

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



A Progressive Partnership

Based on true sharing and equality

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.

The Relationships that exceed beyond normal business this is how we have acquired the standing we possess today as most progressive Modaraba holding the loyalty and trust of all stakeholders across the country.

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

Islamic finance is a financial system operates in accordance with Islamic principle of finance. This system encourages economic activities and proper distribution of wealth which ultimately lead to promote social justice which is the key theory of Islamic economic financial system.

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.

Modaraba concept is based on Shirkat. 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.



VISION

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.



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

AA⁺
LONG TERM

A1⁺
SHORT TERM



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ABOUT

FIRST HABIB MODARABA

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 a track record of excellent performance of more than 3 decades is the success story of dedication 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.

Over the years FHM has been continuously recognizing for its satisfactory results, good corporate governance, best report culture and sound and stable credit rating. With a thrust to achieve operational excellence, FHM continue to improve operational processes, infrastructure and professional grooming of human resource in order to provide quality and reliable customer services including compliance of all regulatory and Shariah requirements.

Since inception FHM has been a story of success and growth built on the trust and respect it has earned on the back of high level of corporate governance and best business practices. However, it has never been about achievement in isolation – rather we go along with an aim for inclusive growth as we believes for betterment of lives of the people whom we have been privileged to come across.

Our constant commitment for corporate excellence 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 NBFI 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.

As one of leading non-banking Islamic financial institutions, our core corporate objective always drive to create value for the society at large. Our financial strength, risk management protocols, governance framework and aspirations for sustainable growth are directly attributable to a discipline that regularly brings prosperity to our all stakeholders particularly our worthy investors and customers. Ambition, discipline and corporate excellence always motivate us for even better results. It is the combination of these key elements that frame our optimistic outlook for the future as well.

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.



Corporate Information

BOARD OF DIRECTORS

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

AUDITORS

EY Ford Rhodes
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

HUMAN RESOURCE COMMITTEE

Mr. Syed Rasheed Akhtar	- Chairman
Mr. Wazir Mumtaz Ahmed	- Member
Mr. Tehsin Abbas	- Secretary

COMPANY SECRETARY

Mr. Muhammad Mustafa

REGISTRAR

Central Depository Company of Pakistan Limited
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

6th 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
Email : fhm@habibmodaraba.com

GEOGRAPHICAL PRESENCE - BRANCH OFFICES

Karachi Branch:
3rd Floor, Al-Manzoor Building,
Dr. Ziauddin Ahmed Road. Karachi.
Tel: 021-32635949-51, Fax: 021-32627373

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

The code of business conduct and ethics are essential for every organization. It guides staff members to conduct themselves with honesty and integrity in all actions representing the organization. We always abide by 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:

- Uphold Shariah governance culture and atmosphere in line with Islamic principles.
- 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.
- 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

**“HIGH ACHIEVEMENT ALWAYS
TAKES PLACE IN THE FRAMEWORK
OF HIGH EXPECTATION”**

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. With the blessing Allah (SWT) and with good team work, presently First Habib Modaraba (FHM) has become the most awarded Modaraba within the Modaraba sector of Pakistan.

**“THE HIGHEST AWARD
WINNING MODARABA
WITHIN THE MODARABA
SECTOR OF PAKISTAN”**

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.

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 members to make further efforts and drive higher for even bigger accomplishments as individual or as an organization.

**9 Awards from
Management
Association of
Pakistan**

**17 Awards
from NBFBI and
Modaraba
Association of
Pakistan**

**From
COMSATS**

**Corporate
Excellence
Award**

**Best
Performance
Award**

**Best
Non-Bank
Islamic
Financial
Institution
Award**

AWARDS

**Critics'
Choice Best
Islamic Retail
Investment
Product 2017**

**Best
Presented
Accounts and
Disclosure
Award**

**From The
IRBA
Cambridge**

**FPCCI
Achievement
Award**

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

**Best
Corporate
Report Award**

**2 Awards
1st Position
Gold Medal
from FPCCI**

**9 Awards for
ICAP and
ICMAP**



NBFI & Modaraba
Association of Pakistan

BEST PERFORMING MODARABA AWARD



The NBFI 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 NBFI 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 17 awards as "Best Performing Modaraba Award" within last 19 years from said association.



2017



2016



2015



2014



2013



2012



2011



2010



2009



2008



2007



2006



2005



2002



2001



2000



1999



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 nine awards in last 10 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.



2017



2016



2015



2013



2012



2010



2008



2009



2011

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 six consecutive years within the category of NBFIs sector. 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



2017



2016



2015



2014



2009



2011



2012



2010



2013



BEST PRESENTED ANNUAL REPORT AWARD



PAKISTAN



AFGHANISTAN



BHUTAN



NEPAL



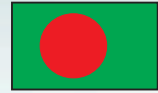
MALDIVES



SRILANKA



INDIA



BANGLADESH



South Asian Federation of Accountants (SAFA) in its award ceremony held at Dhaka, Bangladesh, awarded SAFA BPA “Certificate of Merit” award to First Habib Modaraba (FHM) from the category of “Financial Services Sector” for “Best Presented Annual Report Award” and “SAARC Anniversary Award for Corporate Governance Disclosures”.

FHM was selected from overall category of Financial Services Sector within the countries at SAARC level and Alhamdulillah, within Non-Banking Financial Sector of Pakistan i.e. Leasing, Investment Banks and Modarabas, FHM was only nominee for this award. By the grace of God, our Modaraba is securing this award for last 7 consecutive years and only Modaraba within the entire Modaraba sector.

SAFA which is the Apex Body of the South Asian Association for Regional Co-operation (SAARC) and a Regional Grouping of the International Federation of Accountants (IFAC). The SAFA BPA 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 in the region which have achieved excellence in presentation and disclosure.



2017



2016



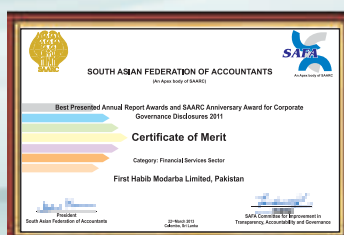
2015



2014



2013



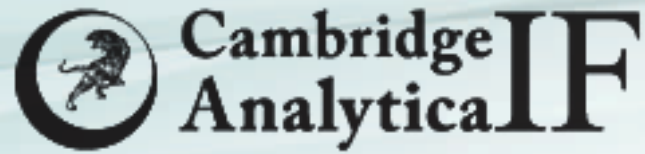
2012



2011



2010



Critics' Choice Best Islamic Retail Investment Product 2017 Award



First Habib Modaraba (FHM) has received "Critics' Choice Best Islamic Retail Investment Product 2017" award on our investment product "Certificate of Investment (Musharakah)". The award ceremony was held on 14th November, 2017 at Dubai, UAE.

According jury of award committee, FHM's Certificates of Investment product was chosen as ahead of other impressive competing products of non-banking Islamic Financial Institutions, since said product offers a better value proposition within Modaraba sector of Pakistan.

It is our immense pleasure to receive such prestigious award from Cambridge IF Analytica which is a testimony and recognition of sincere, dedicated and committed efforts of our passionate team. We believe that recognition at international level is a great honor for FHM and entire Modaraba sector Pakistan.

We thank Almighty Allah for his blessing and bestowing upon us for said accomplishments. We are confident that 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 requirement.





FEDERATION OF PAKISTAN CHAMBER OF COMMERCE AND INDUSTRY



The Federation of Pakistan Chambers of Commerce & Industry (FPCCI), which is the apex body of trade and industry of Pakistan, is promoting the interest of Pakistan's Commercial and Industrial community as well as economic and socio-economic activities.

FPCCI's corporate strategy is to focus on activities that help develop a competitive economy and promote sustainable trade and industrial development, which directly and indirectly contributes in the growth of economy.

To encourage the outstanding Organizations and Individuals, FPCCI organizes "FPCCI Achievement Awards", to cater their performance, so as to recognize and honor the dedicated individuals and enterprises of Pakistani origin who have made sustained and lasting contribution in economic and socio-economic development of Pakistan.

Last year FPCCI has awarded "FPCCI Achievement Award-First Position" to First Habib Modaraba (FHM) under the category of NBFI for the second time. This recognition has been given to FHM for promotion of Islamic Finance within NBFI and Modaraba sector.



2017



2015



Best Non-Bank Islamic Financial Institution Award



COMSATS Institute of Information Technology (CIIT) is serving the nation by providing quality education at undergraduate and graduate levels in various disciplines. In addition to sciences and business studies, CIIT is propelling towards Islamic Finance and has established Centre of Islamic Finance (CIF) for promotion and development of Islamic Banking and Finance.

CIF as part of Pakistan's leading public sector institution of COMSAT has given Islamic Finance Excellence Award (IFEA) to First Habib Modaraba as best Islamic Financial Institutions within the Non-Banking category.



2018

Our Strength

Our strengths and key differentiating factors will continue to drive us forward in our journey continuous success and maintaining position leading Modaraba within the sector.

Sound financial position, Strong Shariah governance, Compliance with regulatory requirements High standards of Corporate Governance and better return to our investors every year are the key strengths of our successful business journey of 33 years.



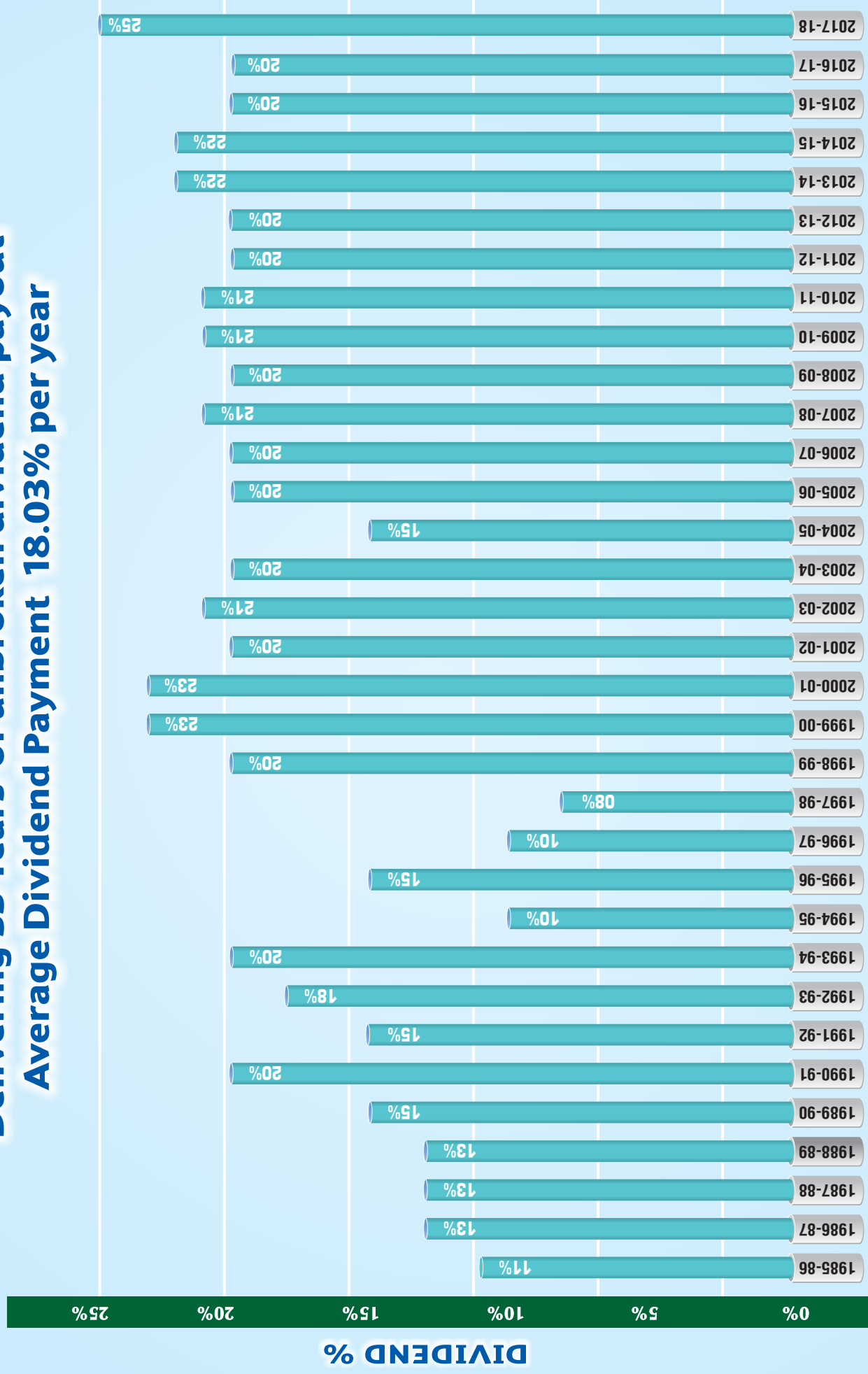
Our growth strategy is based on creating value for our stakeholders. Our shared values determine the way in which we interpret and respond to business opportunities and challenges, and establish expectations about how we work with them

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, we also fulfill satisfying the needs of other key stakeholders.

With a track record of excellent performance of more than 3 decades is the success story which truly reflects of our strength and unpatrolled dedication with sincere commitment within entire organization. Consistency in distribution of dividends among the certificate holders along with increase in certificate holders' equity, transparency and best business practices are key to our success and to earn the reputation of most awarded Modaraba within the Modaraba sector of Pakistan.

Delivering 33 Years of unbroken dividend payout

Average Dividend Payment 18.03% per year



We regard the creation and sharing of holistic value with all our stakeholders as the key to our definition of real success

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 product innovation and diversification.
- 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.



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). As we step into a new year, let us take a moment to celebrate that first time our assets size has reached to Rs.10.0 billion mark. Through combined efforts, we have established our position as one of the leading Modaraba within Modaraba sector. The Board has also declared cash dividend of 25% for the period ended 30th June, 2018, which is also the highest distribution since the operations of Modaraba.

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 23% and disbursement during the year grew by 29% which was the highest disbursement in any single year of Modaraba operations and also broke the record of last year. The entire team of FHM deserves appreciation of outstanding performance of the year. By the blessing Allah (SWT), FHM has become most efficient Islamic financial brands within the Modaraba sector of Pakistan, which now has sound financial footings and high market standings.

The acquisition process to become subsidiary of Habib Metro Bank, which was completed in later part of last year, proved beneficial to our Modaraba to a large extent. Now our Modaraba has closely engaged with the bank's network and enhancing their business volume and new customer base.

Our dedicated team tirelessly works for operational efficiency to deliver quality services to our worthy customer. Our goal is to present the collaborative approach for maximizing benefits and creating value for all our stakeholders. Today, by the grace of Allah (SWT) the FHM is one of the strongest organizations within Modaraba sector, having high ethical values which are the binding force for its growth momentum.

Sound balance sheet footing, strong Shariah governance, 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 the sector.

As we strengthen our position in our existing business cycle. Simultaneously, we also look forward for future in line with our core business strategies to explore new markets and customer segments for further business expansion in untapped segments. I am glad that our competent team has ability to grasp business opportunities and also engage themselves in new segments always ahead of our competitors. Islamic finance is growing sector in Pakistan and I am confident FHM will further enhance its assets size in this emerging segments.

As senior most entity within the sector, our financial strength, risk management protocols, Shariah governance framework and performance aspirations are directly attributable to a discipline that regularly brings prosperity to our worthy Certificate Holders & investors.

Going forward, I am hopeful that our competent team will continue to set new milestones in order to maintain FHM as leading Modaraba within the sector and 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. My deep gratitude to senior management of Habib Metro Bank, for their worthy support and assistance during the year for further business growth of FHM.

I also wish to commend our Chief Executive Officer, Senior Executives and all other 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
Karachi: August 29, 2018

چیرمین کا پیغام

محترم حاملانِ مضاربہ سرٹیفیکیٹس

میں اپنے محترم حاملانِ سرٹیفیکیٹ کو فرسٹ حبیب مضاربہ (ایف ایچ ایم) کے احوال کے متعلق آگاہی فراہم کرنے پر فخر محسوس کرتا ہوں۔ سال نو کی شروعات کے ساتھ، آئیے ہم اپنے اثاثوں کے حجم ۱۱۰ رب روپے ہونے پر ایک لمحہ رک کر اس کامیابی کا جشن منائیں۔ ہم نے مشترکہ کوششوں کے ذریعے مضاربہ سیکٹر میں ایک ممتاز مضاربہ کا مقام حاصل کر لیا ہے۔ مزید برآں بورڈ نے ۳۰ جون ۲۰۱۸ء کے اختتام سال پر ۲۵ فیصد نقد ڈیویڈنڈ (منافع منقسمہ) کا اعلان کیا ہے جو کہ مضاربہ کے اجراء سے اب تک سب سے زیادہ ہے۔

زیر نظر مالی سال ایف ایچ ایم کیلئے ایک اور کامیاب سال ثابت ہوا۔ اس سال کی خصوصی خوبی اثاثوں کے حجم اور گاہکوں کی تعداد میں مسلسل اضافہ ہے۔ بیلنس شیٹ میں ۲۳ فیصد اضافہ ہوا اور سال کے دوران ادائیگی میں ۲۹ فیصد اضافہ ہوا جو کہ مضاربہ کاروبار کے کسی ایک سال کی کارکردگی میں سب سے زیادہ ادائیگی ہے اور اس نے سال گزشتہ کے ریکارڈ کو بھی توڑ دیا۔ ایف ایچ ایم کی تمام ٹیم کی بہترین سالانہ کارکردگی قابلِ تحسین ہے۔ اللہ تعالیٰ کے کرم سے، ایف ایچ ایم پاکستانی مضاربہ سیکٹر کے درمیان موثر ترین اسلامی مالیاتی برانڈ بن گیا ہے، جس کی مضبوط مالیاتی بنیاد اور مارکیٹ میں اہم مقام ہے۔

حبیب میٹروپینک کے ذیلی ادارہ بننے کا تحویلی عمل، جو کہ سال گزشتہ کے آخری نصف کے دوران مکمل ہوا، ہمارے مضاربہ کیلئے بدرجہ اتم مفید ثابت ہوا۔ اب ہمارا مضاربہ بینک کے مربوط نظام سے منسلک ہے جس سے ان کے کاروباری حجم اور گاہکوں کی تعداد میں اضافہ ہو رہا ہے۔

فرض شناس ٹیم ہمارے موثر گاہکوں کو بہترین خدمات فراہم کرنے کیلئے انتھک محنت کرتی ہے۔ ہمارا نصب العین فوائد کی افزودگی کیلئے شراکت داری کے طریق پر عمل کرنا اور ہمارے شراکت داروں کیلئے قدر کی افزائش کرنا ہے۔ آج، اللہ تعالیٰ کے کرم سے ایف ایچ ایم مضاربہ سیکٹر کے مضبوط ترین اداروں میں سے ایک ہے، اعلیٰ اقدار کی پاسداری اس کی ترقی کی رفتار کیلئے قوت متحرک ہے۔

ہماری ترقی کی بنیادی محرکات میں، مضبوط بیلنس شیٹ بنیاد، مضبوط شرعی نظم و ضبط، قانونی ضوابط کی تعمیل، کارپوریٹ نظم و ضبط کا اعلیٰ معیار، شفافیت اور بہترین کاروباری طریقوں کی پاسداری شامل ہیں اور یہ عوامل اس سیکٹر میں انتہائی قابلِ قدر مضاربہ کی شہرت کے مقام کے حصول میں معاون ہیں۔

جیسے ہم موجودہ کاروباری دائرے میں اپنے مقام کو مضبوط بناتے ہیں، ساتھ ہی ساتھ، ہم اپنی بنیادی کاروباری حکمت عملی کے متوازی مستقبل کی تیاری کرتے ہیں تاکہ نئی مارکیٹوں اور گاہکوں کے نئے حلقوں کو تلاش کیا جاسکے اور اپنے کاروبار کو ان نارسا حلقوں تک بڑھایا جاسکے۔ مجھے خوشی ہے کہ ہماری قابلِ ٹیم میں کاروباری مواقع سے فائدہ اٹھانے کی صلاحیت موجود ہے اور اس بات کی صلاحیت بھی ہے کہ وہ ہمیشہ اپنے حریفوں سے پہلے نئے حلقوں کی توجہ حاصل کر سکیں۔ اسلامی فنانس پاکستان میں ایک ترقی پزیر سیکٹر ہے اور مجھے یقین ہے کہ ایف ایچ ایم ابھرتے ہوئے حلقوں میں اپنا نئے اثاثوں کی مقدار مزید بڑھائے گا۔

سیکٹر میں سب سے پرانے ادارے کے طور پر، ہماری مالیاتی طاقت، رسک مینیجمنٹ پروٹوکولز، شرعی نظم و ضبط کے فریم ورک اور کارکردگی کی امنگ اس بات کی غماز ہے جو ہمارے سرٹیفیکیٹ ہولڈرز اور کھاتے داروں کیلئے خوشحالی کی نوید دیتی ہے۔

مزید برآں، میں امید رکھتا ہوں کہ ہماری قابلِ ٹیم نئے سنگ میل قائم کرتے رہیں گے تاکہ ایف ایچ ایم کی سیکٹر میں راہنما حیثیت قائم رکھی جاسکے اور وہ آنے والے سالوں میں مزید بہتر نتائج دے سکیں۔

میں اپنے بورڈ ممبران کی طرف سے مسلسل حمایت، حکمت عملی پر انکی راہنمائی اور تمام کاروباری سرگرمیوں سے متعلق پالیسیوں اور ہدایات کی تشکیل کیلئے دانش مندی پر مبنی بیش قیمت شراکت پر انہیں خراج تحسین پیش کرنا چاہتا ہوں۔ میں بورڈ کے تمام ممبران کا انکی قیمتی آراء اور اپنے قیمتی وقت کو بورڈ میٹنگ کیلئے وقف کرنے پر فرداً فرداً شکریہ ادا کرنا چاہتا ہوں۔ میں حبیب میٹروپینک کی اعلیٰ انتظامیہ کا انکی سال گزشتہ کے دوران ایف ایچ ایم کی کاروباری ترقی کیلئے بیش قیمت حمایت و مدد کا تہہ دل سے مشکور ہوں۔

میں اپنے چیف اگزیکٹو، ایف ایچ ایم کے سینئر اگزیکٹوز اور تمام دوسرے سٹاف ممبران کی ان کی سخت محنت، ایف ایچ ایم کیلئے بہترین نتائج کے حصول کی لگن اور یکسو کوششوں کو سراہتا ہوں۔ میں اپنے سرٹیفیکیٹ ہولڈرز، کاروباری شرکاء اور تمام معزز سٹیک ہولڈرز کو انکی ہمارے ادارے پر یقین اور اعتماد پر خالصانہ تشکر پیش کرنا چاہتا ہوں۔ میں اس موقع سے فائدہ اٹھاتے ہوئے رجسٹرار آف مضاربہ، سیکوریٹیز اینڈ ایکسچینج کمیشن آف پاکستان، بینک دولت پاکستان، پاکستان سٹاک ایکسچینج اور تمام متعلقہ ریگولیٹری باڈیز کو انکی مسلسل راہنمائی اور حمایت پر اظہار تشکر کرتا ہوں۔

وزیر ممتاز احمد

چیرمین

کراچی: ۲۹ اگست ۲۰۱۸

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, 2018.

Profit before management fee	333,111,960
Less: Modaraba Management Company's remuneration	(33,311,460)
Sales tax on Modaraba Management Company's remuneration	(4,330,490)
Provision for Sindh Workers' Welfare Fund (SWWF)	(5,909,453)
Profit for the period	289,560,557
Unappropriated Profit b/f	37,600,472
Profit available for appropriation	327,161,029
Earning per certificate of Rs.5/- each	1.44

APPROPRIATIONS

Cash Dividend @ 25% (Rs.1.25 per certificate of Rs.5/- each)	252,000,000
Transfer to statutory reserves @ 5%	14,478,028
Unappropriated Profit c/f	60,683,001
	327,161,029

Dividend Payment

The board of directors has pleased to declare cash dividend of 25% i.e. Rs.1.25 per certificate of Rs.5/- each for the period ended 30th June, 2018

Economic Review

Pakistan's economy was remained in positive zone during past few years except in later part of fiscal year 2017-18. According to economic survey of Pakistan, the country had achieved GDP growth of 5.80% which was the highest in last 13 years. During the year the growth was made due to supportive macroeconomic supply and stable policies renewed confidence in private sector and investors. Better progress was made in agriculture, services and manufacturing sector. The other macroeconomic indicator exhibited satisfactory progress such a contained inflation, healthy credit flows to private sector and increase in FDI and remittances.

However, besides these positive developments, risks/challenges remain on domestic and external fronts. The FY 2017-18 had started on a positive note with high expectations of good economic growth. However, due to political uncertainty and adverse economic indicators in the second half of the year, the optimistic scenario was turned into a gloomy outlook. The depressed situation was arises due to unfavorable balance of payment position, widening current account deficit driven by robust imports and high oil prices, large fiscal deficit along with less than expected foreign inflows and a decline in exports in the last two to three years.

The rupee terribly lost its strength and devalued around 15% within last 3 months due to continuous depleting foreign exchange reserves. The reserves have also reduced due to widening of current trade deficit and repayment of loans. The State Bank of Pakistan (SBP) has also raised its policy rate by 150 bps since May, 2018. The Monetary Policy Committee stated that factors contributing to ongoing economic challenges including high trade and current account deficit, rupee deprecation and rising trend of inflation.

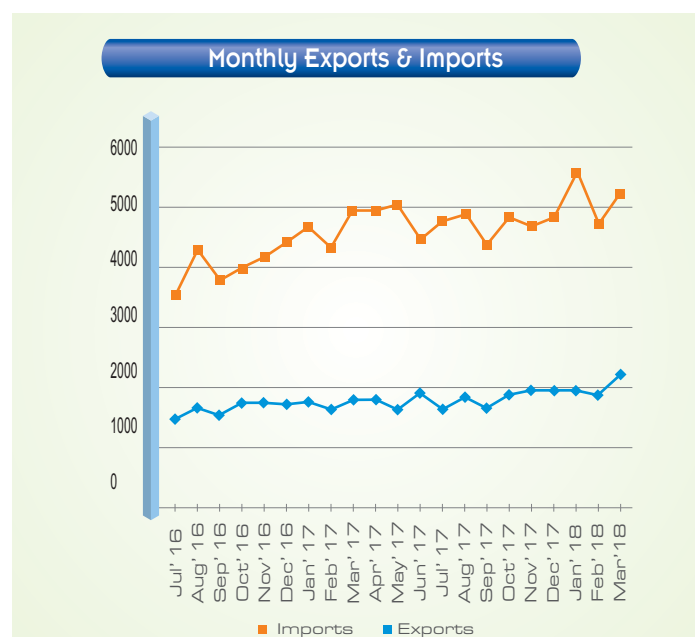
The new government has a major agenda of bringing the economy back on track. The China-Pakistan Economic Corridor (CPEC), a flagship Belt and Road Initiative project, is the largest Chinese investment in Pakistan to date. The CPEC engaged in mega-project which involves massive financial inflows into Pakistan to promote infrastructure, energy, trade development, and create many jobs. Pakistan's economy is still based on agriculture because of its vast fertile land. Like other project, the country is collaborating with China on several agriculture products which are underway.

It is also important for the government to focus on developing indigenous resources and promoting local value-addition approaches. Pakistan has immense manufacturing potential owing to ample availability of raw materials. It is imperative to bring them in line with the modern industries of other countries.



According to Moody's Investor Service report, the economy of Pakistan is facing external pressure, arising from increasing imports and low exports. This pressure has been continually mounting and aggravated the issue of declining foreign exchange reserves. Despite some measures by the government like depreciation of the Pak rupee, Current Account (C/A) balance continues to deteriorate. The widening C/A deficit is continuation of a negative trend in the external sector. External sector had also remained under pressure during the last fiscal year despite a recovery in exports and remittances. There is a fear that C/A will further aggravate if it is not addressed proficiently.

Currently, there is strong indication that at present economy is not in good shape and the country is facing serious economic issues particularly at external front. Now responsibilities are lies on new economic team to take appropriate short and long term measure for stabilization of the economy and sustainable growth.



Business Review of FHM

Alhamdulillah, the year 2017-18 was a year of distinguished achievements. First Habib Modaraba has attained assets size of Rs.10.0 billion mark. The performance remained satisfactory despite low discount rates and pressure on profit margin.

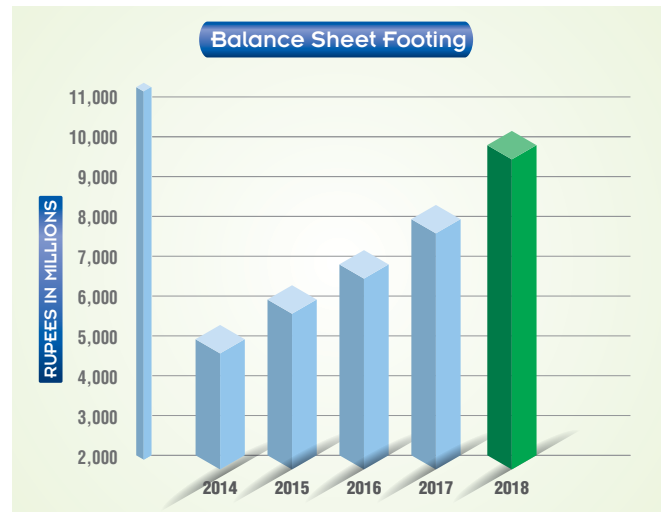
The year under review was a year of increased challenges for businesses with the political uncertainty and several other economic issues. However, despite of these issues including highly competitive market and intense competition with market player particularly with Islamic commercial banks, FHM has made satisfactory performance. A combination of factors along with operational excellence, quality assets building and services, helped the Modaraba to report yet another year of noteworthy performance.

Alhamdulillah, we are consistently enhancing our businesses and growing our balance sheet size on sound footings. The steady growth has supported us to further strengthening our position as leading Modaraba within Modaraba sector of Pakistan. During the year, the business focus remained on enlargement of outreach and customer base. Due to said strategy financing portfolio and assets base grew significantly and supported Modaraba to sustain the profitability at satisfactory level.

Overall size of balance sheet was increased from Rs.8.366 billion to Rs.10.279 billion which reflect growth of around 23%. During the period, total financing of Rs.5.032 billion as compared to Rs.3.912 billion was made i.e., increase of around 29%. The disbursements in single year also broke the record of highest disbursement in 2016-17.

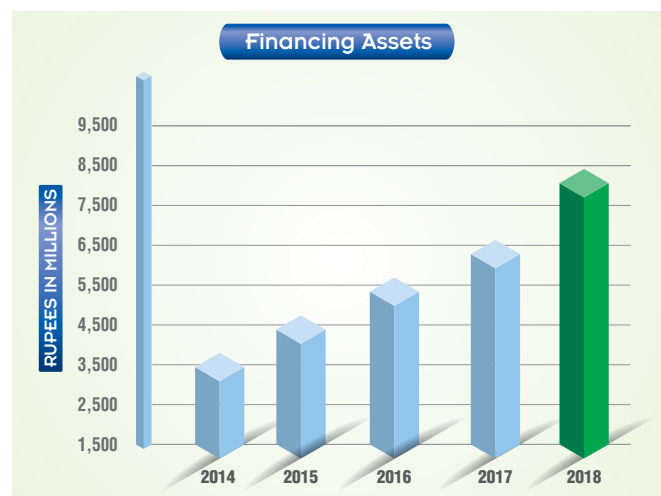
Out of total financing, around 66% disbursement was made in Diminishing Musharakah financing as compared to 67% of last year. This was also in line with our business strategy of balancing of financing product. Percentage of our vehicle financing portfolio was 84% of total disbursements made during the year. This was also in line with our credit risk strategy for sound and quality assets portfolio.

All four branches i.e., Karachi, Lahore, Islamabad and Multan have actively participated in overall disbursement of financing. Significant growth in yearly disbursement was made by our Lahore and Islamabad branches. The portfolio of Certificate of Investment (Musharaka) was increased to Rs.5.593 billion from Rs.3.914 billion. The COM portfolio has been enhanced by around 43% which is again excellent achievement of branches and highest amount in the business history of FHM.



During the year in May 2018, we had launched our car financing product in the name of SIRAT AUTO. For marketing of said product, FHM has signed a Service Level Agreement (SLA) with Cross Sale Unit (CSU) Habib Metro Bank. According to SLA the branches of the bank will market said product to their customer and refer to FHM for assessment and credit appraisals of financing proposal. So far we have received satisfactory response. The assets booking of said auto product is gradually enhancing and we are hopeful that during current year we will be able to build sound portfolio under said segment.

Way forward, we foresee that in current year the economy of Pakistan will slightly remain under pressure particularly in first half of the year due to high current account and trade deficit, rising inflation and pressure on Pak rupees. Keeping in view of present economic condition, we move forward cautiously and expand our businesses in prudent manner. We will also focus on revenue diversification, improve resource productivity and cost efficiency for sound and sustainable growth and profitability.



Business Outlook & Future Strategy

The World Bank forecasts global economic growth to edge up to 3.1 percent in 2018 after a much stronger-than-expected 2017. According to World Economic Outlook, global economic activity is picking up with a long-awaited cyclical i.e., recovery in investment, manufacturing, and trade. However, this is largely seen as a short-term upsurge.

Pakistan's economy was remained in positive zone during past few years except in later part of fiscal year 2017-18. However, due to political uncertainty and adverse economic indicators in the second half of last year, the optimistic scenario was turned into a gloomy outlook.

On business front, Alhamdulillah we are gradually enhancing our businesses and growing our financing assets size on sound footings. The prudent growth has supported us to further strengthening our position as leading Modaraba within Modaraba sector of Pakistan. During the year, 2017-18 the business focus remained on enlargement of outreach and customer base. Due to said strategy financing portfolio and assets base grew significantly and supported Modaraba to sustain the profitability at satisfactory level.

Considering present economic situation, we expect that business activities during the current year will slightly remain under pressure particularly in first half of the year due to unsatisfactory key economic numbers.

We also have our high expectation on mega project of China-Pakistan Economic Corridor (CPEC). The new government also pledges their commitment for smooth implementation of said project in line with its original plan. It is expected that CPEC will support for growth of related industry and will provide financing opportunity for capital assets particularly in commercial vehicles.

Broadly, we concentrate on following strategies for 2018-19.

Further strengthen Risk Management tool and internal control.

Further improve and strengthen Shariah governance and Shariah compliance culture.

Concentrate on small and medium size financing portfolio. Expand financing portfolio in good SMEs and consumer financing.

Concentrate on commercial vehicle segment in



prudent manner.

Improve professional grooming of our human resource and technological advancement.

Our focused strategy will 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.

Keeping in view of present economic condition, we move forward cautiously and expand our businesses in prudent manner. We will also concentrate on revenue diversification, improve resource productivity and cost efficiency for sound & sustainable growth and produce even better results.



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 June 30, 2018, 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 o u r 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 Metropolitan Modaraba Management Company (Pvt.) Limited (the Company), the management company of First Habib Modaraba since the Directors' report for the year ended June 30, 2017. except the change of Mr. Mohammed Hashim who expired in March 2018.

Representation of Female Director

Listed Companies (Code of Corporate Governance) Regulations, 2017 has introduced a requirement whereby, the board of directors shall have at least one female director when it is next reconstituted not later than expiry of its current term or within the next one year from the effective date of these Regulations, whichever is later. The Board will comply with the requirement at time of next election of directors.

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 (IBA).

Fee to Attend the Directors' Meeting

Chairman, non-executive directors and independent director are entitled only for the fee for attending the meetings from the Modaraba Management Company. The levels of remuneration are appropriate and commensurate with the level of responsibility and expertise to govern the company successfully and with value addition. Further, the Executive director of the Modaraba Management Company does not earn any retention fee against the services provided by him in the capacity of non-executive director from any other entity.

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.

Foreign Directors

No Foreign directors exist on the Board of Modaraba Management Company.

Pattern of Certificate Holders

A Statement showing pattern of Certificate Holding of the Modaraba and additional information as at June 30, 2018 is included in this report.

Corporate and Financial Reporting Framework

The Directors are pleased to confirm compliance with Corporate and Financial Reporting Framework of the Securities & Exchange Commission Pakistan (SECP) and the Code of Corporate Governance for the following:

- 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 financial statements. Accounting estimates used are based on reasonable and prudent judgment.
- International Financial Reporting Standards (IFRS), as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements and any departures there from have been adequately disclosed. Further, the management of the Modaraba appreciates the unreserved compliance of IFRS to the possible extent in order to promote the fair financial reporting.
- The system of internal control is in place and has been effectively implemented. It is being continuously reviewed by internal audit and other such procedures.
- 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 Listed Companies (Code of Corporate Governance) Regulations, 2017, except those mentioned in the statement of compliance with code of corporate governance.
- 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, 2018 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, 2017 are Rs. 50.990 million and Rs. 23.764 million respectively.

Attendance of Board meetings

Four meetings of Board of Directors were held during the year, attendance

by each director is appended hereunder.

Name of Directors	Number of meetings attended
Mr. Wazir Mumtaz Ahmed	4
Mr. Muhammad Shoaib Ibrahim	4
Mr. Rasheed Akhtar	4
Mr. Mohammed Hashim	2

Auditors

Present auditors M/s. EY Ford Rhodes, Chartered Accountants, are being eligible to offer themselves for reappointment as auditors for the financial year ending June 30, 2019, however their appointment will be subject to approval from Registrar Modaraba Office.

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 29, 2018

Syed Rasheed Akhtar
Director

بورڈ کے اجلاس کی حاضری

اس مدت کے دوران بورڈ آف ڈائریکٹرز کے چار اجلاس منعقد ہوئے۔ ہر ڈائریکٹر کی حاضری درج ذیل ہیں

ڈائریکٹر کا نام شرکت کرنے والے اجلاس کی تعداد

جناب وزیر ممتاز احمد	4
جناب محمد شعیب ابراہیم	4
جناب رشید اختر	4
جناب محمد ہاشم	2

مختب (Auditors)

موجودہ مختب (Auditors) میسرز: EY فورڈر ہوڈر، چارٹرڈ اکاؤنٹینٹس، جو اپنے دوبارہ انتخاب کے لیے اپنے آپ کو بطور ۳۰ جون ۲۰۱۹ کے اختتام تک کے لیے اپنی دوبارہ تقرری کے لیے پیش کرنے کے لیے اہل ہیں تاہم ان کا انتخاب رجسٹرار مضاربہ آفس کی منظوری سے مشروط ہے۔

اعتراف

بورڈ سیکوریٹیز اینڈ ایکسچینج کمیشن آف پاکستان، رجسٹرار مضاربہ کمپنیز، مالیاتی اداروں اور بینک دولت پاکستان کا ان کی وقتاً فوقتاً رہنمائی اور مسلسل حمایت کا شکریہ اور اظہار ممنونیت کرنا چاہتا ہے اور مضاربہ کے معزز گاہکوں کا ان کی سرپرستی، کاروبار اور حاملین سرٹیفیکیٹس کافر سٹ حبیب مضاربہ کے ساتھ مخلص رہنے کا شکریہ ادا کرتا ہے۔

آخر میں بورڈ آپ کے مضاربہ 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۔

بورڈ کے لیے اور ان کی جانب سے

سید رشید اختر
ڈائریکٹر

محمد شعیب ابراہیم
چیف ایگزیکٹو آفیسر

کراچی ۲۹ اگست ۲۰۱۸

ڈائریکٹرز کا مشاہرہ

چیز میں، نان ایگزیکٹو اور انڈیپنڈنٹ ڈائریکٹر صرف بورڈ کے اجلاسوں میں شرکت کے حقدار ہیں کہ جن کی ادائیگی مضاربہ مینجمنٹ کمپنی کی جانب سے کی جاتی ہے۔ ڈائریکٹرز کے معاوضوں کی سطح ان کی قابلیت اور ذمہ داری کیساتھ ادارے کو چلانے کے لحاظ سے مناسب ہے۔ مزید یہ کہ مضاربہ مینجمنٹ کمپنی کے ایگزیکٹو ڈائریکٹر اپنی فراہم کردہ خدمات کے عوض بطور غیر-ایگزیکٹو ڈائریکٹر کسی بھی ادارے سے کسی معاوضہ کی مد میں فیس نہیں وصول کرتے

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۔

غیر ملکی ڈائریکٹرز

مضاربہ مینجمنٹ کمپنی کے بورڈ پر کوئی غیر ملکی ڈائریکٹر موجود نہیں ہے۔

سرٹیفیکیٹس رکھنے کا رجحان

مضاربہ کے سرٹیفیکیٹس رکھنے کے رجحان کا بیان اور ۳۰ جون ۲۰۱۸ پر دستیاب اضافی معلومات اس رپورٹ میں شامل ہیں۔

اداراتی اور مالیاتی رپورٹنگ کا ڈھانچہ

ڈائریکٹرز سکیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان اور کارپوریٹ گورننس کے کوڈ اور کارپوریٹ اور مالیاتی رپورٹنگ فریم ورک کے ساتھ تعمیل کی تصدیق کرنے کے لئے مطمئن ہیں۔

- مضاربہ کی انتظامیہ کی تیار کردہ مالیاتی دستاویزات اس کے معاملات، آپریشن کے نتائج، کیش فلو اور ایکوٹی میں رد و بدل کے معاملات کی بہتر تصویر پیش کرتے ہیں۔
- مضاربہ کے کھاتوں 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 محتاط انداز سے کی گئی ہے۔
- مالیاتی دستاویزات کی تیاری میں بین الاقوامی اکاؤنٹنگ اسٹینڈرڈز، جو پاکستان میں مضاربہ پر لاگو ہوتے ہیں، ان پر عملدرآمد کیا گیا اور اس سے انحراف کو مناسب طور پر ظاہر کیا گیا ہے۔ مزید یہ کہ، مضاربہ کی انتظامیہ، منصفانہ رپورٹنگ کے فروغ کے لیے IFRS کی غیر مشروط (unreserved) ممکنہ حد تک تعمیل کو سراہتی ہے
- اندرونی نگرانی کا نظام موجود ہے اور اس کا موثر طور پر نفاذ کیا جا چکا ہے اور انٹرئل 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۔
- لسٹڈ کمپنیز (کوڈ آف کارپوریٹ گورننس) ریگولیشنز ۲۰۱۷ میں دئے گئے اداراتی نظم و ضبط کے طریقوں کو تفصیل سے تجویز کردہ طریقہ کار سے انحراف نہیں کیا گیا ہے
- گزشتہ چھ سالوں کے آپریشن اور مالیات کے بنیادی اعداد و شمار مختصر اُس سالانہ رپورٹ میں شامل ہیں۔
- ۳۰ جون ۲۰۱۸ پر ٹیکس، ڈیوٹیز، لیویز اور چارجز کی مد میں کوئی دستوری ادائیگیاں نہیں ہیں ماسوائے ان کے جو مالیاتی دستاویزات میں ظاہر کیے گئے ہیں۔

پراویڈنٹ فنڈ اور گریجویٹی

۱۳ دسمبر ۲۰۱۷ کے محاسب شدہ کھاتوں کی بنیاد پر پراویڈنٹ فنڈ اور گریجویٹی کی سرمایہ کاری کی مالیت بالترتیب 50.990 ملین روپے اور 23.764 ملین روپے تھی۔

ایسے منفرد معاہدے کے تحت شریعہ اصولوں کی تعمیل اسلامی مالیاتی لین دین کے جواز اور حرمت کو محفوظ رکھتا ہے۔ اس طرح سے، FHM پر عزم ہے کہ شریعہ نظم و ضبط کے ڈھانچے میں ان اصولوں کی سختی کے ساتھ پابندی اور ان پر عمل کرے گی۔

شریعت اصولوں کی تعمیل سے اسلامی مالیاتی نظام کاروباری خطرے کی شراکت داری کی حوصلہ افزائی کرتا ہے، کاروبار کرنے کی صلاحیت (entrepreneurship) کو فروغ دیتا ہے، قیاس آرائی کے رویوں کی حوصلہ شکنی کرتا ہے اور معاہدے کی حرمت پر زور دیتا ہے۔

الحمد للہ، حبیب میٹرو کی انتظامیہ کی توجہ اپنے معزز شریعہ مشیر کے مشوروں اور نگرانی میں نظم و ضبط (governance) اور تعمیل کے کلچر کے بنانے پر ہے۔ تاہم، اس میں مزید بہتری کے لیے مسلسل کوششیں جاری ہیں۔

ہم محسوس کرتے ہیں کہ شریعہ کا نظم و ضبط ہماری انتہائی ذمہ داری ہے اور ہماری ٹیم کے لیے یہ ایک بنیادی مقصد ہے اور اس کے کامل ہونے اور بے عیب بنانے کے لیے مکمل طور پر پرعزم ہے۔

اس مدت کے لیے، شریعہ مشیر کی ایک مکمل شریعہ آڈٹ رپورٹ، سالانہ رپورٹ کے ساتھ منسلک ہے۔

اداراتی سماجی ذمہ داری (CSR)

ہمارے کاروبار کی حکمت عملیاں کی بنیاد مضبوط اخلاقیات کی بنیاد پر اور کاروبار کے تسلسل کے تصور ہیں تاکہ ہمارے شرکاء مفاد کے لیے زیادہ سے زیادہ قدر پیدا کر سکیں۔ ہمارے یقین کے تسلسل کا تصور کا ماڈل ہمارے لوگوں، ادارے اور پلانٹ کا احاطہ کرتا ہے۔

اس طرح سے، ہم اپنے اداراتی سماجی ذمہ داری کے اقدامات کو اس عہد کی فراہمی کے ساتھ ہم آہنگ کر چکے ہیں اور سماجی گروہوں کی مسلسل خود مختاری اور ذمہ دار ماحولیات کی انتظامیہ کے تصور کی ترجمان ہے۔

سماجی طور پر ایک ذمہ دار ادارے کے، ہماری یہ بنیادی دلچسپی ہے کہ سماجی گروہوں کی ترقی کو یقینی بنانے کا عمل تسلسل سے ہوتا رہنا چاہیے۔

ایسی تقریبات اور منصوبوں کو کہ جنکی توجہ کامرکز FHM گذشتہ کئی سالوں سے غیر سرکاری اداروں کو چندہ دے رہا ہے جو تعلیم اور صحت وغیرہ کی بہتری کے لیے کام کرتے ہیں۔ FHM معاشرے کے پسماندہ بچے، صحت اور تعلیم ہیں ان کی حوصلہ افزائی کرتی رہے گی۔

بورڈ آف ڈائریکٹرز اور آڈٹ کمیٹی

بورڈ آف ڈائریکٹرز اور اس کی کمیٹیوں کی تشکیل کی تفصیلات اسٹیٹمنٹ اور کمپلائنس میں بیان کی گئی ہیں جو کہ اس رپورٹ کے ساتھ منسلک ہے۔ ۳۰ جون ۲۰۱۷ کی ڈائریکٹرز کی رپورٹ کی تاریخ سے، حبیب میٹرو پولیٹن مضاربہ مینجمنٹ کمیٹی (پرائیویٹ) لمیٹڈ (کمپنی)، جو فرسٹ حبیب مضاربہ کی مینجمنٹ کمیٹی ہے، اس کے بورڈ آف ڈائریکٹرز میں کوئی تبدیلی نہیں ہوئی ہے سوائے جناب محمد ہاشم کے جن کا انتقال مارچ ۲۰۱۸ میں ہو گیا تھا۔

خاتون ڈائریکٹر کی نمائندگی

لسنڈ کمپنیز (کوڈ آف کارپوریٹ گورننس) ریگولیشن ۲۰۱۷ ایک ضرورت متعارف کر چکا ہے، جس کے تحت بورڈ آف ڈائریکٹرز میں کم از کم ایک خاتون ڈائریکٹر کا ہونا لازم ہے جب اس کی دوبارہ تشکیل ہوگی جو موجودہ مدت کی ختم ہونے سے پہلے، یا ان ضوابط کے موثر ہونے کی تاریخ کے ایک سال کے اندر، ان میں سے جو بھی بعد میں ہو۔ بورڈ اس ضابطے کی تعمیل ڈائریکٹرز کے اگلے الیکشن کے وقت کرے گا۔

ڈائریکٹرز کی تربیت اور سمت بندی (Orientation)

تمام ڈائریکٹرز انسٹیٹیوٹ آف چارٹرڈ اکاؤنٹنٹس (ICAP) اور انسٹیٹیوٹ آف بزنس ایڈمنسٹریشن (IBA) میں ڈائریکٹرز کے تربیتی سرٹیفیکیٹ پروگرامز میں شرکت کر چکے ہیں۔

موجودہ معاشی صورتحال کو مد نظر رکھتے ہوئے، چونکہ رہتے ہوئے آگے بڑھ رہے ہیں اور کاروبار میں توسیع محتاط انداز میں کر رہے ہیں۔ ہم مستحکم اور تسلسل کے ساتھ ترقی اور منافع بخش کے مالکداری (revenue) میں متنوع، وسائل کی پیداواری صلاحیت میں اضافہ اور لاگوں میں کمی پر توجہ دیتے رہیں گے۔

بزنس آؤٹ لک

ورلڈ بینک نے بین الاقوامی معاشی ترقی کی شرح کو ۲۰۱۸ کے آخر تک ۳.۱ فیصد بڑھا دیا ہے جو کہ ۲۰۱۷ کے مقابلے میں کافی مضبوط ہے۔ ورلڈ اکنامک آؤٹ لک کے مطابق بین الاقوامی معاشی سرگرمیاں بڑھ رہی ہیں جس کی وجہ سے کافی عرصے سے منتظر انویسٹمنٹ کی وصولی، پیداوار اور تجارت میں اضافہ کا پہلی چلنا شروع ہو۔ تاہم یہ بڑے پیمانے پر ایک مختصر مدت کے بحران کو طور پر دیکھا جاتا ہے۔

پاکستان کی معاشیات پچھلے کچھ سالوں سے مثبت زون میں چل رہی ہے سوائے مالی سال ۲۰۱۷-۱۸ کے آخری حصے میں۔ تاہم، سال کے دوسرے حصے میں غیر سیاسی صورتحال اور معیشت سے متعلق منفی اشاروں نے معیشت کے مثبت رجحان کو دھندلا دیا ہے۔

امید ہے کہ مجموعی طور پر موجودہ معاشی اور تجارتی خسارے، بڑھتی ہوئی افراط زر اور پاکستانی روپے پر دباؤ کی وجہ سے مجموعی اقتصادی سرگرمیاں سال کو شروع میں دباؤ میں رہیں۔

مستقبل کا لائحہ عمل

ہم آہستہ آہستہ اپنے کاروبار اور مالیاتی اثاثوں کی تعداد میں مضبوط بنیادوں پر اضافہ کر رہے ہیں۔ اس زبردست ترقی نے ہمیں پاکستان کے مضاربہ سیکٹر میں نمایاں پوزیشن پر لے آیا ہے۔ سال ۲۰۱۷-۱۸ میں ہماری توجہ کسٹمرز کی تعداد بڑھانے پر رہی۔ اس لائحہ عمل، مالیاتی پورٹ فولیو اور مالیاتی اثاثوں کی بڑھتی تعداد نے مضاربہ کو اطمینان بخش منافع بنانے میں کافی مدد کی۔ موجودہ معاشی صورتحال پر غور کرتے ہوئے، ہم امید رکھتے ہیں کہ موجودہ سال کے دوران کاروباری سرگرمیوں کو غیر معمولی طور پر اہم معاشی چیزوں کی وجہ سے خاص طور پر سال کے پہلے نصف میں دباؤ میں رہیں گے۔

ہمیں میگا پروجیکٹ سی پیک (CPEC) سے بہت اُمیدیں ہیں۔ نئی حکومت نے بھی اپنی اس پروجیکٹ کو اس کے اصل پلان کے مطابق جاری رکھنے کا عزم ظاہر کیا ہے۔ اُمید ہے کہ سی پیک متعلقہ انڈسٹری کی بڑھوتی میں کافی مدد فراہم کرے گی۔ خصوصاً کمرشل گاڑیوں کی کینٹیل اثاثوں کو بڑھانے میں۔

- ان چیزوں کو مد نظر رکھتے ہوئے ہم سال ۲۰۱۸-۱۹ کیلئے درج ذیل حکمت عملیوں پر کام کریں گے۔
- ہم رسک منیجمنٹ ٹول اور اندرونی کنٹرول کو مزید مضبوط کریں گے۔
- شریعہ گورننس اور شریعہ کلچر کو مزید بہتر اور مضبوط بنایا جائے گا۔
- چھوٹے اور درمیانی مالیاتی پورٹ فولیو پر توجہ کی جائے گی۔ مالیاتی پورٹ فولیو کو اچھے SMEs اور کسٹمرز تک بڑھایا جائے گا۔
- کمرشل گاڑیوں کے شعبے پر بہتر طریقے سے توجہ مرکوز کی جائے گی۔
- افرادی قوت اور ٹیکنالوجیکل ایڈوانسمنٹ کو پروفیشنل سطح پر بہتر کیا جائے گا۔

ہماری حکمت عملی کی توجہ اس چیلنجنگ کاروباری ماحول میں اچھے کسٹمرز کو بڑھانے اور اپنی موجودہ ترقی رفتار کو برقرار رکھتے ہوئے آگے بڑھنے کی ہے۔ ہم چاہتے ہیں کہ ہم کم خرچے میں اپنی صلاحیتوں میں مزید نکھار اور بہتری کے ساتھ ساتھ کام کرتے ہوئے مختلف شعبوں میں کام کرنا چاہتے ہیں۔

موجودہ معاشی صورتحال کو مد نظر رکھتے ہوئے ہم اپنی کاروباری پیشقدمی احتیاط اور طریقے کے ساتھ کرنا چاہتے ہیں۔ ساتھ ساتھ ہم آمدنی بڑھانے کے مختلف ذرائع پر بھی کام کریں گے، اپنے ذرائع آمدن کی مزید پیداواری صلاحیت اور کم لاگت میں بہترین اور مضبوط ترقی و بڑھوتی پر بہترین طریقے سے کام کریں گے۔

شریعیہ کی تعمیل اور احتساب کا میکانیزم

ایک اسلامی مالیاتی ادارے کی بنیادی ضرورت یہ ہے کہ اس کا تمام کاروبار کی مشقیں اور آپریشنز کی بنیاد شریعی قواعد اور اصولوں پر ہوں۔ اسلامی فنانس اپنے مالی لین دین کے لیے اپنی قدر کا بنیادی شریعی معاہدے کے استعمال سے حاصل کرتا ہے جو مختلف خطرات اور منافع کے پروفائل فراہم کرتا ہے۔

موجودہ حکومت کا بڑا لائحہ عمل معیشت کو دوبارہ راہ راست پر لانا ہے۔ چین پاکستان اقتصادی راہداری CPEC، جون بیلٹ ون روڈ کا فلپگ شپ منصوبہ ہے، پاکستان میں چین کی اس وقت تک کی سب سے بڑی سرمایہ کاری ہے۔ CPEC عظیم منصوبوں پر مشتمل ہے جن کی وجہ سے بنیادی ڈھانچے، توانائی، تجارت اور روزگار کے مواقع کی توسیع کیلئے پاکستان میں بہت بڑے پیمانے پر مالیاتی آمد متوقع ہے۔ پاکستان کی معیشت کا انحصار وسیع زرخیز رقبے کی وجہ سے زراعت پر ہے۔ دوسرے منصوبوں کی طرح، ہمارا ملک متعدد جاری زرعتی منصوبوں پر چین کے ساتھ تعاون کر رہا ہے۔

یہ بات اہم ہے کہ ہماری حکومت کو مقامی ذرائع پیداوار کو ترقی دینے اور مقامی قدر میں اضافہ کی حوصلہ افزائی پر توجہ دینی چاہیے۔ پاکستان میں کافی مقدار میں خام مال کی دستیابی کی وجہ سے لامتناہی صنعتی پیداوار کے امکانات ہیں۔ اس کے لئے ضروری ہے کہ ان امکانات کو دوسرے ملکوں کی جدید صنعتوں کی طرز پر ترقی دی جائے۔

موڈیز انویسٹرس رسرچ رپورٹ کے مطابق، پاکستانی معیشت بیرونی دباؤ کا شکار ہے، جو کہ بڑھتی ہوئی درآمدات اور کم ہوتی ہوئی برآمدات سے پیدا ہوا ہے۔ یہ دباؤ مسلسل بڑھتا جا رہا ہے اور اس کی وجہ سے کم ہوتے ہوئے غیر ملکی کرنسی کے ذخائر کا مسئلہ مزید سنگین ہو گیا۔ حکومت کے بعض اقدامات جیسے پاکستانی روپے کی قدر میں کمی کے باوجود، کرنٹ اکاؤنٹ بیلنس رو بہ زوال ہے۔ بڑھتا ہوا کرنٹ اکاؤنٹ خسارہ بیرونی سیکنڈ کے منفی رجحان کا تسلسل ہے۔ بیرونی سیکنڈ پچھلے مالی سال کے دوران برآمدات اور ترسیلات میں بہتری کے باوجود دباؤ کا شکار رہا۔ اس خوف کا اظہار کیا جا رہا ہے کہ اگر مہارت سے کام نہ لیا گیا تو کرنٹ اکاؤنٹ کا مسئلہ مزید سنگین ہو جائے گا۔

فی الوقت، اس بات کے واضح اشارے موجود ہیں کہ معیشت اچھی حالت میں نہیں ہے اور ملک کو خصوصاً بیرونی حجاز پر سنگین معاشی مسائل درپیش ہیں۔ اب نئی معاشی ٹیم کے کندھوں پر ذمہ داری آگئی ہے کہ وہ معیشت کے استحکام اور پائیدار ترقی کیلئے مختصر اور طویل مدتی اقدامات اٹھائیں۔

FHM کے کاروبار کا جائزہ

الحمد للہ، سال 2017-18 ہمارے لیے نمایاں کامیابیوں کا سال تھا۔ فرسٹ حبیب مضاربہ نے 110 ارب روپے کے اثاثہ جات کے نشان کو عبور کر لیا ہے۔ کم رعایتی نرخوں اور منافع کو بڑھانے کے دباؤ کے باوجود کارکردگی اطمینان بخش رہی۔

زیر جائزہ مدت میں کاروبار کو سیاسی غیر یقینی اور متعدد معاشی مسائل کے پس منظر میں بڑھے ہوئے مسائل کا سامنا کرنا پڑا تھا۔ تاہم، ان معاملات کے باوجود بشمول بلند مسابقتی منڈی اور منڈی کے کھلاڑیوں سے شدید مسابقت خاص طور پر اسلامی تجارتی بینکوں سے، FHM نے اطمینان بخش کارکردگی دکھائی۔ بہت سارے عوامل کے ملاپ کے ساتھ ساتھ آپریشنل کاموں میں عمدگی، معیاری اثاثہ جات کی تعمیر اور خدمات نے مضاربہ کی معاونت کی کہ وہ ایک اور سال میں قابل توجہ کارکردگی دکھاسکے۔

الحمد للہ، ہم تسلسل سے اپنے کاروبار میں اضافہ اور اپنی مالیاتی دستاویزات کو مستحکم بنیادوں پر بڑھا رہے ہیں۔ اس متوازن ترقی نے ہماری مدد کی کہ ہم پاکستان میں مضاربہ کے شعبے میں اپنے مضاربہ کے قائدانہ مقام کو مزید مستحکم بناسکیں۔

سال کے دوران، کاروبار کی توجہ رسائی اور گاہکوں کی بنیاد میں اضافے پر رہی۔ اس حکمت عملی کی وجہ سے فنانسنگ پورٹ فولیو اور اثاثہ جات کی بنیاد میں خاصہ اضافہ ہوا اور اس نے مضاربہ کے منافع بخشی کو تسلسل سے اطمینان بخش سطح پر برقرار رکھنے میں مدد کی۔

مالیاتی دستاویزات کا سائز مجموعی 8.366 ارب روپے سے بڑھ کر 10.279 ارب روپے ہو گیا جو ۲۳ فیصد کا اضافہ ظاہر کرتا ہے۔ سال کے دوران سرمایہ کاری 3.912 ارب روپے کے مقابلے میں 5.032 ارب روپے رہی جس میں تقریباً ۲۹ فیصد کا اضافہ ہے۔ اس سال کی قرضہ جات کی ادائیگیوں نے گزشتہ سال کا بلند ترین ہونے کا کارڈ ٹوڑ دیا۔ کل سرمایہ کاری میں سے گزشتہ سال کی ۶۷ فیصد کے مقابلے میں تقریباً ۶۶ فیصد کی ادائیگیاں گھٹے ہوئے مشارکہ میں کی گئیں۔ یہ ہماری سرمایہ کاری کی مصنوعات میں توازن رکھنے کی حکمت عملی کے عین مطابق تھا۔ سال کے دوران گاڑیوں کی سرمایہ کاری پورٹ فولیو کل قرضہ جات کی ادائیگیوں کا ۸۴ فیصد تھا۔ یہ بھی قرضہ کے بدلے مستحکم اور معیاری اثاثہ رکھنے کے ذریعے قرضہ کے ڈوبنے کا خطرہ کم کرنے کی حکمت عملی کے مطابق تھا۔ تمام شاخوں یعنی، کراچی، لاہور، اسلام آباد اور ملتان نے مجموعی قرضہ جات کی فراہمی میں سرگرمی سے حصہ لیا۔ سالانہ قرضہ جات کی ادائیگیوں میں نمایاں اضافہ ہماری لاہور اور اسلام آباد کے شاخوں نے کیا۔ سرمایہ کاری سرٹیفکیٹ (مشارکہ) پورٹ فولیو 3.914 ارب سے بڑھ کر 5.593 ارب روپے ہو گیا۔ COM پورٹ فولیو بھی تقریباً ۴۳ فیصد بڑھ چکا ہے اور یہ بھی FHM کی کاروباری تاریخ میں سب سے زیادہ مالیت بے جوہر انچوں کا ایک اعلیٰ کارنامہ ہے۔

سال کے دوران، مئی ۲۰۱۸ میں، ہم کار فنانسنگ مصنوع بنام صراط آٹو کو پیش کر چکے تھے۔ اس کی مارکیٹنگ کے لیے حبیب میٹروپینک کے کراس سٹریٹس یونٹ سروس لیول ایگریمنٹ (SLA) کر چکے ہیں۔ اس SLA کے مطابق، بینک کی تمام شاخیں اپنے گاہکوں کو اس مصنوع کی فروخت کریں گی اور سرمایہ کاری کی تجاویز کے تخمینے کی تشخیص کے لیے FHM سے رجوع کریں گی۔

اب تک ہم اطمینان بخش رد عمل دیکھ چکے ہیں۔ اس آٹو مصنوع کے اثاثہ جات کی بنگ رفتہ رفتہ بڑھ رہی ہے اور ہم پر امید ہیں کہ موجودہ سال میں ہم اس قابل ہو جائیں گے کہ اس سیگمنٹ کے تحت ایک مستحکم پورٹ فولیو کی تشکیل کر سکیں گے۔ مزید، ہم دیکھ رہے ہیں کہ جاری سال میں پاکستان کی معیشت کچھ دباؤ میں رہے گی خاص طور سال کے پہلے نصف میں اس کی وجہ بلند جاری کھاتے اور تجارت میں خسارہ، بڑھتا ہوا افراط زر اور پاکستانی روپے پر دباؤ ہیں۔

ڈائریکٹر رپورٹ

بورڈ آف ڈائریکٹرز کی جانب سے ۳۰ جون ۲۰۱۸ کو ختم ہونے والے سال کے لیے مضاربہ کے آڈٹ شدہ اکاؤنٹس پیش کرنا میرے لیے باعث مسرت ہے۔

۳۳۳،۱۱۱،۹۶۰	مینگمنٹ فیس سے قبل منافع
(۳۳،۳۱۱،۴۶۰)	مضاربہ مینگمنٹ کمپنی کی فیس
(۴،۳۳۰،۴۹۰)	مینگمنٹ کمپنی کی فیس پر سروسز سیلز ٹیکس
(۴،۹۰۹،۴۵۳)	سندھ ورکرز ویلفیئر فنڈ
۴۸۹،۵۶۰،۵۵۷	ایک سال کا منافع
۳۷،۶۰۰،۴۷۲	پچھلے سالوں کا غیر تقسیم شدہ منافع
۳۲۷،۱۶۱،۰۲۹	قابل تقسیم منافع
۱۷۴۴	پانچ روپے فی سٹیک / شیئر پر منافع

منافع کی تقسیم

۲۵۲،۰۰۰،۰۰۰	۲۵ فی صد کے حساب سے نقد منافع برائے تقسیم (پانچ روپے کے سٹیک ہولڈر / پراپرٹیز ہولڈر کے لیے) نقد منافع فی سٹیک
۱۴،۴۷۸،۰۲۸	(Statutory Reserve) میں منافع کی ۵ فی صد شرح سے منتقلی
۶۰،۶۸۳،۰۰۱	غیر تقسیم شدہ منافع
۳۲۷،۱۶۱،۰۲۹	

منافع کی ادائیگی

بورڈ آف ڈائریکٹرز انتہائی مسرت کے ساتھ ۳۰ جون ۲۰۱۸ کو ختم ہونے والے سال کے لیے ۲۵ فی صد (پانچ روپے کے سٹیک ہولڈر کے لیے) نقد منافع دینے کا اعلان کرتا ہے۔

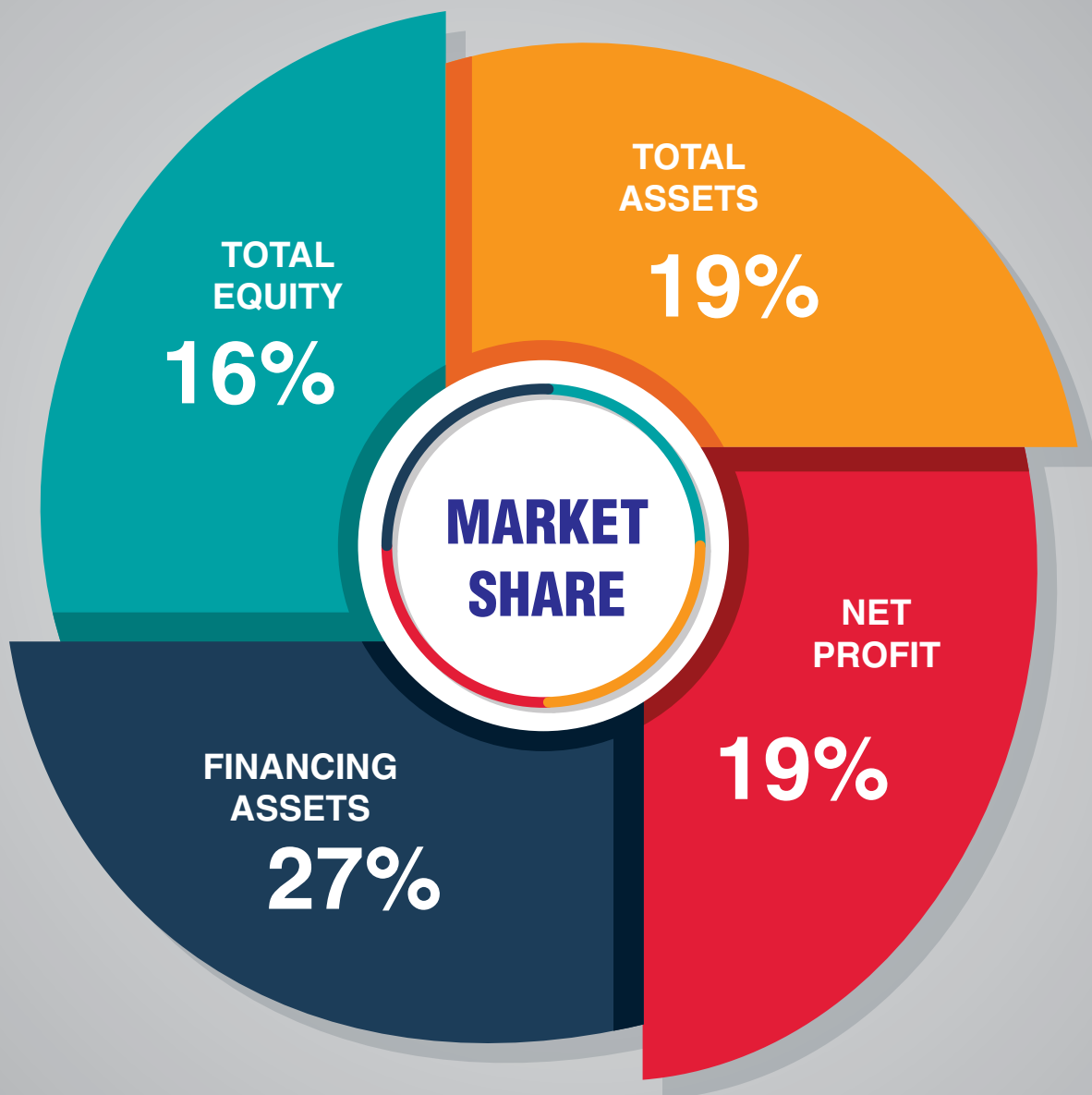
معاشی جائزہ

گذشتہ چند سالوں کے دوران پاکستان کی معیشت مثبت رہی ماسوائے مالی سال ۲۰۱۸-۲۰۱۷ کے آخری حصے میں۔ پاکستان کے معاشی سروے کے مطابق، ملک نے مجموعی قومی پیداوار (GDP) میں 5.80 فی صد کی شرح سے ترقی حاصل کی جو گذشتہ ۱۳ سالوں میں بلند ترین ہے۔ رواں سال کے دوران معاون کئی معیشت کی فراہمی کی وجہ سے ترقی ہوئی اور مستحکم پالیسیوں نے نجی شعبے اور سرمایہ کاروں کو اعتماد بخشنا۔ زرعی، خدمات اور صنعتی پیداواری سیکٹر میں بہتر ترقی ہوئی۔ دیگر کئی معیشت (macroeconomic) اشارے اطمینان بخش ترقی دکھاتے ہیں جیسا کہ افراط زر کو قابو رکھنا، نجی شعبے کی جانب صحت مند قرضہ جات کا بہاؤ اور بڑھی ہوئی FDI اور ترسیل زر ہیں۔

تاہم، ان مثبت اقدامات کے علاوہ، ملکی اور غیر ملکی محاذوں پر خطرات / مسائل درپیش ہیں۔ سال ۲۰۱۸-۲۰۱۷ نے اچھی معاشی ترقی کی بڑی توقعات کے ساتھ مثبت نوٹ پر آغاز کیا۔ تاہم غیر یقینی سیاسی صورتحال اور سال کے دوسرے نصف میں خراب معاشی اشاروں کی وجہ سے پر امید منظر نامہ پریشان کن بن گیا۔ دباؤ کی صورت حال پیدا ہونے کی وجہ ناموفق ادائیگیوں کا توازن کی صورت حال، بڑھتا ہوا جاری کھاتے کا خسارہ جس کا محرک بہت زیادہ درآمدات اور تیل کی قیمتیں، بڑا مالیاتی خسارے کے ساتھ توقعات سے کم غیر ملکی زر مبادلہ کا اندرونی بہاؤ اور گذشتہ تین سالوں میں برآمدات میں کمی تھیں۔

گذشتہ ۳ مہینوں کے دوران زر مبادلہ کے ذخائر میں مسلسل گراؤ کی وجہ سے روپے کی قدر میں خطرناک حد تک کمی واقع ہوئی اور اس نے تقریباً ۱۵ فی صد قدر کھودی۔ ذخائر کی اس کمی کی وجہ موجودہ تجارتی خسارہ میں اضافہ اور قرضوں کی ادائیگی ہے۔ بینک دولت پاکستان نے مئی ۲۰۱۸ء سے اپنے پالیسی ریٹ میں ۱۵۰ بنیادی پوائنٹس کا اضافہ کر دیا ہے۔ مالیاتی پالیسی کمیٹی کے مطابق موجودہ اقتصادی چیلنجوں کی بنیادی وجوہات میں اونچا تجارتی اور کرنٹ اکاؤنٹ خسارہ، روپے کی قدر میں کمی اور مہنگائی کا بڑھتا ہوا رجحان شامل ہیں۔

**SHARE OF FIRST HABIB MODARABA WITHIN THE
MODARABA SECTOR OF PAKISTAN
AS ON JUNE 2017**



SOURCE: Year Book of NBFIs & Modaraba Association of Pakistan of 2017

Risk Management Framework

Risk management is the process of identifying, assessing/measuring and controlling threats to an organization. Management of FHM continued to explore opportunities to achieve its strategic objectives while ensuring proper implementation Risk Management Framework.

With the valuable guidance of Board of Directors, the management of FHM has a proactive approach for an effective risk management framework along with robust risk governance structure. The governance of risk management begins with BOD and is linking around a strong management structure, sound information system and an effective risk-rating system. We maintain a strong inter-departmental communication link on risk factors and encourage culture of collaboration in decision-making amongst all departments.

Credit risk management

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

- Strong credit appraisals of borrower.
- 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.

Market risk management

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

financing portfolio is linked with floating rate and review on quarterly/half yearly basis.

Liquidity risk management

We manage liquidity risks according to the following principles:

Asset-liability management:

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

Operational risk management

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. 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 Non-compliance Risk
- Reputational Risk
- Compliance Risk
- Strategic Risk

Risk Management and control principles

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

- Encourage healthy communication within the departments.



- Continuous assessment of risk arises from different levels and its revisit its control mechanism
- 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.

Proper risk management has become essential part of any institution particularly in Financial Institutions. We do realize the importance of this key segment of business and aligning the same in accordance with market best practices, need and requirement for smooth operations of businesses.

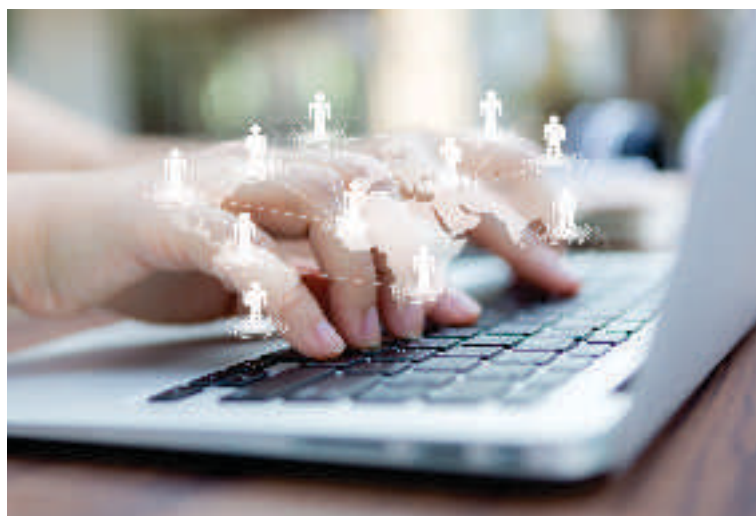


Information Technology

Information technologies play a key role in modern organizational structures and being a leading Modaraba in sector company face the pressure of continuously investing in IT systems of ever increasing complexity thus exposing these systems to internal and external threats. It therefore becomes imperative to have the right direction to minimize exposure to current threats while safeguarding the managerial and business benefits of IT investments.

Advancement in technology has long been a cornerstone of FHM business and many software processes has significantly developed during the last few years and has now a strong impact in daily routine providing new opportunities in combination with reduced size, improve accuracy with minimizing chances of error. System Support Department (SSD) 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.

SSD are not only focus on business webs a distributed corporate structure based on Internet technologies, but also focus in mobile technology, business managers, using new tools of strategic



analysis, will identify discrete activities that create value and parcel them out to the appropriate response.

IT is the centerpiece of a successful financial business model. FHM technology Department aims to streamline processes, cut costs, 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, FATCA, CRS, 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:

- Added tools applied for sound credit assessment appraisals.
- Credit Risk Management functions/processes have been improved
- 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.
- Processes and procedures further reviewed in line with requirements of parent bank.
- Shariah governance framework further strengthens.
- 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

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.

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 25% was announced.
Prudent growth	Expansion financing assets size in diversified and growing sector.	Financing assets was enhanced by 29% and overall assets size was increased by 23%.
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 27%.
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 annual report of FHM is selecting since last eight consecutive years for best report award by ICAP and ICMAP.

Significant changes in Modaraba's objectives

- Growth in financing assets size.
- Customer outreach was enhanced.
- Portfolio of individual car financing was expanded.
- Sound Small and Medium size customer were added within the portfolio.

Critical Performance Indicators

Alhamdulillah, the year 2017-18 was a year of distinguished achievements. First Habib Modaraba (FHM) has attained assets size of Rs.10.0 billion mark. The performance remained satisfactory despite low discount rates and pressure on profit margin. The steady growth has supported us to further strengthening our position as leading Modaraba within Modaraba sector of Pakistan. During the year, the business focus remained on enlargement of outreach and customer base. Simultaneously, the quality of financing assets was also successful maintain.

The critical performance indicators during year 2017-18 were as follows:

- 23% growth in Balance Sheet size
- 29% growth in total financing assets
- 43% growth in Certificate of Investment (Musharaka)
- 27% 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 2018-19

- Improve professional grooming of our human resource and technological advancement.
- Strengthen Risk Management tool and internal control.
- To further improve and strengthen Shariah governance and Shariah compliance culture.
- Concentrate on small and medium size financing portfolio. Expand financing portfolio in good SMEs and consumer financing.
- Enhance auto financing portfolio at retail level.
- Take support of branch network of parent bank for quality assets booking.
- Enhance customer base within Corporate and SME segment.
- Concentrate on commercial vehicle segment.

Changes in performance indicators

Performance indicators and measures have changed over the period due to the factors as already discussed in directors' report.

Methods and assumptions used in compiling the indicators

Following assumptions/estimates have been used in compiling the indicators:

- Historical experience and various other factors that are believed to be reasonable under the circumstances.
- Past performance history of the Modaraba.
- Prevailing economic and overall business conditions and future forecast.

However, the estimates and assumptions are reviewed on an ongoing basis and the revision is recognized in the period in which the estimates are revised. Actual results may differ from these estimates.

Significant Resources:

Our Key Resources

- Strong support of parent bank
- Sound market reputation
- Good client network
- Well trained human resource
- Robust 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.

Resource allocation plan

The management of the Modaraba allocates the resources of the Modaraba in line with the budget approved by the Board of Directors. The management is committed towards achieving the strategic objectives of the Modaraba and has accordingly allocates the resources towards sound assets building under approved Islamic mode of financing for sustainable growth and profitability.

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, Liquidity of Modaraba remained satisfactory.

Capital Structure

	As at 30th June, 2018 (Rupees)
Capital	1,008,000,000
General Reserve	640,000,000
Statutory Reserve	1,103,489,848
Certificate Premium Account	378,000,000
Un-appropriated profit	312,768,488
Total	<u>3,442,258,336</u>

Above capital structure is adequately maintained. Break-up value per modaraba certificate is Rs. 16.49 against the face value of Rs.5/-. Ratio of debt to equity is 66:34 and equity to asset is 33:67 which show strong capital structure and do not reflect any capital inadequacies.

Significant changes in Financial Position:

23% growth in Balance Sheet size

29% growth in total financing assets

43% growth in Certificate of Investment (Musharaka)

27% 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:

- Diversification in customer segment.
- 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 fund 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 funds withdrawal, without compromising any unforeseen risk/loss to the FHM's reputation.

The Assets Liability Management Committee (ALCO) is a decision-making team 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 lending 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 better profit return. The department has secured credit lines with Islamic banks for timely support in case of need is arises.



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

Business Continuity Plan (BCP)

Business Continuity Plane is a far reaching approach intended to ensure that business operations may not be disturbed in case of any major internal or external disruption. Business Continuity Planning is formulation of a strategy through the recognition of threats and risks facing by an institution with an eye to ensure that personnel and assets are protected and able to function in the event of a disaster. It also define potential risks, determining how those risks will affect operations, implementing safeguards and devise procedures to mitigate those risks. It is also important to test those procedures to ensure that they work in a proper manner.

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 ongoing plan maintenance and mock exercise for recovery services. These services are perform by FHM professional with the IT expert to prepare for disasters, expedite the resumption of FHM operations, and minimize customer impact and inconvenience.

FHM is permanently maintaining DR site with one the reputable company i.e., M/s Cube XS Weatherly (Private) Limited. Our relevant department has taken various measures to ensure the quick and smooth availability of BCP/DRP.

- 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.

The Modaraba's BCP/DR covers all the critical operational processes and procedures and it has been setup in accordance with the need and modern business requirements.



Segment-wise Review

Financing

Lease Financing

Lease financing of Rs.1,689 million were made out of total financing of Rs.5,032 million as compared to financing of Rs.3,913 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.3,343 million was made as compare to Rs.2,860 million of last year increased by 17%. Keeping in view of our strategy on product diversification, we have been continuously concentrating on this mode of financing. Disbursement in this segment was 66% of total financing as compared to 73% of last year.

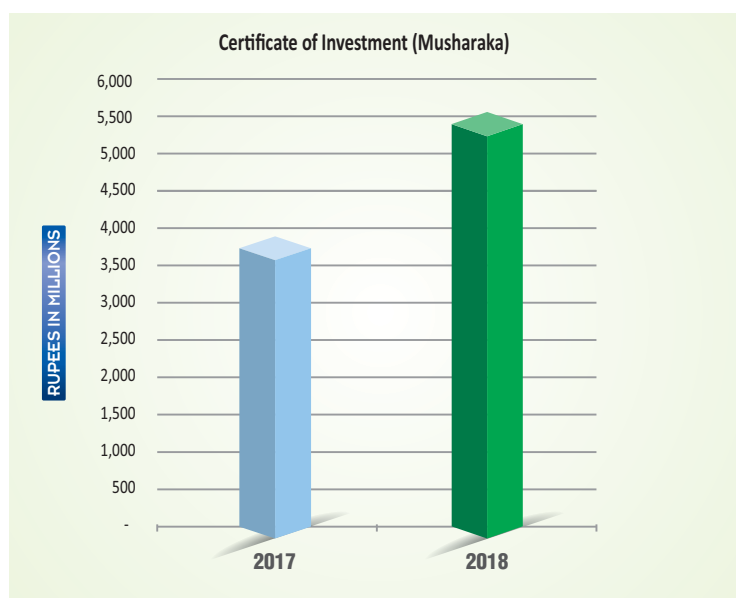
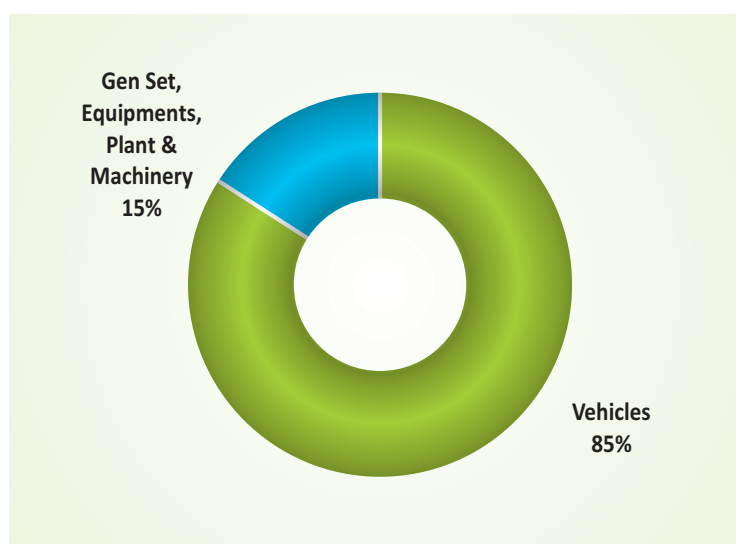
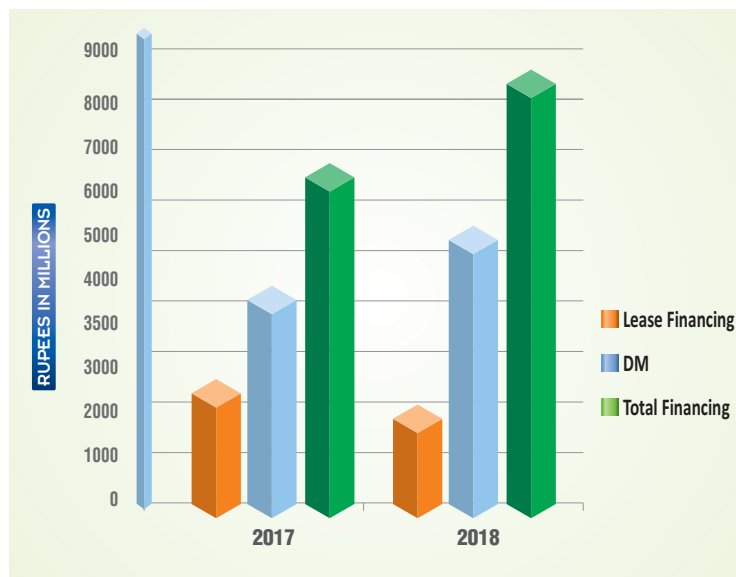
Our branches outside Karachi, i.e., Lahore, Islamabad and Multan have made significant contribution in assets booking as compared to corresponding period of last year. Moreover, good new corporate customers, commercial vehicle segment and consumer car financing segment had also been added by these branches 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. 85% 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, and Chemicals.

Certificate of Investment (Musharakah)

- Good growth has been witnessed on liability side within the Certificate of Musharaka (COM). The outstanding amount under COM was Rs.5,593 million at the end of year as compared to Rs.3,914 million of corresponding period of last year, grew by 43%. Our all branches particularly Karachi branch have made their good efforts in channelizing deposit under COM 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 thorough 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 always improve our service quality through:

- Customer feedback
- Analysis of repeat business segments of existing customers
- Frequent visits of customers
- Frequent revisits of operational processes
- Feedback at Annual Review Meeting
- Complain management system

Forward Looking Statement

We always devise our future business strategy after having deep study of internal and external segments which directly impact our operations and businesses. In view prevailing business environment we have formulated our business strategy on following lines for 2018-19.

- Improve professional grooming of our human resource and technological advancement.
- Strengthen Risk Management tool and internal control.
- To further improve and strengthen Shariah governance and Shariah compliance culture.
- Concentrate on small and medium size financing portfolio. Expand financing portfolio in good SMEs and consumer financing.
- Enhance auto financing portfolio at retail level.
- Enhance customer base within Corporate and SME segment.
- Concentrate on commercial vehicle segment.

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.
- Economic slowdown due to internal and external factors.
- Any other force majeure.

Comparison of forward looking statement 2017 and 2018

Forward Looking Statement made in 2017	Performance made in 2018
<ul style="list-style-type: none"> • Expand financing portfolio in good SMEs and consumer financing. • Add more Shariah compliant financial product within the financing portfolio. • Invest in Islamic capital and debt market in better yield shares and securities. • Open new branches/business desk for business expansion and enhancement of customer portfolio. • To further upgrade operation capacity of customer for better service to customer through efficient infrastructure and technological advancement. • Enhance operational and risk management capacity in order to avoid unforeseen operational and business risk. • To further improve and strengthen Shariah governance and Shariah compliance culture. • To further develop professional and operational capacity staff members through in house and outside trainings. 	<ul style="list-style-type: none"> • New auto product of SIRAT AUTO has been launched. • Due to volatility in equity market much investment was not made in equity and debt market. • Desk operations at two new location have been started • Operational efficiency was enhanced for improved customer service. • Risk Management processes was further improved. • Required on Shariah governance was made available at branch level throughout Pakistan. • Effective training was made for professional grooming of staff members.

Sources of Information and assumptions

Following sources of information are used by the management for the preparation of projections/forecasts:

- Economic review and business forecast at country level
- Central bank annual report and monetary policy statement
- Research from different counters
- Market feedback

Significant plans and decisions

In view prevailing business environment we have formulated our business strategy on following lines for 2018-19.

- Improve professional grooming of our human resource and technological advancement.
- Strengthen Risk Management tool and internal control.
- To further improve and strengthen Shariah governance and Shariah compliance culture.
- Concentrate on small and medium size financing portfolio. Expand financing portfolio in good SMEs and consumer financing.
- Enhance auto financing portfolio at retail level.
- Enhance customer base within Corporate and SME segment.
- Concentrate on commercial vehicle segment.

Risk and Opportunity Report

Type of Risk	Explanation	Strategies to Mitigate the Risk	Likelihood	Magnitude of 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	Not likely	Very low
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.	Likely	Low
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	Rare	Very low
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.	Not likely	Very low
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.	Rare	Very low
Regulatory risk	Risk of non-compliance with regulatory and change in regulatory policy requirements	Strong compliance and internal control system are in place to fulfil the regulatory requirements and close eye on changes in laws and regulation	Likely	Low
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.	Likely	Low
Legal risk	Risk due to weak legal documentation particularly in credit processes	Documentation executive in accordance with set procedures prescribed by legal advisors and team of internal control.	Not likely	Very low
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.	Likely	Low

Opportunities

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

- To engage in consumer car financing segments through network of parent bank.
- To take support of branch network of Habib Metropolitan Bank to promote Islamic financing product of FHM
- Growing Islamic Finance Market creates opportunities to cater the need of different Islamic mode of financing along with mobilization of funds on Modaraba and Musharakah basis.
- To expand its business through enhance outreach and customer base.
- Financing to SME sector of Pakistan.
- Growing consumer base – New Shariah compliant financial product for consumer financing.

Information about defaults in payment of any debt

Since First Habib Modaraba has timely retired all its financial obligation such as credit facilities from financial institutions/banks, Certificate of Investment (Musharaka) and other debt obligations without having any delays or default.

Key source of uncertainty

Within the operations the Modaraba is exposed to various uncertainties due to change in internal and external factors which may affect directly or indirectly on the businesses of the Modaraba.

However, broader key uncertainties are:

- Political and other disturbance within the country.
- Change in any regulatory or taxation policies.
- Change in policy rate of Central Bank
- Economic slowdown
- 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

Since beginning of operations, FHM's support always remain with sustainability where economic, social and environmental implications were intrinsic components of our business model. This basic premise remains true today as the management of FHM diversifies and evolves into a Shariah compliant financial solutions provider across all segments of society, economy and geography.

Sustainability statement not only communicates an organization's economic, environmental, social and governance performance, it also acts as a document that helps the management identify priorities, develop strategies, set goals, measure performance and manage changes to make their operations truly sustainable.

Corporate Social Responsibility

As leading Modaraba within the sector, 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 policies with renowned insurance companies.



- Strong internal controls are the one of the main corporate objectives. FHM promote sound ethical practices within the staff members with Risk & Reward concept.

Energy Conservation and energy saving measures

We feel that energy conservation and its saving are our national obligation. The management is geared towards to promote to use energy smartly and economically. 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 system 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 it were lost or stolen.
- Securely remove all personal information before disposing of old computers (by using technology or destroying the hard disk).

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.

Mitigating the adverse impact of industrial effluents

Our country is passing through with risk of shortage of water. This is an alarming situation within the country. FHM seeks to reduce the direct impact of its operations on the environment by creating awareness on the issues of water pollution and water preservation so as to deliver benefits to the community. We encourage our clients to avoid the release of effluent and industrial waste for the preservations of water resources and reduction of water pollution.

Complaint Management & Handling

All the complaints and feedback of customers and Modaraba Certificate holders have been managed through web portal of FHM. Designated staff members have access to this system so as to ensure that all complaints are immediately retrieved and addressed in proper manner. Our share registrar i.e., Central Depository Company (CDC) have also advised for quick and speed resolution of complaints and grievances of Certificate Holders of FHM.

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

According tax laws, 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, including huge purchase of financing assets such as motor vehicles, machineries and equipment of the value of Rs.5.0 billion during the year.

Key Financial Data for Six Years

KEY FINANCIAL DATA	Rupees in Million					
	2018	2017	2016	2015	2014	2013
Total Assets	10,279.25	8,366.65	7,160.75	6,393.29	5,392.99	4,719.29
Lease Financing	2,902.83	2,440.98	2,725.21	3,072.31	2,868.62	2,941.64
Diminishing Musharaka Financing	5,595.93	4,291.64	3,051.52	1,729.12	1,061.12	546.82
Lease Financing Asset Disbursement	1,052.48	1,052.48	1,124.23	1,742.09	1,400.90	1,889.71
Diminishing Musharaka Asset Disbursement	2,860.15	2,860.15	2,316.86	1,277.66	901.32	364.50
Current Assets	3,994.81	3,259.09	2,613.51	2,281.28	1,893.90	1,404.85
Current Liabilities	6,303.09	4,652.98	3,540.63	2,793.13	1,894.27	1,401.51
Total Liabilities	6,719.12	4,894.75	3,844.69	3,136.44	2,184.38	1,666.44
Paid-up Capital	1,008.00	1,008.00	1,008.00	1,008.00	1,008.00	1,008.00
Reserves	2,434.26	2,346.27	2,254.25	2,177.65	2,092.78	2,008.16
Certificate Holders' Equity	3,442.26	3,354.27	3,262.25	3,185.65	3,100.78	3,016.16
Gross Revenue	1,572.55	1,571.72	1,608.45	1,592.34	1,603.47	1,531.86
Net Profit	290.32	304.60	298.30	306.50	285.44	292.38
Earning Per Certificate - Rs.5/- each	1.44	1.46	1.48	1.52	1.42	1.46
Cash Dividend	25%	20%	20%	22%	22%	20%
Income from Lease Financing	193	218.09	286.09	250.63	297.92	316.68
Income from Diminishing Musharaka Financing	393.55	321.75	224.89	154.25	93.59	49.17
STAKEHOLDER INFORMATION	2018	2017	2016	2015	2014	2013
Profitability Ratios						
Profit after tax ratio (%)	18.46	19.38	18.55	19.25	17.80	19.09
Gross yield on earning assets (%)	16.12	19.57	23.70	27.52	32.69	34.15
Gross spread ratio (%)	11.25	12.83	12.03	11.25	10.06	11.06
Cost / Income ratio (%)	23.05	20.41	19.24	17.92	17.85	15.70
Return on equity (%)	8.43	9.08	9.14	9.62	9.21	9.81
Return on assets (%)	2.82	3.64	4.17	4.79	5.29	6.20
Return on capital employed (%)	8.92	9.58	9.68	10.21	9.88	11.69
Gross profit ratio (%)	34.79	32.24	27.76	25.61	22.66	21.20
Net profit to sale (%)	18.46	19.38	18.55	19.25	17.80	19.09
EBITDA margin to sale (%)	27.70	27.98	26.42	26.92	25.00	29.58
Income / Expense ratio	1.16	1.19	1.17	1.17	1.15	1.15
Liquidity Ratios						
Advance to deposit ratio	1.52	1.72	1.89	2.03	2.56	3.46
Current ratio	0.63	0.70	0.74	0.82	1.00	1.00
Cash to current liabilities	5%	4%	7%	17%	20%	9%
Cashflow from operations to sale	-80%	-40%	-42%	-28%	-11%	-21%
Turnover ratio						
Total Asset Turnover Ratio (%)	16.40	20.02	23.93	26.90	32.03	33.21
Fixed Asset Turnover Ratio (%)	26.83	32.79	37.68	41.82	49.37	58.05
Investment / Market ratio						
Market Value Per Share	10.75	10.95	10.50	10.40	9.75	9.90
High	11.69	11.85	11.13	10.59	10.81	9.90
Low	9.25	9.71	9.50	8.70	8.50	7.10
EPC (Earning per certificate)	1.44	1.46	1.48	1.52	1.42	1.46
Price earning ratio	7.47	7.50	7.09	6.84	6.87	6.78
Price to book ratio	0.65	0.68	0.66	0.67	0.66	0.67
Dividend Yield ratio (%)	11.63	9.13	9.52	10.58	11.28	10.10
Dividend Payout ratio (%)	86.80	66.18	67.58	72.35	77.69	68.95
Dividend cover ratio	1.15	1.46	1.48	1.38	1.29	1.46
Cash dividend (%)	25.0%	20.0%	20.0%	22.0%	22.0%	20.0%
Cash dividend per certificate/ share	1.25	1.00	1.00	1.10	1.10	1.00
Book Value Per certificate/ share	16.49	16.05	15.88	15.45	14.85	14.78
Dividend (in million rupees)	252	202	202	222	222	202
Profit Growth Ratio (%) [YoY]	(5)	2	(3)	7	(2)	(15)
Profit Growth Ratio (%) [base year 2013]	(1)	4	2	5	(2)	-
Capital Structure ratio						
Net assets per share	17.66	17.22	16.45	16.16	15.92	15.14
Earning asset to total asset ratio (%)	94.93	95.99	94.79	90.51	90.95	95.05

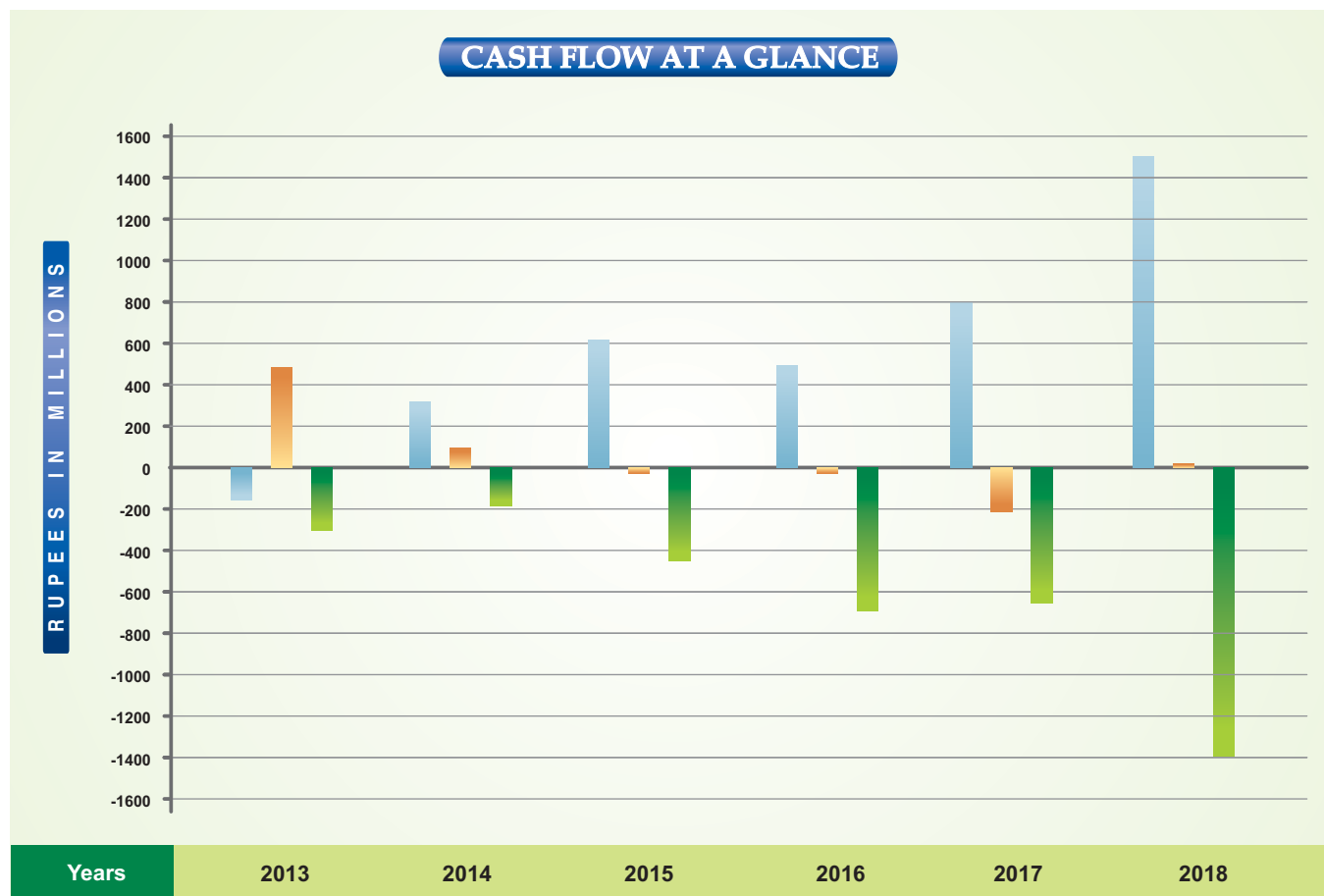
*Certificates of Rs. 5/- each

Free Cash Flows to Equity

	30-Jun-18 Annual	31-Mar-18 Nine monthly	31-Dec-17 Half yearly	30-Sep-17 Quarterly
Net cash outflow from operating activities	(1,260,030,118)	(664,904,896)	(590,721,525)	(114,643,933)
Net cash generated from / (used in) investing activities	13,615,582	(6,139,590)	(13,816,120)	(21,001,445)
Net cash inflow from financing activities-excluding dividend	1,574,603,122	791,176,624	852,198,114	37,627,556
	328,188,586	120,132,138	247,660,469	(98,017,822)

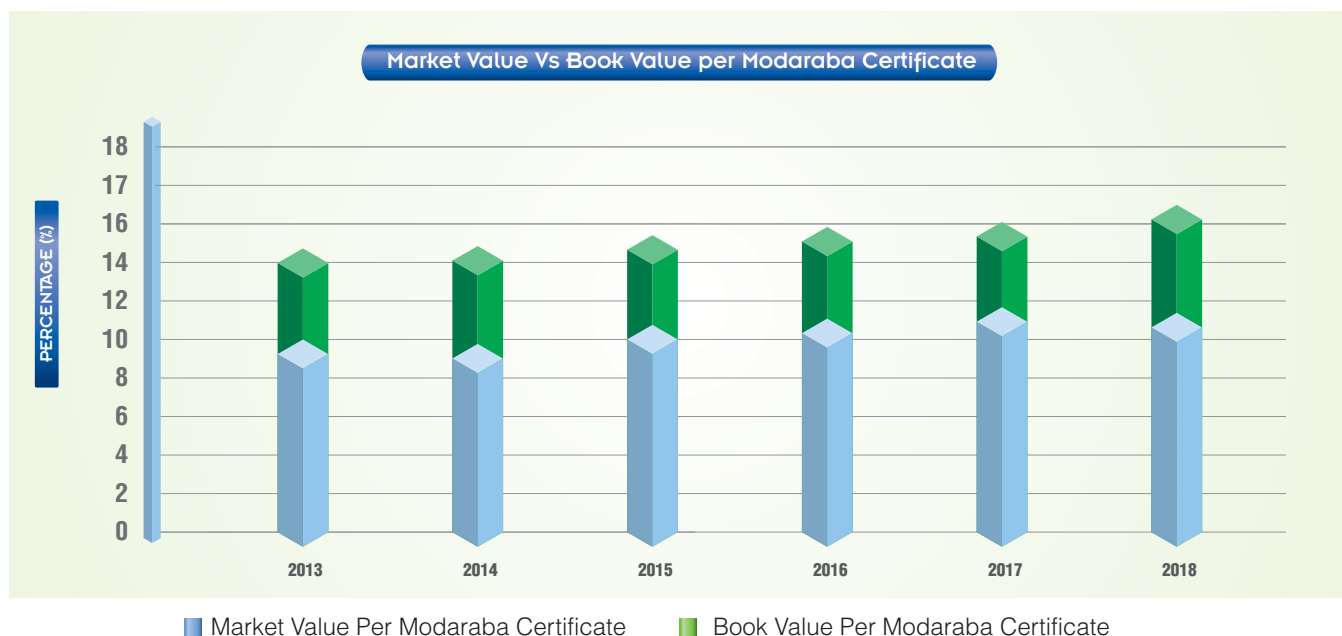
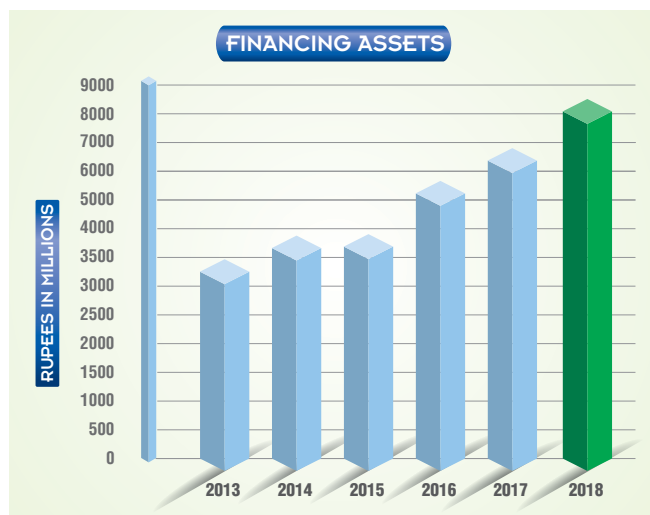
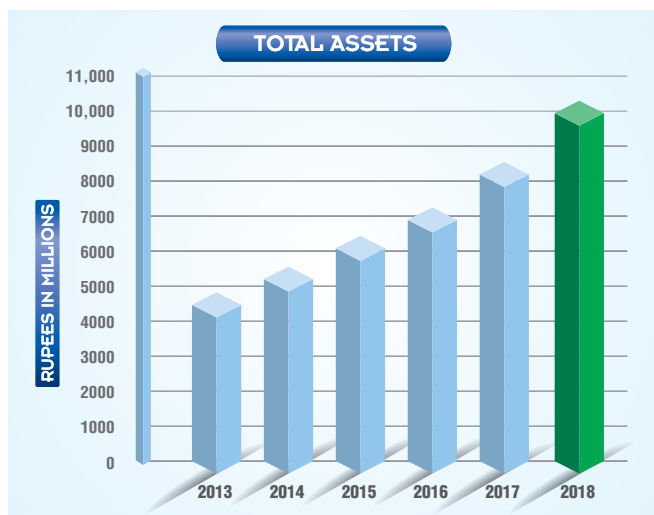
Summary of Cash Flow

	Rupees in Million					
	2018	2017	2016	2015	2014	2013
Cash & cash equivalents at the beginning of the year	192	248	487	371	131	122
Net Cash flow from operating activities	(1,260)	(629)	(672)	(451)	(183)	(325)
Net Cash flow from investing activities	14	(216)	(39)	(39)	97	495
Net Cash flow from financing activities	1,375	789	472	607	326	(161)
Net increase/decrease in cash & cash equivalent	129	(56)	(239)	116	240	8
Cash & cash equivalents at the end of the year	321	192	248	487	371	131



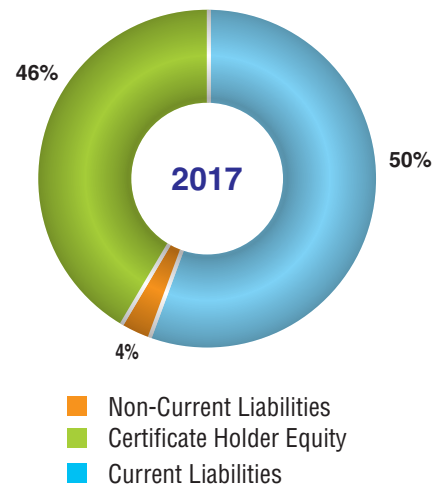
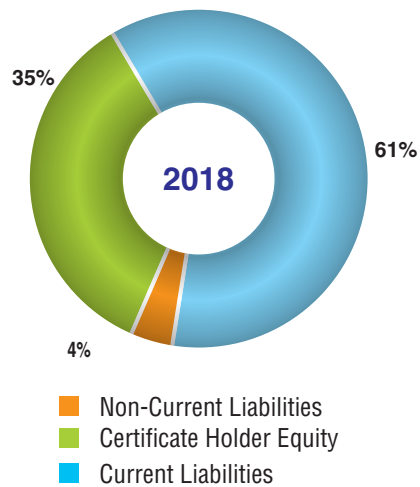
- Net Cash flow from operating activities
- Net Cash flow from investing activities
- Net Cash flow from financing activities

Graphical Presentation of Financial Summary

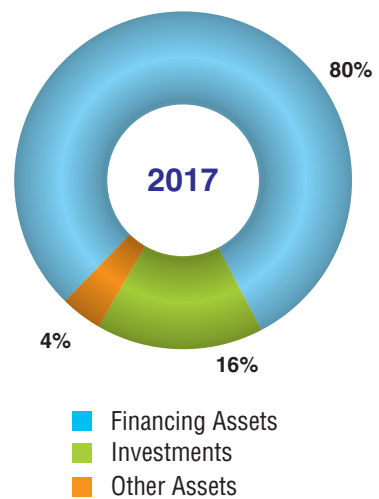
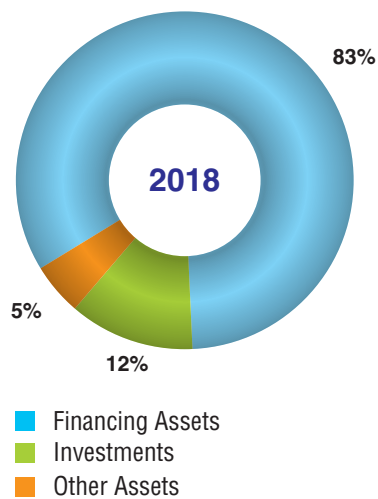


Balance Sheet Composition

Equity & Liabilities



Assets



Horizontal Analysis

BALANCE SHEET (%)	2018	2017	2016	2015	2014	2013
ASSETS						
NON-CURRENT ASSETS						
Lease financing assets	18.92	(10.43)	(11.30)	7.10	(2.48)	17.61
Fixed assets in own use	145.16	42.91	(0.41)	(22.91)	(16.56)	67.03
Intangible assets	765.60	(88.45)	(53.50)	(55.91)	6.50	(33.70)
Diminishing musharaka financing	26.25	46.39	76.02	67.01	73.45	51.86
Long term advances and deposits	32.76	37.55	(3.14)	(42.71)	(51.86)	64.33
CURRENT ASSETS						
Investments	(3.07)	28.45	2.62	1.02	(2.20)	(32.90)
Current portion of diminishing musharaka financing	37.09	32.22	77.16	57.33	132.32	28.97
Lease financing installments receivables	99.06	21.90	(75.52)	(63.68)	181.66	3.01
Diminishing Musharaka financing installments receivables	876.87	(62.79)	25.80	37.07	1696.81	(34.67)
Advances and prepayments	(40.44)	(29.22)	205.30	(57.77)	(25.29)	122.33
Other receivables	41.69	37.97	(45.30)	(20.39)	59.96	32.56
Income tax refundable	27.73	11.99	34.29	89.00	(17.38)	33.48
Cash and bank balances	66.89	(22.52)	(49.10)	31.36	184.09	6.74
TOTAL ASSETS	22.86	16.84	12.00	18.55	14.28	3.37
EQUITY & LIABILITIES						
CAPITAL & RESERVES						
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	3.75	4.08	3.52	4.06	4.21	64.85
Certificate holders' equity	2.62	2.82	2.40	2.74	2.81	35.48
SURPLUS ON REVALUATION OF INVESTMENTS	0.21	118.62	(24.43)	(33.97)	193.96	(95.93)
NON-CURRENT LIABILITIES						
Security deposits against lease financing assets	72.08	(20.49)	(11.43)	18.34	9.50	26.72
CURRENT LIABILITIES						
Certificates of investment (musharaka)	42.91	28.28	29.27	53.88	52.18	3.97
Security deposits - current portion	(41.05)	8.67	24.84	(7.31)	48.36	(5.52)
Unearned lease financing and diminishing musharaka installments	158.94	133.90	(19.38)	226.70	(85.40)	55.73
Advance lease financing and diminishing musharaka installments	15.84	(1.14)	38.28	(49.12)	63.97	5.87
Trade and other payables	16.51	29.76	10.57	38.49	(19.10)	86.96
Taxation	0.00	(100.00)	0.00	0.00	0.00	0.00
Unclaimed profit distributions	6.33	13.40	9.61	8.35	10.19	8.56
TOTAL EQUITY & LIABILITIES	22.86	16.84	12.00	18.55	14.28	3.37
PROFIT & LOSS ACCOUNT (%)	2018	2017	2016	2015	2014	2013
Income from lease financing	(11.85)	(12.98)	(12.39)	(3.97)	(5.93)	(77.48)
Profit on diminishing musharaka	22.31	43.07	45.79	64.81	90.36	8.01
Administrative expenses	13.02	9.74	8.06	5.50	3.63	19.01
Other Income	10.15	(1.72)	(17.73)	2.58	(87.01)	463.15
Impairment loss on investment in equity security classified as 'available-for-sale'	100	-	-	-	-	(100.00)
Financial charges	30.14	30.73	11.78	21.09	11.97	11.73
Modaraba Management Company's remuneration	(4.94)	2.00	(2.78)	7.26	(71.35)	203.09
Sales tax on Modaraba Management Company's remuneration	(4.94)	(5.29)	(9.27)	0.55	(76.64)	100.00
Provision for Sindh Workers' Welfare Fund	(4.94)	2.11	(2.67)	7.38	(71.25)	100.00
Profit for the year	(4.94)	2.11	(2.67)	7.38	(2.51)	(79.35)

Vertical Analysis

BALANCE SHEET (%)	2018	2017	2016	2015	2014	2013
ASSETS						
NON-CURRENT ASSETS						
Lease financing assets	28.24	29.18	38.06	48.06	53.19	62.33
Fixed assets in own use	0.29	0.15	0.12	0.14	0.21	0.28
Intangible assets	0.0030	0.0004	0.0043	0.0103	0.0278	0.0299
Diminishing musharaka financing	32.59	31.71	25.31	16.11	11.43	7.53
Long term advances and deposits	0.01	0.01	0.01	0.01	0.02	0.05
CURRENT ASSETS						
Investments	12.25	15.52	14.12	15.41	18.08	21.13
Current portion of diminishing musharaka financing	21.85	19.58	17.30	10.94	8.24	4.05
Lease financing installments receivables	0.02	0.01	0.01	0.06	0.18	0.07
Diminishing Musharaka financing installments receivables	0.04	0.00	0.01	0.01	0.01	0.00
Advances and prepayments	0.04	0.09	0.15	0.06	0.16	0.24
Other receivables	0.44	0.38	0.32	0.66	0.98	0.70
Income tax refundable	1.11	1.06	1.11	0.93	0.58	0.80
Cash and bank balances	3.12	2.30	3.47	7.63	6.88	2.77
TOTAL ASSETS	100.00	100.00	100.00	100.00	100.00	100.00
EQUITY & LIABILITIES						
CAPITAL & RESERVES						
Authorized Certificate capital	10.70	13.15	15.36	17.21	20.40	23.31
Issued, subscribed & paid-up capital	9.81	12.05	14.08	15.77	18.69	21.36
Reserves	23.68	28.04	31.48	34.06	38.81	42.55
Certificate holders' equity	33.49	40.09	45.56	49.83	57.50	63.91
SURPLUS ON REVALUATION OF INVESTMENTS	1.15	1.41	0.75	1.11	2.00	0.78
NON-CURRENT LIABILITIES						
Security deposits against lease financing assets	4.05	2.89	4.25	5.37	5.38	5.61
CURRENT LIABILITIES						
Certificates of investment (musharaka)	54.41	46.78	42.61	36.91	28.44	21.36
Security deposits - current portion	0.59	1.22	1.31	1.18	1.50	1.16
Unearned lease financing and diminishing musharaka installments	0.62	0.29	0.15	0.20	0.07	0.58
Advance lease financing and diminishing musharaka installments	0.25	0.27	0.32	0.26	0.60	0.42
Trade and other payables	4.88	5.14	4.63	4.69	4.01	5.67
Taxation	-	-	0.039	0.044	0.052	0.059
Unclaimed profit distributions	0.33	0.38	0.39	0.40	0.44	0.46
Profit payable on murabaha financing	0.00	0.05	-	-	-	-
Advance against murabaha	0.24	1.48	-	-	-	-
Total Current Liabilities	61.32	55.61	49.45	43.69	35.12	29.70
TOTAL EQUITY & LIABILITIES	100.00	100.00	100.00	100.00	100.00	100.00
PROFIT & LOSS ACCOUNT (%)	2018	2017	2016	2015	2014	2013
Income from lease financing	27.49	33.93	43.19	50.40	57.78	23.96
Profit on diminishing musharaka	56.28	50.05	38.75	27.17	18.15	3.72
Other Income	16.22	16.02	18.05	22.43	24.07	72.32
Total Income	100.00	100.00	100.00	100.00	100.00	100.00
Administrative expenses	14.44	13.89	14.02	13.27	13.84	5.21
Impairment loss on investment in equity security classified as 'available-for-sale'	0.12	-	-	-	-	-
Financial charges	37.80	31.59	26.77	24.48	22.26	7.76
Modaraba Management Company's remuneration	4.76	5.45	5.92	6.23	6.39	8.70
Sales tax on Modaraba Management Company's remuneration	0.62	0.71	0.83	0.93	1.02	1.71
Provision for Sindh Workers' Welfare Fund	0.85	0.97	1.05	1.10	1.13	1.53
Profit for the year	41.41	47.39	51.41	53.99	55.36	75.09
Total	100.00	100.00	100.00	100.00	100.00	100.00

Comments on Financial Ratios

Profitability Ratios:

- Gross profit ratio is 34.79% which is improved as compared to last year .
- The profit after tax ratio is 18.46% as compared to 19.38% in prior year due to decline in spread.
- Net profit to sales ratio 18.46% in 2018 from 19.38% in 2017 is mainly due to the reason mentioned above.
- Cost to income ratio is 21.71% which is increased as compared to previous years.
- Return on equity is slightly lower than last year.
- Gross spread ratio is slightly decreased than the previous years due to shrinking of spread.
- Return on capital employed is slightly declined than previous years.
- EBITDA margin to sale ratio is 27.70% as compared to 27.98% in prior year.
- Income to expense ratio is 1.16 as compared to 1.19 prior year.

Liquidity Ratios:

- Cash to current liabilities is 5% in 2018 as compared to 4% in prior year.
- Advance to deposit ratio slightly reduced because of building up of deposits.
- Current ratio is slightly declined due to Certificate of Investment (Musharaka) has increased.
- Cash flow from operations is -80% due to the limitation of presenting cash generated from deposit i.e. Certificate of Investment (Musharaka) in operating activities as stipulated by IFRS.

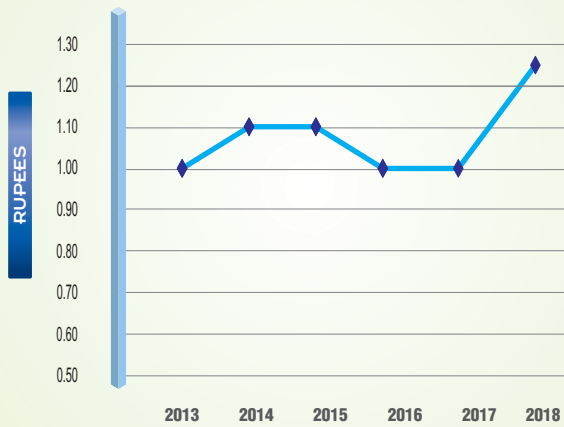
Activity / Turnover Ratios:

- Total asset turnover ratio is 16.40% in 2018 as compared to 20.02% in prior year is mainly due to increase in total assets of the Modaraba.
- Earning assets to total assets and Net assets per share have been consistently maintained.

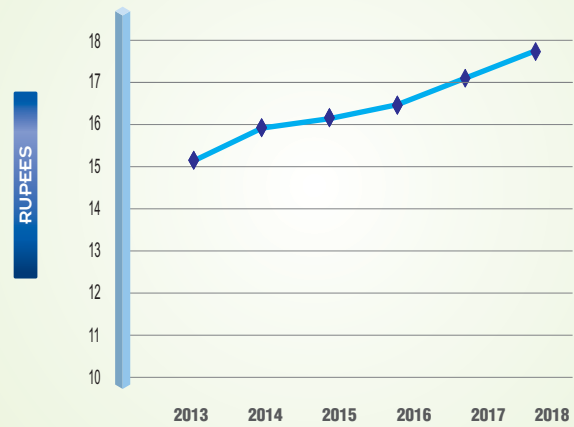
Investment / Market Ratios

- Earnings per share has slightly decreased from Rs. 1.48 to Rs. 1.46 in 2018 as a result of the decrease in gross profit ratio.
- P/E ratio has decreased from 7.50 to 7.47 in 2018 due to declining trend in capital market.
- Dividend yield ratio touched the mark of 11.63% this year due to the announcement of 25% dividend for the year ended June 30, 2018.
- Book value per certificate has increased from Rs. 16.49 to 16.05 in 2018 due to the increase in total equity.
- Dividend payout ratio and cash dividend per Modaraba certificate has been significantly enhanced.
- Market value per certificate of Modaraba has been consistently maintained.
- No abnormal variation in the market price of Modaraba certificates over the period of six years.
- Dividend cover ratio has been in between 1.15 to 1.46 over the period of six years.
- Dividend per Modaraba Certificate has been maintained.

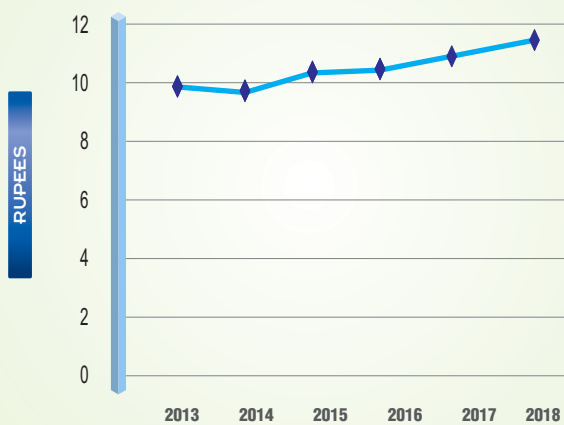
Dividend Per Certificate



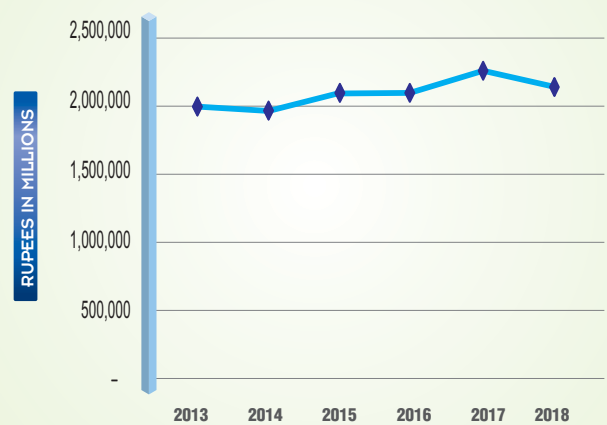
Net Asset Per Certificate



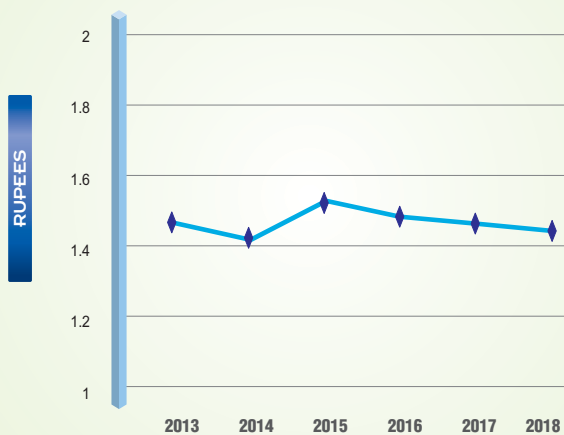
Market Value Per Certificate



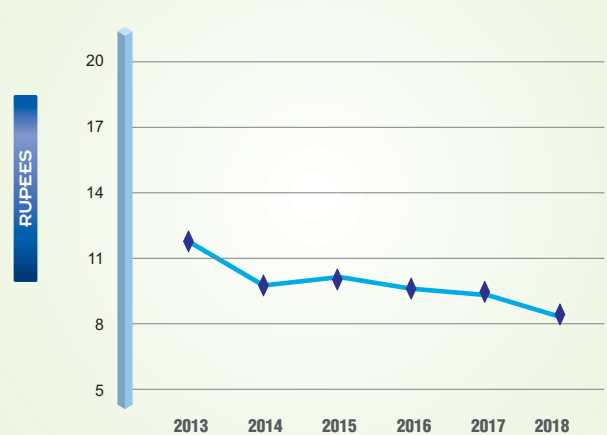
Market capitalization



Earning per Share

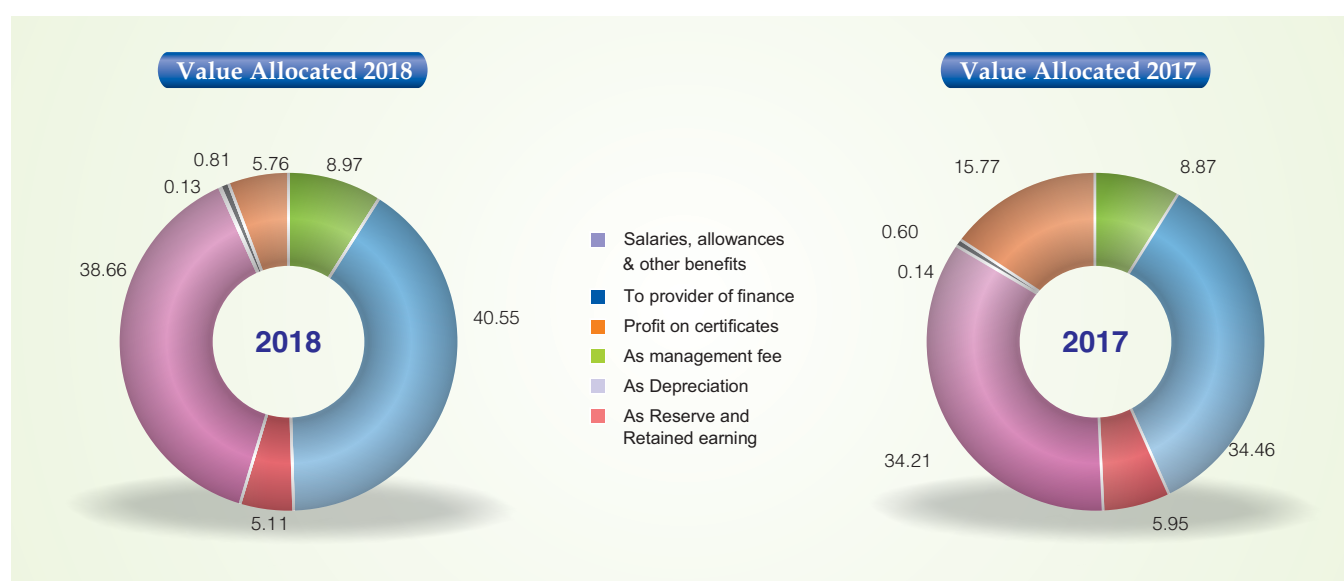


Return on Capital Employed



Value Added Statement

	2018		2017	
	Rupees	(%)	Rupees	(%)
Value Added				
Revenue from operations	585,788,945		539,840,175	
Other income / charges	106,649,460		96,753,650	
Value added by financial services	692,438,405		636,593,825	
Operating expense	40,664,600		37,235,515	
	651,773,805	100.00	599,358,310	100.00
Value Allocated				
To Employees				
Salaries, allowances & other benefits	58,483,945	8.97	52,276,948	8.72
To provider of finance				
As profit on Certificate of Investment (Musharaka) & financial charges on Murabaha / Musharaka	264,299,889	40.55	203,084,962	33.88
To Modarib				
As management fee	33,311,460	5.11	35,041,406	5.85
To certificate holders				
Profit on certificates	252,000,000	38.66	201,600,000	33.64
To Society				
Donation	840,000	0.13	840,000	0.14
To expansion & growth				
As Depreciation	5,277,954	0.81	3,514,071	0.59
As Reserve and Retained earning	37,560,557	5.76	103,000,923	17.19
	651,773,805	100.00	599,358,310	100.00



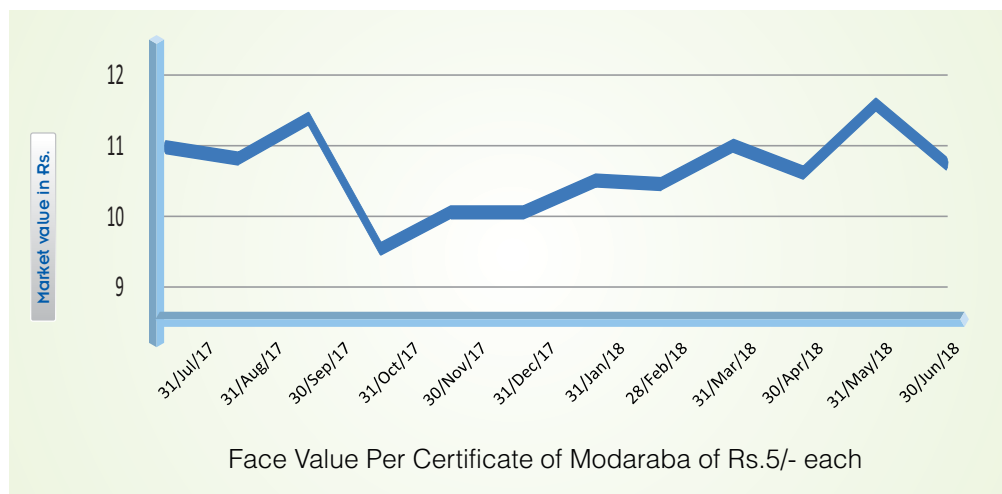
Share Price Sensitivity Analysis

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

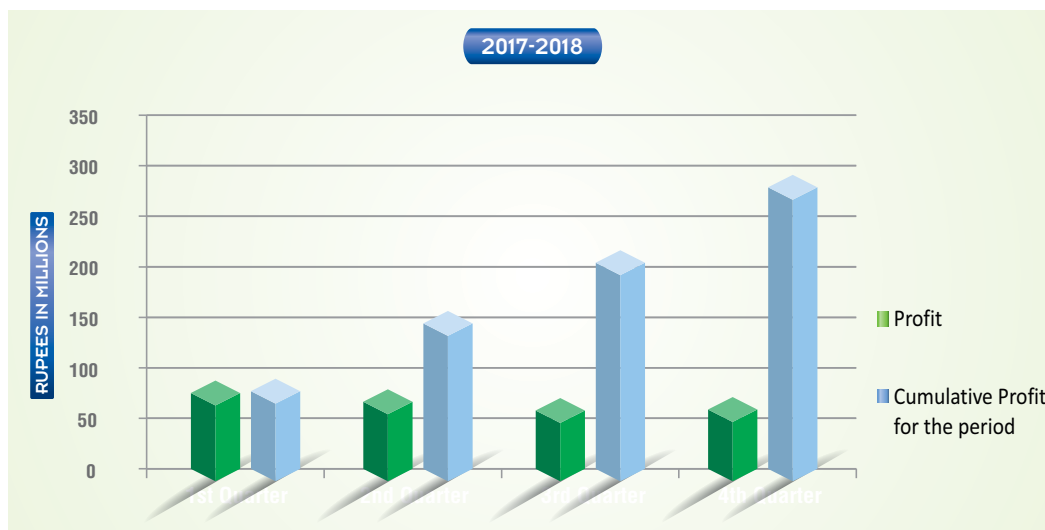
Government Policies- Government policies could be perceived as positive or negative for business. The policies may lead to changes in inflation & interest rates, which may affect stock prices.

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



Fourth Quarter Results are without management fee

Analysis of Variation in Quarterly Results

	from April 2018 to June 2018	from April 2017 to June 2017	Variance	from Jan 2018 to Mar 2018	from Jan 2017 to Mar 2017	Variance
Income from lease financing	46,285,133	41,381,510	11.85%	47,772,855	49,560,153	-3.61%
Income on diminishing musharaka financing	106,875,646	87,996,069	21.46%	100,624,119	86,632,278	16.15%
Administrative expenses	(34,693,209)	(19,048,813)	82.13%	(28,977,599)	(25,731,334)	12.62%
Other income	33,995,400	32,885,336	3.38%	26,465,951	29,553,744	-10.45%
Financial charges	(73,747,029)	(53,775,389)	37.14%	(66,601,193)	(53,225,239)	25.13%
Profit after taxation	68,424,274	39,356,223	73.86%	68,918,527	85,229,676	-19.14%

	from Oct 2017 to Dec 2017	from Oct 2016 to Dec 2016	Variance	from July 2017 to Sept 2017	from July 2016 to Sept 2016	Variance
Income from lease financing	46,381,455	65,069,059	-28.72%	51,802,027	62,078,020	-16.55%
Income on diminishing musharaka financing	94,924,127	76,206,218	24.56%	91,123,583	70,916,868	28.49%
Administrative expenses	(24,054,696)	(22,845,104)	5.29%	(26,212,641)	(22,374,174)	17.16%
Other income	39,638,291	18,162,196	118.25%	25,461,406	23,056,993	10.43%
Financial charges	(66,172,053)	(50,429,044)	31.22%	(57,779,614)	(45,655,290)	26.56%
Profit after taxation	70,417,290	84,614,655	-16.78%	81,800,466	85,316,608	-4.12%

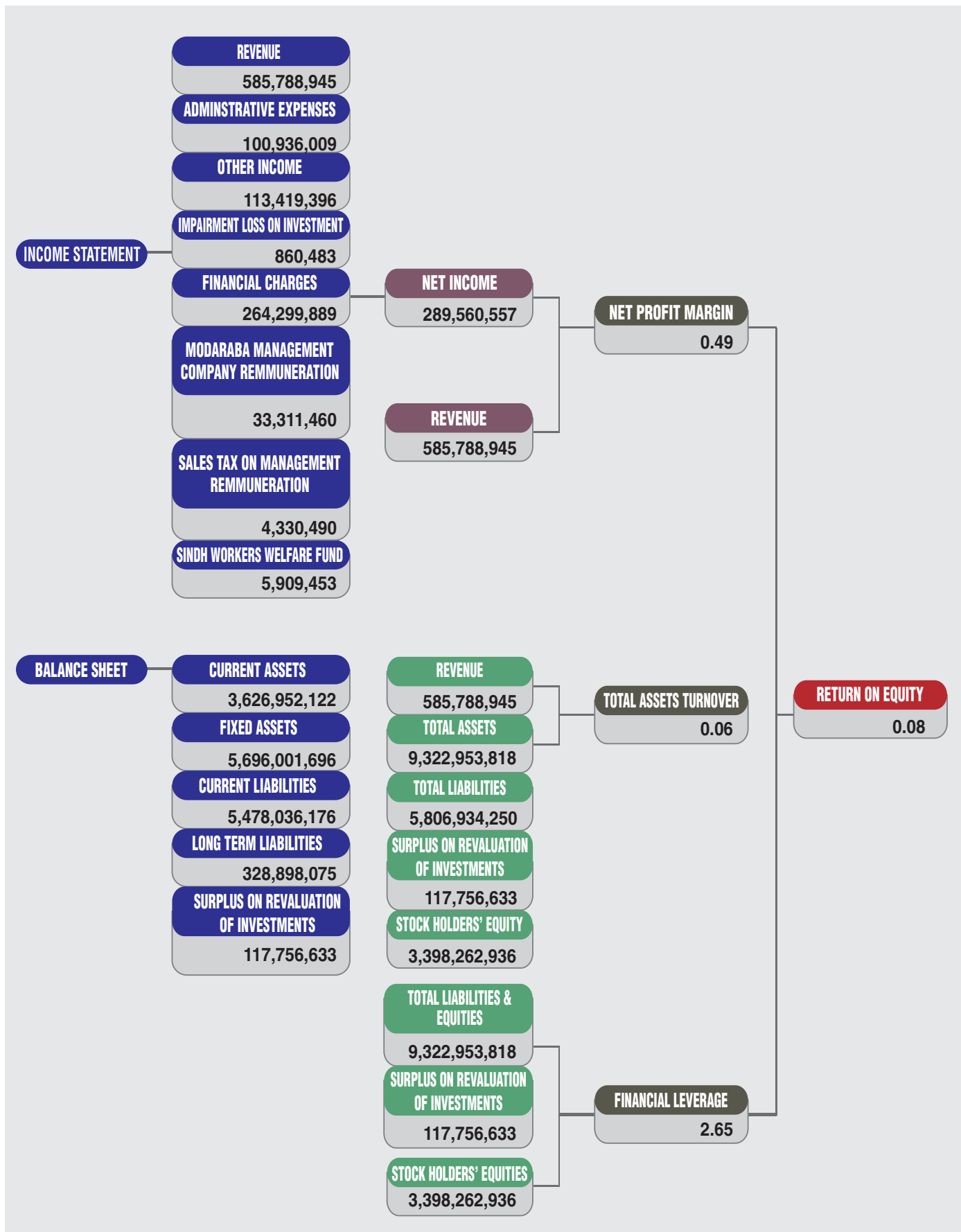
Comments

- The reason for negative variation in income from lease financing is the management's strategic decision to convert the business portfolio from lease financing to diminishing musharaka financing due to product diversification.
- Decline in profitability has been faced as a result of low discount rates and the continuous pressure on the profit margin.

Rational for major Capital Expenditure made during the year 2017-18

- During the year, FHM has spent approximately Rs.15 million on the newly hired premises at 6th floor, HBZ Plaza, I.I. Chundrigar Road, Karachi. This project was undertaken due to the growing requirement of human resource placement on account of increase in business potentials and for the better working environment.
- Further, The Karachi Branch has been separated to 3rd Floor, Al Manzoor building, Dr. Ziauddin Ahmed Road which consider necessary due to change business dynamics. Approximately Rs.2.5 million has been spent on this project which seems reasonable as compare to the increasing civil works cost nowadays.

Dupont Analysis



Cash Flow - Direct Method

	2018 (Rupees)
Installments received against lease financing assets and diminishing musharaka	1,572,731,228
Net cash payments against lease financing assets and diminishing musharaka	(2,582,669,944)
Net cash received from working capital movement	14,089,033
Financial charges paid	(240,141,617)
Tax paid	(24,038,817)
Net cash outflow from operating activities	(1,260,030,118)
CASH FLOW FROM INVESTING ACTIVITIES	
Purchase of assets in own use	(23,992,704)
Purchase of intangible assets	(344,565)
Purchase of investments	(33,522,533)
Proceeds from sale of investments in shares	57,104,582
Proceeds from sale of assets in own use	1,079,695
Dividend received	13,291,107
Net cash used in investing activities	13,615,582
CASH FLOW FROM FINANCING ACTIVITIES	
Dividends paid	(199,579,752)
Profit paid on murabaha financing	(5,812,667)
Proceeds from murabaha financing	25,000,000
Payment on maturity of murabaha financing	(123,860,502)
Certificate of investment (musharaka)	1,679,276,291
Net cash generated from financing activities	1,375,023,370
Net decrease in cash and cash equivalents during the period	128,608,834
Cash and cash equivalents at the beginning of the period	192,259,670
Cash and cash equivalents at the end of the period	320,868,504

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 22, 2018 at 3.00 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, 2018.

The certificate holders whose names appear in the register of certificate holders of FHM as on October 10, 2018 will be eligible to attend the Annual Review Meeting.

By order of the Board

Muhammad Mustafa
Company Secretary
Karachi: October 01, 2018

REQUEST TO CERTIFICATE HOLDERS

- The Individual Certificate Holders who have not yet submitted photocopy of their valid Computerized National Identity Card (CNIC) to the Modaraba / Share Registrar, are once again reminded to send the same at the earliest directly to Company's Share Registrar, M/s Central Depository Company of Pakistan Limited. In case of non-receipt of the copy of a valid CNIC, the Modaraba would be constrained under section 243 (3) of the Companies Act, 2017 to withhold dividend of such certificate holders.
- In accordance with the provisions of section 242 of the Companies Act, 2017 and Companies (Distribution of Dividend) Regulations, 2017, it is mandatory for a listed company to pay cash dividend to its certificate holder only through electronic mode directly into the bank account designated by the entitled certificate holder. Therefore, certificate holders are requested to fill in "Electronic Credit Mandate Form" as reproduced below and send it duly signed along with a copy of valid CNIC/NTN to their respective CDC participant / CDC Investor account services.

(i) Certificate holder's details	
Name of the certificate holder (s)	
Folio # / CDS Account No.(s)	
CNIC NO. (copy attached)	
Mobile/Landline no.	

(ii) Certificate holder's Bank detail	
Title of Bank Account	
International Bank Account number (IBAN)	
Bank's Name	
Branch's name and address	

It is stated that the above-mentioned information is correct and in case of any change herein I will immediately intimate the Share Registrar accordingly.

Proceedings of Annual Review Meeting



In compliance with Registrar of Modaraba, Securities & Exchange Commission of Pakistan (SECP), First Habib Modaraba (FHM) conducted Annual Review Meeting (ARM) of Certificate Holders of FHM on October 19, 2017 in order to review performance of FHM for the year ended June 30, 2017. 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/
Company Secretary

CEO of FHM has briefed updated the forum about the business activity and performance of FHM along with challenges faced during the year 2016-17 reported in directors' report attached with annual financial statement report. He also commented in detail on key financial figures reported in financial statements of FHM.

The Certificate Holders recognized acknowledged the hard and dedicated efforts of FHM particularly on financial performance and declaration on cash dividend of 20% for the year ended 30th June, 2017.

Certificate Holders were raised following questions during the meeting.

- Why profitability of Modaraba not increase during the year?
- Category of financing assets booked during the year?
- Disbursement in major sector during the year?
- What is the recovery position during the year?
- Why investment in equity market remained very low?
- Future business plan for new product or business diversification?

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. The chairman of the audit committee had also attended the question raised by Certificate Holders during the meeting about activities and matters within the scope of the audit committees' responsibilities.

In pursuant to the requirement of S.R.O 470(I)/2016 dated May 31, 2016, Company Secretary sought the approval of the Certificate Holders regarding dispatch of the Annual Audited Accounts of the financial year ending June 30, 2018 through CD along with the notice of Annual Review Meeting.

Business strategy and Status on Implementation

Following are the implementation status of the business strategy discussed with the Certificate Holders:

Business Strategy for the year 2017-18 given in ARM	Achievement during 2017-18
Concentrate on small and medium size financing portfolio. Expand financing portfolio in good SMEs and consumer financing.	The small and medium size financing portfolio has been extended in comparison to preceding financial year.
Enhance customer base within sound corporate entities.	The client base has further strengthened by financial healthy entities with high liquidity ratio.
Enhance financing assets within heavy and light commercial vehicle.	Prudent steps have been taken by the management to enhance the financing assets within heavy and light commercial vehicles.
Establish auto financing desk within good located Banks's branches.	A few financing desks have established across the country.
Better profitability and good dividend in next year	Modaraba has declared 25% cash dividend which is the highest dividend in the history of the Modaraba.



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 Shoaib Ibrahim – Chief Executive Officer

Muhammad Shoaib, 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.

Certificate Holders Information

Registered Office:

6th Floor, HBZ Plaza
I.I. Chundrigar Road, Karachi
U.A.N: 111-346-346
Tel No: 021-32635949-51
Fax: 021-32627373
Web: www.habibmodaraba.com
Email: fhm@habibmodaraba.com

Share Registrar Office:

Central Depository Company of Pakistan Limited
Share Registrar Department
CDC House, 99-B, Block "B",
S.M.C.H.S
Main Shahrah-e-Faisal, Karachi
Ph: 021-111-111-500
Fax: 021-34326031

Listing on Stock Exchange

Modaraba Certificates of First Habib Modaraba (FHM) 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. Muhammad Mustafa, Company Secretary 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. Muhammad Mustafa
Company Secretary
First Habib Modaraba

Dividend Announcement

The Board of Directors of the Management Company has approved cash dividend of 25% (Rs. 1.25 per Modaraba Certificate of Rs. 5/- each) for the financial year ended 30th June, 2018.

Book Closure Dates

The Certificate Transfer Book of the Modaraba will remain close from 11-10-2018 to 26-10-2018 (both days are inclusive).

Payment of Dividend Electronically (E-mandate)

Pursuant to the provisions of section 242 of the Companies Act, 2017 and Companies (Distribution of Dividend) Regulations, 2017, the dividend will be paid, to those 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, through electronic mode directly into the bank account designated by the entitled certificate holder.

Withholding of Tax & Zakat on Dividend

Currently Section 150 of the income Tax Ordinance, 2001 prescribed following tax rates for deduction of withholding tax on the amount of dividend paid by the modarabas, unless the Certificate Holder's income is tax-exempted:

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

Further, in the light of clarification from Federal Board of Revenue, all the shareholders who intend to seek exemption from withholding of taxes on payment of dividend under clause 47B of Part – IV of the Second Schedule of the Income Tax Ordinance, 2001, are requested to provide the valid Exemption Certificate under section 159(1) of the Income Tax Ordinance, 2001 duly issued by the concerned Commissioner of Inland Revenue in order to claim the said exemption.

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.

Pattern of Certificate Holding

As Per Requirements Of Code Of Corporate Governance

As at 30th June, 2018

Categories of certificate holders	Certificate holders	Certificate held	Percentage
Directors and their spouse(s) and minor children			
Directors and their spouse(s) and minor children			
SYED RASHEED AKHTAR SHAD	1	160,000	0.08
Associated Companies, undertakings and related parties			
HABIB METROPOLITAN MODARABA MANAGEMENT COMPANY (PVT.) LTD	1	20,160,000	10.00
HABIB MANAGEMENT (PRIVATE) LIMITED	1	104,271,172	51.72
TRUSTEE OF FIRST HABIB MODARABA EMPLOYEES CONTRIBUTORY P.F	1	594,000	0.29
Executives	2	10,002	0.00
Public Sector Companies and Corporations	4	1,841,644	0.91
Banks, development finance institutions, non-banking finance companies, insurance companies, takaful, modarabas and pension funds	11	5,734,876	2.84
Mutual Funds			
CDC - TRUSTEE NATIONAL INVESTMENT (UNIT) TRUST	1	1,269,570	0.63
CDC - TRUSTEE AKD INDEX TRACKER FUND	1	4,500	
General Public			
a. Local	3770	54,899,159	27.23
b. Foreign	789	2,531,127	1.26
Foreign Companies	14	3,172,552	1.57
Others	56	6,951,398	3.45
Totals	4652	201,600,000	100.00

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

All Trades in shares carried out by Directors, CEO, CFO, Company Secretary, Executives, their Spouse(s) and Minor Children during the year 2018 are given as under:

Name	Status	No. of Shares	Purchase/Sales/Transfer
SYED RASHEED AKHTAR	Director	60,000	Purchased

Pattern of Certificate Holding

As at 30th June, 2018

Number of Certificate Holders	Certificate Holdings			Total Certificate Held
701	1	to	100	33,563
1020	101	to	500	322,883
629	501	to	1000	481,030
1304	1001	to	5000	3,072,189
340	5001	to	10000	2,529,998
126	10001	to	15000	1,540,586
83	15001	to	20000	1,498,798
64	20001	to	25000	1,470,863
41	25001	to	30000	1,149,125
22	30001	to	35000	709,423
33	35001	to	40000	1,279,298
23	40001	to	45000	967,201
36	45001	to	50000	1,769,734
9	50001	to	55000	466,552
12	55001	to	60000	701,680
11	60001	to	65000	699,152
3	65001	to	70000	204,240
9	70001	to	75000	658,496
7	75001	to	80000	548,000
6	80001	to	85000	488,412
1	85001	to	90000	86,280
6	90001	to	95000	547,708
22	95001	to	100000	2,186,899
5	100001	to	105000	510,402
8	105001	to	110000	873,000
6	115001	to	120000	706,420
2	120001	to	125000	241,460
2	125001	to	130000	255,176
7	130001	to	135000	919,880
3	135001	to	140000	409,008
4	140001	to	145000	572,142
4	145001	to	150000	595,152
2	150001	to	155000	302,400
2	155001	to	160000	320,000
6	160001	to	165000	977,340
4	170001	to	175000	691,860
1	175001	to	180000	177,000
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
1	220001	to	225000	222,000
2	225001	to	230000	456,800
1	235001	to	240000	237,891
2	240001	to	245000	486,320
3	245001	to	250000	749,000
1	255001	to	260000	259,500
3	260001	to	265000	781,341
2	265001	to	270000	538,000
2	270001	to	275000	547,000
2	275001	to	280000	553,984
1	280001	to	285000	282,240
2	285001	to	290000	572,778
1	295001	to	300000	300,000
1	320001	to	325000	322,560
2	345001	to	350000	700,000
1	380001	to	385000	382,880
2	400001	to	405000	800,800
1	410001	to	415000	413,500
1	425001	to	430000	425,344
2	445001	to	450000	900,000
1	455001	to	460000	459,328
1	475001	to	480000	477,500
1	485001	to	490000	486,000
3	495001	to	500000	1,499,500
3	500001	to	505000	1,508,688
1	515001	to	520000	520,000
1	525001	to	530000	525,500
2	590001	to	595000	1,186,600
1	595001	to	600000	600,000
1	720001	to	725000	724,000
1	795001	to	800000	800,000
3	820001	to	825000	2,472,832
1	850001	to	855000	853,000
1	855001	to	860000	858,500
1	865001	to	870000	870,000
1	950001	to	955000	952,500
1	1030001	to	1035000	1,034,200
1	1115001	to	1120000	1,120,000
1	1180001	to	1185000	1,185,000
1	1195001	to	1200000	1,200,000
1	1265001	to	1270000	1,269,570
1	1300001	to	1305000	1,300,192
1	1495001	to	1500000	1,500,000
1	1510001	to	1515000	1,511,250
1	1795001	to	1800000	1,800,000
1	1825001	to	1830000	1,828,000
1	1995001	to	2000000	2,000,000
1	2120001	to	2125000	2,125,000
1	20155001	to	20160000	20,160,000
1	104270001	to	104275000	104,271,172
4652				201,600,000

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE – YEAR ENDED JUNE 30, 2018

The Modaraba Management Company (hereafter referred to as the Company) has complied with the requirements of the Regulations in the following manner:

1. The total number of directors are three as per the following:

Male	3
Female	-

2. The composition of board is as follows:

Independent Director	Mr. Syed Rasheed Akhtar
Other Non-Executive Director	Mr. Wazir Mumtaz Ahmed
Executive Director	Mr. Muhammad Shoaib Ibrahim

3. The directors have confirmed that none of them is serving as a director on more than five listed companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable).
4. 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.
5. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
6. All the powers of the board have been duly exercised and decisions on relevant matters have been taken by board/ shareholders as empowered by the relevant provisions of the Act and these Regulations.
7. The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose. The board has complied with the requirements of Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of board.
8. The board of directors have a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations.
9. All directors are compliant with necessary requirements of Directors Training Certificate.
10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment and complied with relevant requirements of the Regulations.
11. CFO and CEO duly endorsed the financial statements before approval of the board.
12. The board has formed committees comprising of members given below:

Audit Committee

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

HR and Remuneration Committee

Chairman	Mr. Syed Rasheed Akhtar
Member	Mr. Wazir Mumtaz Ahmed
Secretary	Mr. Tehsin Abbas

During the year under review, a casual vacancy due to the death of Mr. Mohammad Hashim arose on 23 March 2018 which is not filled as of the date of this statement. Mr. Mohammad Hashim was a member of the Audit Committee and the HR and Remuneration Committee. The Board of Directors is in the process to fill the casual vacancy so raised, to meet the required composition of Audit Committee and HR and Remuneration Committee as per the Regulation No. 28(1)(a) and 29(1) of Listed Companies (Code of Corporate Governance) Regulations, 2017 (the Regulations) and to qualify the audit committee as “financially literate” as required under the Regulation No. 28(1)(c) of the Regulations.

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

14. The frequency of meetings (quarterly/half yearly/ yearly) of the committee were as per following:

Audit Committee	Four quarterly meetings
HR. and Remuneration Committee	One annual meeting

15. The board has set up an effective internal audit function.

16. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP and registered with Audit Oversight Board of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company 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

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

18. We confirm that all other requirements of the Regulations have been complied with except for matters as stated in point 12 above, towards which reasonable progress is being made by the Company to seek compliance shortly.

Muhammad Shoaib Ibrahim
Chief Executive Officer

Wazir Mumtaz Ahmed
Chairman

Karachi: August 29, 2018



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

Review Report on the Statement of Compliance contained in Listed Companies (Code of Corporate Governance) Regulations, 2017

We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2017 (the Regulations) prepared by the Board of Directors (the Board) of Habib Metropolitan Modaraba Management Company (Private) Limited, the Modaraba Company of First Habib Modaraba (the Modaraba) for the year ended 30 June 2018 in accordance with the requirements of regulation 40 of the Regulations.

The responsibility for compliance with the Regulations is that of the Board of the Modaraba Company of the Modaraba. Our responsibility is to review whether the Statement of Compliance reflects the status of the Modaraba Company's compliance with the provisions of the Regulations in respect of the Modaraba and report if it does not and to highlight any non-compliance with the requirements of the Regulations. A review is limited primarily to inquiries of the Modaraba Company's personnel and review of various documents prepared by the Modaraba Company to comply with the Regulations.

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's statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Modaraba Company's corporate governance procedures and risks.

The Regulations require the Modaraba Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board for their review and approval, the Modaraba's related party transactions and also ensure compliance with the requirements of section 208 of the Companies Act, 2017. 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 upon recommendation of the Audit Committee. We have not carried out procedures to assess and determine the Modaraba Company's process for identification of related parties and that whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba Company's compliance, in all material respects, with the requirements contained in the Regulations as applicable to the Modaraba for the year ended 30 June 2018.

Further, we highlight below instance of non-compliance with the requirement of the Listed Companies (Code of Corporate Governance) Regulations, 2017 as reflected in the paragraph reference where it is stated in the Statement of Compliance:

Reference	Description
i. 12	The Audit and HR and Remuneration Committees is currently comprises of two members each, however, the minimum members required as per the Regulations is three. Further, the current members of the Audit Committee do not meet the requirement of being "financially literate".

EY Ford Rhodes
Chartered Accountants
Karachi : 29 August 2018

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;

During the year, four meetings of audit committee were held, attendance by each member is appended below:

Members	No. of Meeting Attended
Mr. Syed Rasheed Akhtar Non Executive (Chairman)	4
Mr. Wazir Mumtaz Ahmed Non Executive (Member)	4
Mr. Mohammad Hashim Non Executive (Member)	2
Secretary to Audit Committee Mr. Shakeel Ahmed Mangrora	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.

During the year, one meeting of human resource committee was held, attendance by each member is appended below:

Members	No. of Meeting Attended
Mr. Wazir Mumtaz Ahmed Non Executive (Member)	1
Mr. Syed Rasheed Akhtar Non Executive (Member)	1
Secretary to HR Committee Mr. Tehsin Abbas	1

Organizational Structure

For the year ended June 30, 2018



Role of Chairman and Chief Executive Officer

Role of the Chairman

The Chairman is responsible for the leadership of the Board and act as a liaison between the management and the Board. 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 effective and efficient manner of the Board proceedings in conformity with best Practices of the Code of Corporate Governance.
- 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 objective.
- To make Shariah governance within the operation.
- To Enable Board of Directors to fulfill its governance functions.
- Recommend corporate strategy to the Board and after its approval ensure its implementation accordingly.
- Lead the management committees in an efficient manner.
- 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.
- 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.
- Lead core management team in effective manner.
- Satisfactory financing portfolio and recovery of its repayments.
- 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 currently comprises of two directors, all of them are non-executive including one independent director.

Scope of Audit Committee

The scope of the Audit Committee of First Habib Modaraba (FHM) is determined by its Terms of Reference (TOR) which, in turn, are shaped in line with all applicable regulations and directives from relevant regulators and Board of Directors. the Audit Committee deals primarily with questions of

accounting and financial reporting. In addition, it deals with the annual audit and reviews the qualifications and independence of the external auditors

The Audit Committee is also responsible to overview the effectiveness and functional capabilities of the risk management system and internal control environment of the First Habib Modaraba (FHM) and provide utmost support and guidance 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 on affairs of FHM.

Moreover, the Audit Committee concentrate on the effectiveness of internal control, compliance, 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 effective implementation ICF. The management of FHM is responsible to establish and maintain an adequate and effective system of ICF 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
- Improve compliance culture
- 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 / FATCA / AML / CRS and Shariah audit mechanism. The Audit Committee actively monitors implementation to ensure that identified risks are mitigated to safeguard the interest of the institutions and all stakeholders.



During the year following control mechanism further strengthen:

- Added tools applied for sound credit assessment appraisals
- Credit Risk Management functions/processes have been improved
- 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.
- Processes and procedures further reviewed in line with requirements of parent bank
- Shariah governance framework further strengthens.
- 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 auditor deals with issues that are essentially important and critical to the survival of any institutions. Unlike external auditors, they look beyond financial risks and statements to consider wider issues such as the institution's reputation, growth and corporate governance.

Conduct of meeting by Audit Committee

- Four meetings of Audit Committee were held during the year 2017-18
- The Audit Committee reviewed quarterly, half yearly 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 issues having significant concern over the organization's control, 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 which consider necessary for effective control
- 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.
- Review of Shariah Advisor reports and its compliance status.

External Auditors

The Audit Committee regularly assesses the performance of external auditors taking into consideration a number of factors including satisfactory rating under ICAP's quality control review program, the length of time the firm has been engaged, the quality of the Audit Committee's ongoing discussions with the external auditors, assessment of their past performance, etc.

- The statutory auditors of the company, M/s. EY Ford Rhodes, Chartered Accountants, have completed their audit of the Company's financial statements and the Statement of Compliance with the Code of Corporate Governance for the year ended 30th June, 2018.
- The statutory auditors have indicated their willingness to continue as auditors.
- Being eligible for reappointment under listing regulations, the Board Audit Committee recommends the reappointment of M/s E & Y Chartered Accountants as statutory auditors for the financial year ending 30th June, 2019, on terms approved by the Board of Directors.

The Audit Committee approves the audited accounts of FHM for the period year ended 30th June, 2018 audited by M/s. EY Ford Rhodes, Chartered Accountant and confirms that there is no material non-compliance found within the audited accounts or narrated by auditors.

Syed Rasheed Akhtar
Chairman
Audit Committee
Karachi, August 29, 2018

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

IT Based Record

First Habib Modaraba (FHM) prioritizes customer trust. We know that customer data is important to our customers' values and operations. That is why we keep it private and safe.

FHM has large number of customers at country level. Our customers entrust us with large amounts of information, stemming from a wide range of industries including healthcare, financial services, technology and others.

FHM maintain control of their privacy and data security in a myriad of ways:

Trust: FHM has developed security protections and control processes to help to ensure a secure environment for their information. Independent third-party experts have confirmed FHM's adherence to industry standards.

Access Management: FHM provides an advanced set of access and encryption features for effectively protect information. We do not access or use customer content for any purpose other than providing, maintaining and improving the FHM services and as otherwise required by law.

Data Security: FHM online backup service lets us secure our data in advance of a disaster. Offsite, online backups help us recover irreplaceable data and eliminate errors associated with traditional tape backup. FHM have daily weekly and monthly data backup policies, it consist of daily upload data to DR side, The company has two data save-in sites located in Karachi and Lahore, data back-ups are take on monthly basis.

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.

Paper Based Record

Effective record keeping practices are vital for FHM to support the delivery of high-quality services, operational efficiency, accountability and transparency. They are also essential for demonstrating compliance with regulators i.e. SECP, FBR, SRB & SBP.

The purpose of these paper-based record policy is to outline the procedures and practices for all FHM staff to ensure consistent, effective and appropriate company record and information management across the Directorate.



The above objective is achieved through following measures;

- Records should be stored and carried in a secure bag/case or file. Records should not be carried 'loosely' as this increases the risk of dropping them and losing something. Records must be kept in strong room secured by digitally locked and burglar and fire alarm system.
- The person responsible for sending or taking records must log.
- Information taken away from premises only permitted in dire need for example complaints, legal action, serious incidents.
- Staff must not carry around more information than is necessary. This guideline is followed to reduce the risk of the records being accessed by an unauthorised person, lost or stolen.

IT Governance Policy

Information technology is one of the important aspects of governance organizations as a whole. The success of the organization will be greatly influenced by its ability in utilizing IT optimally. IT governance is a procedure directive implementation of organizational arrangements to support the management of IT integrally and follow up the goals and strategies of organizations IT governance is basic leadership that ensures the allocation of IT usage in the organization's strategies.

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. Basically 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 compliance with relevant laws.

Financial reporting area

Integration with 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 Management processes are frequently reviewed and strengthen in order to effectively manage them to mitigate the risk and security threats.

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.

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

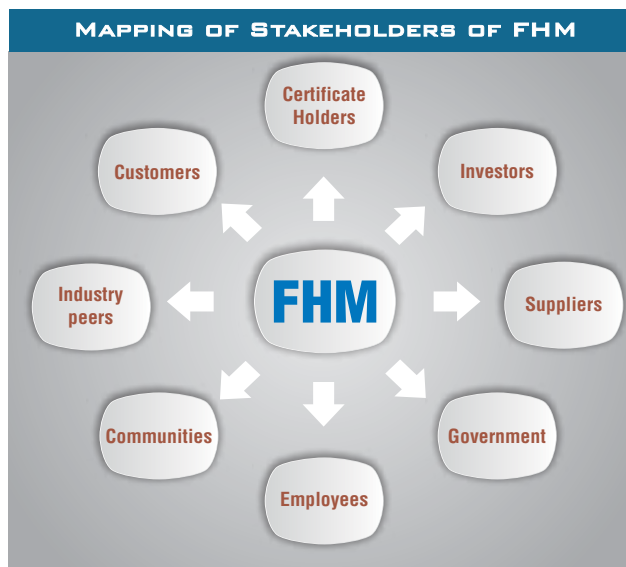
Every year FHM has annual review meeting, where we invite our all certificate holders and interact with them and take their suggestions for improvement of businesses. FHM updates their Certificate holders and investors through Annual Report, Quarterly Financial announcements, investor's road shows and 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.

Management's steps to encourage Minority Certificate Holders to attend ARM

Management has always make sure that basic right of Modaraba Certificate Holders are well protected. The minority Certificate Holders always encourage to attend annual review meeting and Modaraba extend its full courtesies and facilitations.

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



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

An important aspect of accountability and transparency is a mechanism to facilitate all individuals to raise their concerns internally in a responsible and effective manner when they discover information which they believe that such practices are not good or damaging for institution.

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.



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.

Key elements of our Whistle Blower Policy are highlighted below:

- All disclosures are required to be made in writing.
- 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.
- Disclosures made anonymously are not entertained
- All staff are protected from victimization, harassment or disciplinary action as a result of any disclosure, where the disclosure is made in good faith and is not made maliciously or for personal gain.
- Disciplinary action may be taken against the wrongdoer dependent on the results of the investigation.
- All whistle blowers' disclosures made are treated as confidential and the identity of the whistle blower is protected at all stages in any internal matter or investigation.
- There are no adverse consequences for anyone who reports a whistle blowing concern in good faith. However, any individual found responsible for making allegations maliciously or in bad faith may be subject to disciplinary action.

During the year no whistle blowing incident was reported under the mentioned procedure.

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.

Associated Companies & Undertakings

Name of Associated Entity	Nature of Relationship	Basis of Relationship	Aggregate Percentage of Shareholding
Habib Metropolitan Bank Limited	Holding Company of Management Company	Common Management and Control	10%
Habib Bank AG Zurich*	Associate	Ultimate parent	5.1%
Habib Metropolitan Modaraba Management Company (Private) Limited	Associate	Management Company of the Modaraba	10%
Habib Metropolitan Financial Services Limited	Associate	Common Management and Control	-
Habib Management (Private) Limited	Associate	Common Directorship	51.72%
First Habib Modaraba Employee Contributory Provident Fund	Associate	Common Management	0.29%
First Habib Modaraba Staff Gratuity Fund	Associate	Common Management	-
Habib Metro Modaraba	Associate	Common Management	-
Digital Payment Solutions Limited	Associate	Common Directorship	-

*This associated company is incorporated outside Pakistan.

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 fledge 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 fledge Islamabad Branch	2011
Inaugurated full fledge Multan Branch	2012
Inaugurated full fledge Karachi Branch	2017
Shifting of Head Office to 6th Floor, HBZ Plaza, I.I. Chundrigar Road, Karachi.	2018

Financial Calendar

2018

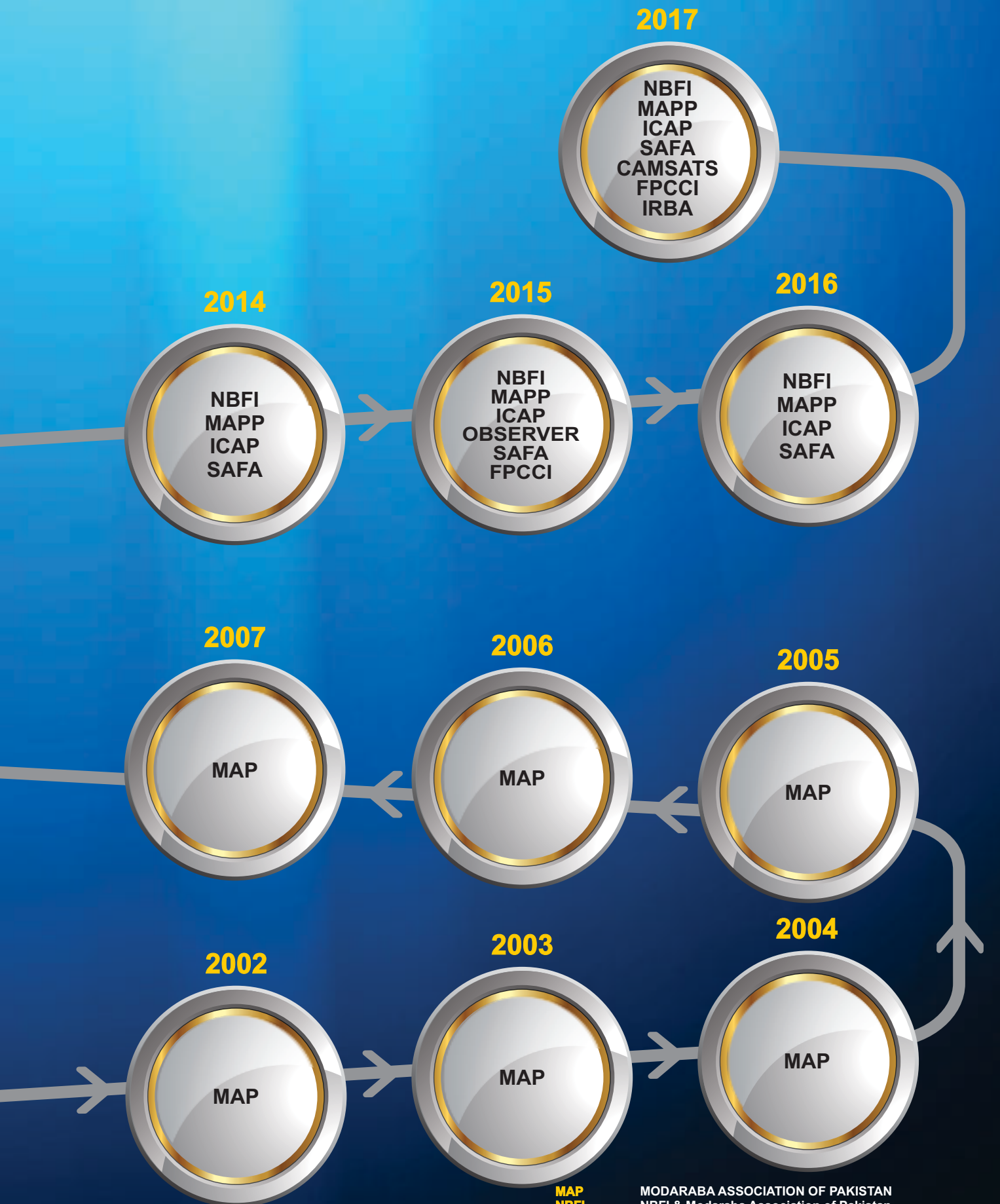
1st Quarter Result issued on	October 24, 2017
2nd Quarter Result issued on	February 07, 2018
3rd Quarter Result issued on	April 24, 2018
Annual Result issued on	August 29, 2018
Annual Review Meeting	Scheduled on October 22, 2018

2017

1st 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	October 19, 2017

FHM Awards Calendar





MAP
NBFI
MAPP
ICAP
SAFA
BOY
FPCCI
OBSERVER
IRBA

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
IRBA Cambridge

Memberships



**NBFI & Modaraba
Association of Pakistan**

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

**Management Association
of Pakistan (MAP)**

**Marketing 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).



NBFI & 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.

Product Detail

Ijarah (Lease Financing)

It is an Islamic Lease Financing based on Ijarah Muntahia Bittamleek in which customer pay the financing amount during the agreed period in installment and at the completion of financing period the ownership of assets transfer to the customer



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 the payment 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 Muhammad Hasan

Mufti Muhammad Hasan, Shariah Adviser First Habib Modaraba holds the degree of Shahada-tul-A'almiah (Dars e Nizami) Mastered as a scholar from Wifaq-ul-Madaris Al Arabia Multan and holds the Specialization (Takhassus) in Islamic Fiqh and Fatwa from Jamia tur Rasheed Ahsanabad Karachi. Mufti Hasan has also graduated in Commerce from University of Karachi and has been awarded an equivalence degree of Masters in Arabic & Islamic Studies from the University of Karachi as well.

Mufti Muhammad Hasan, a young and energetic scholar has also four years experience of teaching religious books up to graduate level in Idara Maarif-ul-Quran Karachi and also has a good experience of giving Shariah Rulings on various issues. He is associated as assistant Mufti with Darul Ifta Idara Maarif ul Quran Karachi.

Mufti Hasan runs his own business for many years and has a good experience and knowledge of business related activities and keeps a sound knowledge of financial sectors.





*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 2018

By the Grace of Allah, I have conducted the Shari'ah review of First Habib Modaraba managed by Habib Metropolitan Modaraba Management Company (Pvt.) Ltd. for the year ended June 30, 2018. In accordance with requirement of the Shari'ah Compliance and Shari'ah Audit Mechanism for Modaraba.

I acknowledge and certify that as Shari'ah 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 Shari'ah rules and principles. During the review I have verified the following in compliance with Shari'ah mechanism:

- The Financing transactions were reviewed and found as per guidelines.
- The Murabaha transactions executed with IFI during the year on liability side, declarations, description of assets, relevant purchase invoices, sequence and order of the documents and time difference between purchases and declaration where applicable were reviewed and found proper.
- The financing transactions, description of assets, relevant documents and their sequence, delivery of assets, start of repayment and requirements were reviewed found proper.
- Ijarah (Lease) Financing transactions were executed on the basis of Muntahia Bittamleek as per account and auditing organisation for Islamic Financial Institutions (AAOIFI).
- Charity account was reviewed and found in line with the direction of rules and regulation. The major portion of Charity amount recovered from the customers due to late payments and paid to approved charitable institutions accordingly.
- Profit-sharing ratios, profit weightages and distribution of profit on certificate of Musharakah were in accordance with weightages announced by the Modaraba.

During the year onsite training has been given to the staff, however specific training was also conducted for the staff according to their relevant job.

Observations & Recommendations

I have witnessed that conversion of Conventional Insurance to Takaful has improved, however, need further improvement and it is recommended to ensure remaining portfolio be converted towards Takaful.

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 are In compliance with the rules & principles of Shari'ah except certain observations highlighted above.

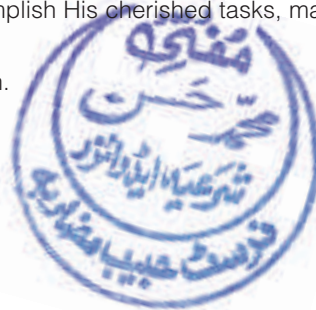
May Allah bless us with the best Tawfeeq to accomplish His cherished tasks, make us successful in this world and in the hereafter, and forgive our mistakes.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

Mufti Muhammad Hassan

Shariah Adviser

Dated: 13th Dhu al-Qidah 1439 Hijri/ July 26, 2018







Financial Statements

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AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of **First Habib Modaraba** (the Modaraba) as at 30 June 2018 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 30 June 2018 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.

Other matter

The financial statements of the Modaraba for the year and period ended 30 June 2017 was audited by another firm of Chartered Accountants, whose report dated 10 August 2017 expressed an unqualified opinion on such financial statements.

EY Ford Rhodes
Chartered Accountants
Audit Engagement Partner: Shaikh Ahmed Salman
Date: 29 August 2018
Karachi

BALANCE SHEET

As at June 30, 2018

Restated Note 4.1

	Note	2018	2017	2016
-----Rupees-----				
ASSETS				
NON-CURRENT ASSETS				
Lease financing assets	5	2,902,828,561	2,440,975,610	2,725,212,037
Fixed assets in own use	6	30,137,307	12,293,091	8,602,118
Intangible assets	7	307,451	35,519	307,651
Diminishing musharaka financing	8	3,349,956,311	2,653,337,842	1,812,456,774
Long term advances and deposits	9	1,215,850	915,850	665,850
		6,284,445,480	5,107,557,912	4,547,244,430
CURRENT ASSETS				
Investments	10	1,258,858,121	1,298,684,499	1,011,035,269
Current portion of diminishing musharaka financing	8	2,245,975,863	1,638,299,962	1,239,061,566
Lease financing installments receivables	11	2,139,247	1,074,695	881,616
Diminishing Musharaka financing installments receivables	12	3,834,285	392,507	1,054,885
Advances and prepayments	13	4,595,951	7,717,087	10,903,280
Other receivables	14	44,856,094	31,658,570	22,946,130
Income tax refundable	15	113,683,111	89,006,078	79,479,382
Cash and bank balances	16	320,868,504	192,259,670	248,143,222
		3,994,811,176	3,259,093,068	2,613,505,350
TOTAL ASSETS		10,279,256,656	8,366,650,980	7,160,749,780
EQUITY AND LIABILITIES				
CAPITAL AND RESERVES				
Authorized certificate capital 220,000,000 (June 30, 2017: 220,000,000) certificates of Rs.5 each		1,100,000,000	1,100,000,000	1,100,000,000
Issued, subscribed and paid-up certificate capital	17	1,008,000,000	1,008,000,000	1,008,000,000
Reserves	18	2,434,258,336	2,346,267,535	2,254,247,976
Certificate holders' equity		3,442,258,336	3,354,267,535	3,262,247,976
SURPLUS ON REVALUATION OF INVESTMENTS	19	117,877,892	117,635,373	53,807,297
NON-CURRENT LIABILITIES				
Security deposits against lease financing assets	20	416,028,462	241,767,687	304,061,240
CURRENT LIABILITIES				
Certificates of investment (musharaka)	21	5,593,061,023	3,913,784,732	3,050,913,721
Security deposits - current portion	20	60,141,012	102,023,172	93,882,475
Unearned lease financing and diminishing musharaka installments		63,489,472	24,519,411	10,482,879
Advance lease financing and diminishing musharaka installments		26,163,905	22,586,591	22,846,363
Trade and other payables	22	426,956,952	377,886,560	285,006,415
Profit payable on certificate of investment (musharaka)		74,332,870	52,363,370	46,565,887
Advance against murabaha	23	25,000,000	123,860,502	-
Profit payable on murabaha financing		9,986	4,039,549	-
Taxation		-	-	2,790,833
Unclaimed profit distributions		33,936,746	31,916,498	28,144,694
		6,303,091,966	4,652,980,385	3,540,633,267
TOTAL EQUITY AND LIABILITIES		10,279,256,656	8,366,650,980	7,160,749,780
CONTINGENCIES AND COMMITMENTS	24			

The annexed notes from 1 to 46 form an integral part of these financial statements.

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

CHIEF EXECUTIVE

CHIEF FINANCIAL OFFICER

DIRECTOR

DIRECTOR

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2018

	Note	2018	2017
		-----Rupees-----	
Income from lease financing	25	192,241,470	218,088,742
Income from diminishing musharaka financing		393,547,475	321,751,433
Administrative expenses	26	(100,936,009)	(89,311,151)
		484,852,936	450,529,024
Other income	27	113,419,396	102,969,995
Impairment loss on investment in equity security classified as 'available-for-sale'		(860,483)	-
		597,411,849	553,499,019
Financial charges	28	(264,299,889)	(203,084,962)
Modaraba Management Company's remuneration	22.3	(33,311,460)	(35,041,406)
Sales tax on Modaraba Management Company's remuneration	22.4	(4,330,490)	(4,555,383)
Provision for Sindh Workers' Welfare Fund	22.2	(5,909,453)	(6,216,345)
Profit before taxation		289,560,557	304,600,923
Taxation	29	-	(10,083,761)
Profit for the period		289,560,557	294,517,162
Earning per certificate - basic and diluted	39	1.44	1.46

The annexed notes from 1 to 46 form an integral part of these financial statements.

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

CHIEF EXECUTIVE

CHIEF FINANCIAL OFFICER

DIRECTOR

DIRECTOR

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED JUNE 30, 2018

	Note	2018	2017
		-----Rupees-----	
Profit for the year		289,560,557	294,517,162
Components of other comprehensive income reflected in equity			
Items that will not be reclassified subsequently to profit and loss account			
Actuarial gain / (loss) on defined benefit plan	22.6(d)	30,244	(897,603)
Total comprehensive income for the year transferred to equity		289,590,801	293,619,559
Components of other comprehensive income reflected below equity			
Items that will be reclassified subsequently to profit and loss account			
Surplus on revaluation of investments classified as 'available-for-sale' - net*	19	242,519	63,828,076
Total comprehensive income for the year		289,833,320	357,447,635

* Surplus on revaluation of investments classified as 'available-for-sale' is presented under a separate head below equity as 'surplus on revaluation of investments' in accordance with the requirements of Circular No. SC/M/PRDD/PRs/2017-259 dated December 11, 2017 (see note 4.1).

The annexed notes from 1 to 46 form an integral part of these financial statements.

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

CHIEF EXECUTIVE

CHIEF FINANCIAL OFFICER

DIRECTOR

DIRECTOR

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2018

	Note	2018	2017
		-----Rupees-----	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	41	1,611,096,073	1,616,479,736
Disbursement of lease financing assets		(1,691,835,067)	(1,052,481,306)
Proceeds from transfer of lease financing assets		259,073,875	328,908,135
Diminishing musharaka financing - net		(1,304,294,370)	(1,240,437,165)
Long term advances and deposits		(300,000)	(250,000)
Security deposits against lease financing assets		132,378,615	(54,152,856)
Financial charges paid		(240,141,611)	(192,878,512)
Gratuity paid		(1,968,816)	(2,604,201)
Tax paid		(24,038,817)	(31,542,171)
Net cash outflow from operating activities		(1,260,030,118)	(628,958,340)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of assets in own use		(23,992,704)	(6,932,983)
Purchase of intangible assets		(344,565)	-
Purchase of investments		(33,522,533)	(246,784,423)
Proceeds from sale of assets in own use		1,079,695	-
Proceeds from sale of intangible assets		-	187,500
Proceeds from sale of investments in shares		57,104,582	26,264,538
Dividends received		13,291,107	11,436,838
Net cash generated from / (used in) investing activities		13,615,582	(215,828,530)
CASH FLOW FROM FINANCING ACTIVITIES			
Profit distribution paid		(199,579,752)	(197,828,196)
Proceeds from murabaha financing		25,000,000	123,860,502
Profit paid on murabaha financing		(5,812,667)	-
Payment on maturity of murabaha financing		(123,860,502)	-
Certificates of investment (musharaka)		1,679,276,291	862,871,012
Net cash inflow from financing activities		1,375,023,370	788,903,318
Net increase/(decrease) in cash and cash equivalents during the year		128,608,834	(55,883,552)
Cash and cash equivalents at beginning of the year		192,259,670	248,143,222
Cash and cash equivalents at end of the year		320,868,504	192,259,670

The annexed notes from 1 to 46 form an integral part of these financial statements.

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

CHIEF EXECUTIVE

CHIEF FINANCIAL OFFICER

DIRECTOR

DIRECTOR

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2018

	Capital reserves			Revenue Reserves			
	Certificate capital	Certificate premium	Statutory reserve	General reserve	Surplus on revaluation of investments	Unappropriated profit	Total equity
	-----Rupees-----						
Balance as at July 01, 2016	1,008,000,000	378,000,000	1,000,656,671	640,000,000	53,807,297	235,591,305	3,316,055,273
Effect of change in accounting policy (see note 4.1)	-	-	-	-	(53,807,297)	-	(53,807,297)
Balance as at July 01, 2016 (restated, see note 4.1)	1,008,000,000	378,000,000	1,000,656,671	640,000,000	-	235,591,305	3,262,247,976
Profit distribution for the year ended							
June 30, 2016 @ Re.1 per certificate	-	-	-	-	-	(201,600,000)	(201,600,000)
Total comprehensive income for the year	-	-	-	-	-	293,619,559	293,619,559
Transfer to statutory reserve	-	-	88,355,149	-	-	(88,355,149)	-
Balance as at June 30, 2017 (restated, see note 4.1)	1,008,000,000	378,000,000	1,089,011,820	640,000,000	-	239,255,715	3,354,267,535
Balance as at July 01, 2017 (restated, see note 4.1)	1,008,000,000	378,000,000	1,089,011,820	640,000,000	-	239,255,715	3,354,267,535
Profit distribution for the year ended June 30, 2017							
@ Re.1 per certificate	-	-	-	-	-	(201,600,000)	(201,600,000)
Total comprehensive income for the year	-	-	-	-	-	289,590,801	289,590,801
Transfer to statutory reserve	-	-	14,478,028	-	-	(14,478,028)	-
Balance as at June 30, 2018	1,008,000,000	378,000,000	1,103,489,848	640,000,000	-	312,768,488	3,442,258,336

* The statutory reserve represents profit set aside as required under the Prudential Regulation for Modarabas as issued by the Securities and Exchange Commission of Pakistan.

The annexed notes from 1 to 46 form an integral part of these financial statements.

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

CHIEF EXECUTIVE

CHIEF FINANCIAL OFFICER

DIRECTOR

DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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) The Modaraba is listed on Pakistan Stock Exchange Limited. The Modaraba is engaged in the business of leasing (Ijarah), Musharaka, Murabaha financing and other related business. The affairs, activities and transactions, performed by the Modaraba during the year comply with the rules and 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, Securities and Exchange Commission of Pakistan Limited (SECP). The registered office of the Modaraba has been changed from 5th Floor to 6th Floor at HBZ Plaza, I.I. Chundrigar Road, Karachi during the year.

"On December 09, 2016, Habib Management (Private) Limited (Formerly: Habib Modaraba Management (Private) Limited) and Habib Metropolitan Modaraba Management Company (Private) Limited signed an agreement to transfer management rights of the Modaraba to Habib Metropolitan Modaraba Management Company (Private) Limited for which the Securities and Exchange Commission of Pakistan (SECP) has also given no objection certificate on January 06, 2017. Finally, all the statutory formalities and acquisition process for the transfer of management rights of the Modaraba from Habib Management (Private) Limited (Formerly: Habib Modaraba Management (Private) Limited) to Habib Metropolitan Modaraba Management Company (Private) Limited have been completed and management of the Modaraba has been taken over by Habib Metropolitan Modaraba Management Company (Private) Limited. "

Geographical location and addresses of business units of the modaraba are as under :

Location	Address	Purpose
Karachi	6th Floor, HBZ plaza, Hirani centre, I.I Chundrigar Road, Karachi	Head Office
Karachi	3rd Floor, Al-Manzoor Building, Dr.Ziauddin Ahmed Road, Karachi	Branch Office
Lahore	1st Floor, 5-Z Block, Phase III, Defence Housing Authority, Lahore	Branch Office
Islamabad	Office No. 508, 5th Floor, ISE tower, Jinnah Avenue, Blue Area, Islamabad	Branch Office
Multan	Mezzanine Floor, Abdali tower, Abdali road, Multan	Branch Office

During the year, there are no significant events other than the adoption of Companies Act, 2017 (see note 2.1) and change in accounting policy (see note 4.1).

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

- International Financial Reporting Standards (IFRS Standards) issued by International Accounting Standards Board (IASB) as notified under Companies Act, 2017;
- Provisions of and directives issued under the Companies Act, 2017; 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).

Where provisions and directives issued under Companies Act, 2017 and the relevant laws differ from IFRS Standards, the provisions and directives issued under Companies Act, 2017 and the relevant laws have been followed.

Further, the Act has also brought certain changes with regard to the preparation and presentation of these financial statements. These changes, amongst others, included the disclosure requirements contained in the fourth schedule of the said Act and incorporation of additional amended disclosures including, but not limited to, change in threshold

for identification of officers (refer note 26.1), additional disclosure requirements for related parties (refer note 4.18) etc.

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 Pakistani Rupee, 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:

a 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.

b Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 22.6 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.

c Provisions against non-performing financing (Suspense income)

The Modaraba reviews its overdue lease financing and diminishing musharka installments 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

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

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

Standard or Interpretation	Effective date (annual periods beginning on or after)
IFRS 2 – Share-based Payments – Classification and Measurement of Share-based Payments Transactions (Amendments)	January 01, 2018
IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – (Amendments)	January 01, 2018
IFRS 9 – Financial Instruments	July 01, 2018
IFRS 9 – Prepayment Features with Negative Compensation - (Amendments)	January 01, 2019
IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IFRS 15 – Revenue from Contracts with Customers	July 01, 2018
IFRS 16 – Leases	January 01, 2019
IAS 19 - Plan Amendment, Curtailment or Settlement (Amendments)	January 01, 2019
IAS 28 - Long-term Interests in Associates and Joint Ventures – (Amendments)	January 01, 2019
IAS 40 Investment Property: Transfers of Investment Property (Amendments)	January 01, 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	January 01, 2018
IFRIC 23 Uncertainty over Income Tax Treatments	January 01, 2019

The above standards and amendments are not expected to have any material impact on the Modaraba's financial statements in the period of initial application. However, the Modaraba is currently evaluating the requirements of IFRS-9 and potential impact on the financial statements of the Modaraba.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB in December 2016 and December 2017. Such improvements are generally effective for accounting periods beginning on or after 01 January 2018 and 01 January 2019 respectively. The Modaraba expects that such improvements to the standards will not have any impact on the Modaraba's financial statements in the period of initial application

The IASB has also issued the revised Conceptual Framework for Financial Reporting (the Conceptual Framework) in March 2018 which is effective for annual periods beginning on or after 1 January 2020 for preparers of financial statements who develop accounting policies based on the Conceptual Framework. The revised Conceptual Framework is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist IASB in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standards	IASB Effective date (annual periods beginning on or after)
IFRS 14 – Regulatory Deferral Accounts	January 01, 2016
IFRS 17 - Insurance Contracts	January 01, 2021

3.2 New / Revised Standards, Interpretations and Amendments

The Modaraba has adopted the following accounting standard and the amendments and interpretation of IFRSs which became effective for the current year:

IAS 7 Statement of Cash Flows - Disclosure Initiative - (Amendment)

IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized losses (Amendments)

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any effect on the financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial years except as described in note 3.2 and 4.1.

4.1 Change in accounting policy

Pursuant to the amendment in the Prudential Regulations for Modarabas by the Securities and Exchange Commission of Pakistan (SECP) vide its Circular No. SC/M/PRDD/PRs/2017-259 dated December 11, 2017, the surplus on revaluation of investments shall not become part of equity. Previously, such surplus was presented as a separate component of equity. In view of the above amendment, the Modaraba has changed its accounting policy in respect of recording the surplus on revaluation of investments and the same is now shown below the equity as a separate line item on the balance sheet.

The above change is accounted for in accordance with the requirements of IAS – 8 “Accounting Policies, Changes in Accounting Estimates and Errors”.

Statement of Financial Position

	As previously reported	Impact of change in accounting policy	As restated
-----Rupees-----			
July 01, 2016			
Assets	7,160,749,780	-	7,160,749,780
Liabilities	3,844,694,506	-	3,844,694,506
Equity	3,316,055,273	(53,807,297)	3,262,247,976
Separate Line item			
Surplus on Revaluation of Investments	-	53,807,297	53,807,297
-----Rupees-----			
June 30, 2017			
Assets	8,366,650,980	-	8,366,650,980
Liabilities	4,894,748,072	-	4,894,748,072
Equity	3,471,902,908	(117,635,373)	3,354,267,535
Separate Line item			
Surplus on Revaluation of Investments	-	117,635,373	117,635,373

4.2 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 Ijarah GOP 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.

4.3 Fixed assets

(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. At the end of the lease financing period, asset is transferred to the customer in accordance with the arrangement of Ijarah Mumtaha Bittamleek as per the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) shariah standard.

(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.

4.4 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.

4.5 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.

4.6 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 two working days after the transaction date as per stock exchange regulations.

4.7 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.

4.8 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.

4.9 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.

4.10 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.

4.11 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.

4.12 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.

4.13 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.

4.14 Compensated absences

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

4.15 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.

4.16 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.

4.17 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.

4.18 Details of related parties of the Modaraba

Name of related party	Nature of relationship	Basis of relationship
Habib Metropolitan Bank Limited	Holding Company of Management Company	Common Management and Control
Habib Bank AG Zurich*	Associate	Ultimate parent
Habib Metropolitan Modaraba Management Company (Private) Limited	Associate	Management Company of the Modaraba
Habib Metropolitan Financial Services Limited	Associate	Common Management and Control
Habib Management (Private) Limited	Associate	Common Directorship
First Habib Modaraba Employee Contributory Provident Fund	Associate	Common Management
First Habib Modaraba Employee Staff Gratuity Fund	Associate	Common Management
Digital Payment Solutions Limited	Associate	Common Directorship

* This associated company is incorporated outside Pakistan, the details of which are as follows:

Registered Address: Weinbergstrasse 59, PO Box 225, 8042 Zurich, Switzerland

Country of Incorporation: Switzerland

Aggregate percentage of shareholding: 5.1% (Indirect holding)

Chief Executive Officer: Mohamedali R. Habib

Operational Status: Multinational Commercial Bank

The financial statements of Habib Bank AG Zurich for the year ended December 31, 2017, were audited by KPMG AG, who expressed an unmodified opinion on those financial statements on April 30, 2018.

	Note	2018	2017
5. Lease financing assets		-----Rupees-----	
Lease financing assets	5.1	2,405,932,689	2,132,509,174
Advance against lease financing assets	5.2	496,895,872	308,466,436
		<u>2,902,828,561</u>	<u>2,440,975,610</u>

5.1 Lease Financing assets

June 30, 2018								
Particulars	COST			DEPRECIATION			Written down value as at June 30, 2018	Rate of depreciation %
	As at July 01, 2017	Additions / (disposals) during the year	As at June 30, 2018	As at July 01, 2017	Charge / (adjustments) for the year	As at June 30, 2018		
	-----Rupees-----							
Plant, machinery and equipment*	488,016,429	293,229,511 (77,691,851)	703,554,089	383,131,773	139,758,334 (71,464,093)	451,426,014	252,128,075	8.33 to 50
Vehicles	3,574,227,404	1,210,176,120 (917,450,564)	3,866,952,960	1,546,602,886	847,183,949 (680,638,489)	1,713,148,346	2,153,804,614	15 to 33.33
	<u>4,062,243,833</u>	<u>1,503,405,631</u> <u>(995,142,415)</u>	<u>4,570,507,049</u>	<u>1,929,734,659</u>	<u>986,942,283</u> <u>(752,102,582)</u>	<u>2,164,574,360</u>	<u>2,405,932,689</u>	

June 30, 2017								
Particulars	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-----							
Plant, machinery and equipment*	532,746,184	91,594,591 (136,324,346)	496,044,490	380,836,490	122,897,983 (120,602,700)	383,131,773	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</u> <u>(1,431,401,055)</u>	<u>4,070,271,894</u>	<u>2,024,417,979</u>	<u>1,031,883,633</u> <u>(1,126,566,953)</u>	<u>1,929,734,659</u>	<u>2,132,509,174</u>	

* The cost has been adjusted with impairment amounting to Rs.8.028 (2017: Rs.8.028) million.

	Note	2018	2017
		-----Rupees-----	
5.2 Advances against lease financing assets			
As at July 01		308,466,436	186,219,284
Add: Disbursements during the year		1,691,835,067	1,052,481,306
		<u>2,000,301,503</u>	<u>1,238,700,590</u>
Less: Transfers to lease financing assets			
As at June 30		(1,503,405,631)	(930,234,154)
		<u>496,895,872</u>	<u>308,466,436</u>
6 Fixed assets in own use			
Assets in own use	6.1	28,908,707	11,547,466
Capital work-in-progress	6.2	1,228,600	745,625
		<u>30,137,307</u>	<u>12,293,091</u>

6.1 Assets in own use

Particulars	June 30, 2018							
	COST			DEPRECIATION			Written down value as at June 30, 2018	Rate of depreciation %
	As at July 01, 2017	Additions / (disposals) during the year	As at June 30, 2018	As at July 01, 2017	Charge / (adjustments) for the year	As at June 30, 2018		
	-----Rupees-----							
Office equipment	15,080,311	3,391,895 (103,949)	18,368,257	12,752,159	1,368,376 (85,194)	14,035,341	4,332,916	25 to 33.33
Furniture and fixture	8,765,063	4,999,963 (144,900)	13,620,126	6,351,152	910,249 (57,395)	7,204,006	6,416,120	20
Vehicles	10,284,328	1,824,500 (2,598,700)	9,510,128	4,587,408	1,960,317 (1,761,793)	4,785,932	4,724,196	16.67
Leasehold Improvements	1,364,433	13,293,371	14,657,804	255,950	966,379	1,222,329	13,435,475	20.00
	35,494,135	23,509,729 (2,847,549)	56,156,315	23,946,669	5,205,321 (1,904,382)	27,247,608	28,908,707	

June 30, 2017									
Particulars	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	20	
		-			-				
	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		

6.1.1 Detail of disposal of assets in own use is as follows:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain	Mode of Disposal	Particulars of purchaser	Relationship of purchaser with the Company
Rupees								
Assets with Individual book value exceeding rupees 50,000								
Vehicles								
Suzuki Swift	1,025,000	556,632	468,368	468,369	1	As per Company Policy	Adnan Thanwey	Employee
Suzuki Mehran VXR EII	683,000	314,463	368,537	410,001	41,464	As per Company Policy	Farasatullah Khan	Employee
	1,708,000	871,095	836,905	878,370	41,465			
Aggregate of other items of asset in own use with individual book value not exceeding Rupees 50,000								
Total as at 30 June, 2018	2,847,549	1,904,385	943,164	1,079,695	136,531			
Total as at 30 June, 2017	2,734,660	2,734,589	71	187,500	187,429			

	Note	2018	2017
		-----Rupees-----	
6.2 Capital work-in-progress			
As at 01 July		745,625	50,000
Add: Addition to capital work-in-progress		2,985,846	1,027,425
		3,731,471	1,077,425
Less: Transfers to assets in own use		(2,502,871)	(331,800)
As at 30 June		1,228,600	745,625

7 INTANGIBLE ASSETS

Particulars	COST			DEPRECIATION			Written down value as at June 30, 2018	Rate of amortization %
	As at July 01, 2017	Additions / (disposals) during the year	As at June 30, 2018	As at July 01, 2017	Charge / (adjustments) for the year	As at June 30, 2018		
	-----Rupees-----							
Computer software - June 30, 2018	<u>3,462,649</u>	<u>344,565</u>	<u>3,807,214</u>	<u>3,427,130</u>	<u>72,633</u>	<u>3,499,763</u>	<u>307,451</u>	<u>33.33</u>
Computer software - June 30, 2017	3,417,019	45,630	3,462,649	3,109,368	317,762	3,427,130	35,519	33.33

	Note	2018	2017
		-----Rupees-----	
8 DIMINISHING MUSHARAKA FINANCING			
Secured			
Diminishing musharaka financing	8.1	4,576,809,818	3,806,996,515
Less: Provision in respect of diminishing musharaka		-	(317,700)
		4,576,809,818	3,806,678,815
Less: Current portion shown in current assets		(2,245,975,863)	(1,638,299,962)
		2,330,833,955	2,168,378,853
Add: Advance against diminishing musharaka financing		1,019,122,356	484,958,989
		3,349,956,311	2,653,337,842

8.1 This represents diminishing musharaka financing for a term of 1 to 10 years.

9 LONG TERM ADVANCES AND DEPOSITS

Long-term deposits
 Security deposit to Central Depository Company of Pakistan Limited
 Security deposit of branch offices
 Security deposit to Habib Metropolitan Bank for locker
 Miscellaneous deposits

150,000	150,000
915,800	569,000
130,000	130,000
20,050	66,850
1,215,850	915,850

10 INVESTMENTS

Available for sale
 Investment in shares
 Investment in Ijarah GOP Sukuk bonds

10.1	255,058,121	278,784,499
10.2	1,003,800,000	1,019,900,000
	1,258,858,121	1,298,684,499

10.1 Investment in shares

		30 June, 2018		30 June, 2017	
Number of shares	Name of Investee Company	Average cost	Market value	Average cost	Market value
Number of shares		-----Rupees-----			
2018	2017				
		Banks			
100,000	1,500,000	BankIslami Pakistan Limited	568,245	1,195,000	8,513,463
1,590,000	1,500,000	Meezan Bank Limited	37,226,750	129,934,800	32,726,750
		Chemicals			
211,400	100,000	Ghani Gases Limited	4,486,624	3,407,768	2,052,106
		Food Producers			
1,510,668	1,510,668	Habib Sugar Mills Limited	47,301,567	61,182,053	47,301,568
		Telecommunication			
-	2,000,000	Pakistan Telecommunication Limited	-	-	34,693,739
		Oil and Gas			
115,000	222,698	Pakistan Petroleum Limited	15,944,224	24,713,500	30,875,685
		Power Generation and Distribution			
100,000	50,000	The Hub Power Company Limited	9,982,274	9,216,000	4,183,045
		Fertilizer			
250,000	200,000	Engro Fertilizer Limited	15,439,322	18,727,500	12,585,082
		Cement			
50,000	-	Fauji Cement Company Limited*	1,142,500	1,142,500	-
		Investment management			
50,000	-	Dawood Hercules Corporation Limited	6,112,978	5,539,000	-
			138,204,484	255,058,121	172,931,438
					278,784,499

* The average cost of this security has been adjusted with impairment amounting Rs. 0.860 (2017: Rs.Nil) million. The cost of this security was Rs. 2.273 (2017:Rs.Nil) million.

10.2 Investment in Ijarah GOP Sukuk bonds

		30 June, 2018			30 June, 2017		
Number of Sukuk Certificates of Rs. 100 each		Name of Issuing body	Note	Average cost	Market value	Average cost	Market value
2018	2017	-----Rupees-----					
1,000,000	1,000,000	Government of Pakistan	10.2.1	1,002,776,390	1,003,800,000	1,008,118,310	1,019,900,000

	Note	2018	2017
		-----Rupees-----	
As at 01 July		8,118,310	-
Add: Addition to premium on purchase of Sukuk		-	11,182,558
		8,118,310	11,182,558
Less: Amortization of premium during the year		(5,341,920)	(3,064,248)
As at 30 June		2,776,390	8,118,310

10.2.1 Movement in premium on Sukuk

10.2.2 These Ijarah GOP Sukuk Bonds are issued by the Government of Pakistan with the maturity term of 3 years from the date of issue. The profit on the Sukuk shall be paid semi-annually on the basis of rental rate announced by the State Bank of Pakistan prior to start of each half year. The Modaraba has obtained permission from Registrar of Modarabas to treat the investment as part of redemption reserve fund to be set aside by the Modaraba to comply with the requirements of the Registrar of Modarabas for the issuance of certificate of Musharaka.

	Note	2018	2017
11 LEASE FINANCING INSTALLMENTS RECEIVABLE		-----Rupees-----	
Secured - considered good			
Lease financing installments due		3,839,247	1,074,695
Less: Provision against lease financing installments receivable		(1,700,000)	-
	11.1	2,139,247	1,074,695
11.1 Aging of lease financing installments receivable			
Classification	Aging		
Considered good	1 to 89 days	2,139,247	1,074,695
Portfolio classified as non-performing as per the requirement of the Prudential Regulations for Modarabas			
Other asset especially mentioned (OAEM)	90 days to 1 Year	-	-
Substandard	1 year or more	1,700,000	-
Doubtful	2 years or more	-	-
Loss	3 years or more	-	-
		1,700,000	1,074,695
12 DIMINISHING MUSHARAKA FINANCING INSTALLMENTS RECEIVABLE			
Secured - considered good			
Diminishing Musharaka financing installments receivable		3,834,285	412,679
Less: Provision against Diminishing Musharaka financing installments receivable		-	(20,172)
	12.1	3,834,285	392,507
12.1 Aging of Diminishing Musharaka financing installments receivable			
Classification	Aging		
Considered good	1 to 89 days	3,834,285	392,507
Portfolio classified as non-performing as per the requirement of the Prudential Regulations for Modarabas			
Other asset especially mentioned (OAEM)	90 days to 1 Year	-	-
Substandard	1 year or more	-	-
Doubtful	2 years or more	-	-
Loss	3 years or more	-	20,172
		3,834,285	412,679
13 ADVANCES AND PREPAYMENTS			
Advances		-	44,000
Prepayments		4,595,951	7,673,087
		4,595,951	7,717,087

	Note	2018	2017
14 OTHER RECEIVABLES			
		-----Rupees-----	
Unsecured - considered good			
Profit receivable on modaraba deposit accounts		1,221,213	401,251
Profit receivable on Ijarah GOP Sukuk bond		2,184,427	1,917,491
Advance tax		24,038,813	25,912,033
Receivable against disposal of shares		11,716,341	-
Dividend receivable		960,000	-
Other receivables		4,735,300	3,427,795
		44,856,094	31,658,570

15 INCOME TAX REFUNDABLE

Income tax refund	15.1	113,683,111	89,006,078
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15.1 This represents the advance tax deducted by the various withholding agents under various sections of the Income Tax Ordinance, 2001. The management has claimed the tax deducted in return for the Tax Year 2017, since the management is confident that the same shall be refunded.

16 CASH AND BANK BALANCES

Stamps in hand		699,900	183,529
At banks			
Current accounts			
State Bank of Pakistan		167,091	101,412
With other banks		37,049,405	557,474
Profit bearing accounts			
Modaraba deposit account with Habib Metropolitan Bank Limited (Islamic branch) - a related party	16.1	262,554,485	191,334,596
Modaraba deposit account with other financial institutions	16.2	20,397,623	82,659
		282,952,108	191,417,255
		320,868,504	192,259,670

16.1 The profit on the above modaraba deposit accounts ranges between 3.80% to 3.84% (2017: 3.80% to 4.02%) per annum.

16.2 The profit on the above modaraba deposit accounts ranges between 2.00% to 5.95% (2017: 2.00% to 4.35%) per annum.

17 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2018 (Number of certificates)	2017		2018	2017
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 certificates	38,500,000	38,500,000
201,600,000	201,600,000		1,008,000,000	1,008,000,000

	Note	2018	2017
-----Rupees-----			
18 RESERVES			
Capital reserves			
Premium on issuance of certificates		378,000,000	378,000,000
Statutory reserves	18.1	1,103,489,848	1,089,011,820
		1,481,489,848	1,467,011,820
Revenue reserves			
General		640,000,000	640,000,000
Unappropriated profit		312,768,488	239,255,715
		952,768,488	879,255,715
		2,434,258,336	2,346,267,535
18.1	This represents profit set aside to comply with requirement of Prudential Regulations for Modarabas issued by SECP, which is not available for distribution.		
19 SURPLUS ON REVALUATION OF INVESTMENTS			
Market value of investments		1,258,858,121	1,298,684,499
Less: Cost of investments		(1,140,980,229)	(1,181,049,126)
		117,877,892	117,635,373
Surplus on revaluation at beginning of the year		117,635,373	53,807,298
Surplus transferred to profit and loss account during the year		(8,223,090)	(4,466,283)
Surplus on revaluation during the year		7,605,126	68,294,358
Impairment loss on investment in equity security charged to profit and loss account		860,483	-
		242,519	63,828,075
		117,877,892	117,635,373
20 SECURITY DEPOSITS AGAINST LEASE FINANCING ASSETS			
Lease security deposits	20.1	476,169,474	343,790,859
Less: Current portion shown under current liabilities		(60,141,012)	(102,023,172)
		416,028,462	241,767,687
20.1	This represent deposits from lease without any remuneration.		
21 CERTIFICATES OF INVESTMENT (MUSHARAKA)			
Unsecured			
Certificate of Investment (musharaka)		5,593,061,023	3,913,784,732
21.1 Movement in Certificate of Investment (musharaka)			
As at 01 July		3,913,784,732	3,050,913,721
Add: Certificates issued during the year	21.1.1	11,577,055,345	8,081,992,728
		15,490,840,077	11,132,906,449
Less: Encashment		(9,897,779,054)	(7,219,121,717)
As at 30 June		5,593,061,023	3,913,784,732

21.1.1 The rollover amount of Rs.3,438,805,107 (2017: Rs.2,597,257,376) has been excluded from the certificate issued during the year.

21.2 The estimated share of profit paid / payable on the above unsecured certificates of investments (musharaka) ranges between 5.20% to 6.55% (2017: 4.50% to 6.60%) per annum.

	Note	2018	2017
22	TRADE AND OTHER PAYABLES	-----Rupees-----	
Accrued liabilities	22.1	81,838,111	66,978,367
Adjustable against lease financing contracts	22.2	173,045,449	150,945,449
Advance against sale of diminishing musharaka units		56,214,844	15,953,885
Lease financing payable		29,943	6,447,223
Diminishing musharaka financing payable		-	23,328,467
Diminishing musharaka customer contribution		10,509,133	4,562,483
Workers' Welfare Fund	22.3	24,468,721	31,420,479
Management fee payable	22.4	33,311,460	35,041,406
Sales tax on management fee payable	22.5	8,885,873	4,555,383
Sales tax on management fee payable to previous management company	22.6	38,653,418	38,653,418
Gratuity payable	22.7	-	-
Payable to provident fund	22.8	-	-
		426,956,952	377,886,560

22.1 This includes charity payable amounting to Rs.0.134 (2017:Rs.0.730) million. The reconciliation is as follows:

Balance as at July 01	729,850	1,086,377
Addition during the year	539,108	868,473
Less: Paid to recognized charitable organisations	(1,135,000)	(1,225,000)
Balance as at June 30	133,958	729,850

22.2 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.

22.3 During the financial year 2017, the Honorable Supreme Court of Pakistan passed a judgement declaring the insertion of amendments introduced in the Finance Acts pertaining to Workers' Welfare Fund Ordinance, 1971, as unlawful and thereby striking down such amendments. Pursuant to the same, the Modaraba reversed the entire provision for WWF, amounting to Rs.12.861 million, as the Modaraba is of the view that there is no basis to maintain such provision anymore.

As a consequence of the 18th amendment to the Constitution of Pakistan, in May 2015 the Sindh Workers' Welfare Fund Act, 2014 (SWWF Act) had been passed by the Government of Sindh as a result of which every industrial establishment located in the Province of Sindh, the total income of which in any accounting year is not less than Rs 0.5 million, is required to pay Sindh Workers' Welfare Fund (SWWF) in respect of that year a sum equal to two percent of such income. The matter was taken up by the Modaraba Association of Pakistan (MAP) with the Sindh Revenue Board (SRB) collectively on behalf of various modaraba management companies (including the Management Company of the Modaraba) whereby it was contested that modarabas should be excluded from the ambit of the SWWF Act as these were not industrial establishments due to their nature of business. The SRB held that modarabas were included in the definition of financial institutions as per the Financial Institution (Recovery of Finances) Ordinance, 2001 and were, hence, required to register and pay SWWF under the SWWF Act. In view of the above developments regarding the applicability of SWWF on modarabas, the Modaraba has recognized the provision in respect of SWWF on daily basis with effect from the date of enactment of the SWWF Act, 2014 (i.e. starting from May 21, 2015).

22.4 The Modaraba Management Company is entitled to a remuneration for services rendered to the Modaraba under the provisions of the Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980 upto a maximum of 10% per annum of the net annual profits of the Modaraba. The fee for the year ended June 30, 2018 has been recognized at 10% of profit for the year.

22.5 Sindh sales tax levied by Sindh Government on remuneration of Modaraba Management Company has been charged at the rate of 13% (2017:13%).

22.6 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.

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.

22.7 Staff retirement benefits - Defined benefit plan

a. General description

As mentioned in note 4.12(a), 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, 2018 using the Projected Unit Credit Method.

	Note	2018	2017
		-----Rupees-----	
b. Reconciliation of balance due to defined benefit plan:			
Present value of defined benefit obligation		26,013,336	24,716,485
Fair value of plan assets		(26,013,336)	(24,716,485)
Net defined liability/ (assets)		-	-
c. Amount charged to profit and loss account (P&L):			
Current service cost		1,999,060	1,706,598
Interest cost		2,204,365	1,950,998
Expected return on plan assets		(2,204,365)	(1,950,998)
		1,999,060	1,706,598
Defined benefit plan			
Contribution for the year allocated to administrative expenses		1,999,060	1,706,598
d. Re-measurement recognized in other comprehensive income during the year:			
Actuarial gain on obligation		(1,240,824)	(85,901)
Actuarial loss on assets		1,210,580	983,504
Remeasurement (gain) / loss recognized in Other Comprehensive Income (OCI)		(30,244)	897,603
Total defined benefit cost recognized in P&L and OCI		1,968,816	2,604,201
e. Movement in the liability / (asset) recognized in the balance sheet:			
Balance as at July 01		-	-
Net charge for the year		1,999,060	1,706,598
Remeasurement gain recognised in OCI		(30,244)	897,603
Contribution to the fund		(1,968,816)	(2,604,201)
Balance as at June 30		-	-

	Note	2018	2017
		-----Rupees-----	
f. Movement in the present value of defined benefit obligation:			
Balance as at July 01		24,716,485	21,288,790
Current service cost		1,999,060	1,706,598
Interest cost		2,204,365	1,950,998
Actual benefits paid during the year		(1,665,750)	(144,000)
Actuarial gain		(1,240,824)	(85,901)
Balance as at June 30		26,013,336	24,716,485
g. Movement in the fair value of plan assets:			
Balance as at July 01		24,716,485	21,288,790
Expected return		2,204,365	1,950,998
Contributions		1,968,816	2,604,201
Actual benefits paid during the year		(1,665,750)	(144,000)
Actuarial loss		(1,210,580)	(983,504)
Balance as at June 30		26,013,336	24,716,485
h. Principal actuarial assumptions used are as follows:			
Expected rate of long term salary increase per annum		9.50%	8.75%
Valuation discount rate		9.50%	8.75%

	2018	2017	2016	2015	2014
-----Rupees-----					
i Comparisons for past years:					
As at June 30					
Present value of defined benefit obligation	26,013,336	24,716,485	21,288,790	19,230,519	17,838,624
Fair value of plan assets	(26,013,336)	(24,716,485)	(21,288,790)	(19,230,519)	(17,838,624)
Deficit / (surplus)	-	-	-	-	-
Experience (gain) / loss on obligation	(1,240,824)	(85,901)	(1,103,482)	1,186,377	(1,342,769)
Experience loss on plan assets	(1,210,580)	(983,504)	(1,049,808)	(1,059,585)	(570,391)

	Note	2018	2017
		-----Rupees-----	
j. Major categories / composition of plan assets are as follows:			
Habib Islamic Investment Certificate		23,194,204	21,172,616
Bank Deposit		2,819,132	3,543,869
		26,013,336	24,716,485

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.0.994 (2017: Rs.0.967) million.

k. Expected gratuity cost for the year ending June 30, 2019

The expected gratuity cost charge for the year ending June 30, 2019 amounts to Rs. 2.074 million. The actual cost will be determined after valuation of the Fund as at June 30, 2019 when the actuarial gains and losses arising during the year ending June 30, 2019 will be available.

22.8 Provident Fund related disclosures

The following information is based on the latest un-audited financial statements of the fund:

	Note	2018	2017
		-----Rupees-----	
Size of the fund - total assets		55,512,455	53,034,608
Cost of investments made		39,697,498	39,854,351
Fair value of investments		39,539,901	40,274,915
Percentage of investments made		71%	76%

22.9 The break-up of fair value of investments is as follows:

	2018		2017	
	Percentage of the size of the fund	Rupees	Percentage of the size of the fund	Rupees
	-----Rupees-----			
Investment in listed debt securities	0.32%	175,000	0.42%	225,000
Investment in unlisted debt securities	47.60%	26,422,654	56.02%	29,708,699
Investment in listed equity securities	21.38%	11,870,210	19.46%	10,321,666
Bank balances	1.93%	1,072,037	0.04%	19,550
	71%	39,539,901	76%	40,274,915

22.9 Investments out of the funds of provident fund have been made in accordance with the provisions of section 218 of the Companies Act 2017 and the rules formulated for this purpose.**23 ADVANCE AGAINST MURABAHA**

Murabaha financing facility of Rs. 500 Million (2017: 250 Million) has been agreed with an Islamic bank at a profit rate of 6 Month KIBOR + 0.25% (2017: 6 Month KIBOR + 0.25%) for financing of vehicles to be leased.

24 CONTINGENCIES AND COMMITMENTS**Contingencies**

There were no contingencies as at the balance sheet date. (2017: Nil)

Commitments

Commitments in respect of financing transactions amounted to Rs.279 million (2017: Rs.157 million).

	Note	2018	2017
		-----Rupees-----	
25 INCOME FROM LEASE FINANCING			
Lease financing installments	25.1	1,179,183,753	1,249,972,375
Less: Depreciation on lease financing assets		(986,942,283)	(1,031,883,633)
		192,241,470	218,088,742

25.1 This comprises of principal and profit components.

	Note	2018	2017
26 ADMINISTRATIVE EXPENSES		-----Rupees-----	
Salaries, allowances and other benefits	26.1	58,483,945	52,276,948
Printing, stationery and advertising		4,144,713	3,303,703
Travelling and conveyance		1,227,742	1,294,312
Takaful		323,409	349,203
Utilities		3,934,220	3,918,062
Postage		926,449	736,434
Newspapers and periodicals		31,047	34,761
Repairs and maintenance		2,320,557	1,535,804
Telecommunication		1,025,878	1,026,942
Fees and subscriptions		4,214,346	4,194,564
Legal and professional charges		2,356,629	2,850,739
Donations	26.2	840,000	840,000
Depreciation on fixed assets in own use	6.1	5,205,321	3,196,309
Amortization on intangible assets	7	72,633	317,762
Auditors' remuneration	26.3	2,339,574	2,327,125
Certificate registrar expenses		1,088,422	1,054,411
Vehicle running expenses		1,048,904	915,653
Office expense		2,238,441	1,867,798
Staff training and workshop		288,975	434,083
Staff hajj expenses		1,181,980	1,100,000
Rent expense		5,010,105	3,711,367
Information technology expenses		2,340,411	1,983,216
Miscellaneous		292,308	41,955
		100,936,009	89,311,151

26.1 Salaries, allowances and other benefits

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

	2018			2017		
	Officers*	Other employees	Total	Officers	Other employees	Total
	-----Rupees-----			-----Rupees-----		
Salaries	11,401,194	18,307,982	29,709,176	18,734,115	9,305,871	28,039,986
House rent	1,393,200	2,721,355	4,114,555	2,307,600	1,511,460	3,819,060
Other allowances	5,292,085	13,168,500	18,460,585	7,868,321	7,191,879	15,060,200
Insurance	433,183	1,404,029	1,837,212	744,842	635,804	1,380,646
Gratuity fund	987,838	1,011,222	1,999,060	1,332,848	373,750	1,706,598
Provident fund	913,420	1,449,936	2,363,357	1,472,992	797,466	2,270,458
	20,420,920	38,063,024	58,483,945	32,460,718	19,816,230	52,276,948
Number of employees	5	61	66	12	32	44

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

26.1.2 No remuneration paid to the directors of the Modaraba Management Company during the year (2017: nil)

26.1.3 This includes contribution to staff provident fund amounting to Rs.2.363 (2017: Rs.2.271) million.

26.2 The Directors of the Modaraba Management Company do not have any interest in any donees' fund to which donations were made.

* These represent officers as prescribed under the Companies Act, 2017.

	Note	2018	2017
26.3 Auditors' remuneration:			
Muniff Ziauddin & Co.			
Audit fee		-	378,000
Special audit		160,000	-
Fee for half yearly review and code of corporate governance		-	183,600
Out of pocket expenses		12,150	72,460
Other certifications		-	10,800
		172,150	644,860
Sales tax		12,800	45,140
		184,950	690,000
EY Ford Rhodes			
Audit fee		500,000	-
Special audit		300,000	-
Fee for half yearly review and code of corporate governance		200,000	-
Taxation and other services		979,124	1,637,125
Out of pocket expenses		95,500	-
		2,074,624	1,637,125
Sales tax		80,000	-
		2,154,624	1,637,125
		2,339,574	2,327,125

27 OTHER INCOME

Dividend on shares	27.1	14,251,107	11,436,838
Gain on transfer of lease financing assets		16,034,042	24,074,033
Gain on sale of shares - net		1,431,899	6,365,842
Gain on sale of owned fixed assets		136,531	187,458
Profit on modaraba's deposit accounts		11,614,183	8,948,031
Profit on Ijarah GOP sukuk bonds		49,988,720	40,982,842
Miscellaneous income	27.2	19,962,914	10,974,951
		113,419,396	102,969,995

27.1 Dividend on shares

Meezan Bank Limited	4,237,500	4,125,000
Habib Sugar Mills limited	2,643,669	2,629,000
Pakistan Petroleum Company Limited	2,136,188	1,389,201
Engro Fertilizer Limited	2,125,000	568,119
Pakistan Telecommunication Company Limited	2,000,000	1,946,000
Hub Power Company Limited	810,000	254,643
Fauji Fertilizer Company Limited	140,000	501,125
Dawood Hercules Corporation Limited	100,000	-
Thatta Cement Company Limited	58,750	-
Fauji Fertilizer Bin Qasim Limited	-	23,750
	14,251,107	11,436,838

27.2 This includes reversal of Workers' Welfare Fund (WWF) amounting to Rs.12.861 (2017: Rs.Nil) million (see note 22.2).

	Note	2018	2017
28 FINANCIAL CHARGES			
-----Rupees-----			
Profit on Certificate of Investment (musharaka)		262,111,117	195,835,397
Profit paid on murabaha financing		1,783,104	6,880,147
Bank commission and charges		405,668	369,418
		264,299,889	203,084,962

29 TAXATION

As per the current tax law, Income of non-trading modarabas is exempt from income tax provided that they distribute ninety percent cash profit to certificate holders out of current year's total profit after appropriating to statutory reserves. As the management is intending to follow the aforesaid policy for profit distribution for the current year, no provision with respect to current and deferred taxation has been made in these financial statements.

30 CONTRACTUAL LEASE FINANCING INSTALLMENTS RECEIVABLE - LEASE CONTRACTS

CONTRACTUAL LEASE PAYMENTS RECEIVABLE - LEASE CONTRACTS								
As At 30 June 2018				As At 30 June 2017				
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	1,118,587,222	1,593,485,708	-	2,712,072,930	998,248,389	1,134,830,820	-	2,133,079,209

31 TRANSACTIONS WITH RELATED PARTIES

The related parties and associated undertakings comprise the Management Company (Habib Metropolitan Modaraba Management Company (Private) Limited), Habib Metropolitan Bank Limited, Habib Bank AG Zurich, Habib Metro Modaraba, Habib Metropolitan Financial Services Limited, Habib Management (Pvt.) Limited, Digital Payment Solutions Limited, First Habib Modaraba Employees' Provident Fund, First Habib Modaraba Employee Gratuity Fund and key management personnel. Transactions and balances outstanding with related parties and associated undertakings are as follows:

			2018	2017
Balances held			-----Rupees-----	
Related party	Related party relationship	Nature of balances		
Habib Metropolitan Bank Limited	Holding Company	Bank Balances	299,220,335	191,502,199
		Certificates of investment (musharaka)	3,500,000,000	2,250,000,000
		Profit receivable	1,059,699	449,597
		Expenses payable	33,930,822	19,045,890
		Utility charges payable	448,000	-
		Prepaid Utility charges	1,447,200	1,632,000
		Prepaid Rent	313,236	-
		Security deposit	130,000	130,000
		Lease financing assets*	22,713,700	64,302,907
Habib Bank AG Zurich	Ultimate Parent	Lease financing assets*	1,481,612	3,188,133
Habib Metropolitan Modaraba Management Company (Private) Limited	Management Company	Management fee payable	33,311,460	35,041,406
		Sale tax on management fee payable	8,885,873	4,555,383
Habib Metropolitan Financial Services Limited	Associate	Lease financing assets*	19,770	476,025
		Receivable against shares	11,716,341	-
Habib Management (Private) Ltd.	Associate	Sale tax on management fee payable	38,653,418	38,653,418
Provident Fund	Associate	Certificates of investment (musharaka)	25,422,654	29,708,699

			2018	2017
			-----Rupees-----	
Transactions during the period Related party	Related party relationship	Nature of transactions		
Habib Metropolitan Bank Limited	Holding Company	Profit on bank accounts	11,229,972	8,644,045
		Bank charges	403,362	169,800
		Utility charges	3,527,200	3,450,000
		Financial charges	119,700,348	100,409,722
		Lease financing - additions during the year*	-	48,271,000
		Lease financing installments received*	36,444,176	42,091,578
Habib Bank AG Zurich	Ultimate Parent	Lease financing installments received*	2,048,702	2,352,243
Habib Metropolitan Modaraba Management Company (Private) Limited	Management Company	Management fee	33,311,460	-
		Sale tax on management fee	4,330,490	-
		Management fee paid	35,041,406	-
		Dividend Paid	20,160,000	-
Habib Metropolitan Financial Services Limited	Associate	Brokerage commission	220,000	92,348
		Purchase of securities	29,022,533	43,034,423
		Sale of securities	68,820,925	25,961,511
		Lease financing installments received*	501,369	1,221,723
Habib Management (Private) Ltd.	Associate	Management fee paid	-	34,355,610
		Dividend Paid	104,271,172	100,501,732
Staff Retirement Benefit Fund	Associate	Gratuity fund	1,999,060	1,706,598
		Contribution made	1,968,816	2,604,201
Provident Fund	Associate	Contribution made	2,363,357	2,270,458

31.1 No remuneration in kind has been paid by the Modaraba to the directors and key management personnel of Management Company.

31.2 The Modaraba carries out transactions with related parties at commercial terms and conditions as per Modaraba's policy.

* No new financing disbursements have been made to associated undertakings during the year ended June 30, 2018, further the lease financing outstanding was originally disbursed before March 31, 2017 when these were not associated undertakings (related party) of the Modaraba.

32 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.

33 FINANCIAL INSTRUMENTS

33.1 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 GOP 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.

33.2 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, 2018 is the carrying amount of the financial assets as set out below:

	2018	2017
	-----Rupees-----	
Diminishing musharaka financing	5,595,932,174	4,291,637,804
Lease financing installments receivables	2,139,247	1,074,695
Diminishing musharaka financing installments receivables	3,834,285	392,507
Long term advances and deposits	1,215,850	915,850
Other receivables	20,817,281	5,746,537
Bank balances	320,001,513	191,974,729
	5,943,940,350	4,491,742,122

Credit risk ratings

Credit risk rating of the banks and their respective balances are given below:

Banks	Rating		Agency		
	Short term	Long term			
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	299,220,335	191,502,199
Soneri Bank Limited	A1+	AA-	PACRA	20,311,344	15,089
Al - Baraka Bank Limited	A1	A	PACRA	108,449	108,112
Bankislami Pakistan Limited	A1	A+	PACRA	244,602	244,501
Meezan Bank Limited	A1+	AA+	JCR-VIS	61,130	43,178
Bank Al-Habib Limited	A1+	AA+	PACRA	45,304	51,300
Dubai Islamic Bank Pakistan Limited	A1	AA-	JCR-VIS	10,350	10,350
				320,001,513	191,974,729

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.

33.3 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.

33.4 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, 2018, the fair value of equity and debt securities exposed to price risk was as follows:

Particulars	Average Cost 2018	Fair Value 2018	Average Cost 2017	Fair Value 2017
	-----Rupees-----			
Equity securities	138,204,484	255,058,122	172,931,438	278,784,499
Ijarah GOP Sukuk bonds	1,002,776,390	1,003,800,000	1,008,118,310	1,019,900,000
	<u>1,140,980,874</u>	<u>1,258,858,122</u>	<u>1,181,049,748</u>	<u>1,298,684,499</u>

Risk Management

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, 2018, the profile of the Modaraba's variable value financial instruments were as follows:

	2018	2017
	-----Rupees-----	
Variable rate instruments		
Assets		
Ijarah GOP Sukuk bonds	1,002,776,390	1,008,118,310
Diminishing musharaka financing	4,576,809,818	3,806,996,515
Bank deposits	282,952,108	191,417,255
Liability		
Certificate of Investment (Musharaka)	(5,593,061,023)	(3,913,784,732)
Advance against murabaha financing	(25,000,000)	(123,860,502)
	244,477,293	968,886,846

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)	
	(+/-)	-----Rupees-----	
Assets			
Ijarah GOP Sukuk bonds	100 basis points	10,027,764	10,081,183
Diminishing musharaka financing	100 basis points	45,768,098	38,069,965
Bank deposits	100 basis points	2,829,521	1,914,173
Liability			
Certificate of Investment (Musharaka)	100 basis points	(55,930,610)	(39,137,847)
Advance against murabaha financing	100 basis points	(250,000)	(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.

33.5 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.

34 FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS 13 - 'Fair Value Measurement' establishes a single source of guidance under IFRS for all fair value measurements and disclosures about fair value measurement where such measurements are required as permitted by other IFRSs. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the statement of assets and liabilities date. The estimated fair value of all other financial assets and financial liabilities is considered not significantly different from book value.

The following table shows financial instruments recognised at fair value, analysed between those whose fair value is based on:

Level 1:	quoted prices in active markets for identical assets or liabilities;
Level 2:	those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
Level 3:	those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2018							
Carrying amount				Fair value			
Investments	Loans and other receivables	Cash and cash equivalents	Total	Level 1	Level 2	Level 3	Total
Rupees							

Financial assets measured at fair value

'Available for Sale'

Listed equity securities	255,058,121	-	-	255,058,121	255,058,121	-	-	255,058,121
Ijarah GOP Sukuk bonds (note 34.1)	1,003,800,000	-	-	1,003,800,000	-	1,003,800,000	-	1,003,800,000
	<u>1,258,858,121</u>	<u>-</u>	<u>-</u>	<u>1,258,858,121</u>	<u>255,058,121</u>	<u>1,003,800,000</u>	<u>-</u>	<u>1,258,858,121</u>

Financial assets not measured at fair value

(note 34.2)

Diminishing musharaka financing	-	5,595,932,174	-	5,595,932,174
Long term advances and deposits	-	1,215,850	-	1,215,850
Lease financing installments receivables	-	2,139,247	-	2,139,247
Diminishing musharaka financing installments receivables	-	3,834,285	-	3,834,285
Advances, deposits and prepayments	-	5,811,801	-	5,811,801
Other receivables	-	20,817,281	-	20,817,281
Cash and bank balances	-	-	320,868,504	320,868,504
	<u>-</u>	<u>5,629,750,638</u>	<u>320,868,504</u>	<u>5,950,619,142</u>

During the year ended June 30, 2018, there were no transfers between level 1 and level 2 fair value measurements, and no transfer into and out of level 3 fair value measurements.

June 30, 2018		
At fair value	Other financial liabilities	Total
Rupees		

Financial liabilities

Security deposits against lease financing assets	-	476,169,474	476,169,474
Certificates of investment (musharaka)	-	5,593,061,023	5,593,061,023
Unearned lease financing and diminishing musharaka installments	-	63,489,472	63,489,472
Advance lease financing and diminishing musharaka installments	-	26,163,905	26,163,905
Trade and other payables	-	426,956,952	426,956,952
Profit payable on Certificate of Investment (Musharaka)	-	74,332,870	74,332,870
Advance against Murabaha	-	25,000,000	25,000,000
Profit payable on morabaha financing	-	9,986	9,986
Unclaimed profit distributions	-	33,936,746	33,936,746
	<u>-</u>	<u>6,719,120,428</u>	<u>6,719,120,428</u>

2017							
Carrying amount				Fair value			
Investments	Loans and other receivables	Cash and cash equivalents	Total	Level 1	Level 2	Level 3	Total
Rupees							

Financial assets measured at fair value**'Available-for-sale'**

Listed equity securities	278,784,499	-	-	278,784,499	278,784,499	-	-	278,784,499
Ijarah GOP Sukuk bonds	1,019,900,000	-	-	1,019,900,000	-	1,019,900,000	-	1,019,900,000
	<u>1,298,684,499</u>	<u>-</u>	<u>-</u>	<u>1,298,684,499</u>	<u>278,784,499</u>	<u>1,019,900,000</u>	<u>-</u>	<u>1,298,684,499</u>

Financial assets not measured at fair value

Diminishing musharaka financing	-	4,291,637,804	-	4,291,637,804
Long term advances and deposits	-	915,850	-	915,850
Lease financing installments receivables	-	1,074,695	-	1,074,695
Diminishing musharaka financing installments receivables	-	392,507	-	392,507
Advances, deposits and prepayments	-	44,000	-	44,000
Other receivables	-	5,746,537	-	5,746,537
Cash and bank balances	-	-	192,259,670	192,259,670
	<u>-</u>	<u>4,299,811,393</u>	<u>192,259,670</u>	<u>4,492,071,063</u>

During the year ended June 30, 2017, there were no transfers between level 1 and level 2 fair value measurements, and no transfer into and out of level 3 fair value measurements.

June 30, 2017		
At fair value	Other financial liabilities	Total
Rupees		

Financial liabilities

Security deposits against lease financing assets	-	343,790,859	343,790,859
Certificates 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	-	123,860,502	123,860,502
Profit payable on morabaha financing	-	4,039,549	4,039,549
Unclaimed profit distributions	-	31,916,498	31,916,498
	<u>-</u>	<u>4,894,748,072</u>	<u>4,894,748,072</u>

34.1 Valuation techniques used in determination of fair values within level 2:

Investment in Ijarah GOP Sukuk Bonds, issued by government of Pakistan, for the purpose of raising funds in the form of redeemable capital, are valued on the basis of the rates announced by the Mutual Funds Association of Pakistan (MUFAP) in accordance with the methodology prescribed by the Securities and Exchange Commission of Pakistan (SECP).

34.2 The Modaraba has not disclosed the fair values for these financial assets, as these are either short term in nature or repriced periodically. Therefore, their carrying amounts are a reasonable approximation of fair value.

35 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.

2018									
Total	Upto 1 month	Over 1 month to 3 month	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 year	Over 2 year to 3 year	Over 3 year to 5 year	Over 5 year to 10 year	Over 10 year
Rupees									
Assets									
Lease financing assets	2,902,828,561	75,169,358	21,224,381	40,278,761	155,075,973	571,363,404	771,520,098	1,264,932,386	3,264,200
Owned fixed assets	30,137,307	51,735	103,268	36,941	264,386	1,926,585	4,158,671	21,924,715	1,671,006
Intangible assets	307,451	-	-	-	-	20,311	287,140	-	-
Diminishing musharaka financing	5,595,932,174	7,715,667	17,948,480	35,000,877	193,428,981	880,822,846	1,765,488,517	2,450,100,033	245,426,773
Investments	1,258,858,121	-	-	1,003,800,000	255,058,121	-	-	-	-
Lease financing installments receivable	2,139,247	2,139,247	-	-	-	-	-	-	-
Diminishing musharaka financing installments receivables	3,834,285	3,834,285	-	-	-	-	-	-	-
Advances, deposits and prepayments	5,811,801	1,040,255	1,317,664	1,677,729	847,263	359,890	69,000	60,000	440,000
Income tax refundable	113,683,111	-	-	-	113,683,111	-	-	-	-
Other receivables	44,856,094	18,616,354	-	2,184,427	24,055,313	-	-	-	-
Cash and bank balances	320,868,504	320,868,504	-	-	-	-	-	-	-
	10,279,256,656	429,435,406	40,593,793	1,082,978,735	742,413,148	1,454,493,036	2,541,523,426	3,737,017,134	250,801,979
Liabilities									
Security deposits against lease financing assets	476,169,474	66,510,587	12,750,825	16,533,440	49,118,941	111,524,213	93,395,930	126,335,538	-
Certificate of Investment (musharaka)	5,593,061,023	2,683,497,636	2,751,485,992	52,373,402	105,703,993	-	-	-	-
Unearned lease financing and diminishing musharaka installments	63,489,472	-	-	-	63,489,472	-	-	-	-
Advance lease financing and diminishing musharaka installments	26,163,905	-	-	-	26,163,905	-	-	-	-
Trade and other payables	426,956,952	346,106,202	80,850,750	-	-	-	-	-	-
Profit payable on Certificate of Investment (musharaka)	74,332,870	35,664,206	36,567,785	696,053	1,404,826	-	-	-	-
Advance against murabaha	25,000,000	-	-	-	25,000,000	-	-	-	-
Profit payable on murabaha financing	9,986	-	-	-	9,986	-	-	-	-
Unclaimed profit distributions	33,936,746	33,936,746	-	-	-	-	-	-	-
	6,719,120,428	3,165,715,377	2,881,655,352	69,602,895	270,891,123	111,524,213	93,395,930	126,335,538	-
Difference	3,560,136,228								
Represented by:									
Issued, subscribed and paid-up certificate capital	1,008,000,000								
Reserves	2,434,258,336								
Total Equity	3,442,258,336								
Surplus on Revaluation of Investments	117,877,892								
	3,560,136,228								

2017									
Total	Upto 1 month	Over 1 month to 3 month	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 year	Over 2 year to 3 year	Over 3 year to 5 year	Over 5 year to 10 year	Over 10 year
Rupees									
Assets									
Lease financing assets	2,440,975,610	37,833,853	54,343,854	97,518,211	309,986,027	608,201,018	629,505,045	700,834,307	2,753,295
Owned fixed assets	12,293,091	132,895	560,221	855,774	3,827,256	2,316,397	931,210	2,923,340	745,998
Intangible assets	35,519	-	-	-	-	-	35,519	-	-
Diminishing musharaka financing	4,291,637,804	1,546,443	10,210,073	46,831,941	144,507,450	665,798,172	1,362,987,805	1,997,592,268	62,163,652
Investments	1,298,684,499	-	-	-	1,298,684,499	-	-	-	-
Lease financing installments receivable	1,074,695	1,074,695	-	-	-	-	-	-	-
Diminishing musharaka financing installments receivables	392,507	392,507	-	-	-	-	-	-	-
Advances, deposits and prepayments	8,632,937	-	-	-	8,632,937	-	-	-	-
Other receivables	31,658,570	-	-	-	31,658,570	-	-	-	-
Income tax refundable	89,006,078	-	-	-	89,006,078	-	-	-	-
Cash and bank balances	192,259,670	192,259,670	-	-	-	-	-	-	-
	8,366,850,980	233,240,063	65,114,148	145,205,926	1,886,302,817	1,276,315,587	1,993,459,579	2,701,349,915	65,662,945
Liabilities									
Security deposits against lease financing assets	343,790,859	12,775,263	10,153,971	18,908,083	63,855,335	90,848,340	103,087,516	44,162,351	-
Certificate of Investment (musharaka)	3,913,784,732	1,742,687,900	1,909,767,200	89,974,800	171,354,832	-	-	-	-
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	23,315,797	25,551,187	1,203,792	2,292,593	-	-	-	-
Advance against murabaha financing	123,860,502	-	123,860,502	-	-	-	-	-	-
Profit payable on murabaha financing	4,039,549	4,039,549	-	-	-	-	-	-	-
Unclaimed profit distributions	31,916,498	-	-	-	31,916,498	-	-	-	-
	4,894,748,072	1,829,924,511	2,069,332,860	110,086,675	647,305,818	90,848,340	103,087,516	44,162,351	-
Difference	3,471,902,908								
Represented by:									
Issued, subscribed and paid-up certificate capital	1,008,000,000								
Reserves	2,346,267,535								
Total Equity	3,354,267,535								
Surplus on Revaluation of Investments	117,635,373								
	3,471,902,908								

36 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	
Financial assets							
Cash and bank balances	282,952,108	-	282,952,108	37,916,396	-	37,916,396	320,868,504
Other receivables	3,405,640	-	3,405,640	17,411,641	-	17,411,641	20,817,281
Investments	1,003,800,000	-	1,003,800,000	255,058,121	-	255,058,121	1,258,858,121
Lease financing installments receivables	2,139,247	-	2,139,247	-	-	-	2,139,247
Diminishing musharaka financing installments receivables	3,834,285	-	3,834,285	-	-	-	3,834,285
Long term advances and deposits	-	-	-	-	1,215,850	1,215,850	1,215,850
Diminishing musharaka financing	2,245,975,863	3,349,956,311	5,595,932,174	-	-	-	5,595,932,174
	3,542,107,143	3,349,956,311	6,892,063,454	310,386,158	1,215,850	311,602,008	7,203,665,462
Financial liabilities							
Security deposits against lease assets	-	-	-	60,141,012	416,028,462	476,169,474	476,169,474
Certificate of Investment (Musharaka)	5,593,061,023	-	5,593,061,023	-	-	-	5,593,061,023
Unearned lease financing and diminishing musharaka installments	63,489,472	-	63,489,472	-	-	-	63,489,472
Advance lease financing and diminishing musharaka installments	26,163,905	-	26,163,905	-	-	-	26,163,905
Advance against murabaha financing	25,000,000	-	25,000,000	-	-	-	25,000,000
Profit payable on murabaha financing	9,986	-	9,986	-	-	-	9,986
Trade and other payables	-	-	-	402,488,231	-	402,488,231	402,488,231
Profit payable on Certificate of Investment (Musharaka)	74,332,870	-	74,332,870	-	-	-	74,332,870
Unclaimed profit distribution	-	-	-	33,936,746	-	33,936,746	33,936,746
	5,782,057,256	-	5,782,057,256	496,565,989	416,028,462	912,594,451	6,694,651,707
On balance sheet gap	(2,239,950,113)	3,349,956,311	1,110,006,198	(186,179,830)	(414,812,612)	(600,992,442)	509,013,755
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 are 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.

37 SEGMENT BY CLASS OF BUSINESS OF FINANCING ASSETS

	2018		2017	
	Rupees	%	Rupees	%
Auto and allied	337,061,244	3.97	332,245,396	4.93
Cable and electric goods	310,866,942	3.66	361,831,394	5.37
Cargo, courier logistic services	474,608,579	5.58	358,408,743	5.32
Cement	100,506,436	1.18	11,091,017	0.16
Chemical	625,795,301	7.36	449,991,462	6.68
Construction	168,229,830	1.98	164,684,667	2.45
Education	310,647,317	3.66	195,386,319	2.90
Fertilizer	208,855,092	2.46	166,397,280	2.47
Financial institutions	169,976,725	2.00	229,768,486	3.41
Food and allied	718,583,228	8.46	593,423,650	8.81
Fuel, power and energy	36,458,853	0.43	61,492,310	0.91
Glass and ceramics	50,954,658	0.60	45,246,925	0.67
Health care	199,347,254	2.35	249,265,369	3.70
Individuals	303,473,696	3.57	249,226,929	3.70
Information technology	238,024,849	2.80	156,282,954	2.32
Leather and Tanneries	14,808,824	0.17	18,265,214	0.27
Oil & gas exploration	99,912,546	1.18	100,796,468	1.50
Paper and board	24,390,966	0.29	19,809,656	0.29
Pharmaceutical	1,149,118,918	13.52	968,861,681	14.39
Refinery, lubricant, oil and gas marketing	539,817,806	6.35	449,592,849	6.68
Services	1,765,273,795	20.77	1,077,330,892	16.00
Steel and engineering	202,417,112	2.38	164,669,078	2.45
Sugar and allied	126,001,423	1.48	52,594,656	0.78
Textile	323,629,341	3.81	255,950,017	3.80
	8,498,760,735	100.00	6,732,613,412	100.00

37.1 Modaraba's operations are restricted to Pakistan only.

38 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:

2018				2017			
Advances, deposits, prepayments	Diminishing Musharaka Financing	Diminishing Musharaka Financing installment receivable	Lease financing installments receivables	Advances, deposits, prepayments	Diminishing Musharaka Financing	Diminishing Musharaka Financing installment receivable	Lease financing installments receivables
-----Rupees-----							

Segment by class of business

Auto & Allied	-	303,266,627	138,437	-	-	301,663,948	3,678	-
Cable & Electrical Goods	-	161,536,248	39,454	248,404	-	182,082,155	26,899	602
Cargo, Courier Logistics Services	-	236,169,846	326,829	-	-	146,111,588	2,520	-
Cement	-	100,506,436	41,407	-	-	11,091,017	984	-
Chemical	-	331,529,668	118,820	95,252	-	253,942,198	30,232	200,291
Construction	-	135,307,111	195,066	-	-	121,937,968	1,769	-
Education	-	155,946,382	47,774	-	-	194,715,187	27,163	-
Fertilizer	-	35,022,018	1,260	-	-	12,717,951	234	-
Financial Institutions & Insurance	2,068,048	136,850,634	26,137	-	1,762,000	159,948,815	-	-
Food & Allied	-	665,051,606	496,475	442,692	-	482,062,958	6,044	8,218
Fuel, Power, And Energy	-	26,312,364	21,656	2,634	-	42,009,605	1,222	51,256
Glass And Ceramics	-	45,512,683	13,516	-	-	36,706,310	328	-
Health Care	-	167,114,847	67,079	-	-	209,020,311	6,528	-
Individuals	-	297,132,960	454,091	-	-	236,224,721	131,703	-
IT & Telecom	46,800	191,901,614	108,832	-	46,800	116,657,161	1,847	6,179
Insurance & Takaful	-	-	-	-	433,643	-	-	-
Leather And Tanneries	-	10,009,824	25,733	-	-	18,265,214	21	-
Oil & Gas Exploration	-	70,308,488	118,741	-	-	54,726,575	46,144	-
Others	-	22,346,221	-	59,798	6,390,494	8,553,829	-	5,025
Paper And Board	-	13,220,172	4,325	8,400	-	8,615,321	1,220	-
Pharmaceuticals	-	625,871,090	1,050,190	832,858	-	420,610,162	19,479	-
Refinery, Lubricant, Oil & Gas Marketing	-	462,958,078	115,371	1,800	-	369,371,631	552	1,800
Services	3,696,953	871,271,216	226,065	445,393	-	516,142,489	49,733	1,324
Steel & Engineering	-	180,307,140	38,987	-	-	126,794,554	486	-
Sugar & Allied	-	84,147,212	34,874	-	-	24,561,408	553	-
Textile	-	266,331,689	123,166	2,016	-	237,104,728	33,168	800,000
	5,811,801	5,595,932,174	3,834,285	2,139,247	8,632,937	4,291,637,804	392,507	1,074,695

39 EARNINGS PER CERTIFICATE

39.1 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	2018	2017
-----Rupees-----		
Profit for the year	289,560,557	294,517,162
Weighted average number of certificates of Rs. 5/-	201,600,000	201,600,000
Earnings per certificate	1.44	1.46

39.2 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.

40 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 two operating segments. The Modaraba's assets allocation decisions are based on a single integrated investment strategy and the Modaraba's performance is evaluated on basis of two operating segments.

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.

Details of segment revenues, costs, profit, assets and liabilities are as follows:

	Lease financing assets		Diminishing musharaka financing		Total	
	2018	2017	2018	2017	2018	2017
	(Rupees)					
Segment revenues / profits						
Revenue - net of depreciation , where applicable	192,241,470	218,088,742	393,547,475	321,751,433	585,788,945	539,840,175
Costs	(149,243,158)	(93,218,808)	(115,056,730)	(109,866,154)	(264,299,889)	(203,084,962)
Reportable segment profit	42,998,312	124,869,934	278,490,745	211,885,279	321,489,056	336,755,213
Segment assets and liabilities						
Reportable segment assets						
Lease financing asset	2,902,828,561	2,440,975,610	-	-	2,902,828,561	2,440,975,610
Diminishing musharaka financing	-	-	3,349,956,311	2,653,337,842	3,349,956,311	2,653,337,842
Current portion of diminishing musharaka financing	-	-	2,245,975,863	1,638,299,962	2,245,975,863	1,638,299,962
Lease financing installments receivable	2,139,247	1,074,695	-	-	2,139,247	1,074,695
Diminishing musharaka financing installments receivable	-	-	3,834,285	392,507	3,834,285	392,507
Income tax refundable	-	-	-	-	-	-
	2,904,967,808	2,442,050,305	5,599,766,459	4,292,030,311	8,504,734,267	6,734,080,616
Reportable segment liabilities						
Security deposits against Lease financing assets	416,028,462	241,767,687	-	-	416,028,462	241,767,687
Certificates of investment (musharaka)	3,158,253,663	1,796,481,348	2,434,807,360	2,117,303,384	5,593,061,023	3,913,784,732
Security deposits - current portion	60,141,012	102,023,172	-	-	60,141,012	102,023,172
Unearned lease financing and diminishing musharaka installments	45,854,179	19,830,116	17,635,293	4,689,293	63,489,472	24,519,409
Advance lease financing and diminishing musharaka installments	23,451,257	20,191,143	2,712,648	2,395,448	26,163,905	22,586,591
Adjustable against lease financing contracts	173,045,449	150,945,449	-	-	173,045,449	150,945,449
Lease financing payable	29,943	6,447,223	-	-	29,943	6,447,223
Advance against sale of diminishing musharaka units	-	-	56,214,844	15,953,885	56,214,844	15,953,885
Diminishing musharaka financing payable	-	-	-	23,328,467	-	23,328,467
Diminishing musharaka customer contribution	-	-	10,509,133	4,562,483	10,509,133	4,562,483
	3,876,803,965	2,337,686,138	2,521,879,278	2,168,232,960	6,398,683,243	4,505,919,098

Note	2018	2017
	-----Rupees-----	
Reconciliation of reportable segment revenues, profit or loss, assets and liabilities, is as follow:		
Revenues		
Revenue classified in segment reported	585,788,945	539,840,175
	585,788,945	539,840,175
Profit		
Profit classified in segment reported	321,489,056	336,755,213
Administrative expenses	(100,936,009)	(89,311,151)
Other income	113,419,396	102,969,995
Impairment loss on investment in equity securities classified as available-for-sale	(860,483)	-
Modaraba Management Company's remuneration	(33,311,460)	(35,041,406)
Sales tax on Modaraba Management Company's remuneration	(4,330,490)	(4,555,383)
Provision for Sindh Workers' Welfare Fund (SWWF)	(5,909,453)	(6,216,345)
Taxation	-	(10,083,761)
	289,560,557	294,517,162
Assets		
Assets classified in segment reported	8,504,734,267	6,734,080,616
Assets in own use	30,137,307	12,293,091
Intangible assets	307,451	35,519
Long term advances and prepayments	1,215,850	915,850
Investments	1,258,858,121	1,298,684,499
Advances and prepayments	4,595,951	7,717,087
Other receivables	44,856,094	31,658,570
Income tax refundable	113,683,111	89,006,078
Cash and bank balances	320,868,504	192,259,670
	10,279,256,656	8,366,650,980
Liabilities		
Liability classified in segment reported	6,398,683,243	4,505,919,098
Trade and other payables	187,157,583	176,649,055
Profit payable on Certificate of Investment (Musharaka)	74,332,870	52,363,370
Profit payable on murabaha financing	9,986	4,039,549
Advance against murabaha financing	25,000,000	123,860,502
Unclaimed profit distribution	33,936,746	31,916,498
	6,719,120,428	4,894,748,072

	Note	2018	2017
		-----Rupees-----	
41 CASH GENERATED FROM OPERATIONS			
Profit for the year		289,560,557	304,600,923
Adjustment for:			
Gain on disposal of assets:			
Lease financing assets		(16,034,042)	(24,074,033)
Assets in own use		(136,531)	(187,429)
Depreciation on fixed assets:			
Lease financing assets		986,942,283	1,031,883,633
Assets in own use		5,205,321	3,196,308
Amortization of intangible assets		72,633	317,762
Amortization of sukuk		5,341,920	3,064,248
Impairment loss on investment in equity security classified as 'available-for-sale'		860,483	-
Provision against diminishing musharaka financing		-	317,700
Provision for gratuity		1,999,060	1,706,598
Dividend income		(14,251,107)	(11,436,838)
Gain on disposal of investments - net		(1,431,899)	(6,365,842)
Financial charges		263,894,221	202,715,544
Movement in working capital	41.1	89,073,174	110,741,162
		1,611,096,073	1,616,479,736

41.1 Movement in working capital

Increase / (decrease) in current assets:

Lease financing installments receivables	(1,064,552)	(193,079)
Diminishing Musharaka financing installments receivables	(3,441,778)	662,378
Advances and prepayments	3,121,136	3,186,193
Income tax refundable	(24,677,033)	(19,610,457)
Other receivables	23,517,634	22,830,054
	(2,544,593)	6,875,089

Increase / (decrease) in current liabilities:

Advance Lease financing and diminishing musharaka installments	3,577,314	(259,772)
Unearned Lease financing and diminishing musharaka installments	38,970,061	14,036,532
	-	(2,790,833)
Taxation	49,070,392	92,880,146
Trade and other payables	91,617,767	103,866,073
	89,073,174	110,741,162

42 PROFIT DISTRIBUTION AND APPROPRIATION

Subsequent to the year ended June 30, 2018 the Board of Directors of the Management Company has declared a final distribution of Re.1.25 per certificate, amounting to total profit distribution of Rs.252 million (2017: Re. 1.0 per certificate amounting to total profit distribution of Rs. 201.6 million) in its meeting held on August 29, 2018.

43 NUMBER OF EMPLOYEES

	Note	2018	2017
		-----Number-----	
Total number of employees at end of the year		66	44
Average number of employees for the year		55	41

44 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.

45 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on August 29, 2018 by the Board of Directors of the Modaraba Management Company.

46 GENERAL

Figures have been rounded off to the nearest rupee.

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

CHIEF EXECUTIVE

CHIEF FINANCIAL OFFICER

DIRECTOR

DIRECTOR

GLOSSARY

AML

Anti Money Laundering

CEO

Chief Executive Officer

CFO

Chief Financial Officer

FHM

First Habib Modaraba

Companies Act

Companies Act, 2017

CSR

Corporate Social Responsibility

Earning per Certificate (EPC)

Calculated by dividing the profit after interest, tax by the weighted average number of Certificates in issue.

IASB

International Accounting Standards Board

IFRS

International Financial Reporting Standards

ITO

Income Tax Ordinance, 2001

KIBOR

Karachi Inter Bank Offer Rate

KYC

Know your Customer

WWF

Workers Welfare Fund

EOBI

Employees Old Age Benefits Institution

SRO

Statutory Regulatory Order

FBR

Federal Board of Revenue

SBP

State Bank of Pakistan

IFAC

International Federation of Accountants

CCG

Code of Corporate Governance

IFAS

Islamic Financial Accounting Standard

SAFA

South Asian Federation of Accountants

SAARC

South Asian Association of Regional Cooperation

NBFI & Modaraba

NBFI & Modaraba Association of Pakistan

MAP

Management Association of Pakistan

MAP

Modaraba Association of Pakistan

MAP

Marketing Association of Pakistan

PACRA

Pakistan Credit Rating Agency Limited

ICF

Internal Control Framework

ERP

Enterprise Resource Program

IFSB

Islamic Financial Services Board

IIFM

International Islamic Financial Market

IBP

Institute of Bankers of Pakistan

SRB








Sindh Revenue Board










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