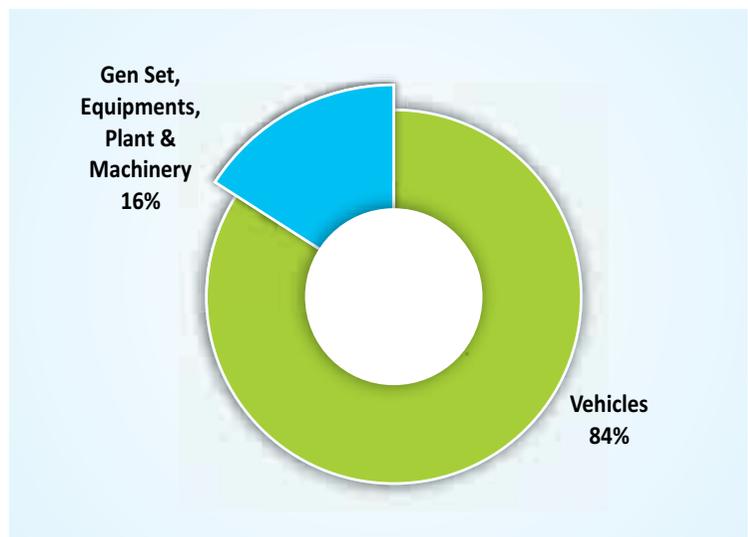
Our branches outside Karachi, i.e., Lahore, Islamabad and Multan have made significant contribution in assets booking as compared to corresponding period of last year Moreover, good new corporate customers, commercial vehicle segment and consumer car financing segment had also been added by these branches which have supported to further enhance business volume and also help us in maintaining our profitability in their respective areas.

### Assets category and sector

- Major portion of financing remain within the assets category of motor vehicle i.e. 84% of total financing and rest of financing was made within the assets of generator set, machinery and equipment. The leading sectors of disbursement were targeted such as Pharmaceuticals, Services, Refinery & Lubricant, Food & Allied, Chemicals, Logistic and Auto which were around 65% of total financing.

### Certificate of Investment (Musharkah)

- Good growth has been witnessed on liability side within the Certificate of Investment (COI). The outstanding amount under COI was Rs.3,914 million at the end of year as compared to Rs.3,051 million of corresponding period of last year, grew by 28%. Our all branches particularly Karachi branch have made their good efforts in channelizing deposit under COI which has greatly supported for generation of business volume at desired level.



## Energy Saving Measures

As responsible corporate citizen, it is our responsibility to protect scarce resources particularly energy and water. Energy and water crises are global issues and opportunities in using of Alternate energy i.e. Solar Power and wind power to reduce the emission in environment.

Under our corporate division, we started to look more closely at the emerging possibilities of green finance comprising green buildings, renewable energy and energy-efficient projects, waste management capability development, initiatives to ensure safety and security of factory workers etc.

First Habib Modaraba (FHM) having the vision to demonstrate this through practical application within organization. The Management of FHM always encourage for the betterment of the environment and effective implementation of policies so that benefit of energy conservation can be achieved.

The undermentioned measures have been initiated at FHM to conserve the electricity and other resources:



- Conversion of existing energy saver with LED lights and invertors air-conditions
- To reduce energy cost FHM is continuously making advancement in technology use of energy efficient hardware. .
- To promote solar power Financing.
- Paper less environment encouraged so that more cost saving can be attained



In the business of financial services, quality delivery of services is very important for any institution. This supported through quality assurance process which a systematic process of checking to see whether a product or service being developed is meeting specified requirements or not. A quality assurance system is said to increase customer confidence and a company's credibility to improve work processes and efficiency to enable organization to compete with others in better way.

In high competitive environment, organizations are placing increased emphasis on customer satisfaction as they consider customer perception of service quality is a significant factor in determining the market share. The core management keeps of testing and analyzing operational systems and enhancing service standards for fast and perfect delivery at entire satisfaction of their customer.

High quality customer service is an integral part of FHM's philosophy. It is our constant endeavor to provide greater services with wider accessibility. At FHM customer service

operations are designed to keep customers satisfied without compromising operational standards of the organization.

The management of FHM is committed to improve the quality of services and transform it into a modern and dynamic institution. The management has initiated a number of steps aimed at improving the quality and efficiency of its services in all areas of operations. Efforts are being made to harness the skills of its human resources besides managers are continuously reviewing business practices, procedures and service delivery mechanism to set high ethical and service standards.

We continuously develop and improve customer-service oriented culture within FHM. Good Customer service is helping resolve problems and giving best service timely. To carry out this function effectively, FHM has a system of easy access of the customers to the management whenever it is needed.

Knowing our customer's need is the key to our business success. We also feel that well updated IT infrastructure is the most important tools to provide best services to customer. FHM is continuously up grading its IT infrastructure in line with modern technology in order to have efficient operations and speedy services to customer.

We judge our quality by:

- Customer feedback
- On site visit
- Determining operational flaws
- Complain management system

## Forward Looking Statement

Our corporate objective and future planning are always circled within boundaries of prudent assets booking, proper risk management and good governance. In view prevailing business environment we have formulated our business strategy on following lines for 2017-18.

- Concentrate on small and medium size financing portfolio. Expand financing portfolio in good SMEs and consumer financing.
- Enhance customer base within Corporate and SME segment
- Establish auto financing desk within good located branches of Habib Metro Bank subject to regulatory approvals.
- Add more Shariah compliant financial product within the financing portfolio.
- To further upgrade operational capacity of support function for better service to customer through efficient infrastructure and technological advancement.
- Improve IT application and IT infrastructure for enhancement of operational efficiency.
- To further improve and strengthen Shariah governance and Shariah compliance culture.
- Enhancement in service delivery channels through efficient processes and competent human resource.

Furthermore, due to acquisition process and becoming subsidiary of Habib Metropolitan Bank Limited, we further explore new business opportunities within the Islamic Financial market of Pakistan.

However, performance of FHM may be affected due to change in business environment such as:

- Political and other disturbance within country.
- Change in any regulatory or taxation policies,
- Any other force majeure.

## Comparison of forward looking statement 2016 and 2017

Forward Looking Statement made in 2016	Performance made in 2017
<ul style="list-style-type: none"> <li>• Expand financing portfolio in good SMEs and consumer financing.</li> <li>• Add more Shariah compliant financial product within the financing portfolio.</li> <li>• Invest in Islamic capital and debt market in better yield shares and securities.</li> <li>• Open new branches/business desk for business expansion and enhancement of customer portfolio.</li> <li>• To further upgrade operation capacity of customer for better service to customer through efficient infrastructure and technological advancement.</li> <li>• Enhance operational and risk management capacity in order to avoid unforeseen operational and business risk. .</li> <li>• To further develop professional and operational capacity staff members through in house and outside trainings.</li> <li>• Improve IT application and IT infrastructure for enhancement of operational efficiency..</li> </ul>	<ul style="list-style-type: none"> <li>• Financing portfolio within the SME segment was enhanced.</li> <li>• Sizeable improvement was made in Auto financing at consumer level</li> <li>• Investment was made in Sukuk and in few good script of equity market.</li> <li>• Operational efficiency was enhanced for improved customer service.</li> <li>• Good customers added during the year.</li> <li>• Highest disbursement was made during the year.</li> <li>• Deposit base under Certificate of Musharkah was increased.</li> <li>• Risk Management processes were further improved</li> <li>• Effective training was made for professional grooming of staff members.</li> </ul>

## Risk and Opportunity Report

Type of Risk	Explanation	Strategies to Mitigate the Risk
Shariah noncompliance risk	The risk of operational lapses not in line with Shariah processes and guidelines.	Strong vigilance on Shariah processes and continuous training to relevant staff members.
Operational risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or the risk of loss resulting from external causes.	Independent control and support functions that monitor operational risks on regular basis. The Internal Control department addresses operational risks and implements policies to encounter such risks. The department assesses operational risks across the Company as a whole and ensures that an appropriate framework exists to identify, assess and manage operational risks.
Reputational risk	Reputational risk is a threat or danger to the good name of the entity.	Reputational risk is managed through strong corporate governance, sound compliance culture and effective redressal of customers and employees grievances and support function.
Credit risk	The risk of counter party unable to meet its obligation and FHM may sustain losses.	Strong Credit Risk management system in process for evaluating and appraise customers proposals.
Liquidity risk	The risk that FHM may be unable to meet its obligation when it falls due.	The ALCO is monitoring liquidity position and concern department has made responsible to make sure the continuous availability of liquidity through short term and long term deposits and credit lines.
Regulatory risk	Risk of non-compliance with regulatory and change in regulatory policy requirements.	Strong compliance and internal control system are in placed to fulfil the regulatory requirements and close eye on changes in laws and regulation.
Market risk	Risk due to change in SBP policy rate and financing Spread.	The majority of financing portfolio is linked with floating rate which review on quarterly/half yearly basis. This rate review support for the management of financing in case of volatile rate in the market.
Technology risk	Technology risk means any risk of financial or other loss due to some sort of failure of its information technology systems.	To take appropriate measures to protect Systems and keep update firewalls regularly and strong DRP system.

### Opportunities

The FHM management capitalized the opportunities available in the market such as:

- To take support of branch network of Habib Metropolitan Bank to promote Islamic financing product of FHM with proper SLA.
- Growing Islamic Finance Market creates opportunities to cater the need of different Islamic mode of financing along with mobilization of funds on modaraba and Musharkah basis.
- Due to improved economic condition in the country FHM has an opportunity to expand its business through expansion in branch network to enhance outreach and customer base.
- Financing to SME sector of Pakistan.
- Growing consumer base – New Shariah compliant financial product for consumer financing.

### Key source of uncertainty

Shrinkage in profit margin due to low lending rates is a serious threat on profitability. However, efforts have been made to increase volume of financing assets to maintain the profitability. Simultaneously FHM make drive for low cost of deposits and borrowing from banks to minimize cost of leveraging. Furthermore, businesses of FHM may also be affected due to :-

- Political and any other disturbance within the country.
- Change in any regulatory or taxation policies.
- Any other force majeure.

### Materiality Approach

Materiality analysis is an approach to identifying critical economic, environmental and social issues, which may either reflect a significant impact on the company's business performance or substantively influence the assessments and decisions of its stakeholders. FHM always be prudent in assessing the materiality of its business activities and take care of the interest of its Certificate Holders and other stakeholders.

## Sustainability

### Corporate Social Responsibility

Our business strategies are based on strong ethical foundation and concept of sustainable business to create maximum value for our stakeholders. Translating this believe our sustainability model is surrounding within our People, Organization and Planet.

Accordingly we have aligned our Corporate Social Responsibility (CSR) initiatives to deliver on this commitment, and enhance community empowerment and responsible environmental management in a sustainable manner.

FHM, being a socially responsible corporate entity, has been a regular contributor to the society and communities. It has been our primary concern to ensure that contributing to community development should be continuously carried out.

Since last several years FHM has been donating non-profit organization working for improvement educations, healthcare etc. FHM continues to encourage events and projects which focus on children, health and education in under privileged members of society.

FHM having the ambition to serve the community with great professionalism and zeal has been always emphasizing on following areas for better environment and sustainability.

- Encourage staff members for avoiding of unnecessary wastage of resources such as excessive consumption of energy and paper printing etc.
- Motivate staff members for participation in activities which are beneficial for better environment at large.
- Contribution on social community projects by staff members which are indeed a catalyst for any good corporate institution.
- In order to keep customers' interest safe, FHM, from time to time address their grievances through their feedback and regular visits.
- FHM encourage equal opportunity employment without any discrimination whether it is gender or any disability, we believe that every human mind having talent which can be benefitted to the institutions.
- Health and safety always remain an utmost concern of the management of FHM.
- Within the HR policy, the staffs of FHM are covered under health and group life insurance/takaful policies with renowned insurance/takaful companies.
- Strong internal controls are one of the main corporate objectives. FHM promote sound ethical practices within the staff members with Risk & Reward concept.



### Energy Conservation

With a vision to encourage market transformation towards sustainable business practice, we will continue our efforts to deliver environment friendly procedures and policies within our organization. Encourage staff members for avoiding of unnecessary wastage of resources such as excessive consumption of energy etc. Customers are also encouraged for installation of solar power equipment for their energy use and different financial products for solar power are also under consideration at FHM.

### Customer Protection Measures

Our relationships with our customers depend upon trust. To retain this trust we must set our customers' interest first while ensuring that all our customers are treated fairly according to the highest standards of service, transparency and responsible practices. We conduct our business in an ethical way guided by our core values of mutual respect, professionalism and commitment. Customer protection is an essential element of any financial system. It is not only important to protect existing customers but it also helps to boost confidence within the financial system for potential customer of future as well.

FHM is always committed to give best and secured services to its customers. Confidentiality and non-disclosure of the customer data is one of the strict guideline given by the management to the staff. The IT department has secured the data by using following techniques:

- Only allow authorize staff access to the information required by them in order to discharge their day to day job responsibilities.
- Encrypt any personal information held electronically that would cause damage or distress if they were lost or stolen.
- Securely remove all personal information before disposing of old computers (by using technology or destroying the hard disk).



### Mitigating the adverse impact of industrial effluents

- As a financial institution FHM operations are not directly linked with industrial effluents.
- However FHM always make efforts not to take part in any activity having negative effect on environment. We always encourage our business partners to modify their operational activities as environment friendly. i.e., avoid wastage of water, proper dumping of effluents etc.

### Environment protection measures

It is our corporate objective to consume minimum natural resources and create low emission and waste. We also discourage those customers whose businesses are not environment friendly. FHM conscious on negative effect of waste and initiated following measures to minimize use of paper.

- Electronic documents managements system introduced to minimize printing of papers.
- Customers' correspondences being sent via e mails.
- Web based communication system has been started to communicate with customers and other stakeholders.
- Constantly raise staff awareness for paperless office concept and discourage unnecessary printing of documents.

### Business ethics and anti-corruption measures

We believe that in financial institutions the ethics of employees play a very vital part for institutional reputation and sustainable development. Similarly the ethical boundaries are also utmost important for our other stakeholders such as supplier, customer, investors and certificate holders.

FHM's Code of Ethics spells out the expected standards of behavior and sets the operating principles to be followed. Our Code of Ethics requires that it is necessary to ensure that the standards of behavior expected from Management and employees are followed to the letter and spirit. In this connection, FHM's Code of Ethics clearly stipulates the expected standard of behavior and the "Do's" and "Don'ts" the employees must observe. Further, the Code provides guidance on identification, follow up action and reporting of malpractices, if any.

At FHM we are fully committed to comply with local laws and regulations as well as applying a strict code of conduct to all employees. FHM convinced that ethical management is not only a support for effective responding to the rapid change to overall business environment but also a strong channel for building trust with its various segments of society.

For sustainable development and performance, we have developed following professional Code of Ethics which adhered and implemented at all levels. These principles have been guiding through our own practices

- Comply with all applicable laws and regulations.
- Comply with Shariah governance.
- Be fair with investor and customer.
- Give transparent and timely information to our investors.
- Maintain confidentiality of customers' information.
- Do not encourage anti-environmental activities.
- Do not engage in speculative activities.
- Equal Opportunity Employer.

FHM is an equal opportunity employer and does not discriminate on the basis of race, gender, age or disability. The responsibility of the HR department is to ensure equal opportunity and transparency in terms of suitable recruitment, compensation on the basis of merit and qualification. The management of FHM ensures that through its approved Code of Conduct the rights of all staff members are well defined and understood by each and every staff members.

### Occupational Safety and Health

At FHM the health and well-being of our employees is one of our top priorities. The management has always tried its best to provide a congenial working environment to its employees, which includes Health & Safety aspects of its personnel. Creating a positive, healthy and a safe workplace environment is fundamental to ensure the wellbeing of our employees. This also supports us to curtail job absenteeism, lower staff turnover and secure higher productivity levels in our operations.

We always encourage staff members for better life style and also adopt safety and preventive measures to minimize occupational injuries and illnesses. We believe that healthy employees will remain quality and productive assets of the institution. All staff members of FHM are covered under comprehensive insurance policies for life and medical.

### Contribution to National Exchequer

In current taxation regime, the income of Modaraba is exempt from income tax, if 90% of the profit distributes to Certificate Holders in shape of dividend. In order to pass on maximum profit to its Certificate Holders, FHM distribute 90% profits to its Certificate Holders. However, despite tax exemption, Modaraba do contribute to national exchequer through withholding tax on dividend and profit payment on certificate of Musharaka, including sales tax on huge purchase of financing assets, such as motor vehicles, machineries and equipment of the value of Rs.3,400 billion during the year.

## Key Financial Data for Six Years

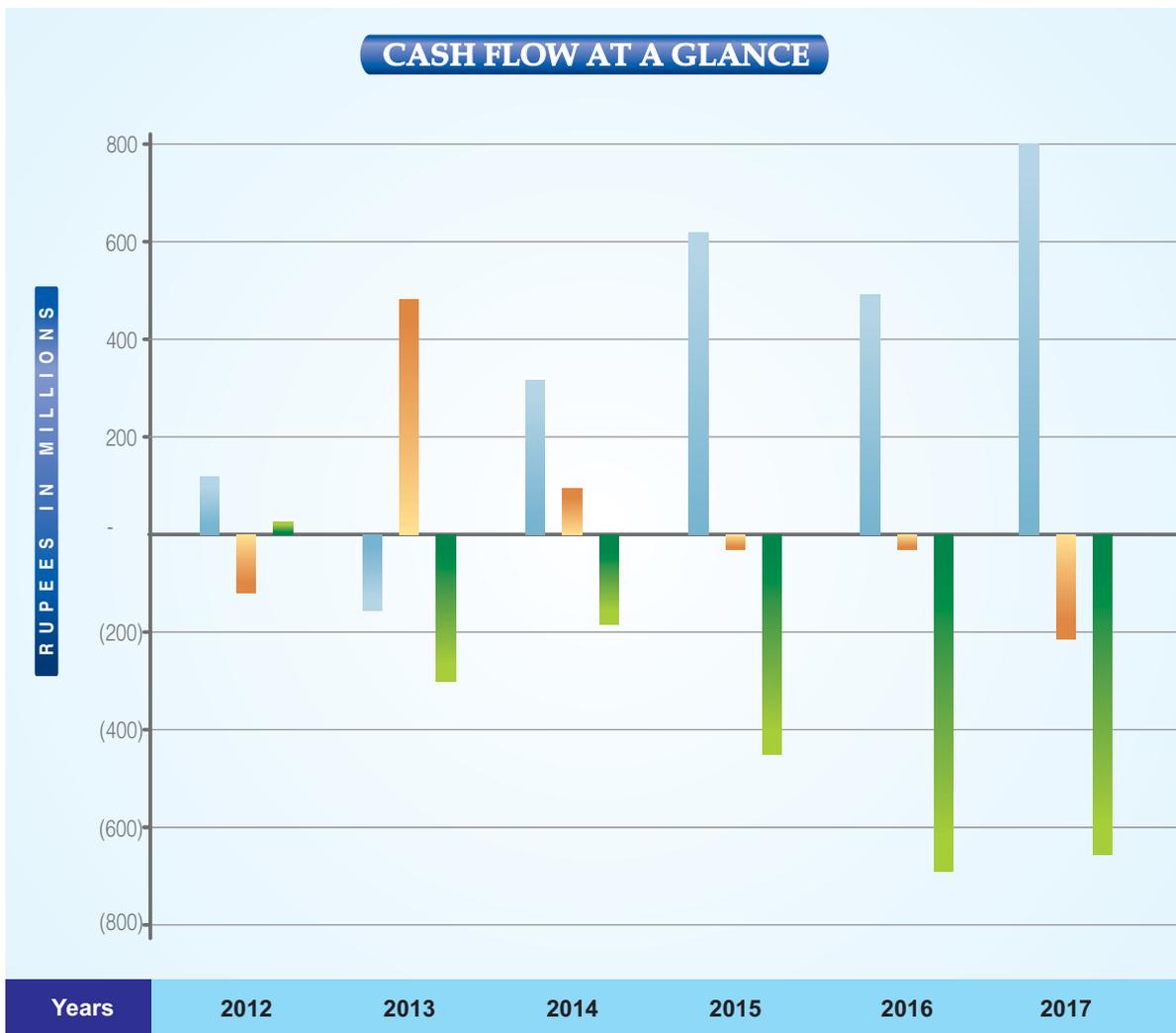
KEY FINANCIAL DATA	Rupees in Million					
	2017	2016	2015	2014	2013	2012
Total Assets	8,367	7,161	6,393	5,393	4,719	4,565
Lease Financing Assets	2,441	2,725	3,072	2,869	2,942	2,501
Diminishing Musharaka Financing	4,292	3,052	1,729	1,061	547	382
Disbursement of Lease Financing Assets	1,052	1,124	1,742	1,401	1,890	1,465
Disbursement of Diminishing Musharaka Financing	2,860	2,317	1,278	901	365	283
Current Assets	3,258	2,609	2,281	1,894	1,405	1,819
Current Liabilities	4,653	3,541	2,793	1,894	1,402	1,229
Total Liabilities	4,895	3,845	3,136	2,184	1,666	1,438
Paid-up Capital	1,008	1,008	1,008	1,008	1,008	1,008
Reserves	2,464	2,308	2,249	2,201	2,045	2,119
Certificate Holders' Equity	3,472	3,316	3,257	3,209	3,053	3,127
Gross Revenue	1,572	1,608	1,592	1,603	1,532	1,452
Net Profit	305	298	307	285	293	345
Earning Per Certificate - Rs.5/- each	1.46	1.48	1.52	1.42	1.46	1.71
Cash Dividend	20%	20%	22%	22%	20%	20%
Income from Lease Financing	218	286	250	297	316	333
Income from Diminishing Musharaka Financing	322	225	154	94	49	46
STAKEHOLDER INFORMATION	2017	2016	2015	2014	2013	2012
<b>Profitability Ratios</b>						
Profit after tax ratio (%)	19.38	18.55	19.25	17.80	19.11	23.80
Gross yield on earning assets (%)	19.57	23.70	27.52	32.69	34.15	33.22
Gross spread ratio (%)	12.78	12.00	11.25	10.06	11.06	12.11
Cost / Income ratio (%)	79.46	80.31	79.81	81.27	78.26	76.35
Return on equity (%)	8.77	9.00	9.41	8.90	9.71	15.52
Return on assets (%)	3.64	4.17	4.79	5.29	6.20	7.57
Return on capital employed (%)	9.40	9.54	9.97	9.69	11.69	12.11
Gross profit ratio (%)	32.22	27.75	25.61	22.66	21.20	23.37
Net profit to sale (%)	19.38	18.55	19.25	17.80	19.11	23.80
EBITDA margin to sale (%)	28.02	26.46	26.92	25.00	29.58	31.48
Income / Expense ratio	1.18	1.17	1.16	1.14	1.13	1.17
<b>Liquidity Ratios</b>						
Advance to deposit ratio	1.72	1.89	2.03	2.56	3.46	2.97
Current ratio	0.70	0.74	0.82	1.00	1.00	1.48
Cash to current liabilities	4%	7%	17%	20%	9%	10%
Cashflow from operations to sale	-40%	-42%	-28%	-11%	-21%	2%
<b>Turnover ratio</b>						
Total Asset Turnover Ratio (%)	20.02	23.93	26.90	32.03	33.21	35.51
Fixed Asset Turnover Ratio (%)	32.79	37.65	41.82	49.37	58.05	59.02
<b>Investment / Market ratio</b>						
Market Value Per Certificate/share	10.95	10.50	10.40	9.75	9.90	7.70
High	11.85	11.13	10.59	10.81	9.90	9.34
Low	9.71	9.50	8.70	8.50	7.10	6.30
EPS-Earning per Certificate (share)	1.46	1.48	1.52	1.42	1.46	1.71
Price earning ratio	7.50	7.09	6.84	6.87	6.78	4.50
Price to book ratio	0.66	0.65	0.66	0.63	0.66	0.70
Dividend Yield ratio (%)	9.13	9.52	10.58	11.28	10.10	12.99
Dividend Payout ratio (%)	66.18	67.58	72.35	77.69	68.85	58.36
Dividend cover ratio	1.46	1.48	1.38	1.29	1.46	1.71
Cash dividend (%)	20.0%	20.0%	22.0%	22.0%	20.0%	20.0%
Cash dividend per certificate/ share	1.00	1.00	1.10	1.10	1.00	1.00
Book Value Per certificate/ share	16.64	16.14	15.80	15.38	14.96	11.04
Dividend (in million rupees)	202	202	222	222	202	202
Profit Growth Ratio (%) [YoY]	2	(3)	7	(3)	(15)	24
Profit Growth Ratio (%) [base year 2012]	(12)	(14)	(11)	(17)	(15)	-
<b>Capital Structure ratio</b>						
Net assets per certificate/share	17.22	16.45	16.16	15.92	15.14	15.51
Earning asset to total asset ratio (%)	95.99	94.79	90.51	90.95	95.05	95.71

\*Certificates of Rs. 5/- each



## Summary Of Cash Flow

	Rupees in Million					
	2017	2016	2015	2014	2013	2012
Cash & cash equivalents at the beginning of the year	248	487	371	131	122	112
Net Cash flow from operating activities	(632)	(672)	(451)	(183)	(325)	25
Net Cash flow from investing activities	(213)	(39)	(39)	97	495	(150)
Net Cash flow from financing activities	789	472	607	326	(161)	136
<b>Net increase/decrease in cash &amp; cash equivalent</b>	<b>(56)</b>	<b>(239)</b>	<b>116</b>	<b>240</b>	<b>8</b>	<b>11</b>
Cash & cash equivalents at the end of the year	192	248	487	371	131	122



- Net Cash flow from operating activities
- Net Cash flow from investing activities
- Net Cash flow from financing activities

## Graphical Presentation of Financial Summary

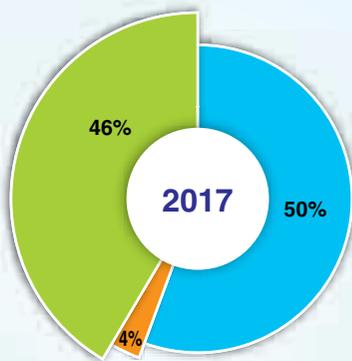


■ Market Value Per Modaraba Certificate    ■ Book Value Per Modaraba Certificate

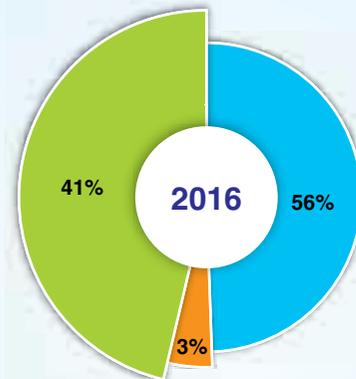


## Balance Sheet Composition

### Equity & Liabilities



- Non-Current Liabilities
- Certificate Holder Equity
- Current Liabilities

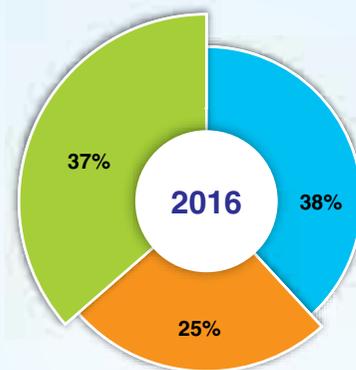


- Non-Current Liabilities
- Certificate Holder Equity
- Current Liabilities

### Assets



- Fixed Assets
- Current Assets
- Long Term Assets



- Fixed Assets
- Current Assets
- Long Term Assets

## Horizontal Analysis

<b>BALANCE SHEET (%)</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>						
<b>NON-CURRENT ASSETS</b>						
Fixed Assets - tangible						
Lease Financing Assets	(10.43)	(11.30)	7.10	(2.48)	17.61	5.40
Assets in own use	35.50	(1.34)	(22.91)	(16.56)	67.03	43.47
Intangible Assets	(88.45)	(53.50)	(55.91)	6.50	(33.70)	2,131.66
Diminishing musharaka financing	46.39	76.02	67.01	73.45	51.86	44.26
Long-term advances & deposits	(46.07)	728.02	(42.71)	(51.86)	64.33	(46.53)
<b>CURRENT ASSETS</b>						
Investments	28.45	2.62	1.02	(2.20)	(32.90)	18.75
Current maturity of diminishing musharaka	32.22	77.16	57.33	132.32	28.97	108.69
Short-term Murabaha finance	0.00	0.00	0.00	0.00	0.00	0.00
Lease Financing rental receivable - secured, considered good	21.90	(75.52)	(63.68)	181.66	3.01	(20.58)
Loan & advances	-	-	-	-	-	-
Trade deposits & short-term prepayments	64.27	65.96	(57.77)	(25.29)	122.33	3.12
Other receivables	19.26	(43.90)	(19.73)	61.65	32.69	19.07
Tax refund due from Government	12.09	34.29	89.00	(17.38)	33.48	63.08
Cash & bank balances	(22.52)	(49.10)	31.36	184.09	6.74	(24.23)
<b>TOTAL ASSETS</b>	<b>16.84</b>	<b>12.00</b>	<b>18.55</b>	<b>14.28</b>	<b>3.37</b>	<b>12.03</b>
<b>EQUITY &amp; LIABILITIES</b>						
<b>CAPITAL &amp; RESERVES</b>						
Authorized Certificate capital	0.00	0.00	0.00	0.00	0.00	0.00
Issued, subscribed & paid-up capital	0.00	0.00	0.00	0.00	0.00	0.00
Reserves	6.76	2.63	2.19	7.62	(3.51)	3.29
Certificate holders' equity	4.70	1.82	1.50	5.10	(2.38)	2.21
<b>NON-CURRENT LIABILITIES</b>						
Certificates of Musharaka - unsecured	-	-	-	-	-	(100.00)
Security deposits against Lease Financing assets	(20.49)	(11.43)	18.34	9.50	26.72	9.02
<b>CURRENT LIABILITIES</b>						
Certificates of Musharaka - current portion	28.28	29.27	53.88	52.18	3.97	58.82
Security deposits - current portion	8.67	24.84	(7.31)	48.36	(5.52)	18.86
Unearned Lease Financing rentals	133.90	(19.38)	226.70	(85.40)	55.73	77.03
Advance Lease Financing rentals received	(1.14)	38.28	(49.12)	63.97	5.87	(9.18)
Trade & other payables	29.76	10.57	38.49	(19.10)	86.96	29.64
Unclaimed profit distribution	13.40	9.61	8.35	10.19	8.56	9.33
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>16.84</b>	<b>12.00</b>	<b>18.55</b>	<b>14.28</b>	<b>3.37</b>	<b>12.03</b>
<b>PROFIT &amp; LOSS ACCOUNT (%)</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Lease Financing income	(9.66)	(3.79)	(4.75)	1.83	5.46	(0.87)
Profit on diminishing musharaka	43.07	45.79	64.81	90.36	8.01	140.30
Depreciation on Lease Financing assets	(8.92)	(1.65)	(4.95)	3.94	8.71	(1.69)
Administrative expenses	9.72	8.02	5.69	3.82	17.73	3.90
Other Income	(1.62)	(17.26)	2.57	(87.01)	463.15	85.14
Other charges	4.10	7.41	16.60	(72.28)	34.44	115.07
Financial charges	30.73	11.78	21.09	11.97	11.73	38.63
Modaraba company's management fee	2.00	(2.78)	7.26	(71.35)	203.09	22.90
<b>Profit for the year</b>	<b>2.11</b>	<b>(2.67)</b>	<b>7.13</b>	<b>(2.29)</b>	<b>(15.24)</b>	<b>24.29</b>



## Vertical Analysis

### BALANCE SHEET (%)

	2017	2016	2015	2014	2013	2012
<b>ASSETS</b>						
<b>NON-CURRENT ASSETS</b>						
Fixed Assets - tangible						
Lease Financing Assets	29.17	38.06	48.06	53.19	62.33	54.78
Assets in own use	0.14	0.12	0.14	0.21	0.28	0.18
Intangible Assets	0.0004	0.0043	0.0103	0.0278	0.0299	0.0466
Diminishing musharaka	31.71	25.31	16.11	11.43	7.53	5.13
Long-term advances & deposits	0.04	0.08	0.01	0.02	0.05	0.03
<b>CURRENT ASSETS</b>						
Investments	15.52	14.12	15.41	18.08	21.13	32.55
Current maturity of diminishing musharaka	19.58	17.30	10.94	8.24	4.05	3.25
Lease Financing rental receivable - secured, considered good	0.01	0.01	0.06	0.18	0.07	0.07
Trade deposits & short-term prepayments	0.12	0.08	0.06	0.16	0.24	0.11
Other receivables	0.34	0.34	0.67	0.99	0.70	0.54
Tax refund due from Government	1.06	1.11	0.93	0.58	0.80	0.62
Cash & bank balances	2.30	3.47	7.63	6.88	2.77	2.68
<b>TOTAL ASSETS</b>	100.00	100.00	100.00	100.00	100.00	100.00
<b>EQUITY &amp; LIABILITIES</b>						
<b>CAPITAL &amp; RESERVES</b>						
Authorized Certificate capital	12.78	15.36	17.21	20.40	23.31	24.09
Issued, subscribed & paid-up capital	11.71	14.08	15.77	18.69	21.36	22.08
Reserves	28.62	32.23	35.18	40.81	43.33	46.42
Certificate holders' equity	40.33	46.31	50.94	59.50	64.69	68.50
<b>NON-CURRENT LIABILITIES</b>						
Security deposits against Lease Financing assets	2.81	4.25	5.37	5.38	5.61	4.58
Total Non-Current Liabilities	2.81	4.25	5.37	5.38	5.61	4.58
<b>CURRENT LIABILITIES</b>						
Certificates of Musharaka - current portion	45.46	42.61	36.91	28.44	21.36	21.23
Security deposits - current portion	1.19	1.31	1.18	1.50	1.16	1.27
Unearned Lease Financing rentals	0.28	0.15	0.20	0.07	0.58	0.38
Advance Lease Financing rentals received	0.26	0.32	0.26	0.60	0.42	0.41
Trade & other payables	5.00	4.63	4.69	4.01	5.67	3.14
Taxation - net	-	0.039	0.044	0.052	0.059	0.061
Unclaimed profit distribution	0.37	0.39	0.40	0.44	0.46	0.43
Profit payable on murabaha financing	0.05	-	-	-	-	-
Advance against murabaha financing	1.44	-	-	-	-	-
Total Current Liabilities	56.86	49.45	43.69	35.12	29.70	26.92
<b>TOTAL EQUITY &amp; LIABILITIES</b>	100.00	100.00	100.00	100.00	100.00	100.00
<b>PROFIT &amp; LOSS ACCOUNT (%)</b>						
Lease Financing income	74.60	80.73	83.63	87.40	59.60	86.72
Profit on diminishing musharaka	19.22	13.12	8.97	5.42	1.98	2.81
Other Income	6.19	6.15	7.40	7.19	38.42	10.47
Depreciation on Lease Financing assets	61.58	66.11	66.99	70.15	75.01	66.16
Administrative expenses	5.29	4.71	4.35	4.10	2.74	3.57
Other charges	0.45	0.43	0.39	0.34	0.84	0.96
Financial charges	12.12	9.06	8.08	6.64	4.12	5.66
Modaraba company's management remuneration	2.09	2.00	2.06	1.91	4.62	(2.34)
Sales tax on Management Co's remuneration	0.27	0.28	0.31	0.31	0.91	-
Profit for the year	18.19	17.41	17.82	16.56	39.89	25.99
Total	100.00	100.00	100.00	100.00	100.00	100.00

## Comments on Financial Ratios

### Profitability Ratios:

- Gross profit ratio is 32.22% is improved as compared to last year.
- The profit after tax ratio is 19.38% as compared to 18.55% in prior year due to financing volume has increased.
- Net profit to sales ratio increased to 19.38% in 2017 from 18.55% in 2016 is mainly due to the reason mentioned above.
- Cost to income ratio is 79.46% which is slightly declined as compared to previous years.
- Return on equity is slightly lower than last year.
- Gross spread ratio is slightly higher than the previous years due to improved margin on revenue
- Return on capital employed is slightly declined than previous years.
- EBITDA margin to sale ratio is 28.02% as compared to 26.46% in prior year.
- Income to expense ratio has been consistently maintained

### Liquidity Ratios:

- Cash to current liabilities is 4% in 2017 as compared to 7% in prior year is mainly due to improved working capital management.
- Advance to deposit ratio slightly reduced because of building up of deposits.
- Current ratio is slightly declined due to Certificate of Investment (Musharaka Deposit) has increased.
- Cash flow from operations has been on negative side i.e -40% This is due to the limitation of presenting cash generated from deposit i.e. certificate of Musharaka in operating activities by IFRS.

### Activity / Turnover Ratios:

- Total asset turnover ratio is 20.02% in 2017 as compared to 23.93% in prior year is mainly due to the assets of Modaraba has increased.
- Earning assets to total assets and Net assets per Modaraba certificates have been consistently maintained.

### Investment / Market Ratios

- Earning per share has slightly decreased from Rs.1.48 to Rs.1.46 in 2017 as a result of the decrease in profit margins.
- P/E ratio has increased from 7.09 to 7.50 in 2017 due to increase in equity market..
- Dividend yield ratio has been maintained in between 9.13% to 10.58% since last three years even a substantial decline in discount rate.
- Book value per certificate (share) has increased from Rs. 16.14 to 16.64 in 2017 due to the increase in total equity by 4.70%
- Dividend payout ratio and cash dividend per Modaraba certificate has been consistently maintained.
- Market value per certificate of Modaraba has been consistently maintained.
- Dividend cover ratio has been in between 1.29 to 1.71 over the period of six years.
- Dividend per Modaraba Certificate has been maintained.



DIVIDEND PER CERTIFICATE



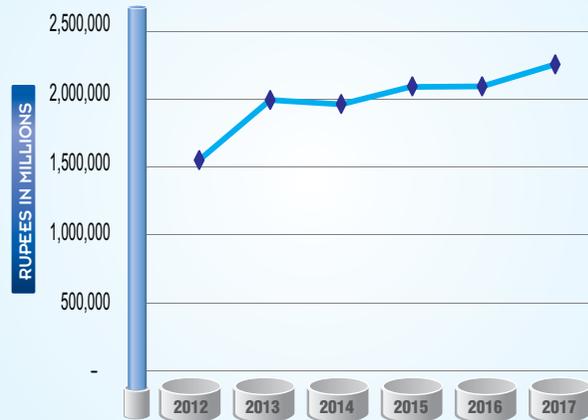
NET ASSET PER CERTIFICATE



MARKET VALUE PER CERTIFICATE



Market capitalization

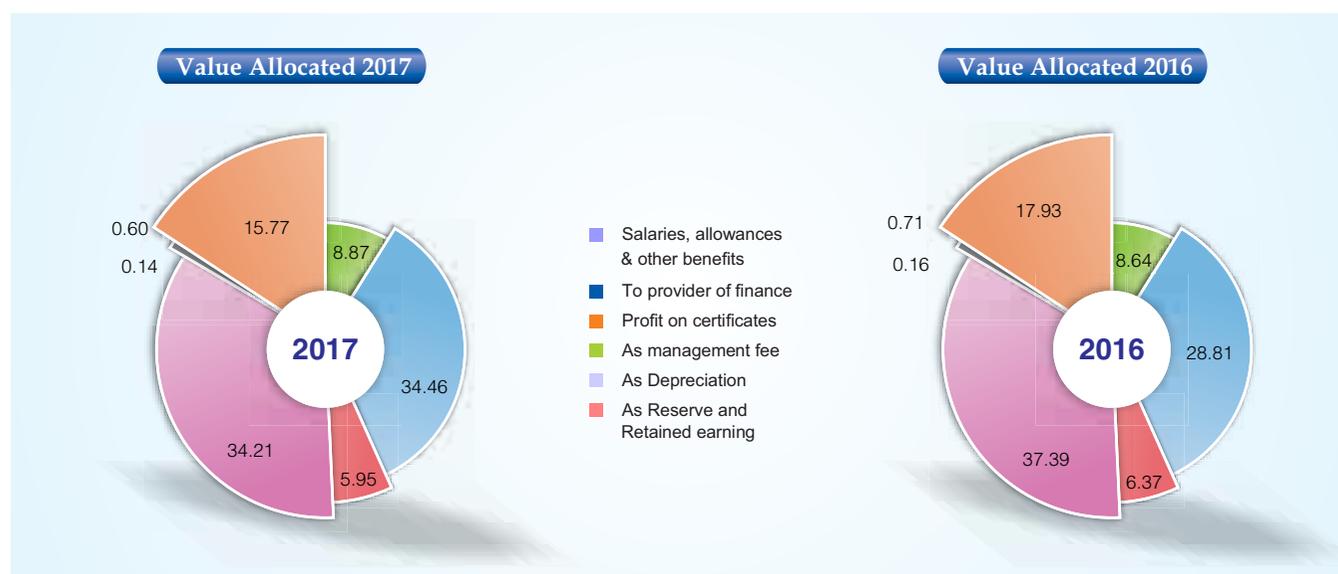


## Value Added Statement

	2017		2016	
	Rupees	(%)	Rupees	(%)
<b>Value Added</b>				
Revenue from operations	539,840,175		475,517,680	
Other income / charges	96,063,650		98,066,893	
Value added by financial services	635,903,825		573,584,573	
Operating expense	36,545,525		34,361,927	
	<b>599,358,310</b>	<b>100.00</b>	<b>539,222,646</b>	<b>100.00</b>

### Value Allocated

To Employees				
Salaries, allowances & other benefits	52,276,948	8.72	46,572,585	8.64
To provider of finance				
As profit on Certificate of Musharaka	203,084,962	33.88	155,345,333	28.81
To Modarib				
As management fee	35,041,406	5.85	34,355,610	6.37
To certificate holders				
Profit on certificates	201,600,000	33.64	201,600,000	37.39
To Society				
Donation	840,000	0.14	840,000	0.16
To expansion & growth				
As Depreciation	3,514,071	0.59	3,806,224	0.71
As Reserve and Retained earning	103,000,923	17.19	96,702,894	17.93
	<b>599,358,310</b>	<b>100.00</b>	<b>539,222,646</b>	<b>100.00</b>





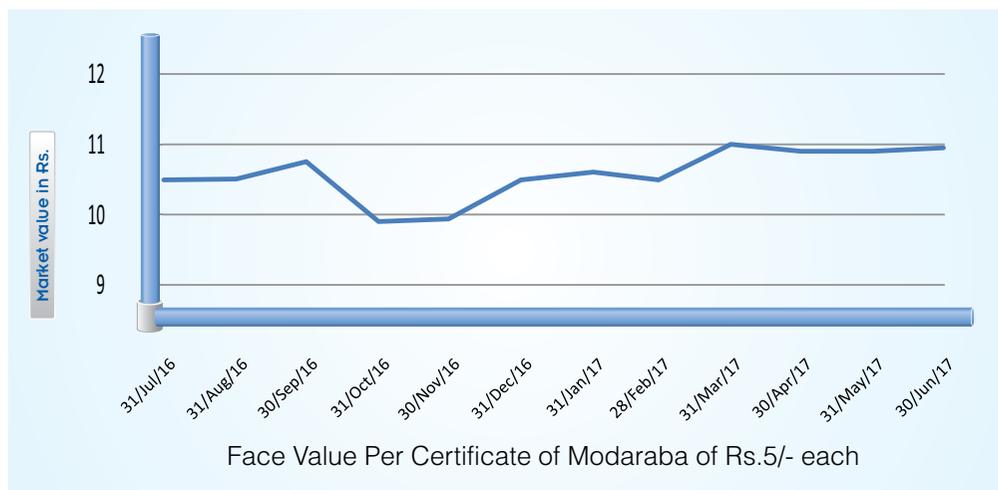
## Share Price Sensitivity Analysis

**Earnings:** News on earnings, profits and future positive cash flows develop interest of investors in the shares of company.

**Government Policies-** Government policies could be perceived as positive or negative for business. The policies may lead to changes in inflation & interest rates, which may affect stock prices.

**Investor sentiments/confidence-** Positive economic reforms can attract investors.

**Announcement of dividends-** Expected distribution from earning could increase the share prices as expectation of realisation of profit on investment.

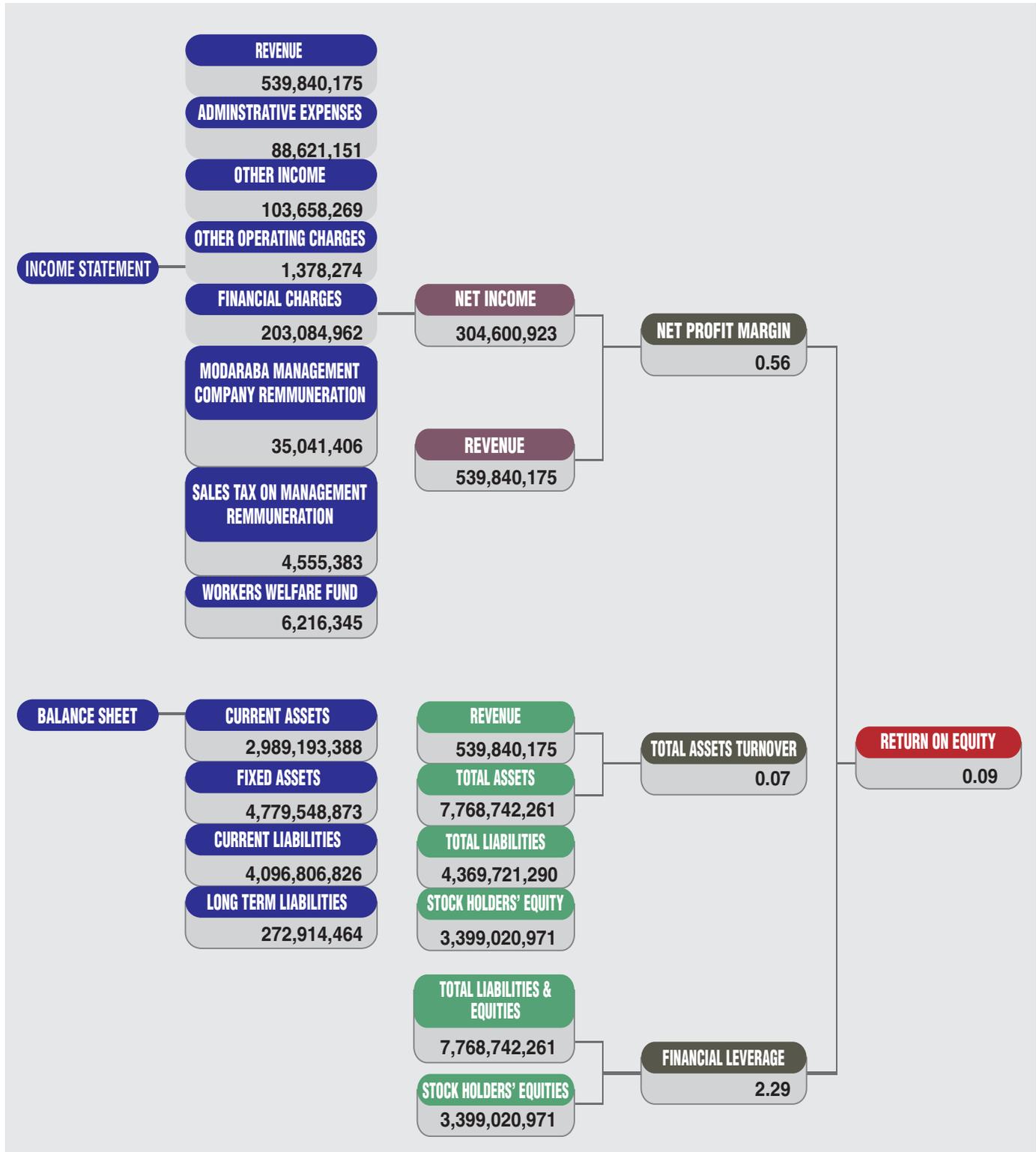


## Analysis of Variation in Results Reported in Quarterly Accounts



Forth Quarter Results are without management fee

## Dupont Analysis





## Notice of Annual Review Meeting

Notice is hereby given that the Annual Review Meeting of certificate-holders of First Habib Modaraba will be held on October 19, 2017 at 4.30 p.m. at Institute of Cost and Management Accountants of Pakistan (ICMAP) Building, ST-18/C Block-6, Gulshan-e-Iqbal, Karachi, to review the performance of the Modaraba for the year ended June 30, 2017.

The certificate holders whose names appear in the register of certificate holders of FHM as on October 04, 2017 will be eligible to attend the Annual Review Meeting.

By order of the Board

Tehsin Abbas  
Senior Vice President

Karachi: September 28, 2017

### REQUEST TO CERTIFICATE HOLDERS

Pursuant to the directives of the Securities & Exchange Commission of Pakistan (SECP), CNIC number of Modaraba Certificate Holders has become mandatory to be mentioned on Dividend Warrant. Therefore, all those physical Modaraba Certificate Holders not yet submitted their CNIC are hereby requested to immediately send valid copy of CNIC at below mentioned address of Shares Registrar Office.

Central Depository Company of Pakistan., CDC House, 99-B, Block 'B', S.M.C.H.S., Main Shahrah-e-Faisal, Karachi. Ph: 021-111-111-500

## ARM Decision and its Implementation



In compliance with the directives of Registrar of Modaraba, Securities & Exchange Commission of Pakistan (SECP), First Habib Modaraba (FHM) conducted Annual Review Meeting (ARM) of Certificate Holders of FHM on 16th October, 2016 in order to review performance of FHM for the year ended June 30, 2016. According to SECP, in the said meeting the Certificate Holders of Modaraba can come and discuss the annual accounts with the management of Modaraba.

The following were present from FHM:

- Mr. Muhammad Shoaib - Chief Executive Officer
- Mr. Rasheed Akhtar - Director
- Mr. Tehsin Abbas - Chief Financial Officer
- Mr. Adnan Thanwey - Company Secretary

CEO of FHM had briefed the forum about the business activity and performance of FHM along with challenges faced during the year 2015-16 reported in directors' report attached with annual financial statement report. He also commented in detail on key financial figures reported in financial statement of FHM.

The Certificate Holders recognized the hard and dedicated efforts of FHM particularly on financial performance and declaration of cash dividend of 20% for the year ended 30th June, 2016.

There is no significant issues have been raised by the Certificate Holders. However, following questions and queries were raised.

- Status of acquisition process by Habib Metropolitan Modaraba Management Company (Private) Limited (HMMML).
- Any change after acquisition by HMMML.
- Disbursement in major sector during the year.
- What is the status of market lending rates due to decrease in discount rate by SBP.
- Why market price of Modaraba Certificate not increasing.
- Future business plan. What would be performance in 2016-17.

CEO and CFO have addressed all the questions/reservations quaries at the entire satisfaction of Certificate Holders. Other points and suggestion have also been noted for future compliance.



## Customer Satisfaction

High quality customer service is an integral part of FHM's philosophy. It is our constant endeavor to provide greater services with wider accessibility.

At FHM customers are the center of the importance of quality. Attracting and satisfying customers with good financial products and providing them with the services they want is the key of success of FHM.

As the competition in the financial sector is continuing rise, it is becoming increasingly difficult to achieve growth and it is only possible with customer satisfaction which eventually results in customer retention.

Our corporate slogan is "Customer First". We always emphasis on to provide best quality service to our customers. We continuously develop and improve customer-service oriented culture within FHM.

Knowing our customer and their need is the key to our business success. Our managers are well equipped and well trained to provide the most efficient and personalized service to our customer.

We understand that our commitment to satisfy customer's needs must be fulfilled within a professional and ethical framework, thereby creating ongoing relationships of trust and confidence in all their dealings with FHM.

We shall look forward to maintain high- level customer satisfaction through improvement of strength and values, based on Shari'ah principles.

## Directors' Profile

### **Wazir Mumtaz Ahmed – Chairman**

Mr. Wazir Mumtaz Ahmed is a seasoned banker. His banking career span over a period of 48 years of committed and dedicated services. He started his banking career in 1961 and carried diversified experience on several senior positions. After completion of his Masters in Economics he got International Certifications in Commercial Law & Economics from London Chamber of Commerce. His career is a perfect combination of Integrity and Commitment which gave him additional advantage to reached upto the position of Senior Executive Vice President in the Bank. He has also completed Certification of Director Training Program conducted by Institute of Business Administration, Karachi.

### **Muhammad Shoab Ibrahim – Chief Executive Officer**

Muhammad Shoab, is associated with FHM since the inception of modaraba. His extensive working experience in Non-Banking Islamic Financial institutions makes him senior most person with such rich experience of Islamic Finance in Pakistan. This intense exposure gave him the insight into the financial and technical aspects of fund management in Islamic way. He has done Master's in Business Administration (MBA) in Banking and Finance from Institute of Business Administration (IBA). He has completed Post Graduate Diploma (PGD) in Islamic Banking and Finance from Centre of Islamic Economics (Darul Ulum), Karachi, Pakistan. He has also completed Certification of Director Training Program conducted by Institute of Chartered Accountants of Pakistan. On number of occasions he remained as an Executive Member of Modaraba Association of Pakistan.

### **Syed Rasheed Akhtar – Director**

Syed Rasheed Akhtar has rich experience in the banking field. His vast banking career spans over 36 years. He possesses masters in statistics degree from University of Karachi. He started his banking career from Habib Bank Limited in the year 1974 and carried diversified experience on very senior positions. He has been associated with Bank Indosuez, Habib Bank AG Zurich, HBZ Bank Limited, South Africa. He also headed an independent Islamic Banking Division of HBZ Bank Limited, South Africa from 2006-2010. He successfully completed Certificate on Islamic Banking arranged by N.I.B.A.F. State Bank of Pakistan. He has also completed Certification of Director Training Program conducted by Institute of Chartered Accountants of Pakistan.

### **Mohammad Hashim – Director**

Mr. Mohammad Hashim is a Commerce Graduate from University of Karachi and has Banking diploma from Institute of Bankers Pakistan (IBP), presently associate with Habib Metropolitan Bank Limited, handling as Head of Foreign Investors Portfolio Management. Mr. Hashim has 45 years of Banking experience of local and international banking particularly of Middle East region.

Mr. Hashim is carrying very rich experience of local and international money market, portfolio management and secondary market operation. He has also completed Certification of Director Training Program conducted by Institute of Business Administration, Karachi.



## Certificate Holders Information

Registered Office:  
 First Habib Modaraba  
 5th Floor, HBZ Plaza,  
 I.I. Chundrigar Road,  
 Karachi  
 U.A.N. : 111-346-346  
 Tel No. : 021-32635949-51  
 Fax : 021-32627373  
 Email: fhm@habibmodaraba.com  
 Web: www.habibmodaraba.com

Central Depository Company of Pakistan.  
 CDC House, 99-B  
 Block 'B', S.M.C.H.S.  
 Main Shahrah-e-Faisal  
 Karachi.  
 Ph: 021-111-111-500  
 Fax: (92-21) 34326031

### Listing on Stock Exchange

First Habib Modaraba (FHM) Modaraba Certificates is listed on Pakistan Stock Exchange (PSE).

### Investor Service Centre

FHM share department is operated by Central Depository Company of Pakistan Limited - Share registrar department. It also functions as an Investor Service Centre and has been servicing nearly 4,721 Certificate holders. The Investor Service Centre is managed by a well-experienced team of professionals and is equipped with the necessary infrastructure in terms of computer facilities and comprehensive set of systems and procedures for conducting the Registration function. The team is headed by Mr. Mohsin Rajab Ali at registered office, Central Depository Company of Pakistan Limited - Share registrar department and Mr. Tehsin Abbas, Senior Vice President at FHM.

FHM share department has online connectivity with Central Depository Company of Pakistan Limited - Operation department. The share department undertakes activities Certificate Transfer and Transmission, issue of duplicate / revalidated dividend warrant, issue of duplicate / replaced share Certificates, change of address and other related matters.

For assistance, Certificate holders may contact either the  
 Registered Office or Share Registrar Office:

Contact Person:  
 Registrar Office:  
 Mr. Mohsin Rajab Ali  
 Manager Share Registrar  
 Central Depository Company of Pakistan Limited

Contact Person:  
 Mr. Tehsin Abbas  
 Senior Vice President  
 First Habib Modaraba

### Dividend Announcement

The Board of Directors of the Management Company has approved cash dividend of 20% (Re.1.00/- per Modaraba Certificate of Rs.5/- each) for the financial year ended 30th June, 2017.

### Book Closure Dates

The Certificate Transfer Book of the Modaraba will remain close from 05-10-17 to 20-10-17 (both days are inclusive).

### Payment of dividend

The dividend warrants will be sent to Modaraba Certificate Holders within statutory time limit i.e. within 30 days from the re-opening of Certificate Transfer Book to those Modaraba Certificate Holders whose name appear in the Register of Member of the Modaraba after entertaining all requests for transfer of certificate lodge with the Modaraba before the book closure date either in physical form or through CDC.

## Certificate Holders Information

- (i) For certificates held in Physical Form: to certificate holders whose names appear in the Register of Members of the Modaraba after entertaining all requests for transfer of certificates lodged with the Modaraba before the book closure date.
- (ii) For shares held in electronic form: to certificate holders whose names appear in the statement of beneficial ownership furnished by CDC as at end of the business on book closure date.

### Withholding of Tax & Zakat on Dividend

In pursuant to the provisions of Finance Act, 2016 effective July 1, 2016, the rates of deduction of income tax under Section 150 of the income Tax Ordinance, 2001 has prescribed following tax rates for payment of dividend for filers & non-filers of income tax return, unless the Certificate holder's income is tax-exempt.

- |    |                                                            |     |
|----|------------------------------------------------------------|-----|
| 1. | Rate of tax deduction for filers of income tax return.     | 15% |
| 2. | Rate of tax deduction for non-filers of income tax return. | 20% |

The status of deduction of withholding tax will be determined as per Active Taxpayer List (ATL)" available on FBR website.

Zakat is also deductible at source from the dividend at the rate of 2.5% of face value of the share, other than the corporate holders or the individuals who provide the undertaking for non deduction of Zakat.

### Dividend Warrant

Cash Dividends are paid through dividend warrants addressed to the Certificate holders whose name is appearing on the register on the registrar of Certificate holders at the date of book closure. Certificate holders are requested to deposit the dividend warrants into their bank account, at their earliest. It will help the Modaraba in clearing their unclaimed dividend warrant.





## Pattern of Certificate Holding As Per Requirements Of Code Of Corporate Governance As at 30th June, 2017

Categories of certificate holders	Certificate holders	Certificate held	Percentage
<b>Directors and their spouse(s) and minor children</b>			
SYED RASHEED AKHTAR SHAD	1	100,000	0.05
MRS SHAMS HASHIM AND MOHAMMAD HASHIM	1	58,352	0.03
<b>Associated Companies, undertakings and related parties</b>			
HABIB METROPOLITAN MODARABA MANAGEMENT COMPANY (PVT.) LTD.	1	20,160,000	10.00
HABIB MANAGEMENT (PVT) LTD.	1	104,271,172	51.72
TRUSTEE OF FIRST HABIB MODARABA EMPLOYEES CONTRIBUTORY P.F	1	560,500	0.28
TRUSTEE OF HABIB MANAGEMENT LTD. EMPLOYEES	1	550,500	0.27
<b>Executives</b>			
	2	10,002	0.00
<b>Public Sector Companies and Corporations</b>			
	4	1,841,644	0.91
<b>Banks, development finance institutions, non-banking finance companies, insurance companies, takaful, modarabas and pension funds</b>			
	9	4,399,876	2.18
<b>Mutual Funds</b>			
CDC - TRUSTEE NATIONAL INVESTMENT (UNIT) TRUST	1	1,584,070	0.79
<b>General Public</b>			
a. Local	3831	54,711,967	27.14
b. Foreign	795	2,563,979	1.27
<b>Foreign Companies</b>			
	14	3,447,552	1.71
<b>Others</b>			
	59	7,340,386	3.64
<b>Totals</b>	<b>4721</b>	<b>201,600,000</b>	<b>100.00</b>

Certificate holders holding 5% or more	Certificate Held	Percentage
HABIB METROPOLITAN MODARABA MANAGEMENT COMPANY (PVT.) LTD	20,160,000	10.00
HABIB MANAGEMENT (PVT) LTD	104,271,172	51.72

All Trades in shares carried out by Directors, CEO, CFO, Company Secretary, Executives, their Spouse(s) and Minor Children during the year 2017 are given as under:

Name	Status	No. of Shares	Purchase/Sales/Transfer
SYED RASHEED AKHTAR	Director	100,000	Purchased

## Pattern of Certificate Holding

As at 30th June, 2017

Number of Certificate Holders	Certificate Holdings		Total Certificate Held
703	1	to 100	33,914
1024	101	to 500	323,703
642	501	to 1000	491,925
1333	1001	to 5000	3,153,933
343	5001	to 10000	2,575,805
133	10001	to 15000	1,629,105
86	15001	to 20000	1,558,532
65	20001	to 25000	1,489,663
43	25001	to 30000	1,207,379
23	30001	to 35000	744,502
33	35001	to 40000	1,276,085
20	40001	to 45000	840,300
38	45001	to 50000	1,863,776
9	50001	to 55000	471,052
15	55001	to 60000	879,535
12	60001	to 65000	760,152
2	65001	to 70000	136,240
8	70001	to 75000	583,496
5	75001	to 80000	391,000
8	80001	to 85000	651,552
1	85001	to 90000	86,280
6	90001	to 95000	547,708
22	95001	to 100000	2,182,899
5	100001	to 105000	510,402
8	105001	to 110000	872,500
6	115001	to 120000	707,920
2	120001	to 125000	241,460
2	125001	to 130000	255,176
6	130001	to 135000	787,380
3	135001	to 140000	409,008
5	140001	to 145000	713,142
6	145001	to 150000	889,004
3	150001	to 155000	457,400
1	155001	to 160000	160,000
5	160001	to 165000	813,840
1	165001	to 170000	169,500
4	170001	to 175000	691,860
2	180001	to 185000	370,000
3	185001	to 190000	569,000
1	190001	to 195000	192,000
4	195001	to 200000	800,000
3	200001	to 205000	607,100
1	205001	to 210000	206,600
2	210001	to 215000	426,560
2	215001	to 220000	435,120
2	225001	to 230000	456,800
2	230001	to 235000	470,000
2	235001	to 240000	473,436
2	240001	to 245000	486,320
3	245001	to 250000	749,000
1	255001	to 260000	259,500
3	260001	to 265000	784,796
2	265001	to 270000	538,000
1	270001	to 275000	275,000
4	275001	to 280000	1,111,984
1	280001	to 285000	282,240
2	295001	to 300000	600,000
1	320001	to 325000	322,560
1	335001	to 340000	338,500
3	345001	to 350000	1,050,000
1	380001	to 385000	382,880
2	400001	to 405000	800,800
1	405001	to 410000	410,000
1	425001	to 430000	425,344
1	435001	to 440000	439,500
1	440001	to 445000	442,000
1	455001	to 460000	459,328
1	475001	to 480000	477,500
1	485001	to 490000	486,000
3	495001	to 500000	1,500,000
3	500001	to 505000	1,508,688
1	515001	to 520000	520,000
1	550001	to 555000	550,500
1	560001	to 565000	560,500
1	590001	to 595000	592,600
1	595001	to 600000	600,000
1	795001	to 800000	800,000
3	820001	to 825000	2,472,832
2	850001	to 855000	1,705,500
1	855001	to 860000	858,500
1	1030001	to 1035000	1,034,200
1	1050001	to 1055000	1,051,000
1	1180001	to 1185000	1,185,000
1	1195001	to 1200000	1,200,000
1	1245001	to 1250000	1,250,000
1	1300001	to 1305000	1,300,192
1	1510001	to 1515000	1,511,250
1	1580001	to 1585000	1,584,070
1	1745001	to 1750000	1,750,000
1	1825001	to 1830000	1,828,000
1	1995001	to 2000000	2,000,000
1	2120001	to 2125000	2,121,000
1	20155001	to 20160000	20,160,000
1	104270001	to 104275000	104,271,172
4721			201,600,000



## STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE – YEAR ENDED JUNE 30, 2017

This statement is being presented to comply with Code of Corporate Governance (CCG) contained in Clause 5.19 under Rule Book of Pakistan Stock Exchange Limited for the purpose of establishing a framework of good governance, whereby a listed Modaraba is managed in compliance with the best practices of corporate governance.

The Modaraba Management Company (hereafter referred to as the Company) has applied the principles contained in the CCG in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	Names
Independent Director	Mr. Syed Rasheed Akhtar
Executive Director	Mr. Muhammad Shoaib Ibrahim
Non-Executive Directors	Mr. Wazir Mumtaz Ahmed Mr. Muhammad Hashim

The independent directors meets the criteria of independence under clause 5.19.1 (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a Broker of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurred during the year which will be filled in due course of time.
5. 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.
6. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board.
8. 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 and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. All directors are compliant with necessary requirements of Directors Training Certificate.
10. No new appointment of CFO, Company Secretary and Head of Internal Audit has been made during the year.
11. The directors’ report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.

12. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the board.
13. The directors, CEO and executives do not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of shareholding.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an Audit Committee. . It comprises three members, of whom all are non-executive directors and the Chairman of the Committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises three members, of whom all are non-executive directors including the chairman of the committee.
18. The board has set up an effective internal audit function.
19. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Modaraba's securities, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. The Modaraba has complied with the requirements relating to maintenance of register of persons having access to inside information by designated senior management officer in a timely manner and maintained proper record including basis for inclusion or exclusion of names of persons from the said list.
24. We confirm that all other material principles enshrined in the CCG have been complied with.

Karachi: August 10. 2017

**Muhammad Shoaib Ibrahim**  
Chief Executive Officer



## REVIEW REPORT TO THE CERTIFICATE HOLDERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of **HABIB METROPOLITAN MODARABA MANAGEMENT COMPANY (PRIVATE) LIMITED**, the Management Company of **FIRST HABIB MODARABA** for the year ended June 30, 2017 to comply with the requirements of rule 5.19 of the listing rule book of the Pakistan Stock Exchange Limited, where the Modaraba is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Management Company of the Modaraba. 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 Modaraba'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 Management Company's personnel and review of various documents prepared by the Management 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 Modaraba's corporate governance procedures and risks.

The Code require the Management 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 any procedures to determine 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 Modaraba's compliance, in all material respects, with the best practices contained in the Code as applicable to the Modaraba for the year ended June 30, 2017.

Karachi : August 10, 2017

Muniff Ziauddin & Co.  
Chartered Accountants  
Engagement Partner  
Muhammad Moin Khan

## Board Committees

### Audit Committee Terms of Reference

- i. To recommend to the Board of Directors the appointment of external auditors by the Modaraba's Certificate holders and consider any questions of resignation or removal of external auditors, audit fees and provision by external auditors of any service to the Modaraba in addition to audit of its financial statements;
- ii. To review the quarterly, half-yearly and annual financial statements of the Modaraba, prior to their approval by the Board of Directors;
- iii. To facilitate the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight;
- iv. To review the management letter issued by external auditors and management's response thereto;
- v. To ensure coordination between the internal and external auditors of the Modaraba;
- vi. To review the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the Modaraba;
- vii. To consider the major findings of internal investigation and management's response thereto;
- viii. To ascertain that the internal control system including financial and operational control, accounting system and reporting structure are adequate and effective;
- ix. To determine compliance with relevant statutory requirements; and
- x. To monitor compliance with the best practices of corporate governance and identification of significant violation thereof;

The audit committee comprises of the following members:

Members	No. of Meeting Attended
Mr. Syed Rasheed Akhtar Non Executive (Chairman)	4
Mr. Wazir Mumtaz Ahmed Non Executive (Member)	4
Mr. Abbas Ali Muhammad Non Executive (Member)	2
Secretary to Audit Committee Mr. Shakeel Ahmed Mangroria	4

### HR Committee Terms of Reference

The committee shall be responsible for:

- i) recommending human resource management policies to the board;
- ii) recommending to the board the selection, evaluation, compensation (including retirement benefits) and succession planning of the CEO;
- iii) recommending to the board the selection, evaluation, compensation (including retirement benefits) of CFO, Company Secretary and Head of Internal Audit; and
- iv) consideration and approval on recommendations of CEO on such matters for key management positions who report directly to CEO or BOD.

The Human Resource committee comprises of the following members:

Members	No. of Meeting Attended
Mr. Abbas Ali Muhammad Non Executive (Chairman)	1
Mr. Wazir Mumtaz Ahmed Non Executive (Member)	2
Mr. Syed Rasheed Akhtar Non Executive (Member)	2



## Organizational Structure

For the year ended June 30, 2017



## Role of Chairman and Chief Executive Officer

The Chairman is responsible for the leadership of the Board and is key in the creation of the conditions necessary for overall board and individual director effectiveness, both inside and outside of the boardroom. It is also the Chairman's role to ensure effective communication with the Association Members and to chair General Meetings.

The Chairman of the Board has a responsibility to lead the Board and ensure its effective functioning and continuous development. Besides, he has responsibility of effective performance of the Board and maintenance of cordial and conducive relationship between the directors.

The concept of separation of the role of the Chairman from the role of CEO implies that the Chairman should be independent from management and free from any interest or other relationship which could interfere with the Chairman's independent judgment.

### Chairman

Mr. Wazir Mumtaz Ahmed is Chairman of Board of Directors of Habib Metropolitan Modaraba Management Company (Private) Ltd., He is very seasoned banker and carrying diversified banking and fund management experience of more than 40 years. Being a Chairman of Board he is responsible for:

- Leads the Board and also act as a liaison between management and the Board.
- Ensure that the Board is properly working and all matters relevant to the effective functioning of the institution are placed.
- Ensure effective operations of the Board and its committees.
- Make sure that the board focuses on its key tasks.
- To promote the highest standards of corporate governance.
- He coordinates with Committees to ensure that appropriate policies and procedures are in place for the effective management of the affairs of the Management Company and FHM.
- To make sure better communication between Modaraba Certificate holders, investors with the management of FHM.

### Chief Executive Officer

Mr. Muhammad Shoaib Ibrahim is the Chief Executive Officer of the Modaraba. He has an extensive experience of Islamic banking and finance.

Being CEO he is responsible to manage the business of Modaraba within the authorities delegated by the Board. His responsibilities are set out as follows:

- To manage day to day affairs of Business.
- To implement long term strategic plan, goal and objectives.
- To make Shariah governance within the operation.
- To Enable Board of Directors to fulfill its governance functions.
- To give directions for achievement of business objective.
- Maintain market presence and profitability.
- Evaluate asset utilization and for redeployment in prudent manner.
- To make sure of best utilization of FHM's resources.
- To make sure strong compliance culture and internal control within the organization.
- To make available proper working environment for all staff members.
- To manage human resource for smooth working of organization.
- Effective coordination with regulator for implementation of proper regulatory framework within organization.



## Performance Evaluation of the Board

The key purpose of board of directors is to ensure the organization's prosperity by collectively formulating strategies and policies on the affairs of the organization in the best interest of its shareholders and stakeholders. The Board sets the institution's strategic aims and providing the leadership for effective functioning and operational working of the organization. An effective Board needs to monitor and improve its performance. It can only be achieved through its evaluation which can be judged through implementation of strategic objectives, satisfactory function and performance of the institutions.

The Board of Directors evaluates its performance by looking at the overall performance of the Modaraba and sets the following criteria.

- Efficient and adequate meeting administration to enable decision making.
- Relationships and interactions between the board, the management and other key stakeholders.
- Compliance of all applicable regulatory system including Shariah governance is in place.
- Required quorum of Board meeting is available in order to have detailed deliberation and quality decision.
- Satisfactory implementation of strategic planning, budgetary targets business risks and long term policies by the management.
- Proper risk management tools are in placed which counter any business and operational threats and contingencies.
- How is the relationship between the board and its main committees and its performance?
- Board respond to any problems emerged within the Modaraba.
- Update with latest developments within regulatory environment and financial markets.
- Adequate internal control system and its regular assessment through self-assessment and audit committee.

## Performance Evaluation of the Chief Executive Officer

The Chief Executive Officer (CEO) is the officer who has ultimate management responsibility for an organization. He is responsible for leading the development and execution of the company's short term and long term strategy with a view to creating shareholder value. The CEO manages the day to day affairs of the organization through his designated team and report directly to the Board of Directors.

On the performance evaluation of the CEO, the Board has gone through with following:

- Better performance of Modaraba.
- Proper update about the Modaraba's affairs in Board meetings.
- Achieve given targets of business and growth of the Modaraba.
- Effective communication with Regulators, Certificate Holders and investors of the Modaraba.
- Effective management of available resources of the Modaraba.
- Implementation of strategic decisions/policies and align the same with objective of the organization.

Board has shown their satisfaction on performance evaluation of the CEO which covers quantitative as well as qualitative aspects conducted on said parameters.

## Report of the Audit Committee

### Composition of the Committee

The Audit Committee ("the Committee"), appointed by and responsible to the Board of Directors comprises of two directors, all of them are non-executive including one independent director.

The following are the members of Audit Committee.

**Mr. Rasheed Akther**

Chairman of Audit Committee

Non-Executive and Independent Director

**Mr. Wazir Mumtaz Ahmed**

Non-Executive Director

**Mr. Muhammad Hashim**

Non-Executive Director

### Scope of Audit Committee

The Audit Committee having prime responsibility to overview the internal control environment of the First Habib Modaraba and provide utmost support in framing the control environment to prevent the Modaraba from any unforeseen risk. The Audit Committee has the strategic vision and focus on the stringent control of the Modaraba and member having expertise which formulate through effective and efficient resource allocation in order to ascertain the strength of the existing control and also recommend for further improvement. The Committee comprised of All Non-Executive Director in which Chairman Audit Committee is an independent Director. The Audit Committee concentrate and emphasis on the effectiveness of internal control, compliance, assurance, internal audit functions, and other responsibilities given by the Board of Directors.

### Internal Control Framework (ICF)

The audit committee is also adhered to make sure the ICF. The management of FHM is responsible to establish and maintain an adequate and effective system of ICFs and procedures. The core objective of ICF is as follows:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Improved reporting throughout the organization
- Safeguard against the Asset of the Modaraba
- Ensure adherence to its policies and plans

The department also ensures the compliances of regulatory requirement, FHM's internal policies and procedures with



specific emphasis on KYC, AML and Shariah audit mechanism. The Audit Committee actively monitors implementation to ensure that identified risks are mitigated to safeguard the interest of the institutions. During the year following control mechanism further strengthen:

- Branch audit scope extended with major emphasis on sound internal control and efficient operation at branch level.
- More emphasis on IT infrastructure platform in order to determine the quality of deterrence and process which running the system for better monitoring and control.
- Further improving the SOP of the institution
- Shariah audit and compliance monitoring further strengthen and every possible effort exerted in order to prevent any non-Shariah transactions.
- Actively engaged in the BCP/DRP mock exercise in order to ascertain the backup procedure and process for smooth running of the system in case of any unforeseen event happened.

### Role of Internal Auditor

The role of internal audit is to provide independent opinion that an organization's risk management, governance and internal control processes are operating effectively or not. Internal auditors deal with issues that are essentially important to the survival and prosperity of any company. Unlike external auditors, they look beyond financial risks and statements to consider wider issues such as the institution's reputation, growth and corporate governance.

### Major roles and responsibilities of internal audit function are summarized as below:

- Evaluates and provides reasonable assurance that risk management, control structure, and governance



systems are functioning as intended and will enable the organization's objectives and goals to be attained without compromising the control

- Reports risk management issues and internal control  
Apart from above, the Committee also reviewed and deficiencies identified directly to the audit committee and provide recommendations for improving the organization's operations, in terms of both efficient and effective performance.
- Evaluates the adequacy of information system security and associated risk exposures in order to resist against any known and unknown risk.
- Evaluates regulatory compliance program with consultation from legal counsel to protect the interest of the modaraba against any future litigation proceedings
- Evaluates the organization readiness in case of business interruption through participating in BCP and DRP drill exercise on periodic basis.
- Maintains open communication with management and the audit committee in related to any matter which require strategic management support so that on prompt basis the information share with the committee member
- Coordinate with other internal and external resources as appropriate.
- Make sure that the process or procedure not against the Shariah norms and guidelines.
- Evaluate the HR function along with the objective for attaining the strategic objective of the modaraba in order to recruit highly skilled staff with excellent knowledge base and working aptitude
- Evaluate the succession plan of the Modaraba for backup support and continuity of the operation without any disturbance.
- Evaluate the IT governance structure running in the modaraba with respect to control and monitoring and on the safeguard against any vulnerable threat

#### Conduct of meeting by Audit Committee

The Audit Committee has concluded its review of the conduct and operations of the FHM during 2016-17 and report that;

- Four meetings of Audit Committee were held during the year 2016-17
- The Audit Committee reviewed quarterly, half yearly and

annual financial statements of the FHM prior to their approval by the Board of Directors.

- The Audit Committee has reviewed and approved all related party transactions.
- The Head of Internal Audit has direct access to the Chairman of the Board and having the full liberty to discuss issued which having significant concern over the organization control and raised the issue of governance and risk.
- The internal audit function has carried out its duties under the charter defined by the Committee so that smooth functioning of the operation is possible.
- Apart from above, the Committee also reviewed and deliberated upon the relevant control and suggest further insight over the control mechanism
- An update on entire audit activity carried out by Internal Audit Function during the year.
- Significant internal audit findings forward to audit committee.
- Update on evaluation of ICF system by internal audit, as well as compliance thereon by the management.
- Compliance Status of Shariah advisor Reports.

#### External Audit

External audit is an independent function of audit. For the period ended 30th June 2017 this function has been done by M/s Muniff Ziauddin, Chartered Accountant as an external auditor of FHM.

The Chairman of audit committee has provided opportunity of meeting of relevant partner of external auditors M/s Muniff Ziauddin, Chartered Accountant, separately, without any Senior Executive of FHM being present to ensure that the Auditors had the independence to discuss and express their opinions on any matter and also for the Committee to have the assurance that the management has fully provided all information and explanations requested by the Auditors.

The Audit Committee approves the audited accounts of FHM for the period year ended 30th June, 2017 audited by M/s Muniff Ziauddin, Chartered Accountant and confirms that there is no material non-compliance found within the audited accounts or narrated by auditors.

Chairman  
Audit Committee

## Avoiding Conflict of Interest Policy

In terms of the Code of Business Conduct of the Company, each member of the Board has a responsibility to determine whether he has potential or actual conflict of interests arising from personal relationships, external associations and interest in material matters which may have a bearing on his independent judgment. The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest between their responsibilities and their other interests. The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board.

The governance structure of the FHM ensures that Directors take all necessary steps to avoid conflicts of interest and any Director with a material personal interest in a matter being considered by the Board must be declared. Directors abstain from voting on any Board resolution in which they or their close relations have interests such as credit facility or purchase of any assets etc. Their votes are also not counted in establishing the quorum for the relevant agenda item.

In pursuance of the requirements of Code of Corporate Governance and Company Act, Directors are required to disclose any financial accommodation from and/or deposits made with the FHM by entities where they function as Chairman or a Director. Furthermore, as per listing regulation of Stock Exchange it is also required to mention "Related Party Disclosure" in annual balance sheet. For this purpose all directors have already submitted annual declaration to Secretary on their holding in Certificate of Modaraba.

## Policy for protection of data of the company

The FHM has well defined procedures to maintain data protection management, the administration of backup processes to ensure that backup tasks run on schedule. There are predefine schedule that ensure data is securely backed up and recoverable whenever the same are needed. FHM has also arranged storage and BCP/DR solution with M/s. Cube XS Weatherly (Private) Ltd.

The required site of Cube XS is fully equipped with proper infrastructure and available at all times as a disaster recovery site. This storage has minimized the impact in case any distress situation where business will continue without any interruption. At our cold DR site engineer and logistical support teams can readily move hardware into our data center and get back up and running process.



FHM's online backup service supports us to secure data on real time basis. Offsite, online backups also help recover irreplaceable data and eliminate errors associated with traditional tape backup. FHM have daily weekly and monthly data backup processes which consisting on daily upload data to DR site. The company also has two sites located in Karachi and Lahore where data back-up is taken regularly.

Our disaster recovery plan is in placed to secure data of digitalization of document on weekly basis. Regular backup document data support us to access corporate and other information. It further assure us that corporate information can be accessed at any of location in Pakistan without moving or corresponding hard copies.

The company has installed latest state of the art Fire Suppression and Detection System to protect its data center. Additionally, we have strengthened our DR Plan with use of Data Guard and Online Transfer of Data to DR Site using Fiber Optic Technology.

## IT Governance Policy

Information and Communications Technology has been regarded as the source for the social economic development. Today it is functioning as catalyst of good governance particularly in financial sector where a quality customer service is core business objective of the organizations. In increasingly regulated businesses, organizations of all sizes and industries need to effectively manage and protect information. IT Governance has become a burning topic and inadequate compliance and security controls not only vulnerable to business risks but also expose to legislative and regulatory breaches. This ultimately led to inefficient business processes and lack of customer confidence which impact organization's sustainability and profitability.

Effective IT governance required a significant amount of time and attention, good IT governance harmonize decision about the management and it use of IT with desire behavior or business objective. The growing influence of information technology on business operation makes the control of IT inevitable. Enterprise governance of IT became keystone to address these challenges. Enterprise governance of IT is an integral part FHM governance and address the implementation the process ,structural and relational mechanism in organization that enable both business and IT resource to execute their responsibility with business alignment and creation of value. It makes sure that all stakeholders' interests are taken into account and that processes provide measurable results. System support department increasing expectation that they will be utilized electronic processes for not only more efficient governance but also improving management of information and services.

FHM IT department having the vision that aligned with the strategic objective of the organization. FHM IT governance is concerned around two things: IT delivery of value to the business and mitigate of IT risk. The first is driven by strategic alignment of IT with business the second is driven by embedding accountability into enterprise.

FHM's IT governance covers following functional areas.



### Compliance area

Invest in licensed applications in order to comply with relevant laws.

### Financial reporting area

Integration of the different systems used by various departments.

### IT Security area

Sound IT security is in placed in such a way that protects within the FHM and outside to function as a proactive management of information security along with its risk and controls

### Judicious Capital Expenditure

All major IT-related procurement is reviewed and approved by a relevant IT committee.

### IT Risk Management functions

IT related risk issues are regularly reviewed and further strengthen in order to effectively manage them.

### Paperless documentation processes

In order to make green IT environment, continuous efforts have been made to minimize carbon print through migration of electronic and soft management of documents flows.

### Data Governance

Data governance encompasses the systematic and formal management of any service or process that is required for effective information management.

## Environment and Social Responsibility

The global economy continues to face the rising problems of poverty, excessive inequalities of income and wealth, high levels of inflation, large macroeconomic budgetary imbalances. Sustainability is the long-term maintenance of responsibility, which has environmental, economic, and social dimensions, and encompasses the concept of the responsible management of resources.

As key forces in society, organizations of all kinds have an important role to play in achieving this goal. FHM firm believe that sustainable development is not possible without building our communities and environment. Our commitment is for environmental, economic and social wellbeing for today and tomorrow. Although it is an economic issue but there is an ethical standpoint that lies behind.

The Environmental and Social Responsibility Policy of FHM reflect the firm's recognition that there can be a strong, positive correlation between financial performance and corporate, social and environmental responsibilities. We are focused on ensuring that all major activities undertaken by the FHM are correlated with the requirement of our Social and Environment system. FHM firm believes that the observance of sound environmental and social strategies are essential for building strong brands and safeguarding reputation, which in turn is vital for long-term success.

### Our approach to Social Responsibility

FHM is continuously striving for better prosperity of people, society and other stakeholders. It is our aim to create more value for prosperity of the society and nation such as:

- ◆ FHM encourage equal opportunity employment

without any discrimination whether it is gender or any disability, we believe that every human mind having talent which can be benefited to the institutions.

- ◆ Health and safety always remain an utmost concern of the management of FHM. Within the HR policy, the staffs of FHM are covered under health and group life insurance policies with renowned insurance companies.
- ◆ Develop staff members through workshops and on job training. FHM promote culture that is conducive to learning with right knowledge and create value both in their own lives and careers.

### Our approach to Environment Sustainability

It is our corporate objective to consume minimum natural resources and create low emission and waste. We also discourage those customers whose businesses are not environment friendly. FHM conscious on negative effect of waste and initiated following measures to minimize paper use by various departments.

- ◆ Electronic documents managements system introduced to minimize printing of papers.
- ◆ Customers' correspondences being sent via e-mails.
- ◆ Web based communication system has been started to communicate with customers and other stakeholders.
- ◆ Constantly raise staff awareness for paperless office concept and discourage unnecessary printing of documents.



## Human Resource

FHM recognizes its Human Capital as a core element of its business sustainability and growth. We firmly believe that human capital plays major role in securing the future success of any organization. It's our workforce that helps us to constantly improve, innovate and grow. Therefore we aim at implementing valued HR practices that enable us to attract, support, retain, and develop the workforce needed to achieve our strategic mission and vision.

Through the year we worked on various HR initiatives to ensure that our induction strategies, training and development methodologies, compensation strategies and performance appraisal systems remain robust and in line with best practices.

### INDUCTION & SUCCESSION PLANNING:

The Human Resource Department is committed to ensure that FHM attracts recruits, develops, and retains a high performing work force and prepares them for advancement or promotion into even more challenging roles. We focus on identifying and developing internal people with the potential to fill key business leadership positions. The successors are encouraged to nurture themselves by assuming different assignments, added responsibilities besides training exposure which address both the career progression and professional development of the successors.

### OPEN COMMUNICATION

FHM focuses on maintaining open communication culture across its all departments, as it directly impacts on employee motivation and commitment. We ensure that there should be cordial working environment between employees which is an essential component in the organization's success. We always value and promote employee involvement and interaction.

### EQUAL EMPLOYMENT OPPORTUNITY:

FHM believes in providing equal opportunity to all employees based on strict meritocracy and without any discrimination on the basis of religion, race, gender, age, disability etc. We are committed to a diverse and inclusive culture and always welcome induction of people with diverse backgrounds at all levels.

### DIVERSITY AND INCLUSION:

FHM promotes and values diversity within its workforce for promoting and maintaining sustainable and strong culture. We want our people to feel confident, comfortable and able to reach their potential regardless of gender, age, ability, background or sexual preference.



### LEARNING AND DEVELOPMENT

FHM believes in providing training and development opportunities to enable employees to acquire the technical and interpersonal skills needed to enhance their careers and effectively perform their job responsibilities. We believe in providing variety of learning opportunities to our staff through in-house, external and public training programs.

FHM believes that investment in developing and motivating staff plays a pivotal role in their positive contribution to the current and future success of organization. FHM actively supports its staff to acquire relevant professional qualifications for their desired career progression.

### HEALTH & WELLNESS BENEFITS:

FHM recognize the importance of medical assistance for its staff that enables them to focus on their professional responsibilities without worrying about financial risks in case of any medical problem. We offer health takaful to all our staff members through which employees can avail medical benefits from the best hospitals across the country.

## Investors' Grievance Policy

FHM is well focused on redressing investor grievances and ensure that appropriate mechanism exists for receiving and addressing complaints from our customer/investors in good manner and in shortest possible time. We believe that Investor service is an important segment for sustained business growth and it is our corporate motto that our investors must receive exemplary service across different areas of operations. Prompt and efficient service is essential in order to retain existing relationships and customer/investor satisfaction.

### Under the policy, FHM ensure that

- Customer/investor must be treated fairly at all times.
- Complaints raised by investors must be dealt with courtesy and in a timely manner.
- Grievance, if any, shall be resolved in a proper and time bound manner with detailed communication to relevant complainer.
- In case the resolution needs time, an interim response acknowledgment shall be issued.
- All the staff member of FHM work in good faith and without prejudice towards the interests of the investors.



- To timely address any untoward incident, FHM has a well-functioning grievance mechanism that proves a transparent and credible process resulting in outcomes that are seen as impartial, effective and durable. Through this initiative FHM is able to reduce investment risks, provide an effective avenue to express and resolve concerns, thereby substantiating positive relationship

### Grievance redress handling mechanism

- Handling of all the customer/investor grievances for the Company is a centralized function and is being handled by the relevant department at Head office.
- Relevant department assists internal and external customer/investor in resolving long standing complaints and issues and ensures that customer service standards are maintained and upgraded.
- A designated email ID has been allocated where the customer/investor can make complain and same is monitored by the relevant department on regular basis.
- Any serious complaint must be brought into the knowledge of senior management & CEO of FHM as well.



## Stakeholders Engagement

Stakeholder engagement has always been a crucial to an organization's performance. Stakeholder is an integral to the organization's business can be described as an effort to understand and involve them in business activities and decision making processes. Stakeholders are defined here as any group or individual who can affect or can be affected by an organization or its activities.

Stakeholder Engagement is emerging as a means of describing a broader, more inclusive and continuous process between a company and those potentially impacted that encompasses a range of activities and approaches. The overall purpose of stakeholder engagement is to drive strategic direction and operational excellence for organizations and to contribute to the kind of sustainable development from which organizations, their stakeholders and wider society can benefit by:

### Learning

Identifying and understanding

### Innovating

Drawing on stakeholder knowledge and insights to inform strategic direction and drive operational excellence.

### Performing

Enhancing performance.

We always give importance to work with our stakeholders at all levels of the business in order to maintain our sustainable development and performance. The integration of stakeholders into our sustainability risk assessment and management processes helps us identify and priorities stakeholders concerns.

In our business we have some key stakeholders what we try to do to meet or exceed their expectations of as responsible corporate venture. We wish to engage with individuals and groups who can help us continue to improve in these areas. These include, our Certificate Holders, Investors, and Employees, Suppliers, Regulators and local communities. Some of our engagement with stakeholders is listed below.

### Certificate Holders

Every year FHM has annual review meeting, where we invite our all certificate holders and interact with them and take their suggestions for improvement of businesses. FHM updates their Certificate holders and investors through Annual Report, Quarterly Financial announcements, investor's road shows and conferences. FHM continuously upgrades their technological supports for better and timely information to its certificate holders and investors and keep them informed through various resources and dialogue.

### Customer

At FHM, we always respect customer needs and design our financial products according to their business needs without compromising principles of Islamic Finance. Being Islamic Financial Institution, it is built-in feature in corporate objective of FHM for fairness of transaction and no exploitation or deceive customer's rights. FHM monitors the fair terms of pricing and accessibility in its products and services offerings. It protects its customers' privacy and security of their personal information

### MAPPING OF STAKEHOLDERS OF FHM



### Employees

FHM has excellent blend of professional personnel who are well committed and dedicated to their respective jobs.

Our Human Resource department always encourage to make such policies for employees which promote culture of reward on merit basis and foster for team work. We believe to manage them by leading rather than by driving. We hire the best people for the job and strive to retain, motivate, empower and reward them for their contribution. We are committed to provide an ideal professional environment to enable our employees to pursue the highest possible level of performance.

### Government / Regulators

FHM always gives utmost importance for compliance of applicable Rules and Regulations of Regulators. Also comply with legislative framework of Government regarding submission of return and of taxes and duties etc. FHM also communicates with Government authorities and regulators regarding commercial, policy, regulatory and other relevant matters.

### Suppliers

FHM prefers to work with local suppliers in order to support national economy and also save hard earned foreign exchange of the country. Approximately 70% of assets purchased for lease financing are from local suppliers. FHM regularly engage and communicate with suppliers during and after contract. We promote an ethical supplier management relationship in our policy guidelines.

### Communities

Economic sufficiency, optimal health, and happy relationships are some of the fundamental needs that contribute to our quality of life. FHM supports various trusts and societies who engaged in to provide health facilities and educations to needy communities of societies. Certain portion of profits of FHM has earmarked every year to contribute funds to these trusts and societies.

# Whistle Blowing Policy



A whistleblower as defined by this policy is an employee of FHM who reports an activity that he/she considers to be illegal or dishonest and can harm to the institution. The whistleblower is not responsible for investigating the activity or for determining fault or corrective measures rather appropriate management officials are charged with these responsibilities.

This mechanism encourages and enables employees to raise serious concerns within the management rather than overlooking a problem or 'blowing the whistle' outside. Some time employees are often realize that there is something seriously wrong with the organization. However, they may not express their concerns as they feel that speaking up would be disloyal to their colleagues or to the management.

First Habib Modaraba (FHM) having its corporate objective to work in most transparent manner, address the needs of each and every staff in fulfilling his or her official duties. Since beginning the culture of openness and freedom of speech is well functional at all level of FHM. Senior management having direct relationship with each and every staff and any grievance directly understand by top tier and prompt action taken accordingly.

We also have culture of monthly staff meeting where all the staffs are speak out their problem without any discrimination and top tier management taken strong and concrete steps without single exception.

The policy encourages open discussion of these issues and no one will be disadvantaged as a result of raising in good faith any concerns about compliance with the FHM's Code of Conduct. Under the policy, all disclosures are kept confidential and the identity of the individual making the allegation may be kept confidential so long as it does not hinder or aggravate any investigation.

We have documented whistle blower policy in hand where each staff knows procedures to be adopted in utilizing the whistle blower mechanism. Internal Auditor at times coordinated the whistle blower in investigating the gravity of the incident, and assesses the incident report mechanism for getting resolution of the problem without any further delayed.

The HR department having excellent appraisal and monitoring system in which regular session with respect to dealing with the situation in which whistle blower can be encouraged and benefited for his/her courage. Pre Format Application forms available at each employee desktop in the form of soft copy for easy and prompt access to high management. All information always keeps confidential and do not be used as against the interest of whistle blower.

FHM is committed to continually operate at the highest standards of conduct as the trustees of investors' funds and it is our core value to serve our community with integrity and honesty. We endeavor to earn and uphold the trust of all our stakeholders by serving and dealing with them ethically and professionally by adhering all applicable laws and best business practices.

We have been confidently reaping the benefits as we raise the bar in quality and performance.

## Focused Strategy

**At FHM, while remaining within our corporate objective, we continuously raise our bar for quality growth and best performance through following focused business strategies.**

- Focus on enhancing of outreach and penetration towards quality assets building within sound and stable customer base.
- Focus on strengthening Shariah governance culture within our operations.
- Focus to refresh tool of risk management processes particularly credit risk management in line with latest techniques.
- Focus on leveraging the power of technology for operational efficiency and delivering of quality service.
- Focus to further develop operation capacity of human resource through proper training and job rotation.
- Focus on compliance of all applicable laws and regulations.



# Memberships

**NBFI & Modaraba  
Association of Pakistan**

**International Islamic  
Financial Market (IIFM)  
BAHRAIN**

**Marketing Association  
of Pakistan (MAP)**

**Management Association  
of Pakistan (MAP)**

**Institute of Bankers  
of Pakistan (IBP)**

**First Habib Modaraba having affiliation  
with well-reputed International  
and Local Organizations & Associations**





IIFM is the global standardization body for the Islamic Capital & Money Market segment of the IFSI. Its primary focus lies in the standardization of Islamic financial products, documentation and related processes.

IIFM was founded with the collective efforts of the Central Bank of Bahrain, Bank Indonesia, Central Bank of Sudan, Labuan Financial Services Authority (Malaysia), Autoriti Monetari Brunei Darussalam and the Islamic Development Bank (a multilateral institution based in Saudi Arabia).



NBF & Modaraba Association of Pakistan was incorporated on 29th July, 2010 by merging Modaraba Association of Pakistan (MAP) and Leasing Association of Pakistan (LAP). The total numbers of members of the Association are 36 (thirty six) which includes 24 modarabas, 12 leasing companies and investment banks.

The Association provides a forum to all members to confer on all issues of common interest and to formulate joint strategies for their operation.



Management Association of Pakistan was formed in 1964. MAP is the apex management association of the country. Its mandate is to further strengthen management thought, practice and advocacy. MAP provides a platform for exchange of management knowledge and acts as a bridge between the public and private sectors, management practitioners and the government. The MAP is a forum at which national and international economic issues are discussed in their various events through out the year.



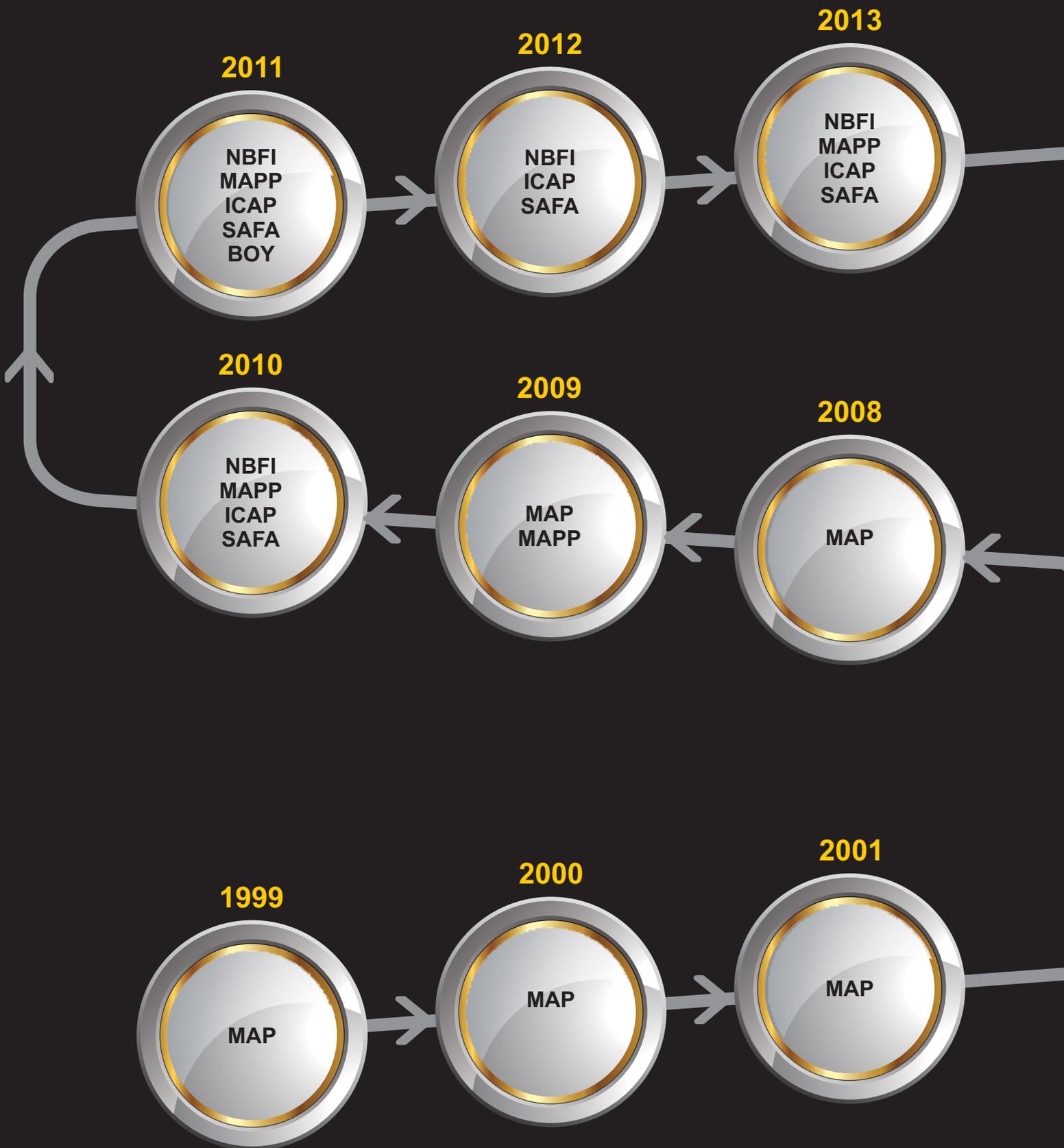
Marketing Association of Pakistan promotes the business interest of its members and drives growth of the marketing association industry.

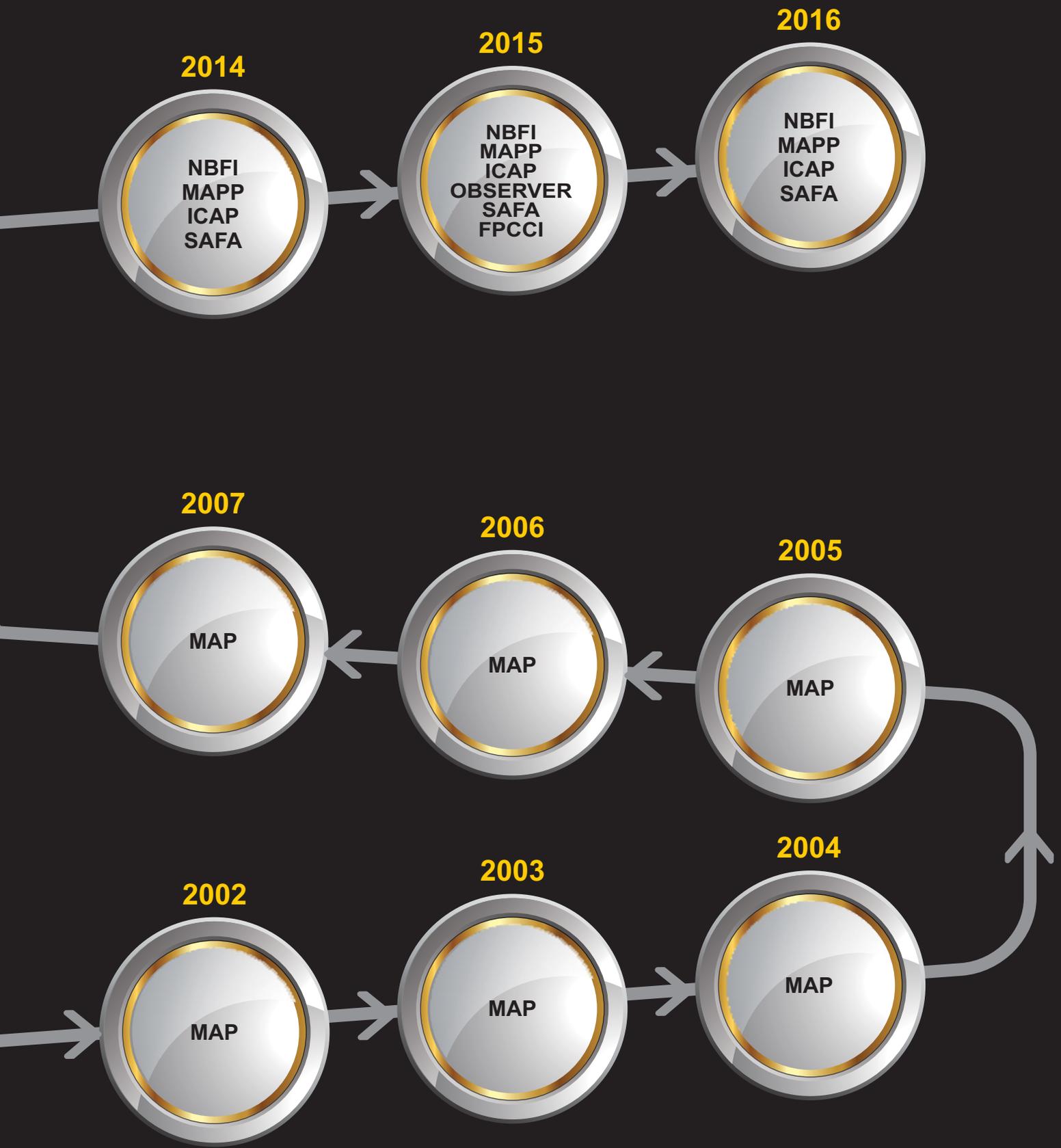
To enhance the appreciation of marketing discipline, provision of a forum to Pakistani marketers for interaction with fellow professionals and development of a voluntary code of ethics. MAP brings together persons interested and connected with marketing activities by arranging professional meetings each month.



The Institute of Bankers Pakistan (IBP) is Pakistan's only recognized Institute dedicated to providing technical training services for the banking industry in the country. The Institute's mission is to train and develop a sound human resource base for the financial sector and to work for continuous learning and professional development of bankers.

# FHM Awards Calendar





**MAP**  
**NBFI**  
**MAPP**  
**ICAP**  
**SAFA**  
**BOY**  
**FPCCI**  
**OBSERVER**

**MODARABA ASSOCIATION OF PAKISTAN**  
**NBFI & Modaraba Association of Pakistan**  
**Management Association of Pakistan**  
**Joint Committee of ICAP and ICMAP**  
**South Asian Federation of Accounts**  
**Brand of the Year**  
**Federation of Pakistan Chamber of Commerce and Industry**  
**The Pakistan Observer**

## FHM Events Calendar

### Calendar of Major Events

Incorporation of the Modaraba	1985
1st Best performing Modaraba Award from The Modaraba Association of Pakistan	1999
Reached Rupees One billion asset size	2001
Reached Rupees One billion Lease Rental	2005
Paid up Capital doubled from Rs. 252 million to Rs.504 million through 100% right issue along with 50% premium	2005
Crossed Rupees Five billion asset size	2007
Paid up Capital doubled from Rs.504 million to Rs.1008 million through 100% right issue along with 50% premium	2008
Paid up Capital reached to Rs.1.00 billion mark	2008
Corporate Excellence Trophy received from The Management Association of Pakistan	2009
Best Corporate Report Award received from The Joint Committee of ICAP and ICMAP	2010
Best Presented Accounts and Corporate Disclosure Award received from SAFA	2010
Celebrated Silver Jubilee of successful business operations	2010
Inaugurated full fledged Lahore Branch	2010
Equity reached Rupees Three billion mark	2011
Received Brand of the Year Award from The Brand Foundation of Pakistan	2011
Inaugurated full fledged Islamabad Branch	2011
Inaugurated full fledged Multan Branch	2012

### Financial Calendar

#### 2017

Ist Quarter Result issued on	October 25, 2016
2nd Quarter Result issued on	February 24, 2017
3rd Quarter Result issued on	April 19, 2017
Annual Result issued on	August 10, 2017
Annual Review Meeting	Scheduled on October 19, 2017

#### 2016

Ist Quarter Result issued on	October 28, 2015
2nd Quarter Result issued on	February 24, 2016
3rd Quarter Result issued on	April 19, 2016
Annual Result issued on	August 30, 2016
Annual Review Meeting	October 26, 2016

## *We Deliver*

At FHM we believe that to be successful in the long term we must continually reassess our competencies, business strategies and risk management approaches in order to cope up with day to day business challenges.

Our strategic planning processes continue to evolve each year building on the learnings of each planning cycle.

Consistency in distribution of dividends among the certificate holders along with increase in certificate holders' equity has made FHM a sound and well performing Modaraba within the sector. By the grace of Allah (SWT), FHM has been maintaining its history of continuous payment of profits to its Certificate Holders and never skipped the same in any single year.

Our achievements are evidence to the solid business fundamentals and consistent financial management policies practiced across the organization. Our focused business strategy keeps us firmly on path of sustainable growth.

We align our business strategy with large commitment to Corporate Responsibility, wellbeing of employees, customers, communities, environment and national development for long term sustainability. Working side by side with our stakeholders, we see clearly that their success drives our success as we journey together to long term mutually beneficial partnership and prosperity.

# Product Detail

## LEASE



Ijara is an exchange transaction in which a known benefit arising from a specified asset is made available in return for a payment, but where ownership of the asset itself is not transferred. The ijara contract is essentially of the same design as an instalment leasing.

## DIMINISHING MUSHARAKA

Shirkat ul Milk is a type of SHirkah where , a financier and his client participate either in the joint ownership of a property or an equipment. The share of the financier is further divided into a number of units and it is understood that the client will purchase the units till all the units of the financier are purchased by him. This arrangement allows the financier to claim rent according to his proportion of ownership in the property and at the same time allows him periodical return of a part of his principal through purchases of the units of his share.



## CAR-NAMA



The rise in the cost of vehicles has made buying the car of a difficult reality. Now we bring a package which reduces your worries for your huge investment in the car of your choice. FHM is offering a very flexible and affordable car lease financing scheme for corporate employees and self-employed persons who fulfill required criteria of FHM.

## MURABAHA

Murabaha refers to sale where the seller discloses the cost of commodity and the amount of profit charged. Thus it is not a loan given on interest rather it is a sale of commodity at profit. In this transaction, seller i.e. Modaraba disclose the cost and profit thereon.



# Product Detail

## SALAM

Salam is a contract of Sale where the Seller undertakes to supply some specific commodity to the Buyer at a future date in exchange for a price fully paid in advance. Amount given, as Salam cannot be called back, unlike Qard.



## ISTISNA



Istisna' means asking someone to construct, build or manufacture an asset. In Islamic finance, istisna' is contract whereby a party undertakes to manufacture, build or construct assets, with an obligation from the manufacturer or producer to deliver them to the customer upon completion. In contrast to istisna', for salam contract the payment has to be made in full, in advance.

## MUSHARAKA

Musharakah is a joint enterprise or partnership structure with profit/loss sharing implications that is used in Islamic finance instead of interest-bearing loans. Musharakah allows each party involved in a business to share in the profits and risks.



## CERTIFICATE OF INVESTMENT (MUSHARAKA)



COM Scheme has been formulated under the parameters laid down by the Securities and Exchange Commission of Pakistan in its "Guidelines for Issue of Certificates of Musharika for Modarabas."

FHM's COMs has combination of reliance, security, shariah compliant income accompanying with a rewarding ROI to its certificate holders.

## Shariah Adviser Profile

### Mufti Abdul Sattar Laghari

Mufti Abdul Sattar Laghari is a prominent Shariah scholar in the industry of banking and finance. He has been providing Shariah Advisory services since 2005. He has previously worked as Shariah Advisor & Head Shariah Compliance in National Bank of Pakistan. Presently Mr. Laghari is associated as Resident Shariah Board Member (RSBM) & Head Shariah Compliance with Habibmetro-SIRAT. He also provides Shariah Advisory services to First Habib Modaraba and KASB Modaraba. He is a master trainer in Islamic banking and Finance and has conducted extensive courses throughout Pakistan. During his career he has issued numerous fatawa on general as well as financial & Islamic Banking issues.

Mufti Abdul Sattar Laghari holds a Shahada tul A'almiah (Dars e Nizami) from Jamia Darul-Uloom, Korangi, Karachi. He holds Specialization (Takhassus) in Islamic Fiqh and Fatwa from Darul Ifta wal Irshad Nazimabad 4 Karachi and holds Master Degree in Islamic Studies from University of Karachi.

Mufti Laghari also holds a certificate of 1 year correspondence course in Islamic Law from Shariah Academy International Islamic University Islamabad Pakistan along with certificates of various courses on Islamic Banking and Finance conducted by Prominent learning Centers in Pakistan & Malaysia. He was a class topper in Islamic Banking Certificate Course # 20 conducted at NIBAF Karachi.

Mufti Laghari has been serving as Imam and Khateeb at Jamiah Masjid Tauheed Nazimabad No.2 since 2002.





*All Praise is due to Allah, the Cherisher of the world  
Peace and Blessings be upon the Prophet of Allah, on his family and all his companions, and on those who  
follow him with Iman till the day of Aakhirah*

## **SHARIAH CERTIFICATE FOR FIRST HABIB MODARABA** FOR THE PERIOD ENDED JUNE 2017

By the Grace of Allah, I have conducted the Shari'ah review of First Habib Modaraba managed by Habib Modaraba Management (Pvt.) Ltd. for the year ended June 30, 2017 in accordance with requirement of the Shari'a Compliance and Shari'ah Audit Mechanism for Modaraba.

I acknowledge and certify that as Sharia Advisor of the Modaraba, the financial arrangements, contracts and transactions entered into by the company with its participants, stakeholders and customers are in compliance with the requirements of Sharia rules and principles. During the review I have verified the following in compliance with Shariah mechanism:

- ◆ The transactions of Lease and Diminishing Musharakah were reviewed on random selection basis.
- ◆ Declarations, description of assets, relevant purchase invoices, sequence and order of the documents and time difference between purchases and declaration where applicable were reviewed to obviate the possibility of fictitious transactions.
- ◆ Sharia Compliance Checklists (SCC) of transactions was also reviewed on random basis.
- ◆ During the year, credit approvals, restructuring of financing facilities, customer-specific transaction process flows, text of documents and security documents were reviewed to ensure Shariah compliance while offering financing products to the customers.
- ◆ Random physical inspections and concrete measures were taken to verify the purchase evidences and invoices of financing transactions, thus further improving the quality of internal controls.
- ◆ Charity account was reviewed and found in line with the direction of rules and regulation.
- ◆ All the investments were made in Shariah compliant Scripts; however the script of OGDCL, was sold in the current year and it was not in the list of KMI-100 thus the capital gain derived from the said script was transferred to charity account due to non shariah complaint income.
- ◆ Other related documents and procedures followed by different functional areas were found proper.
- ◆ Profit-sharing ratio, profit weightages and distribution of profit to COM depositors.

During the year onsite training has been given to the staff, however specific training was also conducted for the staff including all staff of the branches on pool management and Istisna.

### **Observations & Recommendations**

- ◆ First Habib Modaraba has its sizeable portfolio of assets insured through conventional insurance companies; however management has started conversion of its asset portfolio to Takaful windows after window takaful operations have started.
- ◆ More shariah related operational training is required to strengthen the shariah compliance framework.
- ◆ New products should be introduced to enhance the product line to promote the Islamic finance.
- ◆ Ensure to maintain and invest only in shariah complaint script as per KMI 100 index of Pakistan Stock exchange.

### **Conclusion**

Based on the extensive reviews of sample cases for each class of transaction, related documentation, processes, profit distribution mechanism for the depositors and management's representation made in this regard, in my opinion, the affairs, activities and transactions, performed by the Modaraba during the year comply with the rules & principles of Islamic Shariah in light of the guidelines and directives given by the Shariah Advisor and guidelines issued by office of the Registrar Modaraba, Security Exchange Commission of Pakistan (SECP).

May Allah bless us with the best Tawfeeq to accomplish His cherished tasks, make us successful in this world and in the hereafter, and forgive our mistakes.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

**Mufti Abdul Sattar Leghari**

Shariah Advisor

Dated: 2nd Ziq'a'd 1437 H / August 8, 2017







## Financial Statements

<b>Auditors' Report to the Certificate Holders</b>	<b>108</b>
<b>Balance Sheet</b>	<b>109</b>
<b>Profit &amp; Loss Account</b>	<b>110</b>
<b>Statement of Comprehensive Income</b>	<b>111</b>
<b>Cash Flow Statement</b>	<b>112</b>
<b>Statement of Changes in Equity</b>	<b>113</b>
<b>Notes to the Accounts</b>	<b>114</b>

## Auditors' Report To The Certificate Holders

We have audited the annexed balance sheet of **First Habib Modaraba** (the Modaraba) as at June 30, 2017 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

These financial statements are the Modaraba Company's [Habib Metropolitan Modaraba Management Company (Private) Limited] responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981. Our responsibility is to express an opinion on these statements based on our audit.

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

- a) In our opinion, proper books of account have been kept by the Modaraba Company in respect of First Habib Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI OF 1980), and Modaraba Companies and Modaraba Rules, 1981;
- b) In our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of account and are further in agreement with accounting policies consistently applied;
  - ii) the expenditure incurred during the year was for the purpose of the Modaraba's business and
  - iii) the business conducted, investment made, and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- c) In our opinion and to the best of our information and according to explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof confirm with the approved accounting standards as applicable in Pakistan and give the information required by the Modaraba companies and the Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and the Modaraba Rules, 1981 in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at June 30, 2017 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Karachi : August 10, 2017

**Muniff Ziauddin & Co.**  
Chartered Accountants  
Engagement Partner  
Muhammad Moin Khan

## BALANCE SHEET

As at June 30, 2017

	Note	2017	2016
-----Rupees-----			
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Fixed assets - tangible			
Lease financing assets	5	2,440,975,610	2,725,212,037
Assets in own use	5.2	11,547,466	8,552,118
		<u>2,452,523,076</u>	<u>2,733,764,155</u>
Intangible assets	6	35,519	307,651
Diminishing musharaka financing	7	2,653,337,842	1,812,456,774
Long term advances, deposits and prepayments	8	3,070,000	5,692,200
		<u>5,108,966,437</u>	<u>4,552,220,780</u>
<b>CURRENT ASSETS</b>			
Investments	9	1,298,684,499	1,011,035,269
Current portion of diminishing musharaka financing	7	1,638,299,962	1,239,061,566
Lease financing installments receivable	10	1,074,695	881,616
Advances and short term prepayments	11	9,736,357	5,926,930
Other receivables	12	28,623,282	24,001,015
Tax refund	13	89,006,078	79,479,382
Cash and bank balances	14	192,259,670	248,143,222
		<u>3,257,684,543</u>	<u>2,608,529,000</u>
		<u>8,366,650,980</u>	<u>7,160,749,780</u>
<b>TOTAL ASSETS</b>			
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Certificate capital :			
Authorized			
220,000,000 (2016: 220,000,000)			
certificates of Rs. 5/- each		1,100,000,000	1,100,000,000
Issued, subscribed and paid-up capital	15	1,008,000,000	1,008,000,000
Reserves	16	2,463,902,908	2,308,055,273
Certificate holders' equity		<u>3,471,902,908</u>	<u>3,316,055,273</u>
<b>NON-CURRENT LIABILITIES</b>			
Security deposits against Lease financing assets	17	241,767,687	304,061,240
<b>CURRENT LIABILITIES</b>			
Certificate of Investment (Musharaka)	18	3,913,784,732	3,050,913,721
Security deposits - current portion	17	102,023,172	93,882,475
Unearned lease financing and diminishing musharaka installments		24,519,411	10,482,879
Advance lease financing and diminishing musharaka installments		22,586,591	22,846,363
Trade and other payables	19	377,886,560	285,006,414
Profit payable on Certificate of Investment (Musharaka)		52,363,370	46,565,887
Profit payable on murabaha financing		4,039,549	-
Advance against murabaha financing		123,860,502	-
Taxation		-	2,790,833
Unclaimed profit distribution		31,916,498	28,144,694
		<u>4,652,980,385</u>	<u>3,540,633,267</u>
<b>Contingencies and Commitments</b>	20		
		<u>8,366,650,980</u>	<u>7,160,749,780</u>
<b>TOTAL EQUITY AND LIABILITIES</b>			

The annexed notes 1 to 43 form an integral part of these financial statements.

**For Habib Metropolitan Modaraba Management Company (Private) Limited  
(Management Company)**

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

## PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2017

	Note	2017	2016
-----Rupees-----			
Income from lease financing	21	218,088,742	250,631,485
Income on diminishing musharaka financing		321,751,433	224,886,195
		539,840,175	475,517,680
Administrative expenses	22	(88,621,151)	(80,770,950)
		451,219,024	394,746,730
Other income	23	103,658,269	105,362,647
Other operating charges	24	(1,378,274)	(1,207,940)
		553,499,019	498,901,437
Financial charges	25	(203,084,962)	(155,345,333)
		350,414,057	343,556,104
Modaraba Management Company's remuneration		(35,041,406)	(34,355,610)
Services sales tax on Management Company's remuneration	26	(4,555,383)	(4,809,785)
		310,817,268	304,390,709
Workers Welfare Fund		(6,216,345)	(6,087,814)
<b>Profit before taxation</b>		304,600,923	298,302,894
Taxation - prior		(10,083,761)	-
<b>Profit for the year</b>		294,517,162	298,302,894
Earnings per certificate - basic and diluted	37	1.46	1.48

The annexed notes 1 to 43 form an integral part of these financial statements.

**For Habib Metropolitan Modaraba Management Company (Private) Limited  
(Management Company)**

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR



## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016
	-----Rupees-----	
Profit for the year	294,517,162	298,302,894
Movement in available for sale investments	63,828,076	(17,396,616)
Actuarial (loss)/gain on defined benefit plan	(897,603)	53,674
Total comprehensive income for the year	<u>357,447,635</u>	<u>280,959,952</u>

The annexed notes 1 to 43 form an integral part of these financial statements.

For Habib Metropolitan Modaraba Management Company (Private) Limited  
(Management Company)

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

## CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2017

	Note	2017	2016
		-----Rupees-----	
<b>Cash flow from operating activities</b>			
Cash generated from operations	39	1,581,369,739	1,586,122,359
Disbursement of lease financing assets		(1,052,481,306)	(1,124,233,507)
Proceeds from transfer of lease financing assets		328,908,135	367,857,478
Diminishing musharaka financing - net		(1,240,437,164)	(1,322,401,095)
Lessee's security deposits:			
Received		74,283,642	87,036,770
Refunded / adjusted		(128,436,498)	(107,593,615)
Net lessee's security deposits		(54,152,856)	(20,556,845)
Financial charges paid		(192,878,512)	(157,036,353)
Gratuity paid		(2,604,201)	(1,723,503)
Net cash outflow from operating activities		(632,276,165)	(671,971,466)
<b>Cash flow from investing activities</b>			
Purchase of owned assets (including intangibles)		(6,237,358)	(3,366,695)
Proceeds from disposal of owned assets		187,500	122,330
Purchase of investments - available for sale		(246,784,423)	(851,884,567)
Redemption of Ijarah Sukuk bonds		-	800,000,000
Proceeds from disposal of investments		26,264,538	10,800,753
Dividend received		11,436,838	10,393,568
Long-term advances, deposits and prepayments		2,622,200	(5,004,750)
Net cash used in investing activities		(212,510,706)	(38,939,361)
<b>Cash flow from financing activities</b>			
Profit distribution paid		(197,828,196)	(219,293,060)
Advance against murabaha financing		123,860,502	-
Certificate of Investment (Musharaka)		862,871,012	690,834,137
Net cash inflow from financing activities		788,903,318	471,541,077
Net decrease in cash and cash equivalents		(55,883,552)	(239,369,750)
Cash and cash equivalents at the beginning of the year		248,143,222	487,512,972
Cash and cash equivalents at the end of the year		192,259,670	248,143,222

The annexed notes 1 to 43 form an integral part of these financial statements.

**For Habib Metropolitan Modaraba Management Company (Private) Limited  
(Management Company)**

**CHIEF EXECUTIVE**

**DIRECTOR**

**DIRECTOR**

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2017

	Capital reserves			Revenue Reserves			Total reserves	Total
	Certificate capital	Certificate premium	Statutory reserve	General reserve	Unrealized gain on investments	Unappropriated profit		
	-----Rupees-----							
Balance as at July 01, 2015	1,008,000,000	378,000,000	911,165,803	640,000,000	71,203,913	248,485,605	2,248,855,321	3,256,855,321
Profit distribution for the year ended June 30, 2015 at 22%	-	-	-	-	-	(221,760,000)	(221,760,000)	(221,760,000)
Total comprehensive income for the year	-	-	-	-	(17,396,616)	298,356,568	280,959,952	280,959,952
Transfer to statutory reserve at 30%	-	-	89,490,868	-	-	(89,490,868)	-	-
Balance as on June 30, 2016	<u>1,008,000,000</u>	<u>378,000,000</u>	<u>1,000,656,671</u>	<u>640,000,000</u>	<u>53,807,297</u>	<u>235,591,305</u>	<u>2,308,055,273</u>	<u>3,316,055,273</u>
Balance as on July 01, 2016	1,008,000,000	378,000,000	1,000,656,671	640,000,000	53,807,297	235,591,305	2,308,055,273	3,316,055,273
Profit distribution for the year ended June 30, 2016 at 20%	-	-	-	-	-	(201,600,000)	(201,600,000)	(201,600,000)
Total comprehensive income for the year	-	-	-	-	63,828,076	293,619,559	357,447,635	357,447,635
Transfer to statutory reserve at 30%	-	-	88,355,149	-	-	(88,355,149)	-	-
Balance as at June 30, 2017	<u>1,008,000,000</u>	<u>378,000,000</u>	<u>1,089,011,820</u>	<u>640,000,000</u>	<u>117,635,373</u>	<u>239,255,715</u>	<u>2,463,902,908</u>	<u>3,471,902,908</u>

The annexed notes 1 to 43 form an integral part of these financial statements.

**For Habib Metropolitan Modaraba Management Company (Private) Limited  
(Management Company)**

**CHIEF EXECUTIVE**

**DIRECTOR**

**DIRECTOR**

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

### 1 STATUS AND NATURE OF BUSINESS

First Habib Modaraba (the Modaraba) is a perpetual, multi-purpose modaraba floated and managed by Habib Metropolitan Modaraba Management Company (Private) Limited (the Modaraba Management Company) having its registered office at 5th Floor, HBZ Plaza, I.I. Chundrigar Road, Karachi. The Modaraba is listed on Pakistan Stock Exchange. The Modaraba is engaged in the business of leasing (Ijarah), Musharaka, Murabaha financing and other related business.

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Prudential Regulations for Modarabas (hereinafter referred to as the relevant laws). Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the repealed Companies Ordinance, 1984. Wherever, the requirements of relevant laws or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the relevant laws and the said directives take precedence.

The SECP has issued directive (vide SRO 431 (I) / 2007 dated May 22, 2007) that Islamic Financial Accounting Standard 2 (IFAS-2) shall be followed in preparation of the financial statements by Companies and Modarabas while accounting for Lease Financing transactions as defined by the said standard. The Modaraba has adopted the said standard.

#### 2.2 Basis of measurement

These financial statements have been prepared on the historical cost basis except for the measurement at fair value of certain financial instruments in accordance with the requirements of IAS-39 "Financial Instruments: Recognition and Measurement", wherever applicable.

Permissible Islamic financial products including Murabaha (as a liability) and Musharaka have been used by the Modaraba, in line with similar industry practices. The accounting and presentation of the same are in line with the substance of the transaction and are limited to the extent of actual amount of facility utilized and mutually agreed mark-up / profit thereon. Accordingly, purchases, sales and Musharaka profits / reserves are not reflected in these financial statements except for Murabaha facility (as an asset) which has been accounted for in line with Islamic Financial Accounting Standard - 1.

These financial statements have been prepared following accrual basis of accounting except for cash flow information.

#### 2.3 Functional and presentation currency

These financial statements have been presented in Pakistan Rupees, which is the functional and presentation currency of the Modaraba.

#### 2.4 Significant accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Modaraba's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future period effected. In the process of applying the Modaraba's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

### Useful lives, pattern of flow of economic benefits and impairment

Estimates with respect to residual values and depreciable lives and pattern of flow of economic benefits are based on the analysis by the management of the Modaraba. Further, the Modaraba reviews the value of the assets for possible impairment on an annual basis and any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with a corresponding effect on the depreciation charge and impairment.

### Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 19.3 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might effect unrecognized gains and losses in those years.

### Provisions against non performing financing (Suspense income)

The Modaraba reviews its overdue lease financing installments and diminishing musharka at each reporting date to assess whether provision should be recorded in the profit and loss account, in addition to the mandatory provisions required in accordance with the Prudential Regulations issued by the SECP. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions regarding a number of factors and actual results may differ, resulting in future changes to the provisions.

## 3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS

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

The following revised standards, amendments and interpretations with respect to the approved accounting standards would be effective from the dates mentioned below against the respective standard or interpretation:

Standard, Interpretation or Amendment		Effective date (annual periods beginning on or after)
IFRS 1	First time adoption of International Financial Reporting Standards (Amendments)	January 1, 2018
IFRS 2	Share-based Payment (Amendments)	January 1, 2018
IFRS 9	Financial instruments (Amendments)	January 1, 2018
IFRS 12	Disclosure of interest in other entities (Amendments)	January 1, 2017
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
IFRS 16	Leases	January 1, 2019
IAS 7	Statement of Cash Flows (Amendments)	January 1, 2017
IAS 12	Income Taxes (Amendments)	January 1, 2017
IAS 28	Investments in Associates and Joint Ventures	January 1, 2018
IAS 40	Investment Property (Amendments)	January 1, 2018
IFRIC 22	Foreign Currency Transactions and Advance	January 1, 2018
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019

The Modaraba expects that the adoption of the above amendments and interpretations will not affect its financial statements in the period of initial application.

In addition to the above amendments and interpretations, improvements to the following accounting standards have also been issued by IASB. Such improvements are generally effective for accounting periods beginning on or after July 01, 2016.

	<b>Standard, Interpretation or Amendment</b>	<b>Effective date (annual periods beginning on or after)</b>
IFRS 12	Disclosure of Interests in Other Entities (Amendments)	January 1, 2016
IAS 16	Property, Plant and Equipment (Amendments bringing bearer plants into the scope of IAS 16)	January 1, 2016
IAS 16	Property, Plant and Equipment (Amendments regarding the clarification of acceptable methods of depreciation and amortisation)	January 1, 2016
IAS 38	Intangible Assets (Amendments)	January 1, 2016

#### **4 SIGNIFICANT ACCOUNTING POLICIES**

##### **4.1 Revenue recognition**

Lease financing installments are recognized on accrual basis.

Income from Murabaha is accounted for on consummation of Murabaha transaction. However, profit on that portion of revenue not due for payment (deferred Murabaha income) is deferred and recognized on a time proportionate basis.

Income on diminishing musharaka financing is recognized on accrual basis.

Income on Sukuk bond is recognized on accrual basis.

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

Return on deposit accounts is recognized on accrual basis.

Gain / (loss) on available-for-sale investments is recognized at the time of disposal of investment.

##### **4.2 Fixed assets – Tangible**

###### **(a) Lease financing assets**

Lease financing assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight line method whereby the cost of an asset less salvage value is written off over the Lease financing period, which is considered to be the estimated useful life of the asset. In respect of additions and disposals during the year, depreciation is charged proportionately from the date of delivery of assets to the date of its maturity / termination.

###### **(b) Assets in own use**

These are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight line method whereby the cost of an asset is written off over its estimated useful life. In respect of additions and disposals during the year, depreciation is charged proportionately for the period of use.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized if the recognition criteria are met.

The carrying values are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each year end.

**(c) Gain or loss on disposal**

Gain or loss on disposal of assets, if any, is recognized as and when incurred.

**(d) Impairment**

The Modaraba assesses at each balance sheet date whether there is any indication that assets excluding inventory may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amounts. Where the carrying value exceeds the recoverable amount, assets are written down to the recoverable amount and the difference is charged to the profit and loss account.

**4.3 Intangible assets**

These are stated at cost less accumulated amortization and impairment, if any.

Amortization is charged to income applying the straight line method whereby the cost of an asset is written off over its estimated useful life. In respect of additions and disposals during the year, amortization is charged proportionately for the period of use.

**4.4 Financial assets**

Financial assets in the scope of IAS 39, are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction cost. The Modaraba determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

**i) Financial assets at fair value through profit or loss**

Financial assets classified as held for trading are included in the category 'Financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, if any, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognized in profit and loss account.

**ii) Held-to-maturity**

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Modaraba has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments, that are intended to be held-to-maturity, are subsequently measured at amortized cost.

This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization, using the effective interest rate method, of a difference between the initially recognized amount and the maturity amount. This calculation includes all fees and charges paid or received between parties to the contract that are an integral part of the effective interest rate, transaction cost and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in profit and loss account when the investments are derecognized or impaired, as well as, through the amortization process.

**iii) Loans and receivables**

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in profit and loss account when the loans and receivables are derecognized or impaired, as well as, through the amortization process.

#### iv) Available-for-sale

Available-for-sale financial assets are those non derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains and losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid price at the close of business on the balance sheet date. For investments where there is no active market, value is determined using valuation techniques.

#### 4.5 Trade date accounting

All 'regular way' purchases and sales of quoted equity securities are recognized on the trade date i.e. the date that the Modaraba commits to purchase / sell the asset. 'Regular way' purchases or sales of quoted investments require delivery within three working days after the transaction date as per stock exchange regulations.

#### 4.6 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities are security deposits against lease financing assets declared, unclaimed profit distribution and other liabilities.

#### 4.7 Recognition and derecognition of financial instruments

Financial assets are recognized initially at fair value or in case of financial assets that are not carried at fair value through profit or loss, at fair value plus transaction cost.

All financial assets and liabilities are recognized at the time when the entity becomes party to the contractual provisions of the instrument and are recognized in case of assets, when the contractual rights under the instrument are recognized, expired or surrendered and in case of a liability, when the obligation is discharged, cancelled or expired.

Any gain / (loss) on the recognition and derecognition of the financial assets and liabilities is included in the profit / (loss) for the period in which it arises.

Assets and liabilities that are not of contractual nature and that are created as a result of statutory requirements imposed by the Government are not financial instruments of the Modaraba.

#### 4.8 Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set-off the recognized amounts and the Modaraba intends to either settle on a net basis, or to recognize the asset and settle the liability simultaneously.

#### 4.9 Lease financing installments and Diminishing musharaka financing

Lease financing installments and Diminishing musharaka financing are stated net of provision and suspense income. Provision is recognized for Lease financing installments receivable, in accordance with the Prudential Regulations for Modarabas. Bad debts are written-off when identified.

#### 4.10 Cash and cash equivalents

Cash and cash equivalents are carried at cost.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash in hand, balances at banks in current and deposit accounts and stamps in hand.

#### 4.11 Finance arrangements including Certificate of Investment (Musharaka)

These are carried at the balance sheet at the principal amount. The amount received by the modaraba from Certificate of Investment holders is invested in the overall business activity of the modaraba on the basis of full participation in the profit and loss of the modaraba.

The profit shall be shared by Certificate of Investment holders and certificate holders in accordance with the agreed ratio. Profit on certificate of investment arrangement are recognized as financial expense in the period in which they incurred.

Profit on Musharaka finance is accounted for on the basis of the projected rate of profit. The effect of adjustments, if any, between actual rate and projected rate of profit is accounted for at the end of each quarter after determination of the actual rate. Profit on Musharaka finance is accounted for on the basis of the projected rate of profit. The effect of adjustments, if any, between actual rate and projected rate of profit is accounted for at the end of each quarter after determination of the actual rate.

#### 4.12 Staff retirement benefits

##### (a) Gratuity scheme

The Modaraba operates a gratuity scheme for all eligible employees who have completed the minimum qualifying period of service. The scheme is administered by the Trustees nominated under the Trust Deed. The contributions to the scheme are made in accordance with actuarial valuation using Projected Unit Credit Method.

Actuarial gains and losses arising at each valuation date are recognized immediately.

##### (b) Provident fund

The Modaraba also operates an approved funded contributory provident fund scheme for all its employees who are eligible under the scheme. Equal monthly contributions at the rate of 10 percent of basic salary are made by the Modaraba and the employees.

#### 4.13 Compensated absences

The Modaraba accounts for these benefits in the period in which the absences are earned.

#### 4.14 Taxation

##### Current

Provision for current taxation is made on taxable income at the prevailing rates of tax after taking into account tax credits available, if any. Under clause 100 of Part - I of the Second Schedule to the Income Tax Ordinance, 2001, the income of non-trading modarabas is exempt from tax provided that not less than 90 percent of their profits are distributed to the certificate holders.

##### Deferred

The Modaraba accounts for deferred taxation on all material temporary differences using the liability method arising between the amounts attributed to assets and liabilities for financial reporting purposes and financial statements used for taxation purposes. However, deferred tax liability has not been provided in these financial statements as the management believes that the future income of Modaraba will not be taxable in the foreseeable future due to the fact that the Modaraba intends to continue availing the tax exemption through profit distribution to the extent of 90 percent of distributable profit.

#### 4.15 Provisions

Provisions are recognized when the Modaraba has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

#### 4.16 Profit distribution and other appropriations of profit

Profit distribution and other appropriations of profit are recognized in the year in which these are approved. Transfer to statutory reserve and any of the mandatory appropriations as may be required by law are recognized in the period to which these relate.

#### 4.17 Related party transactions

All transactions with the related parties are priced on arm's length basis. Prices for those transactions are determined on the basis of admissible valuation methods.

### 5 Lease financing assets

	Note	2017	2016
		-----Rupees-----	
Lease financing assets	5.1	2,132,509,174	2,538,992,753
Advance against lease financing assets	5.1.1	308,466,436	186,219,284
		<u>2,440,975,610</u>	<u>2,725,212,037</u>

#### 5.1 Lease Financing assets

Particulars	June 30, 2017								
	COST			DEPRECIATION			Impairment	Written down value as at June 30, 2017	Rate of depreciation %
	As at July 01, 2016	Additions / (disposals) during the year	As at June 30, 2017	As at July 01, 2016	Charge / (adjustments) for the year	As at June 30, 2017			
	-----Rupees-----								
Plant, machinery and equipment	540,774,245	91,594,591 (136,324,346)	496,044,490	380,836,490	122,897,983 (120,602,700)	383,131,773	8,028,061	104,884,656	8.33 to 50
Vehicles	4,030,664,550	838,639,563 (1,295,076,709)	3,574,227,404	1,643,581,489	908,985,650 (1,005,964,253)	1,546,602,886	-	2,027,624,518	15 to 33.33
	<u>4,571,438,795</u>	<u>930,234,154 (1,431,401,055)</u>	<u>4,070,271,894</u>	<u>2,024,417,979</u>	<u>1,031,883,633 (1,126,566,953)</u>	<u>1,929,734,659</u>	<u>8,028,061</u>	<u>2,132,509,174</u>	

Particulars	June 30, 2016								
	COST			DEPRECIATION			Impairment	Written down value as at June 30, 2016	Rate of depreciation %
	As at July 01, 2015	Additions / (disposals) during the year	As at June 30, 2016	As at July 01, 2015	Charge / (adjustments) for the year	As at June 30, 2016			
	-----Rupees-----								
Plant, machinery and equipment	635,189,979	112,339,450 (206,755,184)	540,774,245	338,830,160	245,031,589 (203,025,257)	380,836,490	8,028,061	151,909,694	8.33 to 50
Vehicles	4,119,393,996	1,278,939,173 (1,367,668,619)	4,030,664,550	1,788,678,604	887,903,784 (1,033,000,899)	1,643,581,489	-	2,387,083,061	15 to 33.33
	<u>4,754,583,975</u>	<u>1,391,278,623 (1,574,423,803)</u>	<u>4,571,438,795</u>	<u>2,127,508,764</u>	<u>1,132,935,373 (1,236,026,156)</u>	<u>2,024,417,981</u>	<u>8,028,061</u>	<u>2,538,992,753</u>	

#### 5.1.1 Advance against lease financing assets

The lease financing assets cost includes an amount of Rs.308.466 million (2016: Rs.186.219 million) relating to advance against lease financing assets which have not yet been delivered to lessee.

## 5.2 Assets in own use

Particulars	June 30, 2017							
	COST			DEPRECIATION			Written down value as at June 30, 2017	Rate of depreciation %
	As at July 01, 2016	Additions / (disposals) during the year	As at June 30, 2017	As at July 01, 2016	Charge / (adjustments) for the year	As at June 30, 2017		
Rupees								
Office equipment	13,216,696	2,143,515 (279,900)	15,080,311	12,016,576	1,015,476 (279,893)	12,752,159	2,328,152	25 to 33.33
Furniture and fixture	7,978,058	1,857,765 (1,070,760)	8,765,063	6,736,550	685,299 (1,070,697)	6,351,152	2,413,911	20
Vehicles	9,879,328	1,789,000 (1,384,000)	10,284,328	4,715,774	1,255,633 (1,383,999)	4,587,408	5,696,920	16.67
Leasehold Improvements	962,985	401,448	1,364,433	16,049	239,900	255,949	1,108,484	16.67
	32,037,067	6,191,728 (2,734,660)	35,494,135	23,484,949	3,196,309 (2,734,589)	23,946,669	11,547,466	

Particulars	June 30, 2016							
	COST			DEPRECIATION			Written down value as at June 30, 2016	Rate of depreciation %
	As at July 01, 2015	Additions / (disposals) during the year	As at June 30, 2016	As at July 01, 2015	Charge / (adjustments) for the year	As at June 30, 2016		
Rupees								
Office equipment	12,478,096	738,600	13,216,696	10,518,554	1,498,022	12,016,576	1,200,120	25 to 33.33
Furniture and fixture	7,898,362	587,110 (507,414)	7,978,058	6,739,516	504,447 (507,413)	6,736,550	1,241,508	20
Vehicles	8,864,929	1,078,000 (63,601)	9,879,328	3,345,652	1,433,719 (63,597)	4,715,774	5,163,554	16.67
Leasehold Improvements	-	962,985	962,985	-	16,049	16,049	946,936	16.67
	29,241,387	3,366,695 (571,015)	32,037,067	20,603,722	3,452,237 (571,010)	23,484,949	8,552,118	

## 5.3 Disposal of assets in own use

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	Rupees					
3 Cam, 1 Online DVR with 500GB Hard disk	50,500	50,499	1	100	Quotation	Macro Technologies Karachi
Motherboard for PABX	104,400	104,399	1	14,000	Quotation	United Business Machines Karachi
Chairs	248,760	248,733	27	18,000	Quotation	Jupiter Furnishing Co. Karachi
Meeting Room Chairs	62,000	61,990	10	9,000	Quotation	Star Moulded Furniture

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	Rupees					
2 ton Mitsubishi Air Conditioner	135,000	134,998	2	8,000	Quotation	Prest Cool Karachi
Furniture Fixture	100,000	99,995	5	-	Company Policy	Mr. Adnan Thanwey
Furniture Fixture	200,000	199,991	9	-	Company Policy	Mr. Amir Kaleem
Furniture Fixture	100,000	99,996	4	-	Company Policy	Mr. Amir Manzoor
Furniture Fixture	100,000	99,997	3	-	Company Policy	Mr. Intisar Muhammad Usmani
Furniture Fixture	125,000	124,997	3	-	Company Policy	Mr. Tehsin Abbas
Office Equipment	25,000	24,999	1	-	Company Policy	Mr. Adnan Thanwey
Office Equipment	25,000	24,999	1	-	Company Policy	Mr. Amir Manzoor
Office Equipment	25,000	24,999	1	-	Company Policy	Mr. Intisar Muhammad Usmani
Office Equipment	25,000	24,999	1	-	Company Policy	Mr. Amir Kaleem
Office Equipment	25,000	24,999	1	-	Company Policy	Mr. Tehsin Abbas
Toyota Corolla Xli	1,384,000	1,383,999	1	138,400	Company Policy	Mr. Amir Kaleem
	<u>2,734,660</u>	<u>2,734,589</u>	<u>71</u>	<u>187,500</u>		

## 6 INTANGIBLE ASSETS

Particulars	COST			DEPRECIATION			Written down value as at June 30, 2017	Rate of amortization %
	As at July 01, 2016	Additions / (disposals) during the year	As at June 30, 2017	As at July 01, 2016	Charge / (adjustments) for the year	As at June 30, 2017		
	Rupees							
Computer software	3,417,019	45,630	3,462,649	3,109,368	317,762	3,427,130	35,519	33.33
Computer software - 2016	3,417,019	-	3,417,019	2,755,381	353,987	3,109,368	307,651	33.33

## 7 DIMINISHING MUSHARAKA FINANCING

	Note	2017	2016
-----Rupees-----			
Secured			
Diminishing musharaka financing	7.1	3,806,996,515	2,713,265,520
Less: Provision in respect of Diminishing Musharaka		(317,700)	-
		3,806,678,815	2,713,265,520
Less: Current portion shown in current assets		(1,638,299,962)	(1,239,061,566)
		2,168,378,853	1,474,203,954
Advance against diminishing musharaka financing		484,958,989	338,252,820
		<u>2,653,337,842</u>	<u>1,812,456,774</u>

7.1 This represents diminishing musharaka financing for a term of 1 to 5 years.

## 8 LONG-TERM ADVANCES, DEPOSITS AND PREPAYMENTS

	Note	2017	2016
-----Rupees-----			
Long-term deposits			
Security deposit to Central Depository Company of Pakistan Limited		150,000	150,000
Security deposit of branch offices		569,000	319,000
Security deposit to Habib Metropolitan Bank for locker		130,000	130,000
Miscellaneous deposits		66,850	66,850
		915,850	665,850
Prepayments			
Prepaid expenses		2,154,150	5,026,350
		<u>3,070,000</u>	<u>5,692,200</u>

## 9 INVESTMENTS

	Note	2017	2016
-----Rupees-----			
Available for sale			
Investment in shares	9.1	278,784,499	204,715,270
Investment in Ijarah Sukuk bonds	9.2	1,019,900,000	806,320,000
		<u>1,298,684,499</u>	<u>1,011,035,269</u>



**11 ADVANCES AND SHORT TERM PREPAYMENTS**

	Note	2017	2016
		-----Rupees-----	
Advances		4,217,420	378,750
Short term prepayments		5,518,937	5,548,180
		<u>9,736,357</u>	<u>5,926,930</u>

**12 OTHER RECEIVABLES**

	Note	2017	2016
		-----Rupees-----	
Unsecured - considered good			
Profit receivable on modaraba deposit accounts		401,251	967,465
Profit receivable on Ijarah Sukuk bond		1,917,491	1,554,387
Advance tax		25,912,033	20,370,457
Registration charges receivable		-	53,821
Other receivables		392,507	1,054,885
		<u>28,623,282</u>	<u>24,001,015</u>

**13 TAX REFUND**

	Note	2017	2016
		-----Rupees-----	
Income tax		89,006,078	79,479,382
		<u>89,006,078</u>	<u>79,479,382</u>

**14 CASH AND BANK BALANCES**

	Note	2017	2016
		-----Rupees-----	
Stamps in hand		183,529	1,054,129
Cash at banks			
<b>Current account</b>			
State Bank of Pakistan		101,412	51,341
With other banks		557,474	558,467
<b>Profit bearing accounts</b>			
Modaraba Deposit account Albaraka Bank Limited	14.1	13,421	12,861
Modaraba Deposit account HMB Islamic branch	14.2	191,334,596	244,805,242
Redemption fund for Certificates of Investment (deposits)	14.3	10,971	14,438
Meezan Bank Limited	14.4	43,178	8,130
Soneri Bank Limited - Islamic Banking	14.4	15,089	1,638,614
		<u>191,417,255</u>	<u>246,479,285</u>
		<u>192,259,670</u>	<u>248,143,222</u>

**14.1** The profit on the above modaraba deposit account ranges between 2.0% to 2.60% per annum (2016: 1.95% to 2.70% per annum)

**14.2** The profit on the above modaraba deposit account ranges between 3.80% to 4.02% per annum. (2016: 3.97% to 5.89% per annum)

**14.3** The profit on the above deposit account ranges between 3.80% to 4.02% per annum. (2016: 3.97% to 5.89% per annum)

**14.4** The profit on the above deposit account ranges between 2.30% to 4.35% per annum. (2016: 4.83% to 6.90% per annum)

		Note	2017	2016	
<b>15</b>	<b>ISSUED, SUBSCRIBED AND PAID-UP CAPITAL</b>		-----Rupees-----		
	<b>2017</b> <b>(Number of certificates)</b>				
	<b>2016</b> <b>(Number of certificates)</b>				
	193,900,000	193,900,000	Certificates of Rs. 5/- each issued for cash	969,500,000	969,500,000
	7,700,000	7,700,000	Certificates of Rs. 5/- each issued as bonus	38,500,000	38,500,000
	<u>201,600,000</u>	<u>201,600,000</u>		<u>1,008,000,000</u>	<u>1,008,000,000</u>
<b>16</b>	<b>RESERVES</b>				
	<b>Capital reserves</b>				
	Premium on issuance of certificates		378,000,000	378,000,000	
	Statutory	16.1	1,089,011,820	1,000,656,671	
			<u>1,467,011,820</u>	<u>1,378,656,671</u>	
	<b>Revenue reserves</b>				
	General		640,000,000	640,000,000	
	Unrealized gain on available-for-sale investments		117,635,373	53,807,297	
	Unappropriated profit		239,255,715	235,591,305	
			<u>996,891,088</u>	<u>929,398,602</u>	
			<u>2,463,902,908</u>	<u>2,308,055,273</u>	
<b>16.1</b>	This represents profit set aside to comply with requirement of Prudential Regulations for Modarabas issued by SECP, which is not available for distribution.				
<b>17</b>	<b>SECURITY DEPOSITS AGAINST LEASE FINANCING ASSETS</b>				
	Leasee security deposits	17.1	343,790,859	397,943,715	
	Less: Current portion shown under current liabilities		(102,023,172)	(93,882,475)	
			<u>241,767,687</u>	<u>304,061,240</u>	
<b>17.1</b>	This represent deposits from leasee without any remuneration.				
<b>18</b>	<b>CERTIFICATE OF INVESTMENT (MUSHARAKA)</b>				
	Unsecured				
	Certificate of Investment (Musharaka)	18.1	<u>3,913,784,732</u>	<u>3,050,913,721</u>	
<b>18.1</b>	The estimated share of profit paid / payable on the above unsecured deposit ranges between 4.50% to 6.60% per annum (2016: 5.50% to 8.50% per annum).				
<b>19</b>	<b>TRADE AND OTHER PAYABLES</b>				
	Accrued liabilities		66,978,367	49,984,610	
	Adjustable against lease financing contracts	19.1	150,945,449	129,798,449	
	Advance against sale of diminishing musharaka units		15,953,885	7,010,193	
	Lease financing payable		6,447,223	-	
	DM financing payable		23,328,467	-	
	DM customer contribution		4,562,483	-	
	Workers' Welfare Fund		31,420,479	25,204,134	
	Management fee payable		35,041,406	34,355,610	
	Sales tax on management fee payable		4,555,383	-	
	Sales tax on management fee payable to previous management company	19.2	38,653,418	38,653,418	
	Gratuity payable	19.3	-	-	
			<u>377,886,560</u>	<u>285,006,414</u>	

**19.1** This relates to withholding tax deposited pertaining to lease financing vehicles. The amounts are adjustable against lease financing contracts upon receipt of refunds from tax authorities.

**19.2** Pursuant to Order of Sindh Revenue Board (SRB), the Modaraba has recorded a provision in respect of Sindh sales tax on Management Company's remuneration at the rate of 13% per annum, which is pending adjudication.

A show cause notice was issued wherein sales tax was demanded under the provision of Sindh Sales Tax on Service Act, 2011. This notice was challenge by the Appellant before Assistant Commissioner in which Assistant Commissioner maintained that the Appellant was liable to pay Sales Tax. Management is of the view that the management fee is a profit sharing rather than a fixed fee against rendering of management services by the management company upto the 10% of Modarabas profit as provided in the Modaraba Ordinance, in case of loss in modaraba venture the management company is not entitled to claim any remuneration. So therefore, Habib Management (Pvt.) Ltd. (formerly Habib Modaraba Management (Pvt.) Ltd. has filed a reference appeal before High Court Of Sindh in which stay has been granted against the order of Appellate Tribunal of Sindh Revenue Board. As the case is still pending, therefore the final outcome cannot be determined.

### 19.3 Staff retirement benefits - Defined benefit plan

#### a General description

As mentioned in note 4.12, the Modaraba operates an approved funded gratuity scheme for all of its permanent employees. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at June 30, 2017 using the Projected Unit Credit Method.

	Note	2017	2016
		-----Rupees-----	
<b>b Reconciliation of balance due to defined benefit plan:</b>			
Present value of defined benefit obligation		24,716,485	21,288,790
Fair value of plan assets		(24,716,485)	(21,288,790)
Net defined liability/ (assets)		-	-
<b>c Amount charged to profit and loss account:</b>			
Current service cost		1,706,598	1,777,177
Interest cost		1,950,998	2,044,576
Expected return on plan assets		(1,950,998)	(2,044,576)
		1,706,598	1,777,177
<b>d Re-measurement recognized in other comprehensive income during the year</b>			
Actuarial gain on obligation		(85,901)	(1,103,482)
Actuarial loss on assets		983,504	1,049,808
Remeasurement gain recognized in OCI		897,603	(53,674)
Total defined benefit cost recognized in P&L and OCI		2,604,201	1,723,503
<b>e Movement in the liability / (asset) recognized in the balance sheet:</b>			
Balance as at July 01		-	-
Net charge for the year		1,706,598	1,777,177
Re-measurement gain recognised in OCI		897,603	(53,674)
Contribution to the fund		(2,604,201)	(1,723,503)
Balance as at June 30		-	-

	Note	2017	2016
-----Rupees-----			
<b>f</b>	<b>Movement in the present value of defined benefit obligation:</b>		
	Balance as at July 01	21,288,790	19,230,519
	Current service cost	1,706,598	1,777,177
	Interest cost	1,950,998	2,044,576
	Actual benefits paid during the year	(144,000)	(660,000)
	Actuarial gain	(85,901)	(1,103,482)
	Balance as at June 30	<u>24,716,485</u>	<u>21,288,790</u>
<b>g</b>	<b>Movement in the fair value of plan assets:</b>		
	Balance as at July 01	21,288,790	19,230,519
	Expected return	1,950,998	2,044,576
	Contributions	2,604,201	1,723,503
	Actual benefits paid during the year	(144,000)	(660,000)
	Actuarial loss	(983,504)	(1,049,808)
	Balance as at June 30	<u>24,716,485</u>	<u>21,288,790</u>
<b>h</b>	<b>Principal actuarial assumptions used are as follows:</b>		
	Expected rate of long term salary increase per annum	8.75%	9.00%
	Valuation discount rate	8.75%	9.00%

	2017	2016	2015	2014	2013	
-----Rupees-----						
<b>i</b>	<b>Comparisons for past years:</b>					
	As at June 30					
	Present value of defined benefit obligation	24,716,485	21,288,790	19,230,519	17,838,624	18,720,102
	Fair value of plan assets	(24,716,485)	(21,288,790)	(19,230,519)	(17,838,624)	(18,720,102)
	Deficit / (surplus)	-	-	-	-	-
	Experience (gain) / loss on obligation	(85,901)	(1,103,482)	1,186,377	(1,342,769)	(156,097)
	Experience (loss) / gain on plan assets	(983,504)	(1,049,808)	(1,059,585)	(570,391)	(578,516)

	Note	2017	2016
-----Rupees-----			
<b>Major categories / composition of plan assets are as follows:</b>			
	Bank Deposit	<u>24,716,485</u>	<u>21,288,790</u>

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at balance sheet date. The return on plan assets was assumed to equal the discount rate. Actual return on plan assets during the year was Rs. 0.967 million (2016: Rs. 0.995 million).

#### Defined benefit plan

Contribution for the year allocated to administrative expenses	<u>1,706,598</u>	<u>1,777,177</u>
----------------------------------------------------------------	------------------	------------------

**Expected**

The expected gratuity cost charge for the year ending June 30, 2018 amounts to Rs.1.999 million. The actual cost will be determined after valuation of the Fund as at June 30, 2018 when the actuarial gains and losses arising during the year ending June 30, 2018 will be available.

	Note	2017	2016
<b>19.4</b>	The reconciliation of charity payable is as follows:	-----Rupees-----	
		1,086,377	1,703,325
	Balance as at July 01	868,473	728,572
	Addition during the year	(1,225,000)	(1,345,520)
	Less: Paid to recognized charitable organisations	<u>729,850</u>	<u>1,086,377</u>
	Balance as at June 30		
<b>20</b>	<b>CONTINGENCIES AND COMMITMENTS</b>		
	<b>Contingencies</b>		
	There were no contingencies as at the balance sheet date. (2016: Nil)		
	<b>Commitments</b>		
	Commitments in respect of financing transactions amounted to Rs.157.0 million (2016: Rs.169.543 million).		
<b>21</b>	<b>INCOME FROM LEASE FINANCING</b>		
	Lease financing installments	1,249,972,375	1,383,566,856
	Less: Depreciation on lease financing assets	<u>(1,031,883,633)</u>	<u>(1,132,935,371)</u>
		<u>218,088,742</u>	<u>250,631,485</u>
<b>22</b>	<b>ADMINISTRATIVE EXPENSES</b>		
	Salaries, allowances and other benefits	52,276,948	46,572,585
	Printing, stationery and advertising	3,303,703	3,454,641
	Travelling and conveyance	1,294,312	1,144,958
	Insurance	349,203	377,987
	Utilities	3,918,062	4,044,695
	Postage	736,434	977,331
	Newspapers and periodicals	34,761	38,304
	Repairs and maintenance	1,535,804	1,655,684
	Telecommunication	1,026,942	865,276
	Fees and subscriptions	4,194,564	3,440,055
	Legal and professional charges	4,487,864	3,224,795
	Donations	840,000	840,000
	Depreciation on fixed assets in own use	3,196,309	3,452,237
	Amortization on intangible assets	317,762	353,987
	Certificate registrar expenses	1,054,411	1,384,611
	Vehicle running expenses	915,653	981,538
	Office expense	1,867,798	1,547,468
	Staff training and workshop	434,083	701,990
	Staff Hajj expenses	1,100,000	1,026,000
	Rent expense	3,711,367	2,960,989
	Information technology expenses	1,983,216	1,689,829
	Miscellaneous	41,955	35,990
		<u>88,621,151</u>	<u>80,770,950</u>
<b>22.1</b>	The Directors of the Modaraba Management Company do not have any interest in any donees' fund to which donations were made.		

	Note	2017	2016
-----Rupees-----			
<b>23 OTHER INCOME</b>			
Dividend on shares	23.1	11,436,838	10,393,568
Gain on transfer of lease financing assets		24,074,033	28,684,186
Gain on sale of shares		7,054,116	3,499,014
Gain on sale of owned fixed assets		187,458	122,325
Profit on Modaraba's deposit accounts		8,948,031	17,787,949
Profit on redemption reserve fund - COI		12,146	1,404,941
Profit on Sukuk		40,982,842	41,691,401
Miscellaneous income		10,962,805	1,779,263
		<u>103,658,269</u>	<u>105,362,647</u>
<b>23.1 Dividend on shares</b>			
Pak Suzuki Motor Co. Limited		-	4,950
Abbott Laboratories Pakistan Limited		-	30,000
Hub Power Company Limited		254,643	372,500
Meezan Bank Limited		4,125,000	4,124,988
Mari Petroleum Company Limited		-	9,783
ICI Pakistan Limited		-	8,646
Fauji Fertilizer Bin Qasim Limited		23,750	3,800
Pakistan State Oil Company Limited		-	27,720
Habib Sugar Mills limited		2,629,000	2,191,250
Fauji Fertilizer Company Limited		501,125	387,818
Lucky Cement Limited		-	9,000
Engro Fertilizer Limited		568,119	-
Pakistan Petroleum Company Limited		1,389,201	1,723,113
Pakistan Telecommunication Company Limited		1,946,000	1,500,000
		<u>11,436,838</u>	<u>10,393,568</u>
<b>24 OTHER OPERATING CHARGES</b>			
Loss on sale of shares		688,274	595,840
Auditor's remuneration	24.1	690,000	612,100
		<u>1,378,274</u>	<u>1,207,940</u>
<b>24.1 Auditor's remuneration:</b>			
Audit fee		378,000	330,000
Fee for review of half yearly financial statements and Statement of Compliance with Code of Corporate Governance		183,600	185,600
CDC monitoring compliance		10,800	10,000
Out of pocket expenses		117,600	86,500
		<u>690,000</u>	<u>612,100</u>
<b>25 FINANCIAL CHARGES</b>			
Profit on Certificate of Investment (Musharaka)		195,835,397	155,031,476
Profit paid on Murabaha financing		6,880,147	-
Bank commission and charges		369,418	313,857
		<u>203,084,962</u>	<u>155,345,333</u>
<b>26 SERVICE SALES TAX ON MANAGEMENT COMPANY REMUNERATION</b>			
Current year		4,555,383	4,809,785
		<u>4,555,383</u>	<u>4,809,785</u>

## 27 REMUNERATION OF OFFICERS AND OTHER EMPLOYEES

The aggregate amount charged in the financial statements for remuneration to officers and other employees of the Modaraba is as follows:

	2017			2016		
	Officers	Other employees	Total	Officers	Other employees	Total
	-----Rupees-----			-----Rupees-----		
Salaries	18,734,115	9,305,871	28,039,986	18,233,722	7,043,689	25,277,411
House rent	2,307,600	1,511,460	3,819,060	2,314,500	1,223,580	3,538,080
Other allowances	7,868,321	7,191,881	15,060,202	7,210,135	5,555,498	12,765,633
Group insurance	744,842	635,804	1,380,646	721,405	467,396	1,188,801
Gratuity Fund	1,332,848	373,750	1,706,598	1,349,869	427,308	1,777,177
Provident fund	1,472,992	797,466	2,270,458	1,460,958	564,525	2,025,483
	<u>32,460,718</u>	<u>19,816,232</u>	<u>52,276,950</u>	<u>31,290,589</u>	<u>15,281,996</u>	<u>46,572,585</u>
Number of persons	12	32	44	13	25	38

Certain officers are also provided with self maintained cars by the Modaraba.

### Remuneration / facilities to Directors /CEO

No remuneration / facilities paid to the CEO & Directors of the Modaraba Management Company during the year (2016: nil)

## 28 CONTRACTUAL LEASE FINANCING INSTALMENTS RECEIVABLE - LEASE CONTRACTS

	As. At 30 June 2017				As. At 30 June 2016			
	Not Later Than One Year	Later Than one year Not Later Than Five Years	Later Than Five Years	Total	Not Later Than One Year	Later Than one year Not Later Than Five Years	Later Than Five Years	Total
	-----Rupees-----							
Total future lease payments receivable	998,248,389	1,134,830,820	-	2,133,079,209	1,180,814,565	1,588,138,540	5,969,235	2,774,922,340

## 29 TRANSACTIONS WITH RELATED PARTIES

The related parties and associated undertakings comprise the Modaraba Management Company [Habib Metropolitan Modaraba Management Company (Pvt.) Limited], Habib Metropolitan Bank Limited (holding company of management company), Habib Management (Pvt.) Limited, Habib Metropolitan Financial Services, First Habib Modaraba Employees' Provident Fund, First Habib Modaraba Gratuity Fund and Key Management Personnel. These balances outstanding to / from these parties have been included in the relevant notes to the financial statements. Transactions with related parties and associated undertakings are as follows:

	Note	2017	2016
		-----Rupees-----	
<b>Habib Metropolitan Bank Limited</b>			
<b>Balances with the related party</b>			
Bank Balances		191,502,199	244,977,149
Certificate of Investment (Musharaka)		2,250,000,000	1,150,000,000
Income Receivable		449,597	792,788
Expenses Payable		19,045,890	5,520,000
Lease Financing Asset		64,302,907	54,233,555
<b>Transactions during the year</b>			
Profit on bank accounts		8,644,045	10,247,057
Bank charges		169,800	177,000
Financial charges		100,409,722	38,267,432
Lease Financing - additions during the year		48,271,000	37,926,500
Lease Financing installments received		42,091,578	30,074,963

Note	2017	2016
	-----Rupees-----	
<b>Habib Bank AG Zurich</b>		
<b>Balances with the related party</b>		
Lease Financing Asset	3,188,133	5,156,169
<b>Transactions during the year</b>		
Lease Financing - additions during the year	-	2,397,500
Lease Financing installments received	2,352,243	1,755,866
<b>Modaraba Management Company</b>		
<b>Balances with the related party</b>		
Payable to modaraba management company	35,041,406	-
Sale tax on management fee payable	4,555,383	-
<b>Transactions during the year</b>		
Modaraba company's management fee	35,041,406	-
<b>Habib Management (Pvt.) Ltd. (formerly Habib Modaraba Management (Pvt.) Ltd.)</b>		
<b>Balances with the related party</b>		
Management Fee payable	-	34,355,610
Sale tax on management fee payable	-	38,653,418
<b>Transactions during the year</b>		
Dividend paid	100,501,732	110,551,905
Management fee	34,355,610	27,672,681
<b>Habib Metropolitan Financial Services Limited</b>		
<b>Balances with the related party</b>		
Lease Financing	476,025	1,526,237
<b>Transactions during the year</b>		
Brokerage commission	92,438	131,512
Purchase of securities	43,034,423	44,188,805
Sale of securities	25,961,511	11,275,967
Lease Financing installments received	1,221,723	2,115,681
<b>First Habib Modaraba Gratuity Fund</b>		
<b>Transactions during the year</b>		
Gratuity fund	1,706,598	1,777,177
Contribution to staff gratuity fund	2,604,201	1,723,503
<b>First Habib Modaraba Provident Fund</b>		
<b>Balances with the related party</b>		
Investment in Certificate of Investment (Musharaka)	29,708,699	32,200,000
<b>Transactions during the year</b>		
Provident fund	2,270,458	2,025,483
Contribution to staff provident fund	4,540,916	4,050,966

29.1 No remuneration in kind has been paid by the Modaraba to the Directors.

### 30 CAPITAL MANAGEMENT

The Board's policy is to maintain a sound capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors of management company monitors the return on capital, which the Modaraba defines as net profit after taxation divided by total Certificate holders' equity. The Board of Directors also monitors the level of dividend to ordinary Certificate holders. There were no changes to the Modaraba's approach to capital management during the year and the Modaraba is not subject to externally imposed capital requirements.

### 31 FINANCIAL INSTRUMENTS

#### 31.1 Risk management policies

The Modaraba's objective in managing risks is the creation and protection of Certificate holders' value. Risk is inherent in the Modaraba's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Modaraba's continuing profitability. The Modaraba is exposed to market risk (which includes profit rate risk and price risk), credit risk and liquidity risk arising from the financial instruments it holds.

The Modaraba primarily invests in lease financing assets, diminishing musharaka, diversified portfolio of listed securities, Ijarah Sukuk bonds and Islamic investments instruments. Such investments are subject to varying degrees of risk, which emanate from various factors that include but are not limited to:

- Credit Risk
- Liquidity Risk
- Market Risk

#### 31.2 Credit Risk

Credit risk is the risk that the counter party to a financial instrument will cause a financial loss for the Modaraba by failing to discharge an obligation. The Modaraba's policy is to enter into financial contracts with reputable counter parties in accordance with the internal guidelines and regulator requirements.

##### Exposure to Credit Risk

The maximum exposure to credit risk before any credit enhancements at June 30, 2017 is the carrying amount of the financial assets as set out below:

	Note	2017	2016
		-----Rupees-----	
Diminishing musharaka financing		4,291,637,804	3,051,518,340
Lease financing installments receivables		1,074,695	881,616
Investments		1,298,684,499	1,011,035,269
Deposits		915,850	665,850
Other receivables		2,711,249	3,630,558
Bank balances		192,259,670	248,143,222
		<u>5,787,283,767</u>	<u>4,315,874,855</u>

The aging of lease financing installments receivables at the reporting date is:

Past due 1-30 days	1,074,695	881,616
Past due over 30-90 days	-	-
	<u>1,074,695</u>	<u>881,616</u>

Note	2017	2016
	-----Rupees-----	
<b>Credit ratings</b>		
Credit rating of the banks and their respective balances are given below:		
<b>Rating</b>		
AA+	191,542,527	245,014,366
AA	43,178	8,128
AA-	15,089	1,638,614
A+	254,852	254,652
A	108,112	107,552
	191,963,758	247,023,312

An analysis of the portfolio of the Modaraba that is classified as non-performing as per the requirements of the PRs for Modarabas is as follows:

	<b>Other Assets Especially Mentioned</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Loss</b>	<b>Total</b>
Diminishing Musharika	-	-	-	317,700	317,700

Impairment is recognised by the Modaraba based on the provisioning requirements of the Prudential Regulation (PR) for Modarabas issued by the SECP which includes subjective evaluation of the portfolio of the Modaraba on an on-going basis. The Modaraba also performs a subjective evaluation of performing and non-performing advances / loans / Lease portfolio based on past experience, repayment patterns and consideration of financial positions of counter parties and has the option of to downgrade the category of classification determined on the basis of PR.

### Concentration of Credit Risk

Concentration is the relative sensitivity of the Modaraba's performance to developments affecting a particular industry or geographical location.

Concentration of risks arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The Modaraba's portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit worthy counterparties thereby mitigating any significant concentration of credit risk. Details of Modaraba's concentration of credit risk by industrial distribution are detailed in note 35 to the financial statements.

### Impaired Assets

Refer note 4.2(d) and 5.1 to the financial statements for details on impairment of assets.

### Liquidity risk

Liquidity risk is the risk that the Modaraba will not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

In the case of Modaraba, the liquidity level of Modaraba remained on satisfactory level during the year and Modaraba did not face any difficulty or problem for generation of liquidity.

Note 33 to the financial statements summarizes the maturity profile of the Modaraba's financial instruments.

### Mitigating / managing the risk

Modaraba's policy is to invest the majority of its assets in investments that includes ijarah GOP Sukuk that are traded in an active market and can be readily disposed off. Only a limited proportion of its investments are not actively traded.

## 31.4 Market Risk

### a Market Price Risk

The risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

#### Exposure

The Modaraba is exposed to unfavorable changes in the fair values of investments as a result of changes in prices of securities.

As at June 30, 2017, the fair value of equity and debt securities exposed to price risk was as follows:

Particulars	Average Cost 2017	Fair Value 2017	Average Cost 2016	Fair Value 2016
Equity securities	172,931,438	278,784,499	149,795,714	204,715,270
Ijarah GOP Sukuk bonds	1,008,117,688	1,019,900,000	807,432,258	806,320,000
<b>Risk Management</b>	<b>1,181,049,126</b>	<b>1,298,684,499</b>	<b>957,227,972</b>	<b>1,011,035,269</b>

The Modaraba's policy is to manage price risk through diversification and selection of securities and other financial instruments within specified limits set by Investment Committee.

The majority of the Modaraba's investments are publicly traded and are valued at the rates provided by stock exchange which is set as per the trading trend and volumes in the security.

### b Profit rate risk

Profit rate risk arises from the effects of fluctuations in the prevailing levels of market profit rates on the fair value of financial assets and liabilities and future cash flows.

#### Risk exposure

The Modaraba has lease financing portfolio. The majority of lease financing portfolio is linked with KIBOR rate as a bench mark. The Modaraba reviews KIBOR on lease financing portfolio on quarterly / six monthly basis.

As at June 30, 2017, the profile of the Modaraba's variable value financial instruments were as follows:

Note	2017	2016
	-----Rupees-----	
<b>Variable rate instruments</b>		
Ijarah GOP Sukuk bonds	1,008,117,688	807,432,258
Islamic deposits	191,417,255	246,479,285
Diminishing musharaka financing	3,806,996,515	2,713,265,520
<b>Liability</b>		
Certificate of Investment (Musharaka)	(3,913,784,732)	(3,050,913,721)
Advance against murabaha financing	(123,860,502)	-
	<u>968,886,224</u>	<u>716,263,342</u>

### Fair value sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates would have increased / decreased the profit and loss by the amounts shown below. Reduction in interest rates by 100 basis points would have a vice versa impact. This analysis assumes that all variables remain constant. The analysis is performed on the same basis for the comparative period.

Asset / liability class (Having variable interest rates)	(Increase / Decrease) (+/-)	Changes in profit / (loss)	
		2017	2016
-----Rupees-----			
<b>Assets</b>			
Ijarah GOP Sukuk bonds	100 basis points	10,081,177	8,074,323
Diminishing musharaka financing	100 basis points	38,069,965	27,132,655
Islamic deposits	100 basis points	1,914,173	2,464,793
<b>Liability</b>			
Certificate of Investment (Musharaka)	100 basis points	(39,137,847)	(30,509,137)
Advance against murabaha financing	100 basis points	(1,238,605)	-

Above sensitivities are calculated on the assumption that all factors remain constant except interest rates and resulting variation in fair values of the subjugated investments and impact on the profit and loss.

### Risk Management / Mitigation

The Modaraba monitors the interest rate environment on a regular basis and alters the portfolio mix of fixed and floating rate securities.

The Modaraba's policy requires the Modaraba management to manage this risk by measuring the mismatch of the interest rate sensitivity gap of financial assets and liabilities and calculating the average duration of the portfolio of fixed interest securities.

The average effective duration of the Modaraba's portfolio is a measure of the sensitivity of the fair value of the Modaraba's variable interest securities to changes in market interest rates.

The Modaraba's policy refrains from holding interest bearing instruments that induce the average effective duration of the variable interest portfolio to pass the benchmark of the average duration.

### 31.5 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Modaraba's operations either internally within the Modaraba or externally at the Modaraba's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior. Operational risks arise from all of the Modaraba's activities.

The Modaraba's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its objective of generating returns for certificate holders. The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors of the Management Company. This responsibility encompasses the controls in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and

- procedures to address the risks identified;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

### 32 FAIR VALUE OF FINANCIAL INVESTMENTS

The Modaraba's accounting policy on fair value measurements of the investments is detailed in note 4.4 to these financial statements.

The Modaraba 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).

As at June 30, 2017, all the investments were categorised in level 1 except for Sukuk bonds which are categorized in level 2.

### 33 MATURITIES OF ASSETS AND LIABILITIES

Liquidity risk is the risk that the Modaraba will be unable to meet its net funding requirements. To guard against this risk, the Modaraba has adequate funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of working capital.

	2017			
	Total	Upto one year	Over one year to five years	Over five years
Rupees				
<b>Assets</b>				
Lease financing fixed assets - tangible	2,440,975,610	231,892,683	2,209,082,927	-
Owned fixed assets - tangible	11,547,466	-	11,547,466	-
Intangible assets	35,519	-	35,519	-
Long term advances, deposits and prepayments	3,070,000	-	3,070,000	-
Diminishing musharaka financing	4,291,637,804	1,638,299,962	2,653,337,842	-
Investments	1,298,684,499	1,298,684,499	-	-
Lease financing installments receivable	1,074,695	1,074,695	-	-
Advances and short term prepayments	9,736,357	9,736,357	-	-
Other receivables	28,623,282	28,623,282	-	-
Tax refund due from Government	89,006,078	89,006,078	-	-
Cash and bank balances	192,259,670	192,259,670	-	-
	<u>8,366,650,980</u>	<u>3,489,577,226</u>	<u>4,877,073,754</u>	<u>-</u>
<b>Liabilities</b>				
Security deposits against lease financing assets	343,790,859	102,023,172	241,767,687	-
Certificate of Investment (Musharaka)	3,913,784,732	3,913,784,732	-	-
Unearned lease financing and diminishing musharaka installments	24,519,411	24,519,411	-	-
Advance lease financing and diminishing musharaka installments	22,586,591	22,586,591	-	-
Trade and other payables	377,886,560	377,886,560	-	-
Profit payable on Certificate of Investment (Musharaka)	52,363,370	52,363,370	-	-
Advance against murabaha financing	123,860,502	123,860,502	-	-
Profit payable on murabaha financing	4,039,549	4,039,549	-	-
Unclaimed profit distribution	31,916,498	31,916,498	-	-
	<u>4,894,748,072</u>	<u>4,652,980,385</u>	<u>241,767,687</u>	<u>-</u>
	<u>3,471,902,908</u>	<u>(1,163,403,160)</u>	<u>4,635,306,067</u>	<u>-</u>
<b>Represented by:</b>				
Issued, subscribed and paid-up capital	1,008,000,000			
Reserves	2,463,902,908			
	<u>3,471,902,908</u>			

	2016			
	Total	Up to one year	Over one year to five years	Over five years
Rupees				
<b>Assets</b>				
Lease financing fixed assets - tangible	2,725,212,037	259,159,300	2,466,052,737	-
Owned fixed assets - tangible	8,552,118	-	8,552,118	-
Intangible assets	307,651	-	307,651	-
Long term advances, deposits and prepayments	5,692,200	-	5,692,200	-
Diminishing musharaka financing	3,051,518,340	1,239,061,566	1,812,456,774	-
Investments - available for sale	1,011,035,269	1,011,035,269	-	-
Lease financing installments receivable	881,616	881,616	-	-
Advances and short term prepayments	5,926,930	5,926,930	-	-
Other receivables	24,001,015	24,001,015	-	-
Tax refund due from Government	79,479,382	79,479,382	-	-
Cash and bank balances	248,143,222	248,143,222	-	-
	<u>7,160,749,780</u>	<u>2,867,688,300</u>	<u>4,293,061,480</u>	<u>-</u>
<b>Liabilities</b>				
Security deposits against lease financing assets	397,943,715	93,882,475	304,061,240	-
Certificate of Investment (Musharaka)	3,050,913,721	3,050,913,721	-	-
Unearned lease financing and diminishing musharaka installments	10,482,879	10,482,879	-	-
Advance lease financing and diminishing musharaka installments	22,846,363	22,846,363	-	-
Trade and other payables	285,006,414	285,006,414	-	-
Profit payable on Certificate of Investment (Musharaka)	46,565,887	46,565,887	-	-
Taxation - net	2,790,833	2,790,833	-	-
Unclaimed profit distribution	28,144,694	28,144,694	-	-
	<u>3,844,694,507</u>	<u>3,540,633,267</u>	<u>304,061,240</u>	<u>-</u>
	<u>3,316,055,273</u>	<u>(672,944,967)</u>	<u>3,989,000,240</u>	<u>-</u>
<b>Represented by:</b>				
Issued, subscribed and paid-up capital	1,008,000,000			
Reserves	2,308,055,273			
	<u>3,316,055,273</u>			

### 34 FINANCIAL ASSETS AND LIABILITIES

	Profit bearing			Non-Profit bearing			Total
	Maturity upto one year	Maturity after one year upto five years	Sub-total	Maturity upto one year	Maturity after one year and upto five years	Sub-total	
<b>Financial assets</b>							
Cash and bank balances	191,417,255	-	191,417,255	842,415	-	842,415	192,259,670
Other receivables	2,318,742	-	2,318,742	392,507	-	392,507	2,711,249
Investments	1,019,900,000	-	1,019,900,000	278,784,499	-	278,784,499	1,298,684,499
Lease financing installments receivables	-	-	-	1,074,695	-	1,074,695	1,074,695
Advances	-	-	-	4,217,420	-	4,217,420	4,217,420
Long term deposits	-	-	-	-	915,850	915,850	915,850
Diminishing musharaka financing	1,638,299,962	2,653,337,842	4,291,637,804	-	-	-	4,291,637,804
	<u>2,851,935,959</u>	<u>2,653,337,842</u>	<u>5,505,273,801</u>	<u>285,311,536</u>	<u>915,850</u>	<u>286,227,386</u>	<u>5,791,501,187</u>
<b>Financial liabilities</b>							
Security deposits against lease assets	-	-	-	102,023,172	241,767,687	343,790,859	343,790,859
Certificate of Investment (Musharaka)	3,913,784,732	-	3,913,784,732	-	-	-	3,913,784,732
Advance against murabaha financing	123,860,502	-	123,860,502	-	-	-	123,860,502
Profit payable on murabaha financing	4,039,549	-	4,039,549	-	-	-	4,039,549
Trade and other payables	-	-	-	179,566,747	-	179,566,747	179,566,747
Unclaimed profit distribution	-	-	-	31,916,498	-	31,916,498	31,916,498
	<u>4,041,684,783</u>	<u>-</u>	<u>4,041,684,783</u>	<u>313,506,417</u>	<u>241,767,687</u>	<u>555,274,104</u>	<u>4,596,958,887</u>
On balance sheet gap	(1,189,748,824)	2,653,337,842	1,463,589,018	(28,194,881)	(240,851,837)	(269,046,718)	1,194,542,300
Lease financing assets	231,892,683	2,209,082,927	2,440,975,610	-	-	-	2,440,975,610

\*Lease financing assets has been included above in order to depict a true picture of the gap between the assets and liabilities of the Modaraba.

The expected rates of profit for financial assets and liabilities are mentioned in the respective notes to the financial statements.

**(i) Yield / profit rate risk**

Yield / profit rate risk arises from the possibility that changes in yield / profit rates will affect the value of financial instruments. All financial instruments of the Modaraba are on a profit and loss sharing basis, or on variable profit rate.

**(ii) Market risk**

Modaraba recognizes market risk as the exposure created by potential changes in the market prices and rates.

**(iii) Fair values of financial assets and liabilities**

The fair values of traded instruments is based on quoted market prices. Fair value of future lease financing installments receivable against lease financing assets, other assets, other liabilities and other items cannot be calculated with sufficient reliability due to absence of current active market for such assets and liabilities.

**35 SEGMENT BY CLASS OF BUSINESS OF FINANCING ASSETS**

	2017		2016	
	Rupees	%	Rupees	%
Auto and Allied	332,245,396	4.93	214,057,764	3.71
Cable and Electric Goods	361,831,394	5.37	407,041,629	7.05
Cargo, Courier Logistic Services	358,408,743	5.32	274,376,168	4.75
Cement	11,091,017	0.16	7,956,156	0.14
Chemical	449,991,462	6.68	358,455,950	6.21
Construction	164,684,667	2.45	154,492,607	2.67
Education	195,386,319	2.90	176,571,404	3.06
Fertilizer	166,397,280	2.47	189,268,210	3.28
Financial Institutions	229,768,486	3.41	153,492,239	2.66
Food and Allied	593,423,650	8.81	646,125,654	11.18
Fuel, Power and Energy	61,492,310	0.91	58,252,178	1.01
Glass and Ceramics	45,246,925	0.67	48,909,419	0.85
Health Care	249,265,369	3.70	170,629,532	2.95
Individuals	249,226,929	3.70	143,512,358	2.48
Information Technology	156,282,954	2.32	145,334,384	2.52
Leather and Tanneries	18,265,214	0.27	12,766,052	0.22
Oil & Gas Exploration	100,796,468	1.50	73,687,721	1.28
Paper And Board	19,809,656	0.29	13,697,564	0.24
Pharmaceutical	968,861,681	14.39	993,729,596	17.20
Refinery, Lubricant, Oil and Gas Marketing	449,592,849	6.68	163,101,598	2.82
Services	1,077,330,892	16.00	756,110,591	13.09
Steel and Engineering	164,669,078	2.45	187,298,962	3.24
Sugar and Allied	52,594,656	0.78	232,039,548	4.02
Textile	255,950,017	3.80	195,823,094	3.39
	<b>6,732,613,412</b>	<b>100.00</b>	<b>5,776,730,378</b>	<b>100.00</b>

35.1 Modaraba's operations are restricted to Pakistan only.

### 36 CREDIT RISK AND CONCENTRATION OF 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.

The Modaraba has established procedures to manage credit exposure including credit approvals, credit limits and obtaining collaterals.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other considerations. Concentration of credit risk indicates the relative sensitivity of the Modaraba's performance to developments affecting a particular industry.

The Modaraba manages concentration of credit risk exposure through diversification of portfolio of its customers to avoid undue concentration of risk with specific industry, sector, or group as follows:

2017		2016	
Advances, deposits, prepayments and other receivables	Lease installments receivables	Advances, deposits, prepayments and other receivables	Lease installments receivables
-----Rupees-----			

#### Segment by class of business

Financial institutions	1,762,000	-	2,172,585	-
Textile	-	800,000	-	102,189
Chemical and pharmaceutical	-	200,291	-	619,004
I.T and Telecommunications	46,800	6,179	15,600	127
Insurance	433,643	-	426,295	-
Food and allied	-	8,218	-	69,415
Fuel and energy	-	51,256	-	46,712
Cable and Electrical goods	-	602	-	-
Refinery	-	1,800	-	-
Paper and Board	-	-	-	-
Others	10,563,914	5,025	9,004,650	43,918
Services	-	1,324	-	251
	<u>12,806,357</u>	<u>1,074,695</u>	<u>11,619,130</u>	<u>881,616</u>

### 37 EARNINGS PER CERTIFICATE

#### 37.1 Basic

Basic earnings per certificate are calculated by dividing the net profit for the year by the weighted average number of certificates outstanding during the year as follows:

	Note	2017	2016
		-----Rupees-----	
Profit for the year		294,517,162	298,302,894
Weighted average number of certificates of Rs. 5/-		201,600,000	201,600,000
Earnings per certificate		1.46	1.48

### 37.2 Diluted

No figure for diluted earnings per certificate has been presented as the Modaraba has not issued any instruments which would have an impact on earnings per certificate when exercised.

### 38 SEGMENT INFORMATION

"As per IFRS 8, "Operating Segments", operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision maker. The chief executive officer of the management company has been identified as the chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments.

The Chief Executive Officer is responsible for Modaraba's entire product portfolio and consider business to have a single operating segment. The Modaraba's assets allocation decisions are based on a single integrated investment strategy and the Modaraba's performance is evaluated on a overall basis.

The internal reporting provided to the chief executive officer for the Modaraba's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of approved accounting standards as applicable in Pakistan.

The Modaraba's is domiciled in Pakistan. All of the Modaraba's income is from the investments in entities incorporated in Pakistan.

### 39 CASH GENERATED FROM OPERATIONS

	Note	2017	2016
		-----Rupees-----	
Profit for the year		304,600,923	298,302,894
Adjustment for:			
Gain on disposal of assets			
Lease financing		(24,074,033)	(28,684,186)
In own use		(187,458)	(122,325)
Depreciation fixed assets			
Lease financing assets		1,031,883,633	1,132,935,371
In own use		3,196,308	3,452,237
Loss on sale of shares		688,274	595,840
Owned assets sold / written off		29	8
Amortization of intangible assets		317,762	353,987
Amortization of sukuk		3,064,570	-
Provision against D.M		317,700	-
Provision for gratuity		1,706,598	1,777,177
Dividend income		(11,436,838)	(10,393,568)
Gain on disposal of investments		(7,054,116)	(3,499,014)
Financial charges		202,715,544	155,031,476
Movement in working capital	39.1	75,630,843	36,372,462
		<u>1,581,369,739</u>	<u>1,586,122,359</u>

**39.1 Movement in working capital**

Note	2017	2016
	-----Rupees-----	
Decrease / (increase) in current assets:		
Lease financing installments receivable	(193,079)	2,719,461
Advances and short term prepayments	(3,809,427)	(2,355,650)
Tax refund due from Government	(19,610,457)	(20,294,509)
Other receivables	(4,622,267)	18,783,343
Increase / (decrease) in current liabilities:		
Advance Lease financing and diminishing musharaka installments	(259,772)	6,324,864
Unearned Lease financing and diminishing musharaka installments	14,036,532	(2,519,446)
Provision for taxation	(2,790,833)	-
Trade and other payables	92,880,146	33,714,398
	<u>75,630,843</u>	<u>36,372,462</u>

**40 PROFIT DISTRIBUTION AND APPROPRIATION**

Subsequent to the year ended June 30, 2017 the Board of Directors of the Management Company has declared a final distribution of Re.1 per certificate, amounting to total profit distribution of Rs. 201.6 million (2016: Re. 1.0 per certificate amounting to total profit distribution of Rs. 201.6 million) in its meeting held on August 10, 2017.

**41 CORRESPONDING FIGURES**

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. However no significant rearrangement or reclassification has been made in these financial statements during the current year.

**42 DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on August 10, 2017 by the Board of Directors of the Modaraba Management Company.

**43 GENERAL**

Figures have been rounded off to the nearest rupee.

**For Habib Metropolitan Modaraba Management Company (Private) Limited  
(Management Company)**

**CHIEF EXECUTIVE**

**DIRECTOR**

**DIRECTOR**