

First Habib Modaraba

(An Islamic Financial Institution)



ANNUAL REPORT 2019

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

الحمد لله رب العالمين

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.

A hand holding an orange dart over a target on a desk with a stack of books. The background is blurred, showing a desk with a stack of books and some papers with blue circular patterns.

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



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Ownership and Operating Structure

First Habib Modaraba (FHM) is managed by Habib Metropolitan Modaraba Management Company (Private) Limited which is the fully owned subsidiary of Habib Metropolitan Bank Limited. Habib Metropolitan Bank Limited is having high reputation within the banking sector of Pakistan operating since 1992 having total assets size of Rs. 839 billion and having a network of 354 Branches.

Profile of 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 NBFIs 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

Syed Rasheed Akhtar - Non-Executive Independent Director

Mr. Saeed Uddin Khan - Non-Executive Independent Director

Mr. Mohammad Shams Izhar - Non-Executive Director

LEGAL ADVISOR

Mohsin Tayebaly & Company
Ahmed & Qazi Advocates & Legal Consultants

AUDIT COMMITTEE

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

HUMAN RESOURCE COMMITTEE

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

SHARES REGISTRAR

CDC Share Registrar Services Limited
Share Registrar Department
CDC House, 99-B, Block "B",
S.M.C.H.S
Main Shahrah-e-Faisal,
Karachi,
Pakistan. Tel: 111-111-500

AUDITORS

EY Ford Rhodes
Chartered Accountants

COMPANY SECRETARY

Mr. Tehsin Abbas (Officiating Company Secretary)

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

Core Values

Trust

- Is honest and credible.
- Is known to be candid, fair and transparent in his/her interaction.
- Maintains confidentiality whenever he/she is requested to do so.
- Is sincere and dependable in his/her relationships.

Integrity

- Is ethical and possess an inherently value system.
- His/her interactions are clear and consistent without any hidden agendas.
- Takes ownership for his/her own and teams' performance.
- Acts justly and on merit without any bias.

Respect

- Is humane in his/her interactions and treats others politely and courteously.
- Shows empathy and values others' viewpoints even if different from own.
- Listens actively and patiently, without being judgmental or opinionated.
- In a disagreement, he/she focuses on the issues rather than the person .

Responsibility

- Is outcome oriented, delivering sustainable results with agility & accountability for self & others.
- Clarifies expectations and readily takes on challenges even in the face of obstacles.
- Delivers difficult information with courage and grace.
- Develops self and others continuous improvement and learning interventions.

Commitment

- Is dedicated and works in the best interest of the organization.
- Exhibits passion towards delivering against expectations.
- Delivers superior service through strong relationship management.
- Goes the extra mile while remaining within the ambit of ethics and regulations.

Teamwork

- Is a team player and performs effectively across functional, organizational and/or geographical boundaries.
- Identifies and eliminates impediments achieve team success.
- Willingly contributes towards the creation of a unified and seamless team.
- Encourages diversity and inclusion to foster creativity, functional synergy and collaboration.

Code of Business Conduct and Ethics

The Code of Conduct and business ethics are essential for every organization. It spells out the behavior expected from employees, reflecting fairness, transparency and accountability. It guides staff members to conduct themselves with honesty and integrity in all actions representing the organization.

We are committed to conduct our business in accordance with applicable laws, rules and regulations as defined by our regulators. It 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. Adherence of Code of Conduct is mandatory for all employees of FHM.

Therefore, for nurturing of ethical culture and adherence of Code of Conduct, 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.
- Do not engaged with any political party or take membership of such parties.
- 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.
- Abide with requirement of data security. Only access or update the system and data according to authority given by FHM.
- Speak up and inform the management any wrong doings/malpractices at any level. It is the obligations to report under whistle blowing policy.



Strategic Corporate Objectives

- To carry out all business transactions in line with approved mode of Shariah principles of Islamic finance.
- To promote good corporate governance and follow best business practices
- To be the leading Modaraba within the Modaraba sector as an Islamic Financial Institution.
- 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.

Corporate Culture

- To maintain ethical culture based on Islamic principles.
- To uphold a well-founded ethical environment for our valued customers, regulators and other stakeholders.
- To build a strong organizational culture that is shaped by empowered employees who through collective wisdom
- To act with integrity, honesty, dignity and in an ethical manner when dealing with customers, regulators and other stakeholders



Awards & Recognition

“Optimism is the faith that leads to achievement. Nothing can be done without hope and confidence”

Hellen Keller

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 NBF1 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 member to make further efforts and drive higher for even bigger accomplishments as individual or as an organization.

Updated Positions of Awards & Achievements

NBFI & Modaraba Association Pakistan

17 awards for Best performing Modaraba

Federation of Pakistan Chambers of Commerce & Industry (FPCCI)

2 Achievement Awards 1st Position Gold Medal from FPCCI

Joint Committee of ICAP & ICMAP

9 awards for Best Corporate Report

Islamic Retail Bank Award Dubai

Award for best Islamic Retail Investment Product

Pakistan Observer

Best Modaraba Management Award

Management Association Pakistan

9 awards for Corporate Excellence

South Asian Federation Accountants (SAFA) and Apex body of SAARC

9 Awards for Best presented accounts & disclosure

COMSATS Institution of Information Technology

2 awards for Best Islamic NBFC Award

BEST PERFORMING MODARABA AWARD



The NBFI and Modaraba Association of Pakistan started giving Best performing Modaraba Award from the year 2000. The motto of this award is to promote those entities within the NBFI and Modaraba sector who are performing well and also adhering to the 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 18 awards as "Best Performing Modaraba Award" within last 20 years from said association.



2017



2016



2015



2014



2013



2012



2011



2010



2009



2008



2007



2006



2005



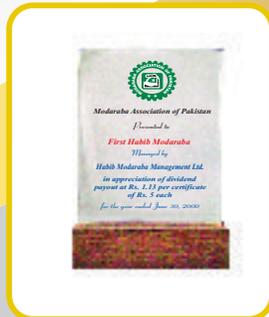
2002



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.



2018



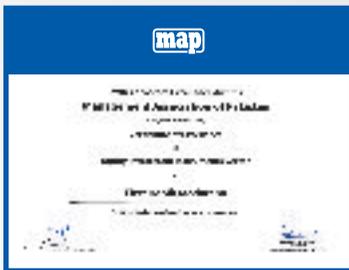
2017



2016



2015



2013



2012



2010



2008



2009



2011



Institute of
Chartered Accountants
of Pakistan



Institute of Cost &
Management Accountants
of Pakistan

BEST CORPORATE REPORT AWARD



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

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

Alhamdulillah, First Habib Modaraba is receiving Best Report Award from said joint committee since last nine 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



2018



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 was held at Pune, India, 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 9 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.



2018



2017



2016



2015



2014



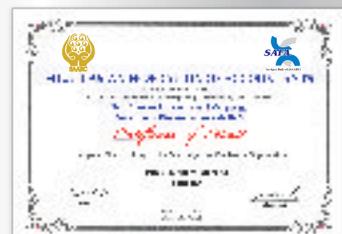
2013



2012



2011



2010



Best Non-Bank Islamic Financial Institution Award

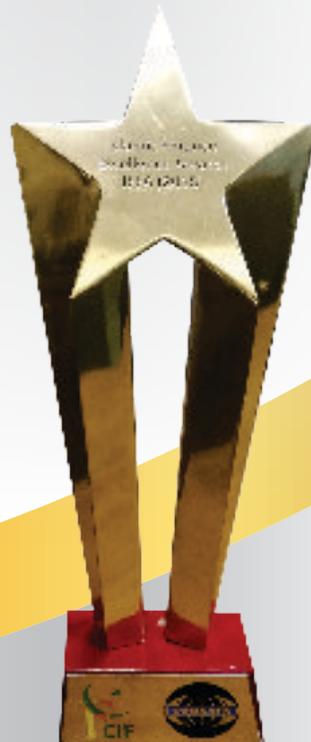


COMSATS Institute of Information Technology (CIIT) is serving the nation by providing quality education at undergraduate and graduate levels in various disciplines. In addition to sciences and business studies, CIIT is propelling towards Islamic Finance and has established Centre of Islamic Finance (CIF)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



2019



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 34 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 34 Years of unbroken dividend payout history

Average Dividend Payment 18.34% per year

DIVIDEND %



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 for current year.

- Carefully move forward with our existing and new business engagements for new assets booking and financing.
- Enhancing of outreach and penetration towards quality assets building within sound and stable customer base.
- Need to enhance tools of risk management, appraisals & evaluation of credit proposals.
- Further strengthen risk assessment and internal controls parameters.
- Further strengthen compliance culture particularly regulatory and AML/CFT related compliances.
- Enhance capacity building and improve professional grooming of our team members.
- Leveraging the power of technology for operational efficiency and delivering of quality service.
- Develop operation capacity of human resource through proper training and job rotation.



Chairman Message

Dear Modaraba Certificate Holders,

I am pleased to present report to our valued Certificate Holders on the affairs of First Habib Modaraba (FHM) for the year ended 30th June, 2019. Alhamdulillah, I am very much pleased on the progress and performance of FHM, despite of tough economic and business challenges which remain throughout the year, FHM has performed reasonably well and also made slight growth in assets size and disbursements. The Board has also declared cash dividend of 28% for the period ended 30th June, 2019, which is again the highest distribution since the operations of Modaraba.

With good team work and coordinated efforts, by the grace of Allah (SWT) we have been able to maintain our leading position within the Modaraba sector of Pakistan. Alhamdulillah, this year FHM has completed 34 years of successful business operation and grow over the year on sound footing with the commitment of adding value to all our stakeholders particularly Certificate Holders and investors. With sound performance record of more than 3 decades is the success story of commitment and our pledge to provide the investors a sound and continuous return.

It also gives me immense pleasure that keeping in view of FHM's sound financial base, rating agency of PACRA has again reaffirmed credit rating of AA+ for long term and A1+ for short term. The AA+ rating of long term has been maintained by FHM since last 11 years. During the FHM has also secured different awards from reputable and prestigious forums. 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.

As one of senior most Modaraba within the Modaraba sector, FHM is well positioned within the Modaraba sector with sound balance sheet footings and high market reputations. I convey my gratitude to Board of Directors, senior management and all staff members for their great role for continuous success FHM.

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. However, keeping in view of present economic and businesses issues and depressed market sentiments we should cautiously move forward with our existing and new business engagements. We also need to enhance tools of risk management, appraisals & evaluation of credit proposals and internal controls parameters.

In the end, 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.

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 satisfactory 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 Ahmed Mumtaz

Chairman

Date: August 29, 2019

چیئر مین کا پیغام

مجھے ۳۰ جون، ۲۰۱۹ کو ختم ہونے والے سال کے لئے فرسٹ حبیب مضاربہ (ایف ایچ ایم) کے امور کے بارے میں ہمارے قابل قدر سرٹیفکیٹ ہولڈرز کو رپورٹ پیش کرنے پر خوشی ہے۔ الحمد للہ، میں ایف ایچ ایم کی پیشرفت اور کارکردگی پر بہت خوش ہوں۔ سخت اقتصادی اور کاروباری چیلنجز کے باوجود جو سال بھر باقی رہے، ایف ایچ ایم نے معقول کارکردگی کے ساتھ ساتھ اور اثاثوں کے سائز اور ادائیگی میں بھی خاطر خواہ ترقی کی ہے۔ بورڈ نے ۳۰ جون، ۲۰۱۹ کو ختم ہونے والی مدت کے لئے ۲۸ فیصد نقد منافع کا بھی اعلان کیا ہے، جو مضاربہ کے آغاز اب تک کی سب سے زیادہ تقسیم ہے۔

اللہ سبحانہ تعالیٰ کے فضل و کرم اور ٹیم کے عمدہ کام اور مربوط کوششوں سے، ہم پاکستان کے مضاربہ سیکٹر میں اپنی سرکردہ پوزیشن برقرار رکھنے میں کامیاب رہے ہیں۔ الحمد للہ، اس سال ایف ایچ ایم نے اپنے کامیاب ۳۳ کاروباری سال مکمل اس عزم اور ارادے کیساتھ کئے ہیں کہ ہر آنے والے سال کیساتھ ہمارے تمام اسٹیک ہولڈرز خصوصاً سرٹیفکیٹ ہولڈرز اور سرمایہ کاروں کے سرمائے اور قیمت میں اضافہ ہو۔ یہ کامیابی کی داستان ۳ دہائیوں پر مشتمل ہے جس میں ہمارا صرف یہ ہی عہد رہا ہے کہ ہم اپنے سرمایہ کاروں کو ایک اچھا اور مستقل منافع فراہم کریں۔

اس سے مجھے بے حد خوشی بھی ملتی ہے کہ ایف ایچ ایم کے مستحکم مالی بنیاد کو مد نظر رکھتے ہوئے، پی اے سی آر اے ریٹنگ ایجنسی نے ایک بار پھر طویل مدت کیلئے AA+ اور مختصر مدت کے لئے A1+ کریڈٹ ریٹنگ کی تصدیق کر دی ہے۔ ایف ایچ ایم نے طویل مدت کی AA+ درجہ بندی گذشتہ ۱۱ سالوں سے برقرار رکھی ہے۔ ایف ایچ ایم نے اس دوران معروف اور معتبر فورم سے بھی مختلف ایوارڈز حاصل کیے ہیں۔ اب تک ایف ایچ ایم نے اپنی بہترین کارکردگی، بہترین کارپوریٹ رپورٹ، بہترین کارپوریٹ انکشافات اور شاندار کارپوریٹ برتری کی بنیاد پر جیسے این بی ایف آئی اور مضاربہ ایسوسی ایشن، آئی سی اے پی اور آئی سی ایم اے پی، منیجمنٹ ایسوسی ایشن آف پاکستان، اور سافاجو کہ سارک تنظیم کا ایک حصہ ہے جیسے اعلیٰ اداروں سے متعدد ایوارڈ / تعریف و تصانیف حاصل کی ہے۔

مضاربہ سیکٹر میں ایک سینئر ترین مضاربہ کے طور پر، ایف ایچ ایم کا مضاربہ سیکٹر میں مناسب بیلنس شیٹ اور مارکیٹ میں ساکھ اعلیٰ پوزیشن میں ہے۔ میں بورڈ آف ڈائریکٹرز، سینئر منیجمنٹ اور تمام عملے کا اس مسلسل کامیابی اور ان کے بہترین و عظیم کردار کے لئے اظہار تشکر ادا کرتا ہوں۔

آگے بڑھتے ہوئے، مجھے امید ہے کہ ہماری قابل ٹیم ایف ایچ ایم کو اس شعبے میں معروف مضاربہ کی حیثیت سے برقرار رکھنے کے لئے نئے سنگ میل طے کرتی رہے گی اور آنے والے برسوں میں اس سے بھی بہترین نتیجہ پیش کرے گی۔ تاہم، موجودہ معاشی اور کاروباری مسائل اور مارکیٹ میں دباؤ کے رجحان کو مد نظر رکھتے ہوئے ہمیں اپنی موجودہ اور نئی کاروباری مصروفیات کے ساتھ محتاط انداز میں آگے بڑھنا چاہئے۔ ہمیں رسک منیجمنٹ، تشخیص اور کریڈٹ تجاویز اور داخلی کنٹرول پیرامیٹرز کی تشخیص کی صلاحیتوں کو بڑھانا بھی ضروری ہے۔

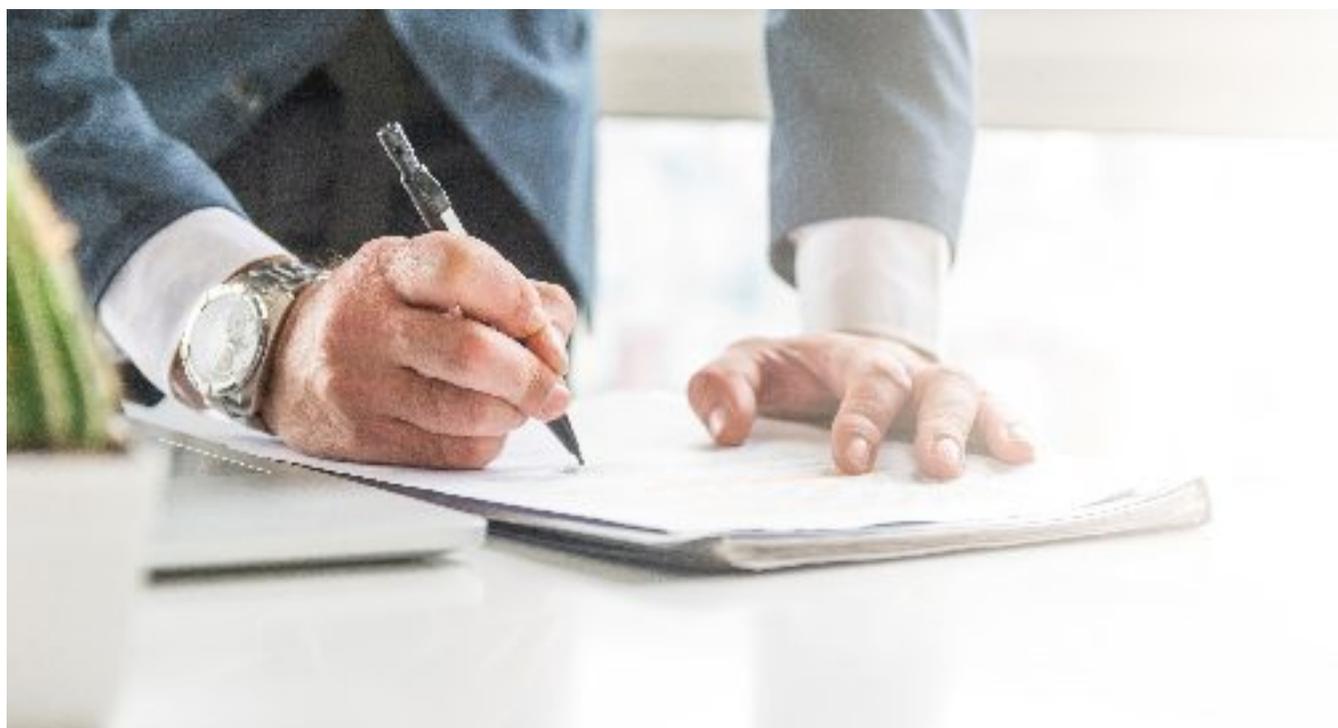
آخر میں، میں اپنے بورڈ ممبروں کی ان کی مسلسل حمایت، اسٹریٹجک رہنمائی اور کارروائیوں کے تمام شعبوں میں پالیسیاں اور رہنما خطوط وضع کرنے میں ان کی سمجھداری اور انمول شراکت کے لئے ان کا شکریہ ادا کرتا ہوں۔ میں بورڈ کے ہر ممبر کی رہنمائی، قیمتی تجاویز اور بورڈ کے اجلاسوں کے لئے اپنا قیمتی وقت دینے پر ان کا شکریہ ادا کرنا چاہتا ہوں۔

میں اپنے چیف ایگزیکٹو آفیسر، سینئر ایگزیکٹوز اور ایف ایچ ایم کے دیگر تمام عملے کو ایف ایچ ایم کے تسلی بخش نتائج کے لئے ان کی محنت، لگن اور مرکز کوششوں کو بھی سراہنا چاہتا ہوں۔ میں ہمارے سرٹیفکیٹ ہولڈرز، کاروباری شراکت داروں اور دوسرے تمام قابل قدر اسٹیک ہولڈرز کی یقین اور ہمارے ادارے میں اعتماد کرنے کیلئے پُر خلوص تعریف کرتا ہوں۔ میں مضاربہ رجسٹرار، سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان، اسٹیٹ بینک آف پاکستان، پاکستان اسٹاک ایکسچینج، اور دیگر متعلقہ ریگولیٹری اداروں کا ان کی مسلسل رہنمائی اور مدد کے لئے ان کا شکریہ ادا کرتا ہوں۔

وزیر احمد ممتاز

چیئر مین

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, 2019.

	(Rupees)
Profit before management fee	367,767,023
Modaraba Management Company's remuneration	(36,776,702)
Services Sales Tax on Management Company remuneration	(4,780,972)
Sindh Worker Welfare Fund	(6,524,187)
Profit before taxation	319,685,162
Taxation	-
Profit for the year	319,685,162
Unappropriated profit b/f	60,683,003
Surplus transferred to unappropriated profit during the year	2,155,310
profit available for appropriation	382,523,475
Earning per Certificate of Rs.5/- each	1.59

APPROPRIATIONS

	(Rupees)
Cash dividend @ 28% (Rs 1.40 per certificate of Rs 5/- each)	282,240,000
Transfer to statutory reserve @ 5% of profit	15,984,258
Unappropriated profit c/f	84,299,217
	382,523,475

Dividend Payment

The board of directors has pleased to declare cash dividend of 28% i.e. Rs.1.40 per certificate of Rs.5/- each for the period ended 30th June, 2019.

Economic Review

The economic situation of Pakistan is passing through with tough time. During the fiscal year 2018-19, major economic indicators had declined while others had shown either gloomy picture or stagnant situation.

Several key financial indicators shown downward trend. The growth rate in said fiscal year fell by almost 50 percent from 6.2 percent to 3.3 percent in last year. It is expected that growth rate will further go down in current fiscal year and if it so then it will be the country's lowest in the past 10 years. The Pakistani rupee has terribly lost its value during the second half of the year.

It is not very difficult to analyze that why the optimism has fallen. In real terms, the GDP has shrunk. Strict fiscal and monetary policies have contributed to low investment. Increasing the policy rate has not only increased the debt servicing burden but also created difficulties for trade and industry. This has led to a situation in which all economic sectors, manufacturing, agriculture, and services have taken a hit. Large-scale manufacturing fell by double digits. Inflation also reached to nearly on double digit. Amongst the other sectors, automobile sector has also been affected and reduced their productions. Furthermore, devaluation has not given Pakistan's export sector the competitive advantage that was expected.

However, recently at the beginning of current year, a positive move on economic front have been noticed i.e., decrease in Current Account Deficit (CAD). In recent data of July and August of this year, CAD has been reduced. The reduction in CAD is due to lower import bill because of high dollar rate, slightly increase in exports and rise in home remittances. This must be a relief for the present government which has been struggling to plug the deficit through borrowing from donor agencies, commercial banks and friendly countries.

Recently the Standard and Poor's (S&P) rating agency has affirmed 'B-' long-term and 'B' short-term sovereign credit ratings for Pakistan. The outlook for the long-term rating is stable. According to rating, Pakistan faces a muted economic outlook, along with a highly stressed external position, as the government attempts to address its elevated fiscal deficit and debt stock.



Pakistan is facing considerable external and fiscal pressure following a significant rise in both general government and external borrowing during the fiscal year ended June 2019. There is the issue of the ever-increasing debt, which eats up sizeable percentage of the budget every year. Pakistan continues to take out loans to be able to cover repayments of past borrowing. It recently the GOP signed yet another deal with the International Monetary Fund for a bailout package.

Way forward, economic growth in FY 2020 is likely to remain dull as Pakistan's large twin deficits require fiscal austerity. Simultaneously, high inflation and tighter monetary conditions will likely to reduce private consumption and investment. Exposure to external impacts, substantial financing needs and a further deterioration in relations with neighbor country represent key risks to the future business outlook. With several threats and structural weaknesses, Pakistan also has several opportunities which can help to solve its economic problem. But without tackling long term challenges and problems decisively with focused strategy, the country will no longer be able to take advantages of opportunities.



Business Review of FHM

The year under review was a difficult year in terms of overall dull economic conditions and slowdown in overall business activities. Due to high lending rates, huge depreciation of Pak rupee, increase in cost of utilities and withdrawal of various tax subsidies had largely hampered the business activities throughout the country.

Likewise, we had also felt the impact of ailing economy, depressed business and investment confidence. Although our balance sheet grew by around 8% but we did not achieve our set growth target. The reason of slightly low disbursement was our cautious approach and also business slowdown at our customer end.

However, keeping in view of enormous economic and business challenges, our performance remain satisfactory in terms of profitability and business volume.

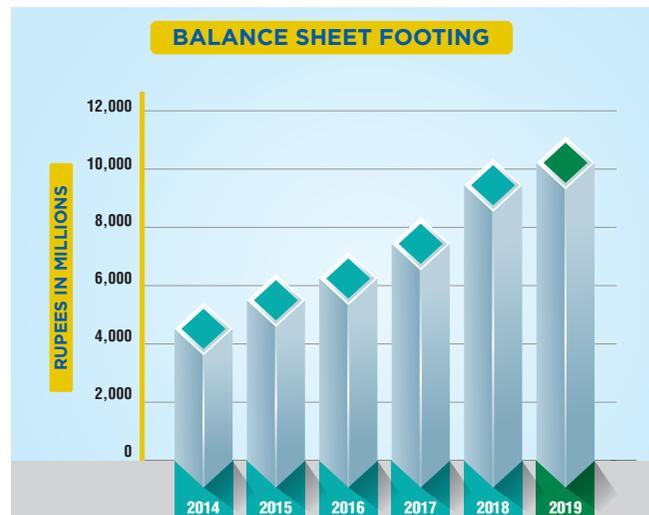
Overall size of balance sheet was increased from Rs.10.279 billion to Rs.11.124 billion which reflect growth of around 8%. During the period, total financing of Rs.5.229 billion as compared to Rs.5.032 billion was made i.e., increase of around 4%. Due to rise in policy rate, our profit before management fee increased by 10% i.e., from 323 million to Rs.356 million for the period ended 30th June, 2019.

Out of total financing, around 76% disbursement was made in Diminishing Musharakah financing as compared to 66% of last year and rest of disbursement was made in lease financing. 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. A sizeable financing facility disbursed through our Lahore, Islamabad and Multan branches.

During the year, particularly in second half of the year, we had slow down activities of new business engagement and also adopted our cautious approach for financing requirement of existing customers.

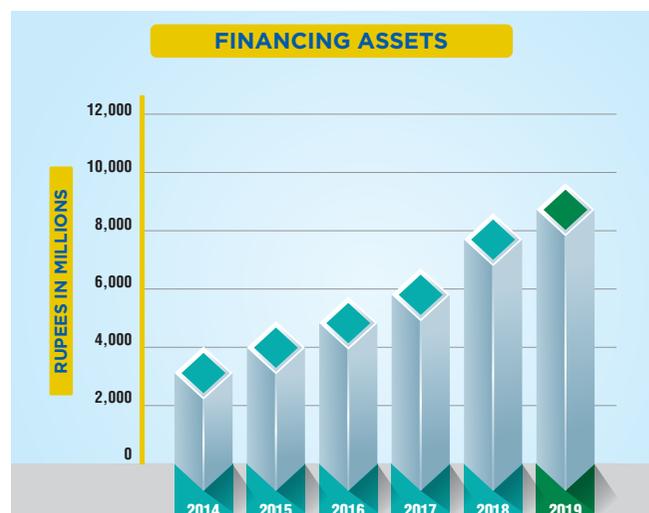
Our consumer auto finance segment in the name of SIRAT AUTO financing is gradually enhancing within consumer financing portfolio. Due to massive increase in car prices because of weakening of Pak rupees and high lending rates have become unaffordable for individual customer.

Our constitutional petition on levy services sales tax by Sindh Board of Revenue (SRB) on our Ijarah (Lease) financing portfolio is pending with Honorable Sindh High Court and court has temporarily stayed SRB from such levy. Almost 7 other Modarabas are part of said petition on same levy. In above CP all Modarabas have challenged said levy of Services Sales Tax on financing transaction i.e., Ijarah (lease) financing under the Munthia Bin Tamleek.



Going forward, we can foresee that presently overall business conditions are very depressed and entities are facing severe cash flow and liquidity issues. This situation is also impacting timely repayment of borrowed facilities by the businesses and we are also experiencing issues of slow/delayed repayment of such facilities within our existing financing portfolio. The financial sector outlook remains challenging. Re-pricing risks under rising lending rate scenario, increasing cost of doing business of the customer and weak credit expansion would be major issues of current year.

We are already experiencing slight delay in repayment of monthly instalments from certain category of customers within our existing financing portfolio. The said delay may be further aggravated due to continuous depressed business sentiments and high cost of doing businesses. Therefore, keeping in view of present business circumstances we will cautiously move forward and will be more careful in our existing and new business engagements for new assets financing during the financial year 2019-20.



Business Outlook & Future Strategy

The economic situation in Pakistan today is passing through with tough time. Major economic indicators have declined while others are also showing either gloomy picture or stagnant situation.

Similarly, outlook of global market is also remains sluggish due to continued trade friction between US and China, uncertainty surrounding Brexit, weaker investment flows and stagnant consumer demand in both advanced and emerging markets. Accordingly, the International Monetary Fund (IMF) has revised global growth projections further downwards by 0.1% to 3.2% for 2019.

The Country's real GDP growth is projected to remain bearish in the short term, which is well below the country's potential. Higher interest rates and administered price adjustments will continue to constrain credit growth, disposable incomes and domestic consumption levels.

The GOP's action plan to curtail pressures on current account and trade deficits and boost revenue generation through imposition of additional taxes and tariff revisions along with depreciation of PKR has adversely impacted Consumer Price Index (CPI) and now inflation is almost touching to double digit. The State Bank of Pakistan (SBP) tightened the monetary stance and raised policy rate to 13.25%.

Due to high lending rates, huge depreciation of Pak rupee, increase in cost of utilities and withdrawal of various tax subsidies had largely hampered the business activities throughout the country.

We foresee that presently overall business conditions are very depressed and entities are facing severe cash flow and liquidity issues. This situation is also impacting timely repayment of borrowed facilities by the businesses and we are also experiencing issues of slow/delayed repayment of such facilities within our existing financing portfolio. The financial sector outlook remains challenging. Re-pricing risks under rising lending rate scenario, increasing cost of doing business of the customer and weak credit expansion would be major issues of current year. Operating in a volatile environment becomes even more challenging given the fact that our customers are the first to be affected in an economic slowdown.

Therefore, we will cautiously move forward and will be more careful in our existing and new business engagements for new assets financing during the financial year 2019-20 and expand our businesses without compromising credit risk and assets quality.

Keeping in view of present economic and business circumstances, we have devised our future business strategy



in cautious and more prudent manner. Key points of our strategy would be as follows:

- Carefully move forward with our existing and new business engagements for new assets booking and financing.
- Need to enhance tools of risk management, appraisals & evaluation of credit proposals.
- Further strengthen risk assessment and internal controls parameters.
- Further strengthen compliance culture particularly regulatory and AML/CFT related compliances.
- Enhance capacity building and improve professional grooming of our team members.

In our financial results of 2018-19, our performance remained reasonably well. Our assets size grew by 8% and net profit was increased by 10%. We declared cash dividend of 28% for the period ended 30th June, 2019 which was the highest in the operational history of FHM. The above performance was achieved in difficult business operating environment and we are hopeful that Insha'Allah, we will be able to deliver satisfactory results in 2019-20 as well.

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 Modaraba continuously focuses 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, 2019 is also attached with annual report.

Corporate Social Responsibility

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

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

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

Since last several years FHM has been donating to 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

The following changes have been taken place within Board of Directors of the Habib Metropolitan Modaraba Management Company (Private) Limited (the Company), the management Company of First Habib Modaraba since the Directors' report for the year ended June 30, 2018.

- Two new directors have been appointed within Board i.e. Mr. Mohammad Shams Izhar and Mr. Saeed uddin Khan.
- The new directors are having very diversified and rich experience of financial, local and international market particularly Islamic Banking, Trade Finance and Investment Banking. The Board welcome all new directors and hopeful that FHM will be greatly benefited with professional experience and expertise of newly inducted directors.
- In order to comply the Code of Corporate Governance, Mr. Mohammad Shams Izhar has also been appointed as Member Audit Committee within the capacity of Non-executive Director within the Board.

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 the 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.

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, 2019 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 of 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, 2019 except for those disclosed in the financial statements.

Provident Fund and Gratuity

The net assets value of provident fund and gratuity fund based on audited accounts as at December 31, 2018 are Rs. 57.680 million and Rs.26.456 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
Syed Rasheed Akhtar	4
Mr. Mohammad Shams Izhar	2
Mr. Saeed uddin Khan	1

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, 2020, 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, 2019

Syed Rasheed Akhtar
Director

- بورڈ، مضاربہ کی ایک جاری رہنے والے ادارے کے ہونے کی صلاحیت سے مطمئن ہے۔
- لسٹڈ کمپنیز کوڈ آف کارپوریٹ ریگولیشنز ۲۰۱۷ میں دیئے گئے اداراتی نظم و ضبط کے طریقوں کو تفصیل سے تجویز کردہ طریقہ کار سے انحراف نہیں کیا گیا ہے، ماسوائے ان کے جو کہ اسٹیٹمنٹ آف کپلائنس میں بیان کی گئی ہیں۔
- گذشتہ چھ سالوں کے آپریشن اور مالیات کے بنیادی اعداد و شمار مختصراً اس سالانہ رپورٹ میں شامل ہیں۔
- ۲۰۱۹ 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۔

پراویڈینٹ فنڈ اور گریجویٹی

۳۱ دسمبر ۲۰۱۸ کے محاسب شدہ کھاتوں کی بنیاد پر پراویڈینٹ فنڈ اور گریجویٹی کی سرمایہ کاری کی مالیت بالترتیب ۶۸۰.۵ ملین روپے اور ۳۵۶.۲۶ ملین روپے تھی۔

بورڈ کے اجلاس کی حاضری

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

شرکت کرنے والے اجلاس کی تعداد

ڈائریکٹر کا نام

۴	جناب وزیر ممتاز احمد
۴	جناب محمد شعیب ابراہیم
۴	جناب رشید اختر
۲	جناب محمد شمس اظہار
۱	جناب سعید الدین خان
	مختص (Auditors)

موجودہ مختص (Auditors) میسرز: EY فورڈر ہوڈز، چارٹرڈ اکاؤنٹینٹس، جو اپنے دوبارہ انتخاب کے لیے اپنے آپ کو بطور ۳۰ جون ۲۰۲۰ کے اختتام تک کے لیے اپنی دوبارہ تقرری پیش کرنے کے لیے اہل ہیں تاہم ان کا انتخاب رجسٹرار مضاربہ آفس کی منظوری سے مشروط ہے۔

اعتراف

بورڈ سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان، رجسٹرار مضاربہ کمپنیز، مالیاتی اداروں اور بینک دولت پاکستان کا ان کی وقتاً فوقتاً ہمنامی اور مسلسل حمایت کا شکریہ اور اظہار ممنونیت کرنا چاہتا ہے اور مضاربہ کے معزز گاہکوں کا ان کی سرپرستی، کاروبار اور حاملین سرٹیفیکیٹس کافرٹ 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

محمد شعیب ابراہیم
چیف ایگزیکٹو آفیسر
کراچی: ۲۹ اگست ۲۰۱۹

- خیر مقدم کیا ہے اور امید ہے کہ فرسٹ حبیب مضاربہ کو پیشہ ورانہ تجربہ اور نئے شامل ڈائریکٹرز کی مہارت سے بہت فائدہ ہو گا۔
- کوڈ آف کارپوریٹ گورننس کی تعمیل کرنے کے لئے، جناب محمد شمس اظہار بورڈ میں نان ایگزیکٹو ڈائریکٹر کی حیثیت کے تحت ممبر آڈٹ کمیٹی کی بھی مقرر کیا گیا ہے۔

خاتون ڈائریکٹر کی نمائندگی

لسٹڈ کمپنیز (کوڈ آف کارپوریٹ گورننس) ریگولیشن ۲۰۰۱ نے ایک ضرورت متعارف کر چکی 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 کے ختم ہونے سے پہلے، یا ان ضوابط کی موثر ہونے کی تاریخ کے ایک سال کے اندر، ان میں سے جو بھی بعد میں ہو۔ بورڈ کو اس ضابطے کی تعمیل ڈائریکٹرز کے گلے اٹھانے کے وقت کرے گا۔

ڈائریکٹرز کی تربیت اور سمت بندی (Orientation)

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

ڈائریکٹرز کے اجلاس میں شرکت کی فیس

چیئرمین، نان ایگزیکٹو اور آزاد ڈائریکٹر صرف بورڈ کے اجلاسوں کے حقدار ہیں کہ جن کی ادائیگی مضاربہ مینجمنٹ کمپنی کی جانب سے کی جاتی ہے۔ ڈائریکٹر کے معاوضوں کی سطح ان کی قابلیت اور ذمہ داری کے ساتھ 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 ہوں 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 نہیں ہے

سرٹیفکیٹس رکھنے کا رجحان

مضاربہ کے سرٹیفکیٹس رکھنے کے رجحان کا بیان اور ۳۰ جون ۲۰۱۹ پر دستیاب اضافی معلومات اس رپورٹ میں شامل ہیں۔

اداراتی اور مالیاتی رپورٹنگ کا ڈھانچہ

ڈائریکٹرز سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان اور کارپوریٹ گورننس کے کوڈ اور کارپوریٹ اور مالیاتی رپورٹنگ فریم ورک کیساتھ تعمیل کی تصدیق کرنے کیلئے مطمئن ہیں۔

- مضاربہ کی انتظامیہ کی تیار کردہ مالیاتی دستاویزات اس کے معاملات، آپریشن کے نتائج، کیش فلو اور ایکویٹی میں رد و بدل کے معاملات کی بہتر تصویر پیش کرتے ہیں۔
- مضاربہ کے کھاتوں کو مناسب 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 IFR 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 انٹرنل آڈٹ اور دیگر طریقوں سے اس کی مسلسل نگرانی ہوتی ہے۔ اس جائزے کا عمل جاری رہے گا اور نظام میں کسی بھی کمزوری کو دور کر دیا جائے گا۔

- رسک تشخیص اور اندرونی کنٹرول کے پیرامیٹرز کو مزید تقویت بخشیں۔
- کمپلائنس کلچر کو مزید بڑھتے کرینگے خصوصاً ریگولیٹری اور AML/CFT سے تعلق رکھنے والے کمپلائنس کو۔
- ہماری ٹیم کے ممبروں کی صلاحیتوں کو بڑھانا اور پیشہ ورانہ نکھار کو بہتر بنانا۔

ہمارے ۲۰۱۸-۱۹ کے معاشی نتیجے کے مطابق، ہماری کارکردگی بہر حال اچھی رہی ہے۔ ہمارے اثاثوں کے حجم میں ۸ فیصد اضافہ ہوا اور خالص منافع میں ۱۰ فیصد اضافہ ہوا۔ ہم نے ۳۰ جون، ۲۰۱۹ کو ختم ہونے والے سال میں ۲۸ فیصد نقد منافع کا اعلان کیا ہے جو کہ فرسٹ حبیب مضاربہ کی تاریخ میں اب تک کا سب سے زیادہ منافع ہے۔ مشکل ترین کاروباری حالات میں بھی ہم نے اس سنگ میل کو حاصل کیا ہے اور ہمیں پوری اُمید ہے کہ انشاء اللہ ہم ۲۰۱۹-۲۰ میں بھی ایک اطمینان بخش کارکردگی پیش کریں گے۔

شریعیہ کی تعمیل اور احتساب کا میکنزم

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

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

شریعیہ 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، فرسٹ حبیب میٹرو کی انتظامیہ کی توجہ اپنے معزز شریعیہ 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 شریعیہ 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 سال کے لیے، شریعیہ مشیر کی ایک مکمل شریعیہ آڈٹ رپورٹ، سالانہ رپورٹ کے ساتھ منسلک ہے۔

اداراتی سماجی ذمہ داری (CSR)

ہمارے کاروبار کی حکمت عملیوں 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 دنیا 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۔

FHM گزشتہ کئی سالوں سے غیر سرکاری اداروں کو چندہ دے رہے ہیں جو تعلیم اور صحت وغیرہ کی بہتری کے لیے کام کرتے ہیں۔ FHM ایسے واقعات اور منصوبے جنکی توجہ کا مرکز معاشرے کے پسماندہ بچے، صحت اور تعلیم ہیں ان کی حوصلہ افزائی کرتی رہے گی۔

بورڈ آف ڈائریکٹرز اور آڈٹ کمیٹی:

حبیب میٹرو پولیٹن مضاربہ مینجمنٹ کمپنی (پرائیویٹ) لمیٹڈ کے بورڈ آف ڈائریکٹرز کے اندر درج ذیل تبدیلیاں کی گئیں ہیں۔

- دو نئے ڈائریکٹرز بورڈ میں مقرر کئے گئے ہیں جو کہ جناب محمد شمس اظہار اور جناب سعید الدین خان ہیں۔
- نئے ڈائریکٹرز مقامی اور بین الاقوامی معاشی مارکیٹ خصوصاً اسلامک بینکنگ، تجارتی مالیات اور سرمایہ کاری بینکاری کا بہت بہترین اور بھرپور تجربہ ہے۔ بورڈ نے تمام نئے ڈائریکٹرز کا

ہمارے اجارہ (لیز) فنانسنگ پورٹ فولیو پر سندھ بورڈ آف ریونیو (ایس آر بی) کے ذریعہ لیوی سروسز سبلیٹس سے متعلق ہماری آئینی درخواست معزز سندھ ہائیکورٹ کے پاس زیر سماعت ہے اور عدالت نے ایس آر بی کو عارضی طور پر اس لیوی سے روک دیا ہے۔ کم و بیش ۷ دیگر مضاربہ اسی لیوی پر مذکورہ درخواست کا حصہ ہیں۔ مندرجہ بالا آئینی درخواست میں تمام مضاربہ نے کہا ہے کہ منتہیہ بن تملک کے تحت فنانسنگ لین دین یعنی اجارہ (لیز) کی مالی اعانت پر سروسز سبلیٹس لگانے کو چیلنج کیا ہے۔

آگے بڑھتے ہوئے، ہم اندازہ کر سکتے ہیں کہ اس وقت کاروباری حالات مجموعی طور پر بہت ہی حوصلہ شکن ہیں اور اداروں کو نقد رقم کی بہاؤ اور لیکویڈیٹی کے مسائل کا سامنا ہے۔ اس صورتحال سے کاروباری اداروں کے ذریعہ قرض لی گئی سہولیات کی بروقت ادائیگی پر بھی اثر پڑ رہا ہے اور ہم اپنے موجودہ فنانسنگ پورٹ فولیو میں ایسی سہولیات کی سست / تاخیر ادائیگی کے معاملات کا بھی سامنا کر رہے ہیں۔ مالیاتی شعبے کا نقطہ نظر ابھی بھی مشکل میں ہے۔ قرضوں کی بڑھتی ہوئی شرح کے منظر نامے کے تحت دوبارہ قیمتوں کا تعین، صارفین کے کاروبار کرنے میں اضافے کی لاگت اور کریڈٹ میں کمزور توسیع موجودہ سال کے اہم مسائل ہوں گے۔

ہم اپنے پہلے سے موجود فنانسنگ پورٹ فولیو میں موجود صارفین کے مخصوص زمرے سے ماہانہ اقساط کی ادائیگی میں معمولی تاخیر کا سامنا کر رہے ہیں۔ مذکورہ تاخیر کاروباری حوصلہ شکنی کی وجہ سے مسلسل حوصلہ شکن رہ سکتی ہے۔ لہذا، موجودہ کاروباری حالات کو مد نظر رکھتے ہوئے ہم محتاط طور پر آگے بڑھیں گے اور مالی سال ۲۰۱۹-۲۰ کے دوران نئے اثاثوں کی مالی اعانت کے لئے اپنی موجودہ اور نئی کاروباری مصروفیات میں زیادہ محتاط رہیں گے۔

کاروباری جائزہ اور مستقبل کی حکمت عملی

پاکستان کی معاشی صورتحال اس وقت ایک مشکل دور سے گزر رہی ہے۔ مالی سال ۱۹-۲۰۱۸ کے دوران بڑی معاشی سرگرمیاں یا تو کم ہو گئی، مانند پڑ گئیں یا پھر جمود کی کیفیت میں ہیں۔

اسی طرح، امریکہ اور چین کے مابین مسلسل تجارتی تنازعہ، بریکز کی غیر یقینی صورتحال، کمزور سرمایہ کاری کے بہاؤ اور جدید اور ابھرتی ہوئی دونوں مارکیٹوں میں صارفین کی منجمد مانگ کی وجہ سے عالمی سطح پر بھی غیر یقینی کا شکار ہے۔ اس کے مطابق، بین الاقوامی مالیاتی فنڈ (آئی ایم ایف) نے ۲۰۱۹ کے لئے عالمی سطح پر ترقی کے تخمینے میں ۱.۰ فیصد سے ۲.۳ فیصد تک مزید کمی کی ترمیم کی ہے۔

مختصر مدت میں ملک کی حقیقی جی ڈی پی کی متوقع ہے جو ملکی صلاحیت سے بہت کم ہے۔ بلند شرح سود اور انتظامی قیمتوں میں ایڈجسٹمنٹ کریڈٹ گروتھ، ڈسپوز ایبل آمدنی اور مقامی استعمال کی سطح کو روکتا رہے گا۔

حکومت پاکستان کے کرنٹ اکاؤنٹ اور تجارتی خسارے پر دباؤ کم کرنے اور اضافی ٹیکس اور محصولات میں ترمیم کے ساتھ ساتھ پاکستانی روپے کی قدر میں کمی کے ذریعہ محصول کو بڑھانے کے منصوبے نے کنزیومر پرائس انڈیکس (سی پی آئی) پر منفی اثر ڈالا ہے اور اب افراط زر تقریباً دو ہرے ہند سے کو چھو رہا ہے۔ اسٹیٹ بینک آف پاکستان (ایس بی پی) نے مائٹری موقف کو سخت کیا اور پالیسی شرح ۲۵، ۱۳ فیصد کر دی۔

قرضوں کی بڑھتی شرح، پاکستانی روپے کی قدر میں خاطر خواہ کمی، یوٹیلیٹیز کی لاگت میں اضافہ اور مختلف ٹیکس سبسڈیوں کے انخلاء نے پورے ملک میں کاروباری سرگرمیوں کو بڑی حد تک متاثر کیا ہے۔

ہم پیش گوئی کرتے ہیں کہ اس وقت مجموعی طور پر کاروباری حالات بہت حوصلہ شکن ہیں اور اداروں کو نقد رقم کی بہاؤ اور لیکویڈیٹی کے مسائل کا سامنا ہے۔ اس صورتحال سے کاروباری اداروں کے ذریعہ قرض لی گئی سہولیات کی بروقت ادائیگی پر بھی اثر پڑ رہا ہے اور ہم اپنے موجودہ فنانسنگ پورٹ فولیو میں ایسی سہولیات کی سست / تاخیر ادائیگی کے معاملات کا بھی سامنا کر رہے ہیں۔ مالیاتی شعبے کا نقطہ نظر ابھی بھی مشکل ہے۔ قرضوں کی بڑھتی ہوئی شرح کے منظر نامے کے تحت دوبارہ قیمتوں کا تعین، صارفین کے کاروبار کرنے میں اضافے کی لاگت اور کریڈٹ میں کمزور توسیع موجودہ سال کے اہم مسائل ہوں گے۔ غیر مستحکم ماحول میں کام کرنا اس سے بھی زیادہ مشکل بن جاتا ہے کہ اس حقیقت کو دیکھتے ہوئے کہ ہمارے کسٹمرز معاشی سست روی میں سب سے پہلے متاثر ہوئے ہیں۔

لہذا، ہم محتاط طور پر آگے بڑھیں گے اور مالی سال ۲۰۱۹-۲۰ کے دوران نئے اثاثوں کی مالی اعانت کیلئے اپنی موجودہ اور نئی کاروباری سرگرمیوں میں زیادہ محتاط رہیں گے اور کریڈٹ رسک اور اثاثوں کے معیار پر سمجھوتہ کیے بغیر اپنے کاروباروں میں توسیع کریں گے۔

لہذا، موجودہ معاشی اور کاروباری حالات کو مد نظر رکھتے ہوئے، ہم نے اپنی مستقبل کی کاروباری حکمت عملی کو زیادہ محتاط انداز میں وضع کیا ہے۔ ہماری حکمت عملی کے اہم نکات مندرجہ ذیل ہوں گے:

- اثاثوں کی بنگ اور مالی اعانت کیلئے اپنی موجودہ اور نئی کاروباری مصروفیات کے ساتھ احتیاط سے آگے بڑھیں۔
- رسک مینجمنٹ، تشخیص اور کریڈٹ تجاویز کی تشخیص کے کردار کو بڑھانے کی ضرورت ہے۔

میں اضافے نے نہ صرف قرضہ واپس دینے والے کے بوجھ میں اضافہ کیا ہے بلکہ تجارت اور صنعت کے لئے بھی مشکلات پیدا کر دی ہیں۔ اس کی وجہ سے تمام معاشی، مینوفیکچرنگ، زرعت اور خدمات کے شعبے متاثر ہوئے ہیں۔ بڑے پیمانے پر مینوفیکچرنگ میں ڈوہرے ہندسے کی کمی واقع ہوئی۔ افراتفری بھی ڈوہرے ہندسے کے قریب پہنچ گیا۔ دوسرے شعبوں کے درمیان، آٹوموبائل سیکٹر بھی متاثر ہوا ہے اور ان کی پیداوار میں بھی کمی آئی ہے۔ مزید یہ کہ، پاکستانی روپے کی قدر میں کمی نے پاکستان کے برآمدات کے شعبے کو مسابقتی فائدہ نہیں پہنچایا جس کی توقع کی جا رہی تھی۔

تاہم، حال ہی میں رواں سال کے آغاز پر، اقتصادی محاذ پر ایک مثبت اقدام دیکھا گیا ہے، یعنی کرنٹ اکاؤنٹ خسارہ (CAD) میں کمی واقع ہوئی ہے۔ اس سال جولائی اور اگست کے حالیہ اعداد و شمار میں، CAD کو کم کر دیا گیا ہے۔ CAD میں کمی کی وجہ ڈالر میں اضافے کے باعث درآمدی بل میں کمی، برآمدات کی قدر میں اضافہ اور گھریلو ترسیلات میں اضافہ ہے۔ یہ موجودہ حکومت کیلئے باعث، اطمینان ہے جو ڈوہرے ہندسے، کمرشل بینک اور دوسرے دوست ممالک سے قرضے لیکر اس خسارے کو کم کرنے کی جدوجہد کر رہی ہے۔

حال ہی میں اسٹیٹرز انڈیا پورز (ایس اینڈ پی) کی درجہ بندی کرنے والی ایجنسی نے پاکستان کے لئے 'B+' کی درجہ بندی اور 'B+' کی مختصر مدت کے خود مختار کریڈٹ ریٹنگ کی تصدیق کی ہے۔ طویل مدتی درجہ بندی کے لئے نقطہ نظر مستحکم ہے۔ اس درجہ بندی کے مطابق، پاکستان کو معاشی بحران کے ساتھ ساتھ بیرونی دباؤ کا بھی سامنا ہے۔ اسی وجہ سے حکومت اپنے بلند مالی خسارے اور قرضوں کے ذخائر کو دور کرنے کی کوشش کرتی ہے۔

جون ۲۰۱۹ کو ختم ہونے والے مالی سال کے دوران حکومت اندرونی اور بیرونی قرضوں میں نمایاں اضافے کے بعد پاکستان کو کافی بیرونی اور مالی دباؤ کا سامنا کرنا پڑا ہے۔ مسلسل بڑھتے ہوئے قرضے، جو ہر سال بجٹ کی نمایاں حصہ کھاتا ہے۔ ماضی کے قرضوں کی ادائیگیوں کو پورا کرنے کیلئے پاکستان قرضوں کا حصول جاری رکھے ہوئے ہے۔ حال ہی میں اس نے جی او پی سے بیل آؤٹ ٹیکنیکل کے لئے بین الاقوامی مالیاتی فنڈ کے ساتھ ایک اور معاہدے پر دستخط کیے ہیں۔

مالی سال ۲۰۲۰ میں معاشی ترقی کم ہونے کا امکان ہے کیونکہ پاکستان کے دو بڑے خساروں میں مالی سادگی کی ضرورت ہے۔ اس کے ساتھ ہی، بڑھتی افراتفری اور سخت مالیاتی حالات سے نجی کھپت اور سرمایہ کاری میں کمی کا امکان ہے۔ بیرونی دھچکوں، مالی معاونت کی خاطر خواہ ضروریات اور پڑوسی ملک کے ساتھ تعلقات میں مزید رکاوٹ مستقبل کے کاروبار کے نقطہ نظر کے لئے کلیدی خطرہ ہیں۔ متعدد خطرات اور ساختی کمزوریوں کے ساتھ، پاکستان کے پاس بھی بہت سارے مواقع موجود ہیں جو اسے اپنے معاشی مسئلے کو حل کرنے میں مدد فراہم کر سکتے ہیں۔ لیکن طویل المدت چیلنجز اور مشکلات کو فیصلہ کن حکمرانی سے نمٹنے کے بغیر، ملک مزید مواقع سے فائدہ نہیں اٹھا سکے گا۔

فرسٹ حبیب مضاربہ کاروباری جائزہ

یہ سال مجموعی طور پر مدہم معاشی حالات اور کاروباری سرگرمیوں میں سست روی کے لحاظ سے جائزہ لینے والا ایک مشکل سال تھا۔ قرضوں کی بلند شرح، پاکستانی روپے کی قدر میں خاطر خواہ کمی، یوٹیلیٹی کی لاگت میں اضافہ اور مختلف ٹیکس سبسڈیوں کے انخلا کی وجہ سے پورے ملک میں کاروباری سرگرمیوں کو بڑی حد تک رکاوٹ کا سامنا کرنا پڑا۔

اسی طرح، ہم نے کمزور معیشت اور کاروباری بے چینی اور سرمایہ کاری کے اعتماد پر اثرات کو بھی محسوس کیا تھا۔ اگرچہ ہماری بیلنس شیٹ میں ۸ فیصد کے قریب اضافہ ہوا لیکن ہم اپنے طے شدہ ترقی کا ہدف حاصل نہیں کر سکے۔ ہمارے قدرے کم ترسیلات کی وجہ اور ہمارے کسٹمرز کی طرف سے محتاط رویے کی وجہ سے کاروبار میں سست روی تھی۔

تاہم، بہت سارے معاشی اور کاروباری چیلنجز کو مد نظر رکھتے ہوئے، منافع اور کاروباری حجم کے لحاظ سے ہماری کارکردگی تسلی بخش رہی ہے۔

بیلنس شیٹ کا مجموعی سائز ۲۹.۱۰ ارب روپے سے بڑھا کر ۱۲۲.۱۱ ارب روپے ہو گیا جو تقریباً ۸ فیصد کا اضافہ ظاہر کرتا ہے۔ اس مدت کے دوران، سرمایہ کاری ۰.۳۲ ارب روپے کے مقابلے میں ۱۲.۲۹ ارب روپے رہی یعنی تقریباً ۴ فیصد کا اضافہ ہوا۔ پالیسی شرح میں اضافے کی وجہ سے، منیجمنٹ فیس سے قبل ہمارا منافع ۳۰ جون، ۲۰۱۹ کو ختم ہونے والی مدت میں ۱۰ فیصد اضافے کیساتھ ۰.۳۲ ملین سے بڑھ کر ۳.۵۶ ملین روپے ہو گیا۔

گذشتہ سال کے ۶۶ فیصد کے مقابلے میں کل قرضہ جات میں سے تقریباً ۶۶ فیصد ادائیگی مشارقہ فنانسنگ میں کی گئی تھی اور باقی رقم لیز فنانسنگ میں دی گئی تھی۔ ہماری گاڑیوں کی فنانسنگ پورٹ فولیو کا حصہ ایک سال کے دوران کی جانے والی کل قرضہ جات کا ۸۴ فیصد تھا۔ یہ ہمارے بہترین اور معیاری اثاثوں کے پورٹ فولیو کے لئے کریڈٹ رسک اسٹریٹجی کے مطابق بھی تھا۔ ہمارے لاہور، اسلام آباد اور ملتان شاخوں کے ذریعہ ایک قابل ذکر فنانسنگ سہولت فراہم کی گئی۔

اس سال کے دوران، خصوصاً دوسرے نصف میں، ہم نے اپنے نئے کاروبار سے متعلق تمام سرگرمیوں کو کم کر دیا تھا اور اس کے ساتھ ساتھ موجودہ کسٹمرز کے فنانسنگ ضروریات پر بھی محتاط انداز اپنایا تھا۔

ہماری کمزور آٹو فنانسنگ جو کہ صراط آٹو فنانسنگ کے نام سے ہے اس نے بھی آہستہ آہستہ کمزور فنانسنگ میں مقبولیت حاصل کرنا شروع کر دی ہے۔ پاکستانی روپے کی کمزور صورت حال اور شرح سود میں اضافہ کی وجہ سے گاڑیوں کی قیمت بے انتہا بڑھ گئیں اور وہ ایک انفرادی کسٹمر کی قوت خرید میں نہ رہیں۔

ڈائریکٹرز رپورٹ

بورڈ آف ڈائریکٹرز کی جانب سے ۳۰ جون، ۲۰۱۹ کو ختم ہونے والے سال کیلئے مضاربہ کے آڈٹ شدہ اکاؤنٹس پیش کرنا میرے لئے باعث مسرت ہے۔

پاکستانی روپے)	مینگمنٹ فیس سے قبل منافع
۳۶۷،۷۶۷،۰۲۳	مضاربہ مینگمنٹ کمپنی کی فیس
(۳۶،۷۷۷،۷۰۲)	مینگمنٹ کمپنی کے معاوضے پر سروسز سیلز ٹیکس
(۴،۷۸۰،۹۷۲)	سندھ ورکرز ویلفیئر فنڈ
(۶،۵۲۳،۱۸۷)	منافع قبل از ٹیکس
۳۱۹،۶۸۵،۱۶۲	ٹیکس
-	سال کا منافع
۳۱۹،۶۸۵،۱۶۲	پچھلے سالوں کا غیر منقسم شدہ منافع
۶۰،۶۸۳،۰۰۳	سال کے دوران غیر منقسم منافع میں اضافی رقم کی منتقلی
۲،۱۵۵،۳۱۰	قابل تقسیم منافع
۳۸۲،۵۲۳،۴۷۵	(۵ روپے فی سٹیفکیٹ / شیئر پر منافع)

قابل تقسیم منافع:

۲۸۲،۲۳۰،۰۰۰	۲۸ فیصد کے حساب سے نقد منافع برائے تقسیم (۵ روپے کے سٹیفکیٹ / ۱۰۰ روپے کے سٹیفکیٹ فی سٹیفکیٹ)
۱۵،۹۸۴،۲۵۸	(Statutory Reserve) میں منافع کی ۵ فیصد شرح سے منتقلی
۸۴،۲۹۹،۲۱۷	غیر منقسم شدہ منافع

منافع کی ادائیگی

بورڈ آف ڈائریکٹرز انتہائی مسرت کے ساتھ ۳۰ جون، ۲۰۱۹ پر ختم ہونے والے سال کیلئے ۲۸ فیصد (۵ روپے کے سٹیفکیٹ پر ۱۰۰ روپے کے حساب سے) نقد منافع دینے کا اعلان کیا ہے۔

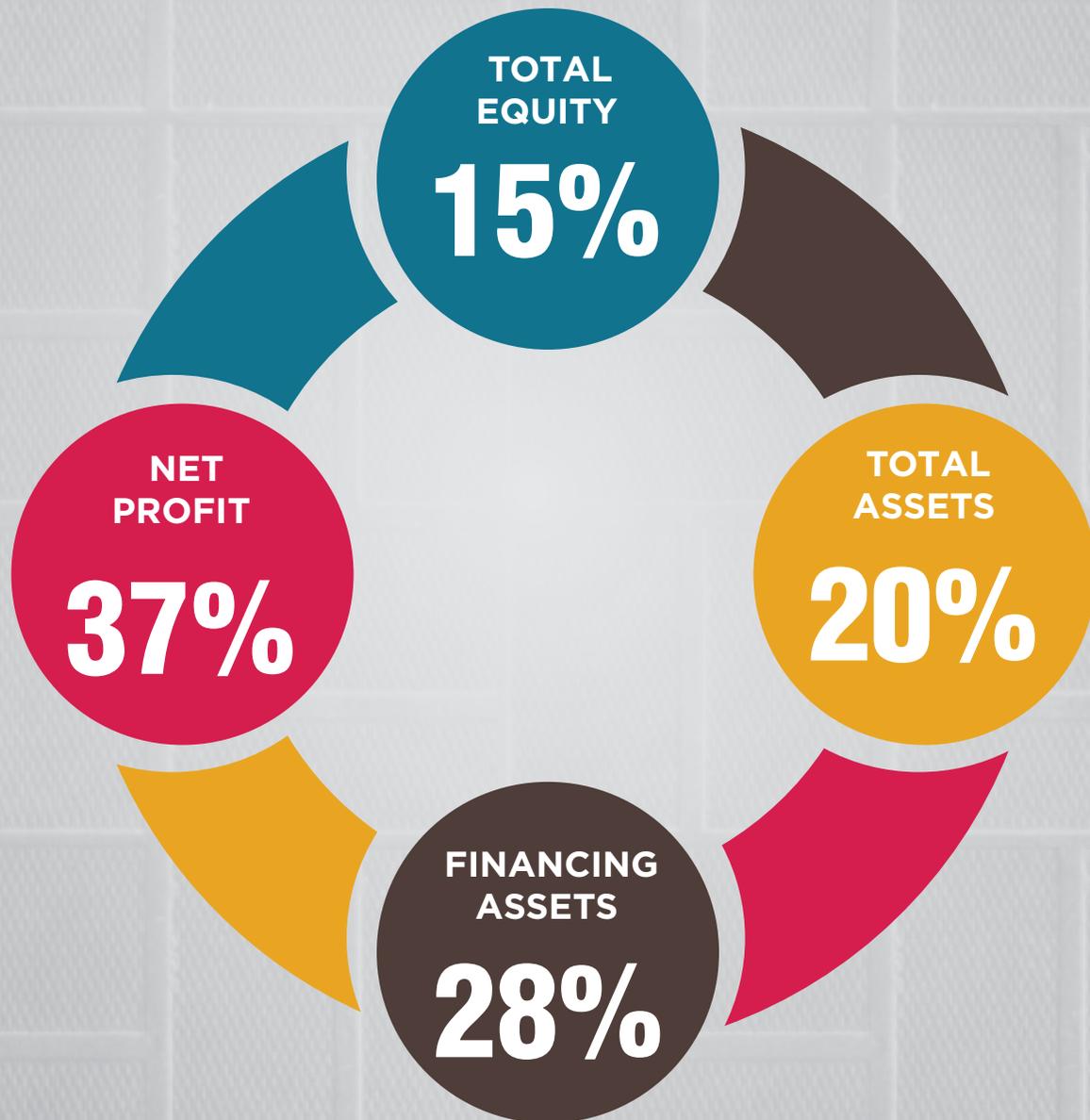
۳۸۲،۵۲۳،۴۷۵

معاشی جائزہ

پاکستان کی معاشی صورتحال اس وقت ایک مشکل دور سے گزر رہی ہے۔ مالی سال ۱۹-۲۰۱۸ کے دوران بڑی معاشی سرگرمیاں یا تو پست ہو گئی، مانند پڑ گئیں یا پھر گلو گلو کیفیت میں آ گئی۔ بہت سے معاشی اشارے کی کارکردگی پستی کی جانب رہی۔ اس معاشی سال میں ترقی کی رفتار میں تقریباً ۵۰ فیصد کمی واقع ہوئی یعنی پچھلے سال ۶.۲ فیصد کے مقابلے میں ۳.۳ فیصد رہی۔ اور توقع ہے کہ ترقی کی شرح اس مالی سال میں مزید کمی کی طرف جائے گی اور اگر ایسا ہوا تو یہ ملکی سطح پر پچھلے دس سال میں سب سے کم سطح ہوگی۔ سال کے دوسرے نصف میں پاکستانی روپے نے اپنی قدر بہت بڑی طریقے سے کھوئی۔

یہ تجربہ کرنا بہت مشکل نہیں ہے کہ امید کیوں کم ہوئی ہے۔ حقیقی معنوں میں، جی ڈی پی سکڑ گئی ہے۔ سخت مالی اور مالیاتی پالیسیوں کی وجہ سے سرمایہ کاری میں کمی واقع ہوئی ہے۔ پالیسی کی شرح

SHARE OF FIRST HABIB MODARABA WITHIN THE MODARABA SECTOR OF PAKISTAN AS ON JUNE 2018



SOURCE: Year Book of NBF1 & Modaraba Association of Pakistan of 2018

Risk Management Framework

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. Our entire financing portfolio is linked with floating rate and review on quarterly/half yearly basis. There is also risk of re-pricing has been emerged in present circumstances where the policy rate has been revised from 8% a year back to 13.25% in last revision of Central bank in August, 2019.



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.

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



Internal Control

Internal control consider backbone for any institution, the effective control ensure management polices implemented as desired by the management, with the increase in governance structure throughout financial sector now it consider pivotal to have strong and effective internal control mechanism in place. 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 FHM management always keen and strive for the betterment of Internal control function and it demonstrate through inducting qualified resource and updating standing operating procedure to tackle against any risk and threat, further with the evolution of IT and its unique threat, management having more focus on IT governance so that any IT breach can be handle proactively. The core objective of internal control is as follows:

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

FHM having the vision to establish and maintain compliance culture throughout the entire modaraba, compliance department fully equipped with desire resource for effective implementation of compliance function. The role of compliance function is aligned with First Habib Modaraba strategic core objective, the proactive mechanism inbuilt for smooth functioning of compliance function he department also ensures compliances of all regulatory other statutory requirement. FHM's internal policies and procedures with specific emphasis on KYC, FATCA, CRS, AML & CFT and Shariah audit mechanism. The scope of internal audit is independent appraisal 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 as per the directions actively monitors implementation to ensure that identified risks are mitigated to safeguard the interest of the institution and all stakeholders

During the year following control mechanism further strengthen:

- Added tools applied for sound credit assessment appraisals and its implementation on entire modaraba
- Credit Risk Management functions/processes have been improved with more internal control features
- Updation of branch audit risk metrics with respect to counter any new threats and vulnerability
- More emphasis on IT infrastructure and governance and increase audit resource in order to identify and tackle new IT related issues and suggested SOP for further strengthening the IT control environment
- Processes and procedures further reviewed in line with requirements of parent bank for better control environment
- Shariah governance framework further strengthens. with added tool to safeguard against any risk related shariah transactions
- To further strengthening the IT control and safe the IT resource against any known and unknown risk BCP: DRP frequency increase and internal auditor personally attend these session to witness and suggested improvement for betterment through updated standing operation procedures The system of internal control, viewed, evaluated and updated on an ongoing basis by Audit Committee which is supreme authority. 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

Best Compliance Culture

Keeping in view of present changes in regulatory and compliances landscape, FHM further strengthen compliance culture in line with current requirements particularly on AML/CFT.

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.

Performance

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 give satisfactory financial result with better return to our Certificate Holders every year.

Shariah Governance

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.

Technologically 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.

Risk Management

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.

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 28% was announced.
Prudent growth	Expansion financing assets size in diversified and growing sector.	Financing assets was enhanced by 14% and overall assets size was increased by 8%.
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 24%.
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 objectives and strategies

According to present statistics, various reports from different forums, the current financial year i.e., 2019-20 would be a challenging year for Pakistan's economy. It is expected that economic growth in FY 2020 is likely to remain gloomy. Simultaneously, high inflation and tighter monetary conditions will likely to reduce private consumption and investment. Therefore, keeping in view of present economic and business circumstances following decisions have been taken for future business plan.

- Carefully move forward with our existing and new business engagements for new assets booking and financing.
- Need to enhance tools of credit risk management, appraisals & evaluation of credit proposals.
- Further strengthen risk assessment and internal controls parameters.
- Enhance capacity building and improve professional grooming of our team members.

Key Performance Indicators

Key Performance Indicators (KPIs) are measurable values that demonstrate how effectively an organization is achieving key business objectives. FHM has identified KPIs that are critical to its business segment. The FHM analyzed various indicators while identifying said KPIs.

The year under review was the difficult year in terms of overall dull economic conditions and slowdown in overall business activities. During the year, particularly in second half of the year, we had slow down activities of new business engagement and also adopted our cautious approach for financing requirement of existing customers.

However, keeping in view of enormous economic and business challenges, our performance remains satisfactory in terms of profitability and business volume. The steady growth has supported us to further strengthening our position as leading Modaraba within Modaraba sector of Pakistan. In our financial results of 2018-19, our performance remained reasonably well. Our assets size grew by 8% and net profit was increased by 10%. We declared cash dividend of 28% for the period ended 30th June 2019,

The key performance indicators during year 2018-19 were as follows:

8% growth in Balance Sheet size

14% growth in total financing assets

10% growth in Certificate of Investment (Musharaka)

24% growth in Diminishing Musharaka financing

Strategic Objectives	Strategies to Meeting Objectives	KPI	Future Relevance
To add quality assets	Further strengthen credit appraisal and proposals evolution criterial	Low infected financing assets portfolio	The KPI shall remain relevant in future
To maintain strong equity base	Healthy profits and good retentions support for strong equity base	Strong equity base	The KPI shall remain relevant in future
To strengthen and improve Shariah Governance culture.	Continuous Shariah learning and training to relevant staff members	Shariah Governance	The KPI shall remain relevant in future
To make FHM a profitable venture	Channelize resources in profitable segments for better and long term earnings.	Sound profits every year	The KPI shall remain relevant in future
Strengthening of Risk Management segment.	Revisit policies and processes of risk management functions and procedures	Better controlled environment	The KPI shall remain relevant in future
Strengthening of Risk Management segment.	Work on existing manual or semi manual operational processes to convert in automations, further strengthen applications and procure latest equipment for state of art IT infrastructures	Technological advancement	The KPI shall remain relevant in future
Sound credit ratings	Follow good governance and best business practices, built sound assets quality, better profitability, strong internal control and compliance culture	Maintaining rating scales of AA+ for long term and A1+ for short term since last 11 years.	The KPI shall remain relevant in future
To give best return to investors.	Sound profitability to best return in shapes dividends to Modaraba Certificate Holders	Declared cash dividend of 28% which the highest in operational history of FHM	The KPI shall remain relevant in future

Strategies to be followed to further strengthen key performance indicators in 2019-20

- Carefully move forward with our existing and new business engagements for new assets booking and financing.
- Need to enhance tools of risk management, appraisals & evaluation of credit proposals
- Improve professional grooming of our human resource and technological advancement.
- To further improve and strengthen Shariah governance and Shariah compliance culture..
- Enhance customer base within Corporate and SME segment.
- Further strengthen risk assessment and internal controls parameters.
- Further strengthen compliance culture particularly regulatory and AML/CFT related compliances.
- Enhance capacity building and improve professional grooming of our team members

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.
- Performance history of the Modaraba.
- Economic and overall business conditions future forecast.
- Market information
- Feedback for customers

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.

Strategy & Resource Allocation

Well defined strategy is utmost important for development and growth of any institutions. Our strategy broadly covers in line with our vision and mission statement. It can be summarized in three basic segments i.e., how FHM will achieve its goals, meet the expectation of investors and how would focus on challenges arise through up down of economic and businesses situations and macroeconomic imbalances.

Strategic Objectives:

Short, medium and long term objectives of FHM to meet the business goals and long term sustainable progress and development are as follows:

Short Term

- Building quality financing assets portfolio.
- Enhance efficiency, reduce cost and improve customer service.
- Further strengthen tools of risk management, appraisals & evaluation of credit proposals.
- Further strengthen compliance culture particularly regulatory and AML/CFT related compliances.

Medium Term

- Enhance capacity building and improve professional grooming of our team members.
- To add quality customer and enhance market out reach.
- Develop good quality financing assets portfolio for sound and sustainable return.

Long Term

- Maintain leading Modaraba within the Modaraba sector as an Islamic Financial Institution
- Carry out all business transactions in line with approved mode of Shariah principles of Islamic finance.
- Constantly promote good corporate governance and follow best business practices
- Maintain high ethical and professional standards and promote economically productive ethical activities
- Build a high performance culture on equality, trust and integrity with growth oriented focus.

Strategies in place

While remaining within our core objective, we continuously raise our bar for growth and best performance through well-defined and focused corporate & business strategies.

It is our corporate motto to build a long term sustainable value that will meet the needs of the present without compromising the future. Our growth strategy is based on creating value for our stakeholders where we continue to create an environment that will develop, withstand and induce sustained growth among all stakeholders.

Keeping in view of present economic and business environment we have planned to move carefully move forward with our existing and new business engagements for new assets booking and financing. However, we keep on inducting sound customers and adding quality financing assets. We will further enhance our credit facility appraisals tools in order to avoid any bad financing assets booking. Moreover, we also keep on strengthening our internal control, risk management and compliance culture for sound, stable and risk free business operations.

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

The capabilities possessed by us facilitate our value creation process to achieve a competitive advantage, thereby delivering sustainable value to all our stakeholders. Our capabilities also enable us to adapt ourselves to the changing dynamics of the business environment whenever it is needed. We will enhance capacity building and improve professional grooming of our team members through appropriate training and job rotation.

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 core objective and approved policies and procedures. 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. The key resource allocation plans are as under:

Financial Capital

All the financial resources of the FHM are utilized effectively and efficiently under Shariah guidelines and policies and procedures framed by the Board of Directors. 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.

Intellectual Capital

Through capacity building, develop intellectual capital for best corporate culture, good governance and to follow best business practices.

Human Capital

FHM has team of professional in their related respective fields for smooth business operations. Our HR department takes utmost care to ensure that our induction strategies, training and development methodologies, compensation strategies and performance appraisal systems remain robust and in line with best practices. It is our responsibility to ensure that our people are motivated, inspired & committed to delivering a consistently outstanding performance.

Information Capital

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. All the information and data available within the FHM is utilized for business purpose only to achieve the strategic objectives of the Company. FHM online backup service lets us secure our data in advance of a disaster.

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, 2019 (Rupees)
Capital	1,008,000,000
General Reserve	640,000,000
Statutory Reserve	1,119,474,106
Certificate Premium Account	378,000,000
Un-appropriated profit	366,248,017
Total Equity	<u>3,511,722,123</u>

Above capital structure is adequately maintained. Break-up value per Modaraba certificate is Rs.17.42 against the face value of Rs.5/-. Ratio of debt to equity is 55:45 and equity to asset is 32:68 which show strong capital structure and do not reflect any capital inadequacies.

Significant changes in Financial Position:

- 8% growth in Balance Sheet size
- 14% growth in total financing assets
- 10% growth in Certificate of Investment (Musharaka)
- 24% 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
- Induction of quality earning assets
- Enhancement of financing assets portfolio
- Gradual enhancement in consumer auto finance segment
- Maintained profitability
- Control and minimize administration cost
- Add low cost deposit within deposit portfolio.
- Good dividend to Modaraba Certificate Holders

Keeping in view of the unexpected slowdown in business activities few targets were budgeted at the beginning of the year but were not achieved.

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

Assets Liability Management Committee (ALCO) of FHM is responsible for formulation and management of overall liquidity position within FHM. FHM's liquidity risk governance structure is planned in such a way to ensure continued support for business requirements and backup for funds withdrawal in order to avoid any abrupt liquidity issue and reputational loss.

ALCO committee regularly meet and review assets liability matching profile including future funding needs, withdrawals of placements in COIs and any other adverse change in money and liquidity markets through Central and Commercial banks. The core functions of ALCO committee to generate low cost funds for liability book and placements of funds in sound earning assets.

As per direction of ALCO, the treasury department retains sufficient funds in the form of unencumbered liquid assets to meet potential funding requirements. While investing, emphasis always given for diversified placements of funds to meet our residual funding needs. All funding requirements of assets and liability are taken into account, both in our planning process and while managing market risk.



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

Business Continuity Plan (BCP)

Business Continuity Plan (BCP) is a far reaching approach intended to ensure that business operations may not be disturbed in case of any major internal or external disruption. BCP 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 Business Continuity Plan is evaluated, refreshed and tested periodically to guarantee its culmination and precision so as to get ready for any unexpected event that may influence business as usual. Disaster Recovery (DR) exercise also conduct for critical business applications from the DR site on regularly basis. 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

Leasing Financing

Lease financing of Rs.1,218 million were made out of total financing of Rs.5,229 million as compared to financing of Rs.5,032 million last year. Leading sectors of disbursement was targeted during the year were Services, Pharmaceuticals, Refinery & Lubricant, Food & Allied, Chemicals, Logistic and Auto & Allied.

Diminishing Musharkah Financing

Financing in Diminishing Musharaka of Rs.4,011 million was made as compare to Rs.3,343 million of last year increased by 20%. Keeping in view of our strategy on product diversification, we have been continuously concentrating on this mode of financing. Disbursement in this segment was 77% of total financing as compared to 67% of last year.

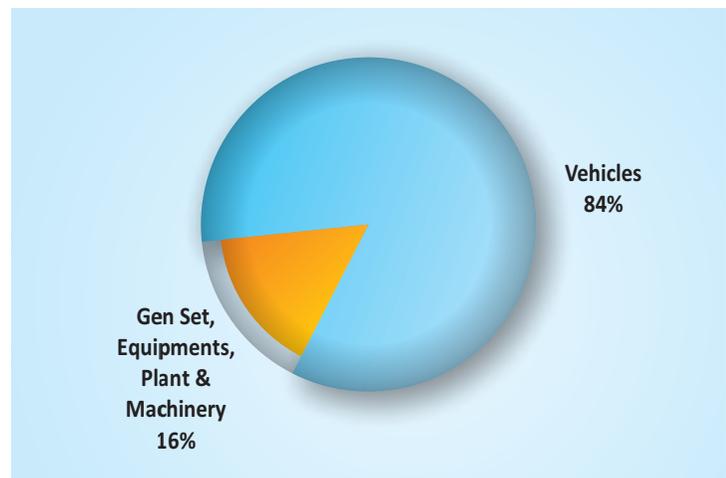
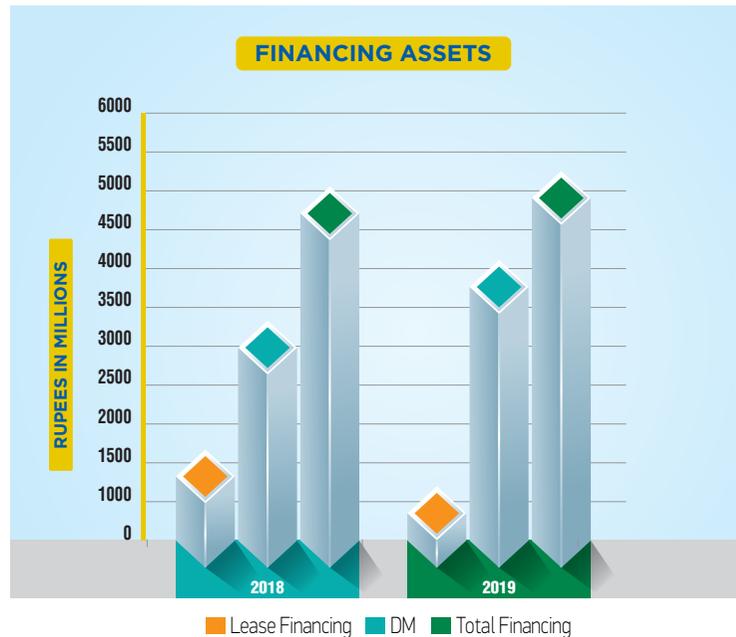
Our branches outside Karachi, i.e., Lahore, Islamabad and Multan have made significant contribution in assets booking as compared to corresponding period of last year. Moreover, good new corporate customers, commercial vehicle segment and consumer car financing segment had also been added by these branches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

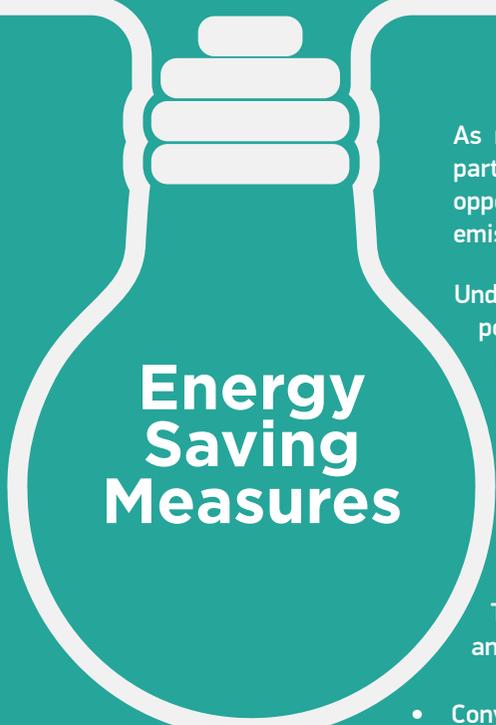
Assets category and sector

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

Certificate of Investment (Musharkah)

Good growth has been witnessed on liability side within the Certificate of Investment (COM). The outstanding amount under COM was Rs.6,149 million at the end of year as compared to Rs.5,539 million of corresponding period of last year, grew by 10%. 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 through practical application within organization. The Management of FHM always encourage for the betterment of the environment and effective implementation of policies so that benefit of energy conservation can be achieved.

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

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

Quality Assurance

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

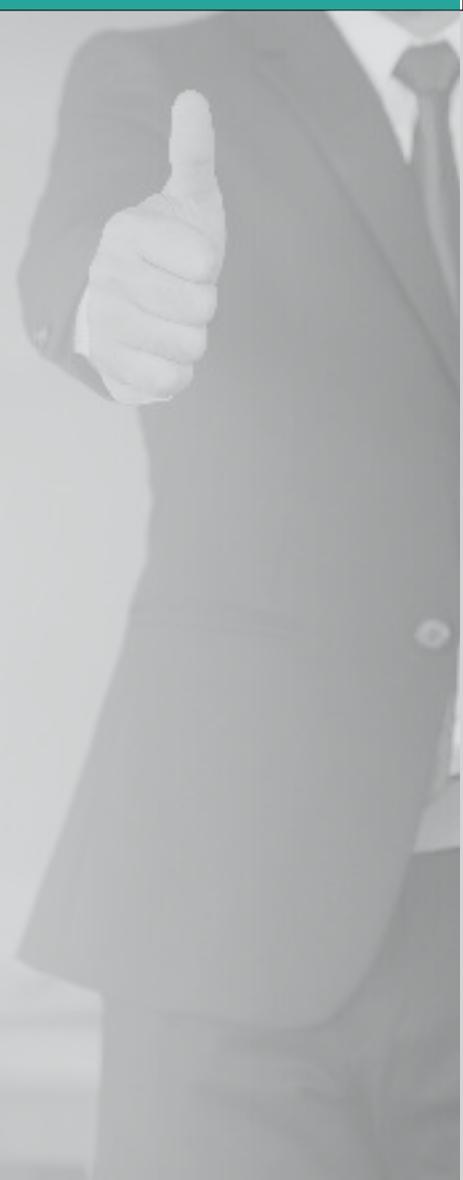
of operations. Efforts are being made to harness the skills of its human resources besides managers are continuously reviewing business practices, procedures and service delivery mechanism to set high ethical and service standards.

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

In our director's report, we have discussed in details about present economic and business situations of the country which is passing through with difficult time. Forwarding looking statement is based on future forecast, statistics and behavior of business and economy. Such statements are made based on some assumptions about the future events which may or may not happen.

Economic outlook of Pakistan

According to present statistics, various reports from different forums, the current financial year i.e., 2019-20 would be a challenging year for Pakistan's economy. It is expected that economic growth in FY 2020 is likely to remain gloomy. Simultaneously, high inflation and tighter monetary conditions will likely to reduce private consumption and investment.

Future outlook of FHM

In our financial results of 2018-19, our performance remained reasonably well. Our assets size grew by 8% and net profit was increased by 10%. We declared cash dividend of 28% for the period ended 30th June, 2019 which was the highest in the operational history of FHM. The above performance was achieved in difficult business operating environment and we are hopeful that Insha'Allah, we will be able to deliver satisfactory results in 2019-20 as well.

Significant plans

Therefore, keeping in view of present economic and business circumstances, we have devised our future business strategy in cautious and more prudent manner. Key points of our strategy would be as follows:

- Carefully move forward with our existing and new business engagements for new assets booking and financing.
- Need to enhance tools of credit risk management, appraisals & evaluation of credit proposals.
- Further strengthen risk assessment and internal controls parameters.
- Further strengthen compliance culture particularly regulatory and AML/CFT related compliances.
- Enhance capacity building and improve professional grooming of our team members.

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

- Political and other disturbance within country.
- Cross border unrest
- Change in any regulatory or taxation policies.
- Adverse move on economic front
- High inflation
- Any other force majeure.

Forward Looking Statement made in 2018	Performance made in 2019
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Ongoing process – During the year effective training was made for professional grooming of staff members. • Further improvements were made. However, it is ongoing process. • Ongoing process. • Financing portfolio within the SME segment was enhanced. • Gradual enhancement has been made and this segment was increased by 89%. • New customers of SME and Corporate were inducted within the portfolio. • New customer's engagements were made in commercial vehicle segment. However, results and payment performance were not satisfactory.

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
- Review of customers financials
- Customer's feed back
- Market feedback

Risk and Opportunity Report

Type of Risk	Explanation	Strategies to Mitigate the Risk	Likelihood	Magnitude of risk
Shariah non-compliance 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 placed 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

Opportunity Statement

In our director's report, we have discussed in details about present economic and business situations of the country which is passing through with difficult time. According to present statistics, various reports from different forums, the current financial year i.e., 2019-20 would be a challenging year for Pakistan's economy. It is expected that economic growth in FY 2020 is likely to remain gloomy. Simultaneously, high inflation and tighter monetary conditions will likely to reduce private consumption and investment. However, due to present government efforts on good governance, focus on enhancement of tax base and addressing major structural imbalances within the economy, we expect new business opportunities through investment from local and foreign investors.

In our financial results of 2018-19, our performance remained reasonably well. Our assets size grew by 8% and net profit was increased by 10%. We declared cash dividend of 28% for the period ended 30th June, 2019 which was the highest in the operational history of FHM. The above performance was achieved in difficult business operating environment and we are hopeful that Insha'Allah, we will be able to deliver satisfactory results in 2019-20 as well.

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.

Information about defaults in payment of any debt

During the year there was no event of any default by FHM on any of its financial obligation. Alhamdulillah, FHM has timely retired its entire financial obligation such as credit facilities from financial institutions/ banks, Certificate of Investment (Musharaka) and other debt obligations without having any delays or default.

Inadequacy in the capital structure and plans to address such inadequacy.

Presently there is no regulatory requirement to meet capital adequacy on FHM. However, despite off having no regulatory obligations, the equity of FHM has strong capital adequacy due to sound reserves.

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.

Key Financial Data for Six Years

KEY FINANCIAL DATA	Rupees in Million					
	2019	2018	2017	2016	2015	2014
Total Assets	11,124.02	10,279.25	8,366.65	7,160.75	6,393.29	5,392.99
Lease Financing Assets	2,739.37	2,902.83	2,440.98	2,725.21	3,072.31	2,868.62
Diminishing Musharaka Financing Asset	6,939.90	5,595.93	4,291.64	3,051.52	1,729.12	1,061.12
Lease Financing Asset Disbursement	1,218.43	1,052.48	1,052.48	1,124.23	1,742.09	1,400.90
Diminishing Musharaka Asset Disbursement	4,010.66	2,860.15	2,860.15	2,316.86	1,277.66	901.32
Current Assets	3,849.50	3,994.81	3,259.09	2,613.51	2,281.28	1,893.90
Current Liabilities	7,185.65	6,303.09	4,652.98	3,540.63	2,793.13	1,894.27
Total Liabilities	7,487.42	6,719.12	4,894.75	3,844.69	3,136.44	2,184.38
Paid-up Capital	1,008.00	1,008.00	1,008.00	1,008.00	1,008.00	1,008.00
Reserves	2,503.72	2,434.26	2,346.27	2,254.25	2,177.65	2,092.78
Certificate Holders' Equity	3,511.72	3,442.26	3,354.27	3,262.25	3,185.65	3,100.78
Gross Revenue	2,023.99	1,572.55	1,571.72	1,608.45	1,592.34	1,603.47
Net Profit	319.69	290.32	304.60	298.30	306.50	285.44
Earning Per Certificate - Rs.5/- each	1.59	1.44	1.46	1.48	1.52	1.42
Cash Dividend	28%	25%	20%	20%	22%	22%
Income from Lease Financing	179	193	218.09	286.09	250.63	297.92
Income from Diminishing Musharaka Financing	734	393.55	321.75	224.89	154.25	93.59
STAKEHOLDER INFORMATION	2019	2018	2017	2016	2015	2014
Profitability Ratios						
Profit after tax ratio (%)	15.79	18.46	19.38	18.55	19.25	17.80
Gross yield on earning assets (%)	18.75	16.12	19.57	23.70	27.52	32.69
Gross spread ratio (%)	9.30	11.25	12.83	12.03	11.25	10.06
Cost / Income ratio (%)	31.06	21.71	17.46	13.82	12.46	10.78
Return on equity (%)	9.10	8.43	9.08	9.14	9.62	9.21
Return on assets (%)	2.87	2.82	3.64	4.17	4.79	5.29
Return on capital employed (%)	9.59	8.92	9.58	9.68	10.21	9.88
Gross profit ratio (%)	42.03	34.79	32.24	27.76	25.61	22.66
Net profit to sale (%)	15.79	18.46	19.38	18.55	19.25	17.80
EBITDA margin to sale (%)	24.40	27.70	27.98	26.42	26.92	25.00
Income / Expense ratio	1.13	1.16	1.19	1.17	1.17	1.15
Liquidity Ratios						
Advance to deposit ratio	1.57	1.52	1.72	1.89	2.03	2.56
Current ratio	0.54	0.63	0.70	0.74	0.82	1.00
Cash to current liabilities	1%	5%	4%	7%	17%	20%
Cashflow from operations to sale	-46%	-80%	-40%	-42%	-28%	-11%
Turnover ratio						
Total Asset Turnover Ratio (%)	19.38	16.40	20.02	23.93	26.90	32.03
Fixed Asset Turnover Ratio (%)	29.63	26.83	32.79	37.68	41.82	49.37
Investment / Market ratio						
Market Value Per Share	9.41	10.75	10.95	10.50	10.40	9.75
High	11.46	11.69	11.85	11.13	10.59	10.81
Low	9.31	9.25	9.71	9.50	8.70	8.50
EPS (Earning per share)	1.59	1.44	1.46	1.48	1.52	1.42
Price earning ratio	5.92	7.47	7.50	7.09	6.84	6.87
Price to book ratio	0.54	0.63	0.66	0.65	0.66	0.63
Dividend Yield ratio (%)	14.88	11.63	9.13	9.52	10.58	11.28
Dividend Payout ratio (%)	88.29	86.80	66.18	67.58	72.35	77.69
Dividend cover ratio	1.14	1.15	1.46	1.48	1.38	1.29
Cash dividend (%)	28.0%	25.0%	20.0%	20.0%	22.0%	22.0%
Cash dividend per certificate/ share	1.40	1.25	1.00	1.00	1.10	1.10
Book Value Per certificate/ share	17.42	17.07	16.64	16.18	15.80	15.38
Dividend (in million rupees)	282	252	202	202	222	222
Profit Growth Ratio (%) [YoY]	10	(5)	2	(3)	7	(2)
Profit Growth Ratio (%) [base year 2014]	12	(1)	4	2	5	(2)
Capital Structure ratio						
Net assets per share	18.04	17.66	17.22	16.45	16.16	15.92
Earning asset to total asset ratio (%)	97.06	94.93	95.99	94.79	90.51	90.95

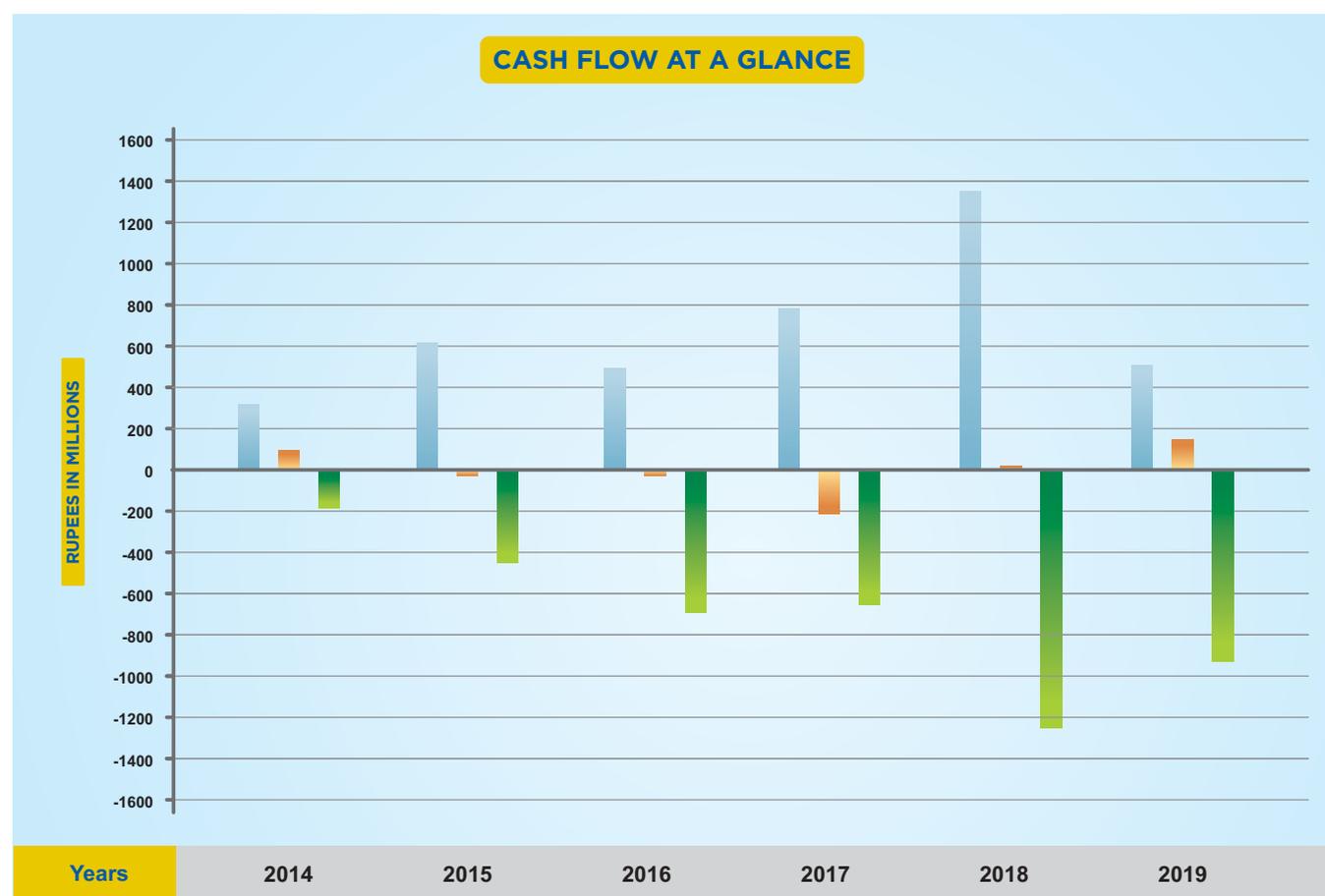
*Certificate of Rs. 5/- each

Free Cash Flows to Equity

	Rupees			
	30-Jun-19 Annual	31-Mar-19 Nine monthly	31-Dec-18 Half yearly	30-Sep-18 Quarterly
Net cash flow from operating activity	(929,636,597)	(968,726,031)	(802,861,333)	(366,978,614)
Net cash generated from / (used in) investing activities	152,041,316	(52,393,462)	(63,599,009)	(75,680,205)
Net cash inflow from financing activities- excluding dividends	754,807,928	1,204,408,765	1,043,331,849	266,792,925
	(22,787,353)	183,289,272	176,871,507	(175,865,894)

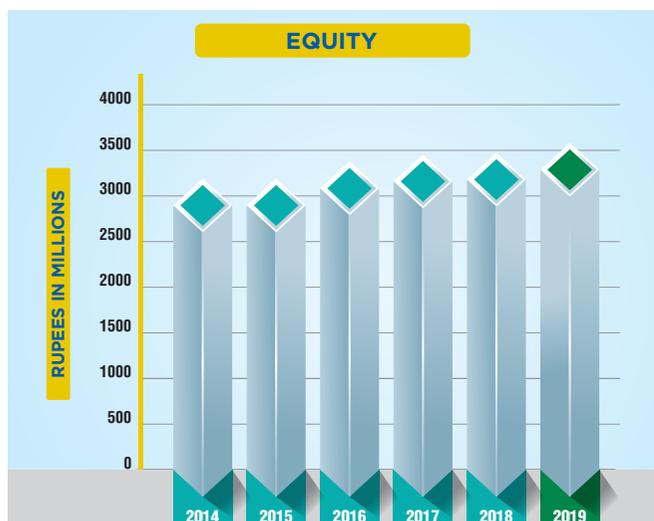
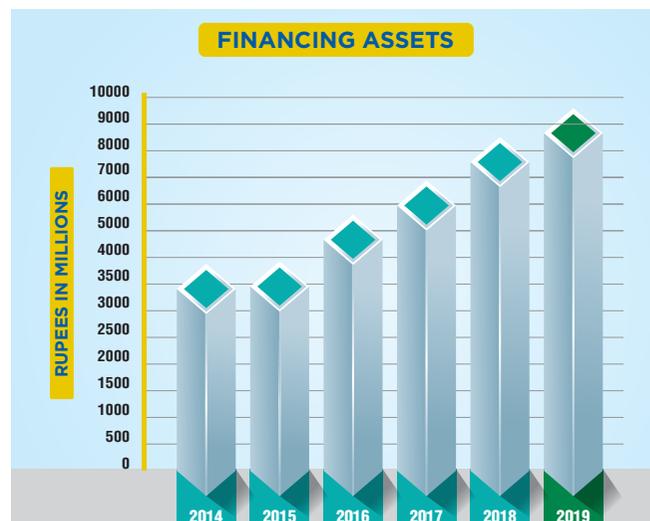
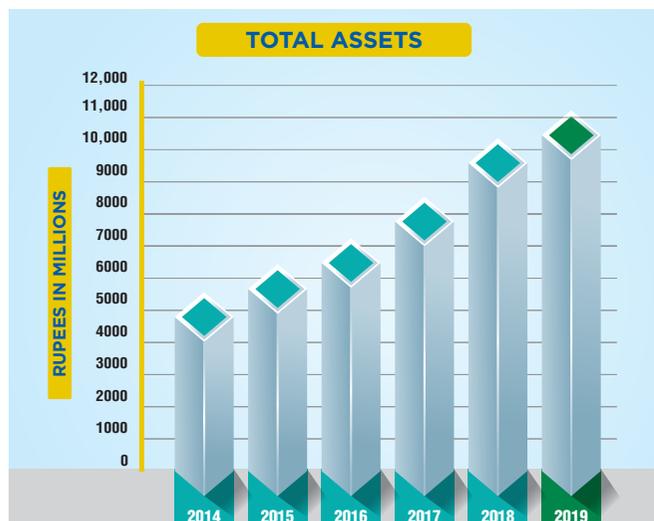
Summary of Cash Flow

	Rupees in Million					
	2019	2018	2017	2016	2015	2014
Cash & cash equivalents at the beginning of the year	321	192	248	487	371	131
Net Cash flow from operating activities	(930)	(1,260)	(629)	(672)	(451)	(183)
Net Cash flow from investing activities	152	14	(216)	(39)	(39)	97
Net Cash flow from financing activities	507	1,375	789	472	607	326
Net increase/decrease in cash & cash equivalent	(271)	129	(56)	(239)	116	240
Cash & cash equivalents at the end of the year	50	321	192	248	487	371



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

Graphical Presentation of Financial Summary

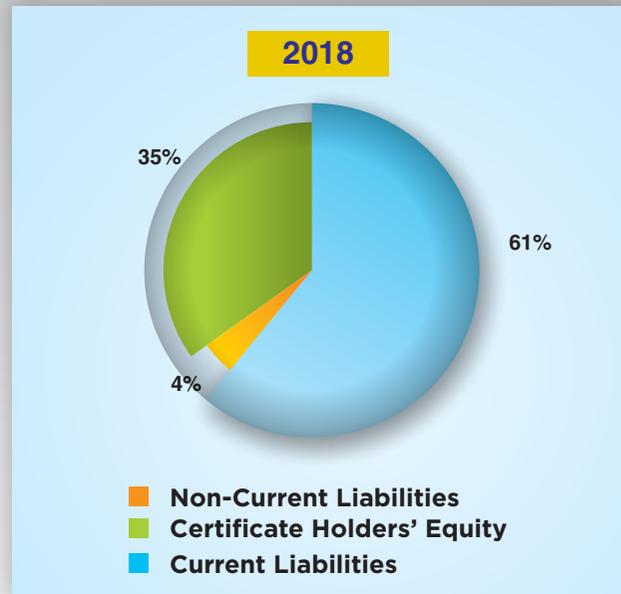
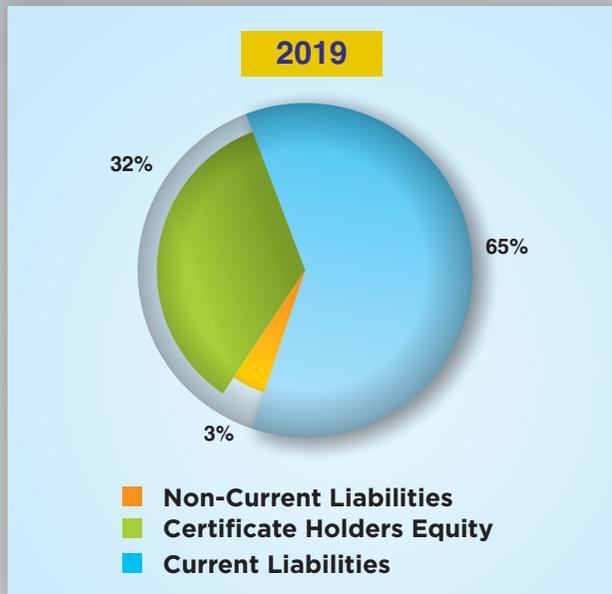


■ Market Value Per Modaraba Certificate

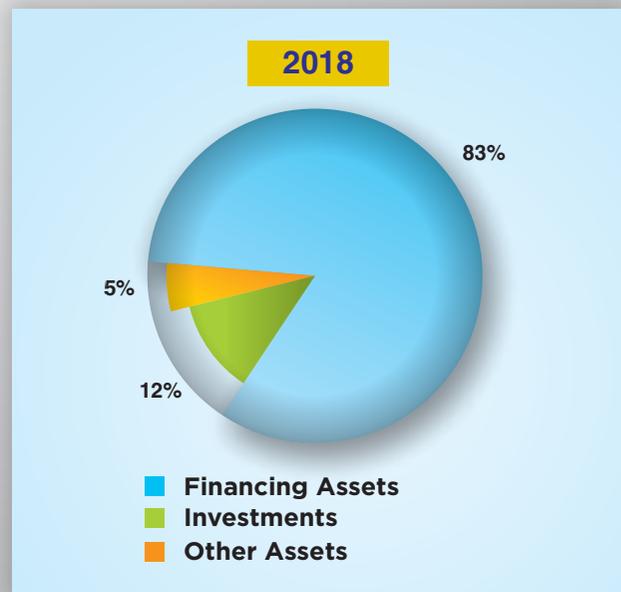
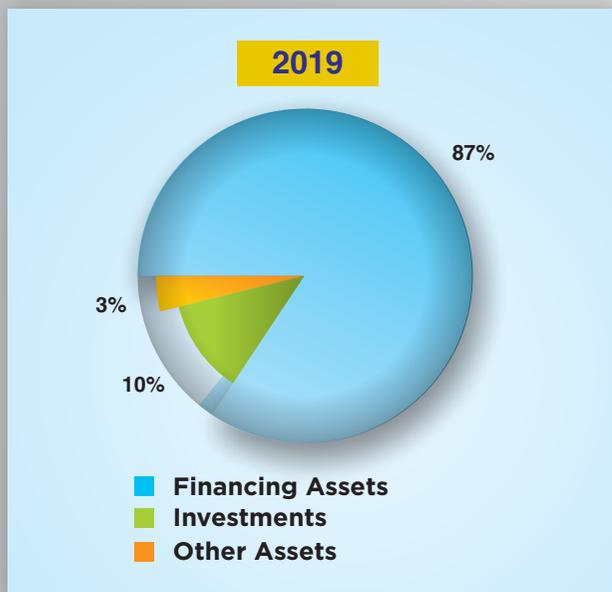
■ Book Value Per Modaraba Certificate

Balance Sheet Composition

Equity & Liabilities



Assets



Horizontal Analysis

BALANCE SHEET (%)

	2019	2018	2017	2016	2015	2014
ASSETS						
NON-CURRENT ASSETS						
Lease financing assets	(5.63)	18.92	(10.43)	(11.30)	7.10	(2.48)
Fixed assets in own use	45.83	145.16	42.91	(0.41)	(22.91)	(16.56)
Intangible assets	(42.30)	765.60	(88.45)	(53.50)	(55.91)	6.50
Diminishing musharaka financing	34.03	26.25	46.39	76.02	67.01	73.45
Long term advances and deposits	(0.74)	32.76	37.55	(3.14)	(42.71)	(51.86)
CURRENT ASSETS						
Investments	(11.24)	(3.07)	28.45	2.62	1.02	(2.20)
Current portion of diminishing musharaka financing	9.09	37.09	32.22	77.16	57.33	132.32
Lease financing installments receivables	487.31	99.06	21.90	(75.52)	(63.68)	181.66
Diminishing Musharaka financing installments receivables	1,065.07	876.87	(62.79)	25.80	37.07	1,696.81
Advances and prepayments	(15.03)	(40.44)	(29.22)	205.30	(57.77)	(25.29)
Other receivables	(25.86)	41.69	37.97	(45.30)	(20.39)	59.96
Income tax refundable	20.54	27.73	11.99	34.29	89.00	(17.38)
Cash and bank balances	(84.22)	66.89	(22.52)	(49.10)	31.36	184.09
TOTAL ASSETS	8.22	22.86	16.84	12.00	18.55	14.28
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	2.85	3.75	4.08	3.52	4.06	4.21
Certificate holders' equity	2.02	2.62	2.82	2.40	2.74	2.81
SURPLUS ON REVALUATION OF INVESTMENTS	5.94	0.21	118.62	(24.43)	(33.97)	193.96
NON-CURRENT LIABILITIES						
Security deposits against lease financing assets	(27.46)	72.08	(20.49)	(11.43)	18.34	9.50
CURRENT LIABILITIES						
Certificates of investment (musharaka)	9.94	42.91	28.28	29.27	53.88	52.18
Security deposits - current portion	144.33	(41.05)	8.67	24.84	(7.31)	48.36
Unearned lease financing and diminishing musharaka installments	(72.33)	158.94	133.90	(19.38)	226.70	(85.40)
Advance lease financing and diminishing musharaka installments	23.39	15.84	(1.14)	38.28	(49.12)	63.97
Trade and other payables	12.58	16.51	29.76	10.57	38.49	(19.10)
Unclaimed profit distributions	13.39	6.33	13.40	9.61	8.35	10.19
Proposed profit distribution	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL EQUITY & LIABILITIES	8.22	22.86	16.84	12.00	18.55	14.28

PROFIT & LOSS ACCOUNT (%)

	2019	2018	2017	2016	2015	2014
Lease financing income	(6.73)	(11.85)	(12.98)	(12.39)	(3.97)	(5.93)
Income on diminishing musharaka	84.61	22.31	43.07	45.79	64.81	90.36
Administrative expenses	24.86	13.02	9.74	8.06	5.50	3.63
Other Income	15.88	10.15	(1.72)	(17.73)	2.58	(87.01)
Other charges	0.00	0.00	0.00	0.00	0.00	0.00
Financial charges	105.62	30.14	30.73	11.78	21.09	11.97
Modaraba company's management fee	10.40	(4.94)	2.00	(2.78)	7.26	(71.35)
Profit for the year	10.40	(4.94)	2.11	(2.67)	7.38	(2.51)

Vertical Analysis

BALANCE SHEET (%)

	2019	2018	2017	2016	2015	2014
ASSETS						
NON-CURRENT ASSETS						
Lease financing assets	24.63	28.24	29.18	38.06	48.06	53.19
Fixed assets in own use	0.40	0.29	0.15	0.12	0.14	0.21
Intangible assets	0.0016	0.0030	0.0004	0.0043	0.0103	0.0278
Diminishing musharaka financing	40.36	32.59	31.71	25.31	16.11	11.43
Long term advances and deposits	0.01	0.01	0.01	0.01	0.01	0.02
CURRENT ASSETS						
Investments	10.04	12.25	15.52	14.12	15.41	18.08
Current portion of diminishing musharaka financing	22.03	21.85	19.58	17.30	10.94	8.24
Lease financing installments receivables	0.11	0.02	0.01	0.01	0.06	0.18
Diminishing Musharaka financing installments receivables	0.40	0.04	0.00	0.01	0.01	0.01
Advances and prepayments	0.04	0.04	0.09	0.15	0.06	0.16
Other receivables	0.30	0.44	0.38	0.32	0.66	0.98
Income tax refundable	1.23	1.11	1.06	1.11	0.93	0.58
Cash and bank balances	0.46	3.12	2.30	3.47	7.63	6.88
TOTAL ASSETS	100.00	100.00	100.00	100.00	100.00	100.00
EQUITY & LIABILITIES						
CAPITAL & RESERVES						
Authorized Certificate capital	9.89	10.70	13.15	15.36	17.21	20.40
Issued, subscribed & paid-up capital	9.06	9.81	12.05	14.08	15.77	18.69
Reserves	22.51	23.68	28.04	31.48	34.06	38.81
Certificate holders' equity	31.57	33.49	40.09	45.56	49.83	57.50
SURPLUS ON REVALUATION OF INVESTMENTS	1.12	1.15	1.41	0.75	1.11	2.00
NON-CURRENT LIABILITIES						
Security deposits against lease financing assets	2.71	4.05	2.89	4.25	5.37	5.38
CURRENT LIABILITIES						
Certificates of investment (musharaka)	55.28	54.41	46.78	42.61	36.91	28.44
Security deposits - current portion	1.32	0.59	1.22	1.31	1.18	1.50
Unearned lease financing and diminishing musharaka installments	0.16	0.62	0.29	0.15	0.20	0.07
Advance lease financing and diminishing musharaka installments	0.29	0.25	0.27	0.32	0.26	0.60
Trade and other payables	5.07	4.88	5.14	4.63	4.69	4.01
Taxation	-	-	-	0.039	0.044	0.052
Unclaimed profit distributions	0.35	0.33	0.38	0.39	0.40	0.44
Profit payable on murabaha financing	0.11	0.00	0.05	-	-	-
Advance against murabaha	2.02	0.24	1.48	-	-	-
Total Current Liabilities	67.31	65.37	58.50	53.69	49.06	40.50
TOTAL EQUITY & LIABILITIES	100.00	100.00	100.00	100.00	100.00	100.00

PROFIT & LOSS ACCOUNT (%)

	2019	2018	2017	2016	2015	2014
Income from lease financing	17.29	27.49	33.93	43.19	50.40	57.78
Income on diminishing musharaka financing	70.04	56.28	50.05	38.75	27.17	18.15
Other Income	12.67	16.22	16.02	18.05	22.43	24.07
	100.00	100.00	100.00	100.00	100.00	100.00
Administrative expenses	12.15	14.44	13.89	14.02	13.27	13.84
Other charges	-	0.12	-	-	-	-
Financial charges	52.39	37.80	31.59	26.77	24.48	22.26
Modaraba Management Company's remuneration	3.55	4.76	5.45	5.92	6.23	6.39
Sales tax on Modaraba Management Company's remuneration	0.46	0.62	0.71	0.83	0.93	1.02
Provision for Sindh Workers' Welfare Fund	0.63	0.85	0.97	1.05	1.10	1.13
Profit for the year	30.82	41.41	47.39	51.41	53.99	55.36
Total	100.00	100.00	100.00	100.00	100.00	100.00

Comments on Financial Ratios

Profitability Ratios:

- Gross profit ratio is 42.03% which is improved as compared to last year .
- The profit after tax ratio is 15.79% as compared to 18.46% in prior year due to decline in spread.
- Net profit to revenue ratio 15.79% in 2019 from 18.46% in 2018 is mainly due to the reason mentioned above.
- Cost to income ratio is 31.06% which is increased as compared to previous years.
- Return on equity is slightly higher than last year.
- Gross spread ratio is increased than the previous years.
- Return on capital employed is slightly increased than previous years.
- EBITDA margin to sale ratio is 24.40% as compared to 27.70% in prior year.
- Income to expense ratio is 1.13 as compared to 1.16 prior year.

Liquidity Ratios:

- Cash to current liabilities is 1% in 2019 as compared to 5% in prior year.
- Advance to deposit ratio slightly increased because of increased disbursements
- Current ratio is slightly declined due to Certificate of Investment (Musharaka) has increased.
- Cash flow from operations is -62% 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 19.38% in 2019 as compared to 16.40% in prior year is mainly due to slightly increase in total assets of the Modaraba.
- Earning assets to total assets and Net assets per share have been consistently maintained.

Investment / Market Ratios

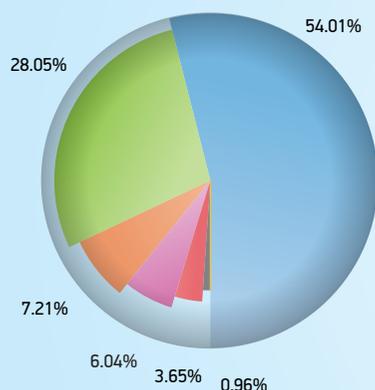
- Earnings per share has slightly increased from Rs. 1.44 to Rs. 1.59 in 2019 as a result of the increase in gross profit ratio.
- P/E ratio was reflected as 5.92 as compared to last year of 7.47.
- Dividend yield ratio improved to 14.88% this year due to the announcement of 28% dividend for the year ended June 30, 2019.
- Book value per certificate has increased from Rs. 17.0 to 17.42 in 2019 due to the increase in total equity.
- Dividend payout ratio and cash dividend per Modaraba certificate has been slightly increased.
- Market value per certificate of Modaraba has been declined due to declining trend in capital market.
- Dividend cover ratio has been in between 1.14 to 1.48 over the period of six years.



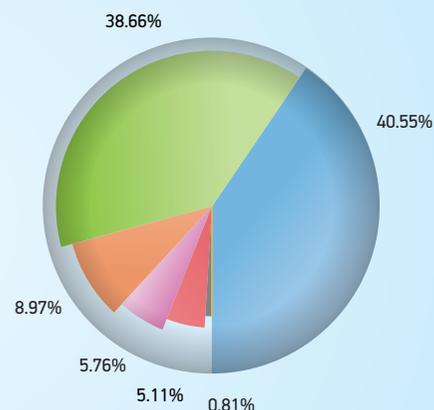
Statement of Value Addition

	2019		2018	
	Rupees	(%)	Rupees	(%)
Value Added				
Revenue from operations	905,832,867		585,788,945	
Other income / charges	131,430,541		106,649,460	
Value added by financial services	<u>1,037,263,408</u>		<u>692,438,405</u>	
Operating expense	31,014,403		40,664,600	
	<u>1,006,249,005</u>	100	<u>651,773,805</u>	100
Value Allocated				
To Employees				
Salaries, allowances & other benefits	72,451,042	7.21	58,483,945	8.97
To Provider of Finance				
As profit on Certificate of Investment (Musharaka) & Financial charges on Murabaha Financing	543,465,072	54.01	264,299,889	40.55
To Modarib				
As management fee	36,776,702	3.65	33,311,460	5.11
To certificate holders				
Profit on certificates	282,240,000	28.05	252,000,000	38.66
To Society				
Donation	840,000	0.08	840,000	0.13
To Expansion & Growth				
As Depreciation	9,707,701	0.96	5,277,954	0.81
As Reserve and Retained earning	60,768,488	6.04	37,560,557	5.76
	<u>1,006,249,005</u>	100.0	<u>651,773,805</u>	100.0

Value Allocated 2019



Value Allocated 2018



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

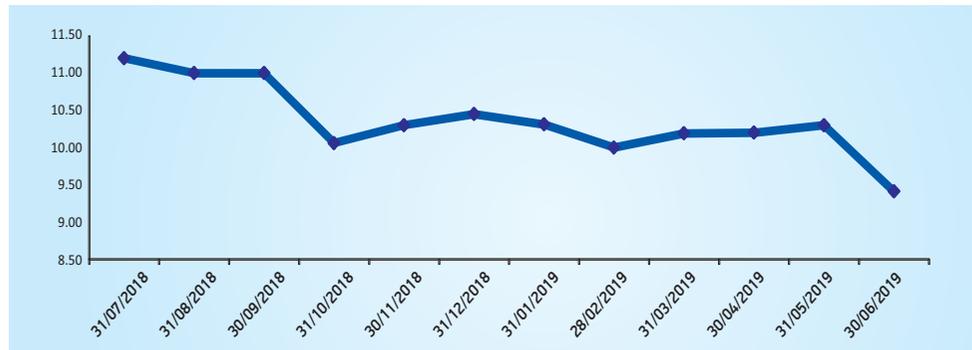
Government policies could be perceived as positive or negative for business. The policies may lead to changes in inflation & interest rates, which may affect stock prices.

Investor sentiments /confidence

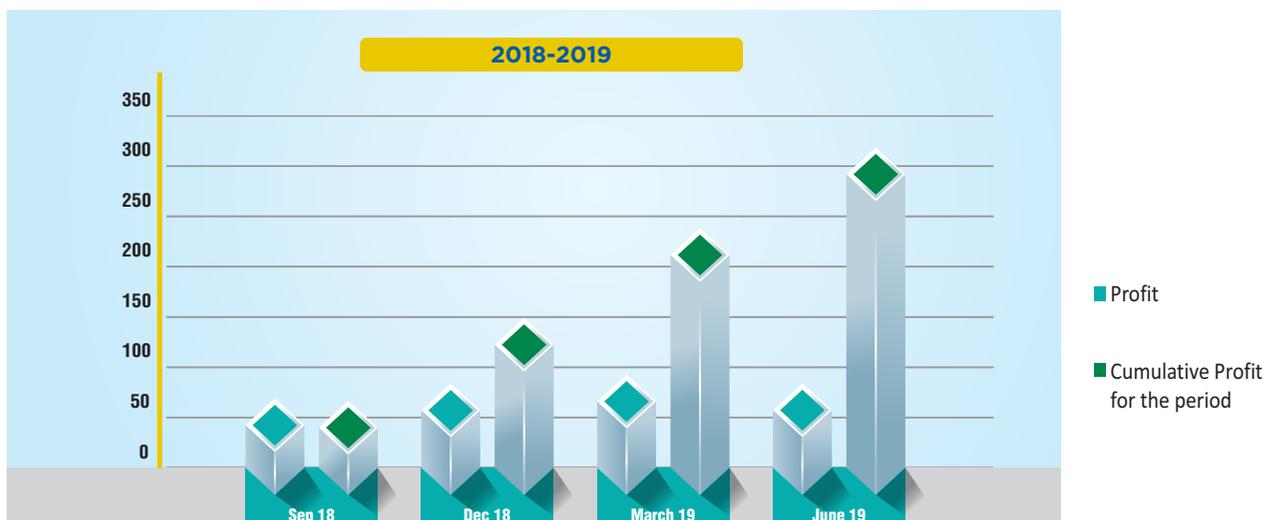
- Positive economic reforms can attract investors.

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



Analysis of Variation in Quarterly Results

	from April 2019 to June 2019	from April 2018 to June 2018	Variance	From Jan 2019 to Mar 2019	from Jan 2018 to Mar 2018	Variance
	Rupees			Rupees		
Income from lease financing	51,378,496	46,285,133	11.00%	33,928,869	47,772,855	-28.98%
Income on diminishing musharaka financing	219,093,159	106,875,646	104.99%	214,939,412	100,624,119	113.61%
Administrative expenses	(30,516,392)	(34,693,209)	-12.03%	(30,000,254)	(28,977,599)	3.53%
Other income	31,942,683	33,995,400	-6.04%	39,489,160	26,465,951	49.21%
Financial charges	(170,945,273)	(73,747,029)	131.80%	(155,266,651)	(66,601,193)	133.12%
Profit after taxation	80,935,581	68,424,274	18.29%	89,612,481	68,918,527	30.03%

	from Oct 2018 to Dec 2018	from Oct 2017 to Dec 2017	Variance	From Jul 2018 to Sep 2018	from Jul 2017 to Sept 2017	Variance
	Rupees			Rupees		
Income from lease financing	49,538,898	46,381,455	6.81%	44,466,506	51,802,027	-14.16%
Income on diminishing musharaka financing	176,292,278	94,924,127	85.72%	124,039,321	91,123,583	36.12%
Administrative expenses	(36,256,398)	(24,054,696)	50.73%	(29,258,269)	(26,212,641)	11.62%
Other income	31,538,287	39,638,291	-20.44%	28,460,411	25,461,406	11.78%
Financial charges	(125,684,427)	(66,172,053)	89.94%	(91,568,721)	(57,779,614)	58.48%
Profit after taxation	83,262,017	70,417,290	18.24%	66,184,804	73,360,990	-9.78%

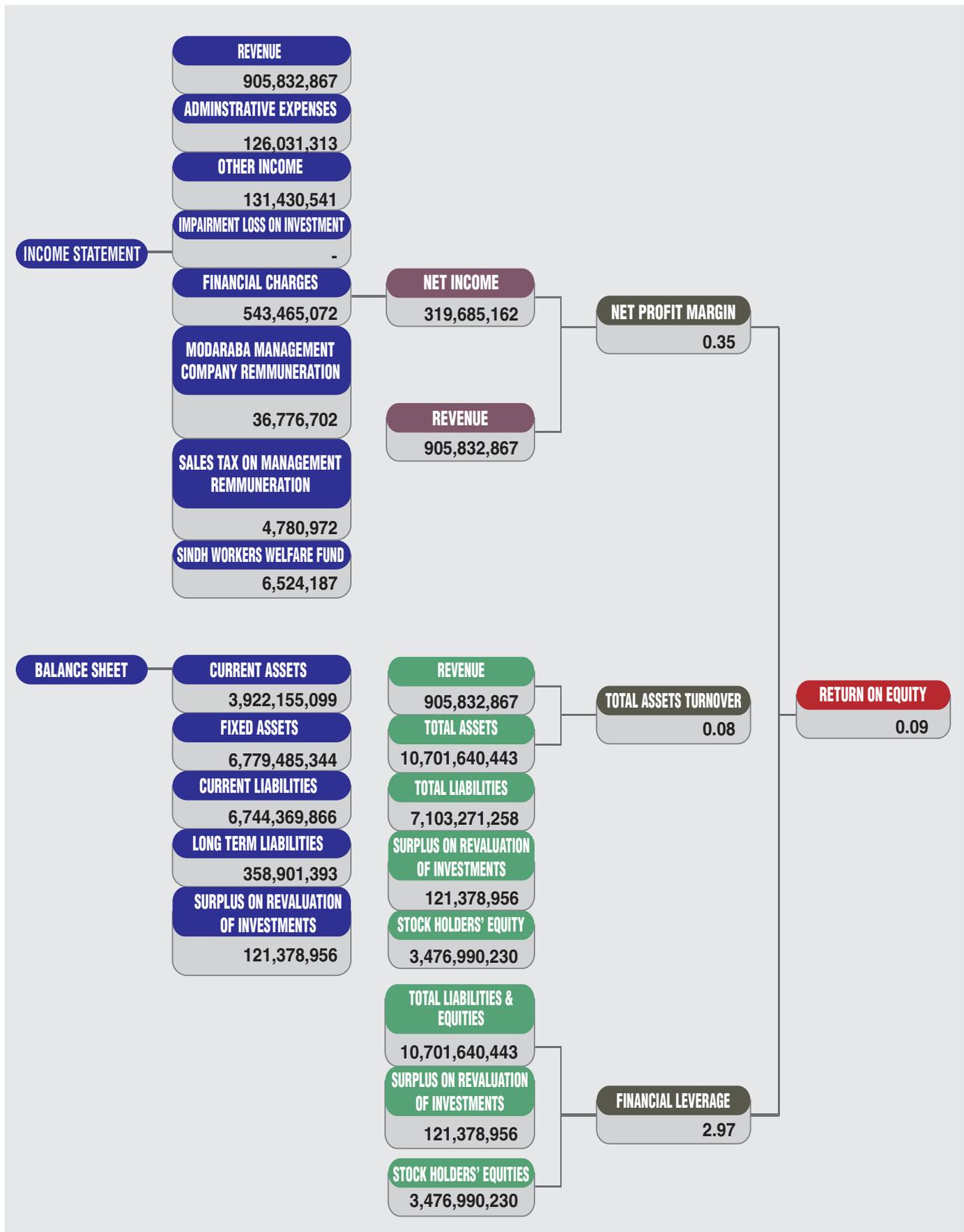
Comments

- 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.
- The increase in profitability is due to the higher discount rates .

Rationale for major Capital Expenditure made during the year 2018-19

- During the year FHM has spent approximately Rs.24.0 million on the purchase of vehicles as per the staff entitlement policy and office equipment.

Dupont Analysis



Statement of Cash Flows - Direct Method

	2019	2018
	-----Rupees-----	
CASH FLOW FROM OEPRATING ACTIVITIES		
Installments received against lease financing and Diminishing Musharaka Financing	4,889,159,098	1,572,731,228
Net payments made against lease financing and Diminishing Musharaka Financing	(5,229,098,004)	(2,582,669,944)
Working capital movement	(74,262,247)	14,089,033
Financial charges paid	(491,805,883)	(240,141,617)
Tax paid	(23,629,561)	(24,038,817)
Net cash flow from operating activities	(929,636,597)	(1,260,030,118)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of assets in own use	(24,407,886)	(23,992,704)
Purchase of intangible assets	-	(344,565)
Purchase of investments	(880,549,388)	(33,522,533)
Proceeds from sale of assets in own use	1,433,382	1,079,695
Proceeds from sale of intangible assets	-	-
Proceeds from sale / maturity of investments	1,040,144,417	57,104,582
Dividends received	15,420,791	13,291,107
Net cash generated from investing activities	152,041,316	13,615,582
CASH FLOW FROM FINANCING ACTIVITIES		
Profit distribution paid	(247,456,447)	(199,579,752)
Proceeds from murabaha financing	225,000,000	(5,812,667)
Profit paid on murabaha financing	(1,409,178)	25,000,000
Payment on maturity of murabaha financing	(25,000,000)	(123,860,502)
Certificates of investment (musharaka)	556,217,106	1,679,276,291
Net cash inflow from financing activities	507,351,481	1,375,023,370
Net (decrease) / increase in cash and cash equivalents during the year	(270,243,800)	128,608,834
Cash and cash equivalents at beginning of the year	320,868,504	192,259,670
Cash and cash equivalents at end of the year	50,624,704	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 26, 2019 at 2.00 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, 2019.

The certificate holders whose names appear in the register of certificate holders of FHM as on October 16, 2019 will be eligible to attend the Annual Review Meeting.

By order of the Board

Mr. Tehsin Abbas
Officiating Company Secretary
Karachi: October 06, 2019

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 22, 2018 in order to review performance of FHM for the year ended June 30, 2018. 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
Syed Rasheed Akhtar	-	Director
Mr. Tehsin Abbas	-	Chief Financial Officer
Mr. Muhammad Mustafa	-	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 2017-18 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.

Business Strategy and its Implementation Status

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

Business Strategy for the year 2019-2020 given in ARM	Achievement during 2018-2019
More concentration through penetration of SME and consumer finance product to other branches as well .	Small and medium size financing portfolio has been increased which certainly show excellent management focus on these two important sector.
Exploring new corporate clients so that more quality portfolio of client maintain.	The quality portfolio of client achieved through engagement of more high rated and sound companies
FHM will explore more opportunities in financing its asset in 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.	In order to penetrate the FHM product, auto financing desk has been increased to cater the customer needs.
Improved profitability and good dividend in next year.	Modaraba has declared 28% cash dividend which is the highest dividend in the history of the Modaraba.

The Certificate Holders recognized acknowledged the hard and dedicated efforts of FHM particularly on financial performance and declaration on cash dividend of 25% for the year ended 30th June, 2018.

Certificate Holders were raised following questions during the meeting.

- What will be the future prospects of modaraba with respect to profitability and growth potential?
- Why the Administrative expense exceed as compared to previous year?
- What measure adopted for the penetration of FHM product country wide?
- What measure adopted in relation to equity market investment?
- How is association with Habib Metro Bank fruit full in expanding the business of modaraba?

CEO and CFO have addressed all the questions/reservations quarries 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.

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.

Our 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 services to our customers.

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 – Non-Executive Independent Director

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

Mohammad Shams Izhar - Non Executive Director

Mr. Mohammad Shams Izhar is an MBA from Institute of Business Administration (IBA), Karachi backed with a degree in Industrial Technology. He has over 36 years' experience in banking with specialization in Corporate Governance and Risk Management overseeing credit risk, operation risk, market & liquidity risk, information security, business continuity and internal control . He also contributed towards improvement of the country's banking industry's standard as a member of Pakistan Banks Association's sub-committee and SBP working group. He is also a Fellow Institute of Bankers Pakistan and Certified Director by Pakistan Institute of Corporate Governance (PICG)."

Saeed Uddin Khan- Non Executive Independent Director

Mr. Saeed Uddin Khan has extensive 33 years banking experience in Conventional as well as Islamic. He did his MBA from IBA, Karachi. He also holds Diploma in Banking (DAIBP) and PGD as well as NIBAF, SBP Certification in Islamic banking, besides short as well as extensive training within and outside Pakistan. He has a rich knowledge of retail banking, product and brand development, corporate financing, risk management, asset recovery, budgeting, MIS etc. He served HBL in different areas and at senior positions including inter alia CEO of HBL Mudaraba, Head, Islamic Banking, Head, Budgeting & MIS, Head, SME Business etc. Lastly he set up Islamic banking business and launched a new brand by the name of Sa'adat in Sindh Bank, which he left in early 2018.

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:

CDC Share Registrar Services 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 (PSX).

Investor Service Centre

FHM share department is operated by CDC Share Registrar Services Limited. It also functions as an Investor Service Centre and has been servicing nearly 4,600 Certificate holders. The Investor Service Centre is managed by a well-experienced team of professionals and is equipped with the necessary infrastructure in terms of computer facilities and comprehensive set of systems and procedures for conducting the Registration function. The team is headed by Mr. Mohsin Rajab Ali at registered office, Central Depository Company of Pakistan Limited - Share registrar department and Mr. Tehsin Abbas, Officiating 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

CDC Share Registrar Services Limited

Contact Person:

Mr. Tehsin Abbas

Officiating Company Secretary

First Habib Modaraba

Dividend Announcement

The Board of Directors of the Management Company has approved cash dividend of 28% (Rs. 1.40 per Modaraba Certificate of Rs. 5/- each) for the financial year ended 30th June, 2019.

Book Closure Dates

The Certificate Transfer Book of the Modaraba will remain close from 17-10-2019 to 31-10-2019 (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. whose name appearing in the Active Tax Payers List | 15% |
| 2. whose name not appearing in the Active Tax Payers List | 30% |

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.

Categories of Certificate Holders

As at 30th June, 2019

Categories of Certificate Holders	Certificate Holders	Certificate Held	Percentage
Directors and their spouse(s) and minor children	-	-	-
Associated Companies, undertakings and related parties			
Habib Metropolitan Modaraba Management Company (Pvt.) Ltd	1	20,160,000	10.00
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			
	7	4,164,876	2.07
Mutual Funds			
CDC - Trustee National Investment (Unit) Trust	1	1,269,570	0.63
CDC - Trustee AKD Index Tracker Fund	1	14,500	0.01
General Public			
a. Local	3730	53,357,941	26.47
b. Foreign	786	2,480,845	1.23
Foreign Companies			
	12	2,962,552	1.47
Others			
	56	115,338,070	57.21
Totals	4600	201,600,000	100.00

Certificate holders holding 5% or more	Certificate Held	Percentage
Habib Management (Private) Limited	108,875,672	54.01
Habib Metropolitan Modaraba Management Company (Pvt.) Ltd	20,160,000	10.00

Pattern of Certificate Holding

As at 30th June, 2019

Number of Certificate Holders	Certificate Holdings	Total Certificate Held
696	1 to 100	33,451
1011	101 to 500	322,326
623	501 to 1000	475,807
1298	1001 to 5000	3,052,240
345	5001 to 10000	2,574,909
120	10001 to 15000	1,472,840
79	15001 to 20000	1,438,122
64	20001 to 25000	1,472,645
40	25001 to 30000	1,132,759
22	30001 to 35000	712,031
27	35001 to 40000	1,052,480
22	40001 to 45000	928,186
33	45001 to 50000	1,620,092
8	50001 to 55000	417,772
8	55001 to 60000	461,680
13	60001 to 65000	822,152
2	65001 to 70000	136,052
10	70001 to 75000	732,496
6	75001 to 80000	466,000
6	80001 to 85000	488,412
2	85001 to 90000	174,536
7	90001 to 95000	639,708
21	95001 to 100000	2,083,899
6	100001 to 105000	611,402
6	105001 to 110000	653,500
1	110001 to 115000	111,000
5	115001 to 120000	591,420
3	120001 to 125000	363,460
2	125001 to 130000	255,176
7	130001 to 135000	919,880
3	135001 to 140000	409,008
5	140001 to 145000	712,157
5	145001 to 150000	743,652
2	150001 to 155000	302,400
1	155001 to 160000	160,000
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
2	225001 to 230000	456,800
1	230001 to 235000	233,000
1	235001 to 240000	237,891
2	240001 to 245000	486,320
2	245001 to 250000	500,000
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
1	395001 to 400000	400,000
2	400001 to 405000	800,800
1	410001 to 415000	413,500
1	425001 to 430000	425,344
1	445001 to 450000	450,000
1	455001 to 460000	459,328
1	475001 to 480000	477,500
1	485001 to 490000	486,000
1	490001 to 495000	495,000
2	495001 to 500000	996,000
2	500001 to 505000	1,004,938
1	590001 to 595000	592,600
1	795001 to 800000	800,000
3	820001 to 825000	2,472,832
1	845001 to 850000	849,000
1	850001 to 855000	853,000
1	855001 to 860000	858,500
1	950001 to 955000	952,500
1	1030001 to 1035000	1,034,200
1	1180001 to 1185000	1,185,000
1	1265001 to 1270000	1,269,570
1	1285001 to 1290000	1,290,000
1	1300001 to 1305000	1,300,192
1	1495001 to 1500000	1,500,000
1	1825001 to 1830000	1,828,000
1	1995001 to 2000000	2,000,000
1	2010001 to 2015000	2,015,000
1	2070001 to 2075000	2,075,000
1	2125001 to 2130000	2,130,000
1	20155001 to 20160000	20,160,000
1	108875001 to 108880000	108,875,672
4600		201,600,000

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE - YEAR ENDED JUNE 30, 2019

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

- The total number of directors are five as per the following:

Male	5
Female	-

- The composition of board is as follows:

Executive Director	Mr. Muhammad Shoab Ibrahim
Chairman (Non-Executive Director)	Mr. Wazir Mumtaz Ahmed
Non-Executive Director	Mr. Mohammad Shams Izhar
Non-Executive Independent Director	Syed Rasheed Akhtar
Non-Executive Independent Director	Mr. Saeed Uddin Khan

- 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).
- 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.
- 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.
- 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.
- 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.
- The board of directors have a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations.
- Directors status of compliance with necessary requirements of Directors Training program are as follows:

Mr. Muhammad Shoab Ibrahim	Certified from ICAP
Mr. Wazir Mumtaz Ahmed	Exemption as per COCG exemption criteria
Mr. Mohammad Shams Izhar	Certified from PICG
Syed Rasheed Akhtar	Exemption as per COCG exemption criteria
- 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.
- CFO and CEO duly endorsed the financial statements before approval of the board.
- The board has formed committees comprising of members given below:

Audit Committee

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

HR and Remuneration Committee

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

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:
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 the matter that positions of both CFO and company Secretary has been held by the same person.

Muhammad Shoaib Ibrahim

Chief Executive Officer
Karachi; October 01, 2019

Wazir Mumtaz Ahmed

Chairman



Building a better
working world

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To the Certificate Holders of First Habib Modaraba

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 2019 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 2019.

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
18	The position of Chief Financial Officer and Company Secretary is currently held by the same individual.

EY Ford Rhodes
Chartered Accountants
Place: Karachi
Date: 01 October 2019

Board Committees

Audit Committee Terms of Reference

- 1) Determination of appropriate measures to safeguard the Modaraba's assets;
- 2) Review of annual and interim financial statements of the Modaraba, prior to their approval by the Board of Directors, focusing on:
 - A) Major judgmental areas;
 - B) Significant adjustments resulting from the audit;
 - C) Going concern assumption;
 - D) Any changes in accounting policies and practices;
 - E) Compliance with applicable accounting standards;
 - F) Compliance with these regulations and other statutory and regulatory requirements; and
 - G) All related party transactions.
- 3) Review of preliminary announcements of results prior to external communication and publication;
- 4) Facilitating 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 (in the absence of management, where necessary);
- 5) Review of management letter issued by external auditors and management's response thereto;
- 6) ensuring coordination between the internal and external auditors of the company;
- 7) Review of the scope and extent of internal audit, audit plan, reporting framework and procedures and ensuring that the internal audit function has adequate resources and is appropriately placed within the company;
- 8) consideration of major findings of internal investigations of activities characterized by fraud, corruption and abuse of power and management's response thereto;
- 9) ascertaining that the internal control systems including financial and operational controls, accounting systems for timely and appropriate recording of purchases and sales, receipts and payments, assets and liabilities and the reporting structure are adequate and effective;
- 10) review of the company's statement on internal control systems prior to endorsement by the board of directors and internal audit reports;
- 11) recommend to the board of directors the appointment of external auditors, their removal, audit fees, the provision of any service permissible to be rendered to the company by the external auditors in addition to audit of its financial statements. The board of directors shall give due consideration to the recommendations of the audit committee and where it acts otherwise it shall record the reasons thereof.
- 12) Facilitating 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 (in the absence of management, where necessary);

- 13) Instituting special projects, value for money studies or other investigations on any matter specified by the board of directors, in consultation with the chief executive officer and to consider remittance of any matter to the external auditors or to any other external body;
- 14) Determination of compliance with relevant statutory requirements;
- 15) Monitoring compliance with the these regulations and identification of significant violations thereof;
- 16) Review of arrangement for staff and management to report to audit committee in confidence, concerns, if any, about actual or potential improprieties in financial and other matters and recommend instituting remedial and mitigating measures;
- 17) Consideration of any other issue or matter as may be assigned by the board of directors

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 Independent (Chairman)	4
Mr. Wazir Mumtaz Ahmed Non Executive (Member)	4
Mr. Mohammad Shams Izhar Non Executive (Member)	2
Mr. Shakeel Ahmed Mangroria Secretary to Audit Committee	4

HR Committee Terms of Reference

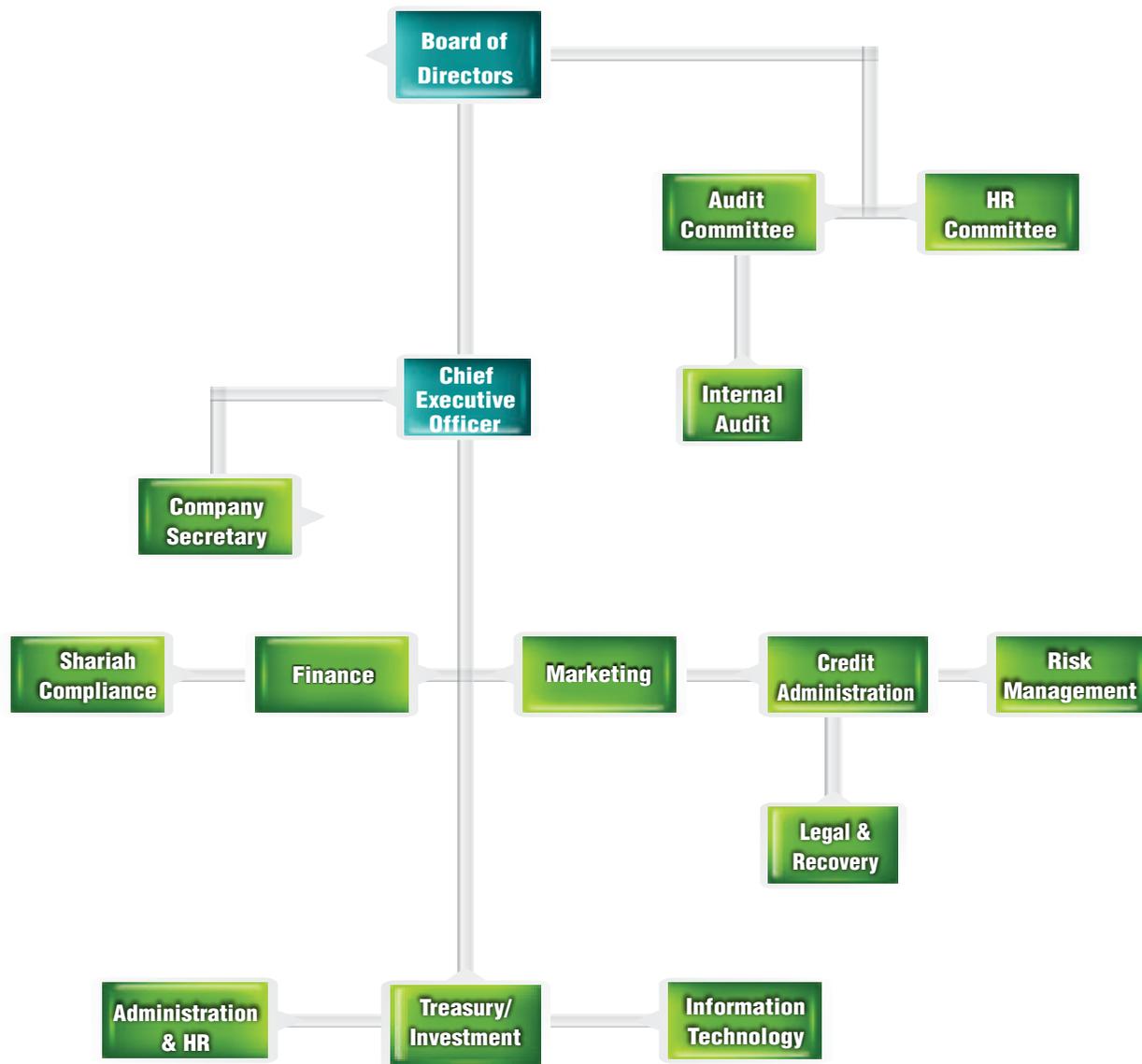
The committee shall be responsible for:

- 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
Syed Rasheed Akhtar Chairman	1
Mr. Wazir Mumtaz Ahmed Member	1
Mr. Mohammad Shams Izhar Member	1
Mr. Tehsin Abbas Secretary	1

Organizational Structure



Number of Employees

FHM's has employed around 71 people in its operations including branches & head office at country level.

Disclosure of total & average number of employees has been made in note 43 of the financial statements

Significant changes from prior year

All significant changes from last year, have been appropriately disclosed in the relevant sections of this report

Position within the value chain

FHM adds value to their business model, through our people, system and relationships to create additional value for our stake holders.

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 Modaraba Management (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 in 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.

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.

- Efficiently administration of board meetings enables to achieve corporate goals.
- 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.
- 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.

Few business targets were not achieved due to adverse economic situation which was presented before board. CEO submitted reasons of missing few targets i.e., size of balance sheet and booking of financing assets. The board had shown their satisfaction that keeping in view economical and business challenges, the performance of FHM remained satisfactory.

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 comprises of three directors, all of them are non-executive including one independent director who is the Chairman of Audit Committee and all directors are financially literate and possess enriched experience in banking and non-banking sector.

Role of Audit Committee

The role of Audit Committee 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 head of internal auditor is directly access to Chairman of the Audit Committee. The audit committee primarily deals with questions of risk management, which includes credit, operational risk and governance structure particularly IT governance and financial reporting in line with the applicable laws, and regulations.

All significant findings are reported to audit committee by internal auditor. The audit committee actively monitors the implementation of internal control in line with directives of the Board.

The Audit Committee deals with the effectiveness and functional capabilities of the risk management system and internal control environment of the First Habib Modaraba (FHM) and provides utmost support and guidance in framing the control environment to prevent the Modaraba from any unforeseen events.

The Audit Committee actively engaged in reviewing the Annual/Half yearly/Quarterly financial statements and internal audit activities in accordance with code of corporate governance and committee TOR.

The Audit Committee through internal auditor facilitate the staff and management to share any information in confidence on account of any impropriety in financial and other matters and develop process in addressing these issue with mitigating and remedial measures.

The Audit Committee concentrate on the effectiveness of internal control, risk management, compliance, internal audit functions, IT governance and other responsibilities given by the Board of Directors.

Audit Committee performed detail reviewed and satisfied that Annual report was fair, balanced and understandable and also provides necessary information for shareholders on account of assessment of company position and performance, business model

Audit committee self-evaluated their performance and satisfied with the overall quality of Audit Committee.

Internal Control Framework (ICF)

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

- Effectiveness and efficiency of operations across the entire modaraba
- Reliability of financial reporting with respect to accuracy.& reliability of information

- Compliance with applicable laws and regulations and procedure encompass all important areas
- Improved reporting framework throughout the organization by technology
- Improve compliance culture by inducting quality resource, updating standing operational procedures
- Ensure adherence to its policies and plans so that organization strategic objective achieved

The department also ensures compliance of regulatory requirement, which is the core requirement of any financial institution and FHM's internal control function ensure the adherence of policies and procedures with specific emphasis on KYC / FATCA / AML & CFT / CRS and Shariah audit mechanism. The Audit Committee actively monitors the implementation of policies and procedure through internal control function.

During the year following control mechanism fur ther strengthen during the year:

- Added tools applied for sound credit assessment appraisals so that credit risk threat are identified and mitigated
- Credit Risk Management functions/processes have been further improved through capacity building of staff and ERP system.
- We believe branch empowerment will improve the turnaround time of operation which need strong monitoring and control mechanism. For this purpose branch audit mechanism and frequency of audit visit enhanced
- Information technology is the back bone of any organization which improve the efficiency and effectiveness of the employees vis a vis credit risk. Strong system control and firewalls need to be address. ICF responsible for close monitoring of transaction and process.
- Processes and procedures reviewed further in line with requirements of parent bank so that alignment of Holding company policies and procedure to be address
- Shariah governance framework further strengthens through shariah training to staff and process.
- Frequency of BCP/DRP drills increased to so that more control over business continuity process can be achieved.

Role of Internal Auditor

The internal auditor role in FHM is in line with IIA guidelines to provide independent objective assurance to the management and guide to improve system of internal control, risk management and governance process to accomplish FHM objectives as defined by BOD

Conduct of meeting by Audit Committee

- Four meetings of Audit Committee were held during the year 2018-2019
- 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 Audit Committee 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 audit 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 mechanism
- An update on entire audit activity carried out by Internal Audit Function during the year. Especially that one which having material impact
- Significant internal audit findings forward to audit committee.for prompt decision making
- Update on evaluation of ICF system by internal audit, as well as compliance thereon by the management on account of how internal control and compliance effectively operated
- Review of Shariah Advisor reports and its compliance status to ascertain all the transaction inline with shariah rules and regulations

External Auditors

The Audit Committee regularly assesses the performance of external auditors taking into consideration a number of important 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, 2019.
- 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, 2020, on terms approved by the Board of Directors.

The Audit Committee approves the audited accounts of FHM for the period year ended 30th June, 2019 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

Actual and Perceived Conflicts of Interest

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. Every director of the Company, if in any way, interested in any contract or arrangement to be entered by the Company, is required to disclose the nature of his concern or interest to the Board and bound not to take part in the discussion or in any decision making.

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

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:

Maintenance of records: FHM ensures maintenance of records in accordance with regulatory requirements. For the safe custody of physical documents and files, a spacious record room has been maintained for proper filing system and other records.

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.

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.

As far as the governance of information technology, First Habib Modaraba executed stander SOP to reap the highest advantages from information technology with the lowest risk and at the least costs. These SOP incorporates a scope of procedures and practices that cover the FHM's different departments. Information technology governance and related procedures are planned with the support of the executive management, and department staff. The FHM pursues the procedure of information technology management and maintaining operations as well as executing needed policies to achieve FHM's strategic objectives.

FHM's IT governance covers following functional areas.

Compliance Area

Invest in licensed applications in compliance with relevant laws.



Financial Reporting Area

Integration of various 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 processes are regularly reviewed and further strengthen to effectively manage in order 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

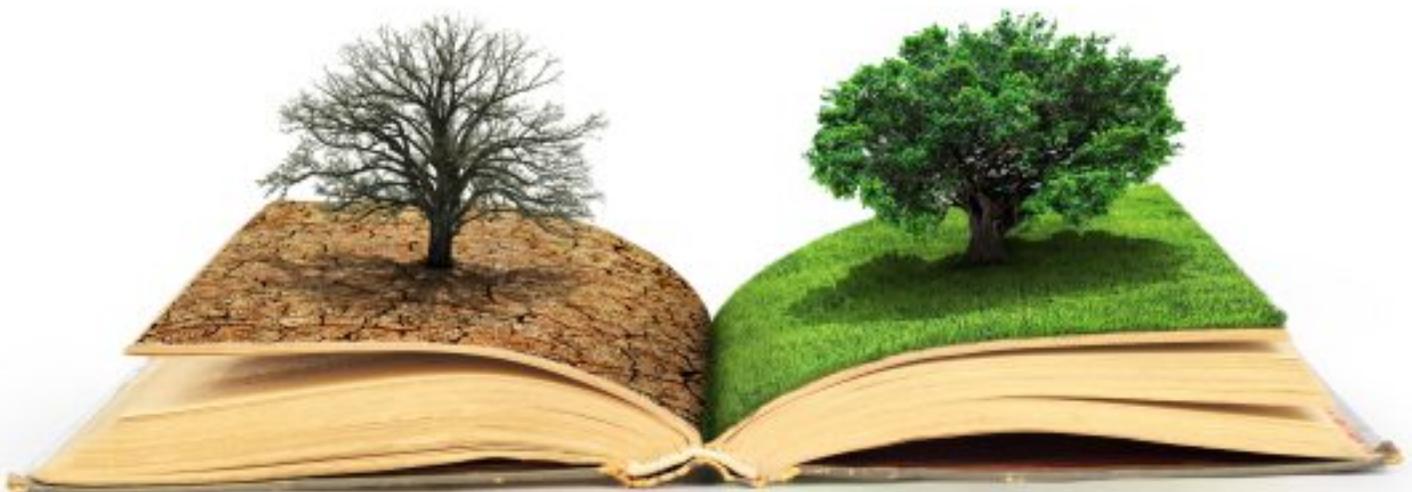
It is our corporate objective to consume minimum natural resources and create low emission and waste. We also discourage those customers whose businesses are not environment friendly. FHM conscious on negative effect of waste and initiated following measures to minimize paper use by various departments.

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

First Habib Modaraba keeps on conveying on its promise to build up an organization that isn't just prepared to address the difficulties of constantly evolving business sector, but on the other hand is prepared to take on difficulties of things to come also.

Human Resources at FHM is endeavoring its best to prepare our people to build and develop a mindset that not only responds, but also leads in the disruptive environment as a cutting edge and future-prepared association.

Through concentrated efforts, management has made sure that all the systems and processes are aligned with the vision of FHM, assured that it is well communicated at all levels across the organization. Our people assure to deliver the best to the stake holders which is reflected in the accomplishment of targets year-on-year. The team is working hard with a high degree of commitment so that we deliver at the optimum.

Organisation Development

With continued focus on effective resource utilization through putting in improved hierarchical structures that can realize better efficiencies and ideal effects. Simultaneously, robust career paths and succession pipelines were developed for high performing and high potential talents with particular focus on critical roles. All the activities were done through robust, well defined criteria and processes ensuring transparency which in turn enhanced the level of trust of employees in your management. These efforts, contributed significantly towards improved performance in a healthy and competitive environment. These recognitions are a strong reflection on the focus and efforts that your management is putting in making First Habib Modaraba the number one company in Pakistan.

Communication & Cultural Diversity

FHM focuses on maintaining an open communication culture across the organization, as it has a direct impact on employees' motivation and commitment.

We at FHM ensure that there should be cordial working environment between employees which ultimately leads to success of organization. FHM always value and promote employee involvement & interaction

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 preferences.



Equal Opportunity Employer

FHM is committed to providing equal opportunity to all employees without any discrimination on the basis of religion, race, gender, age, disability etc. Our goal is to have a pluralistic culture that welcomes induction of people with diverse backgrounds at all levels. We always value and promote employee involvement and interaction.

Talent Management & Succession Planning:

Succession Planning continues to be a key priority for the HR department to ensure staff development and to maintain leadership continuity. With a strong belief in developing a proactive approach

At FHM we continue to invest in the development of people at all levels. We have developed several programs from senior management to junior levels for employees to add value to their existing role, simultaneously to prepare for challenges of higher roles & responsibilities.

People from junior levels are provided with a continuous development opportunity for growth and better personnel development, because we believe employees at FHM are assets and are the brand ambassadors of FHM in the market.

Training & Development:

FHM believes in nurturing and investing in its employees with the ultimate objective of ensuring high employee morale and productivity. We work towards understanding and assimilating employee objectives with corporate goals, as rapid change requires a skilled, knowledgeable workforce with employees who are adaptive, flexible, and focused on the future.

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.

The Company has a demonstrated track record of employing talented human resources across all its functions, which ensures availability of competent personnel for each department, in terms of an individual's potential, qualification, period of service and professional attitude amongst other factors.

Investors' Grievance Policy

First Habib Modaraba is strongly committed to equitable treatment of every shareholder, whether they are major or minority shareholders, Institutional investors, or foreign shareholders. We treat all customer complaints as opportunities to better understand what is important to our customers and to drive service improvement priorities. Complaint redressal is supported by a review mechanism, to minimize the recurrence of similar issues in future.

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 to retaining existing relationships and investor's satisfaction.

Under the policy, FHM ensure that

- Investors 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 investor grievances for the Company is a centralized function and is being handled by the Compliance department at Head office.
- FHM has made arrangement of compliant box in each branch for any kind of complaint regarding Modaraba's activity.
- Compliance Department assists internal and external customers 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 investors can make complain and same is monitored by the compliance department on regular basis.
- Any serious complaint must be bring 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

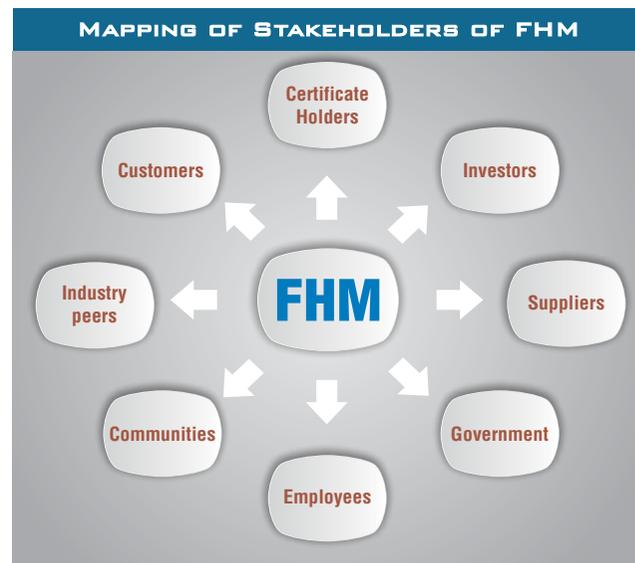
Management has always make sure that basic right of Modaraba Certificate Holders are well protected. The minority Certificate Holders always encourage to attend annual review meeting and Modaraba extend its full courtesies and facilitations.

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

Overview

In keeping highest standard of ethical, moral values & business, FHM has established a whistle blowing policy to ensure any potential wrong doing that breaches any law, regulations or company policy has occurred, is occurring or may occur shall be reported & addressed.

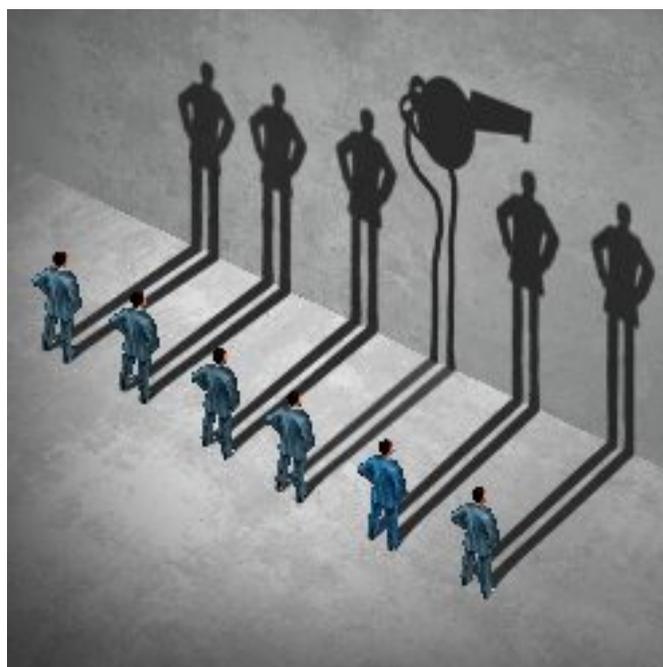
Scope

To help highlighted misconduct, the company must maintain a culture of integrity, transparency and trust by motivating staff to speak up when they have genuine concerns. This minimizes the risk of financial & reputational loss caused by misconduct of any team member.

Procedure

Employees are always the swift source of information of any wrong doing in the organization; In order to retrieve any information from them; it is a must to provide them comfort and assurance that their speaking up would not put them into harassment or victimization.

- Staff must communicate concerns like any wrong doing, unlawful act, fraud or improper conduct of anybody to speak.up@habibmodaraba.com.
- Personal complains are discouraged through this policy, for personal grievances staff is requested to contact Line Manager & if the issue is still not addressed, issue should be directly communicated to HRD.
- Staff must be provided with access to a confidential and secure means to report legitimate concerns they feel unable to raise with their own line management.
- 'Confidentiality': Every effort must be made to maintain the confidentiality of the member of staff making a report. Speaking up reports and details of any unwanted work must only be passed to those "Need to Know".
- '**Anonymous Allegation**': Anonymous allegations may also be considered if such complaints are of material importance or of specific nature.
- '**False Allegations**': The submission of malicious or deliberately misleading reports will be considered a disciplinary matter and a serious breach of the Company Code of Conduct.



Steps to raise an allegation: Steps to highlight Wrong Doings

- .If one believes that any wrong doing is to be highlighted to top management directly, then the staff may directly write at email address "speak.up@habibmodaraba.com" which is only accessed by the Head of Human Resources and CEO. They will take the action as deemed appropriate.
- All Speaking Up disclosures must be attended and, where appropriate, independently scrutinized. Where possible, feedback must be provided to the member of Staff raising the concern.
- In order to safeguard staff members, initial enquiries will be made to decide whether an investigation is valid and, if so, what should be the next course of action. Concerns or allegations which fall within the scope of specific procedures will normally be referred for consideration under those procedures.
- HR Department will endeavor to mitigate the problems which the staff member may experience as a result of raising a concern.
- The action taken will depend on the nature of the concern and will be addressed either by investigation and or by an enquiry.
- Unnecessary complaints may be weeded out by the management

There were no instances reported during this financial year

Associated Companies & Undertakings

Name of Associated Entity	Nature of Relationship	Basis of Relationship	Aggregate Percentage of Certificate Holding
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	-
First Habib Modaraba Employee Contributory Provident Fund	Associate	Common Management	-
First Habib Modaraba Staff Gratuity Fund	Associate	Common Management	-
Habib Metro Modaraba	Associate	Common Management	-

*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

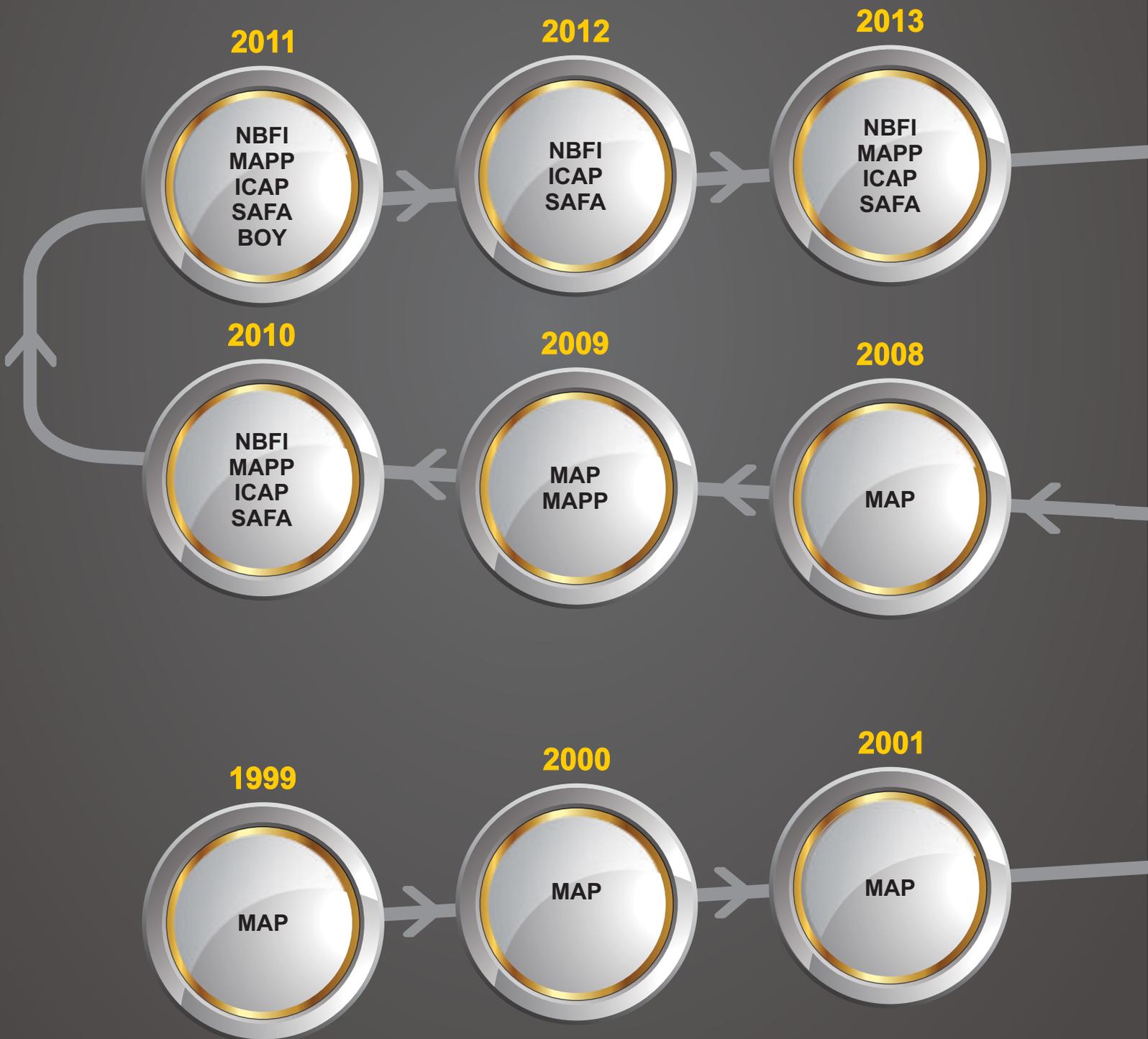
2019

1st Quarter Result issued on	October 25, 2018
2nd Quarter Result issued on	February 25, 2019
3rd Quarter Result issued on	April 25, 2019
Annual Result issued on	August 29, 2019
Annual Review Meeting	Scheduled on October 26, 2019

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	October 22, 2018

FHM Awards Calendar



2018



2017



2014



2015



2016



2007



2006



2005



2002



2003



2004



MAP
NBF
MAPP
ICAP
SAFA
BOY
FPCCI
OBSERVER
IRBA

MODARABA ASSOCIATION OF PAKISTAN
NBF & 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

Local & International 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

Principle Business activities of the Modaraba

The principle business activity of the First Habib Modaraba is to provide shariah compliant mode of financing and to make investment in shariah compliant instruments

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.



Sirat-Auto

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 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)

COI (Musharaka) Scheme has been formulated under the parameters laid down by the Securities and Exchange Commission of Pakistan in its "Guidelines for issuance of above certificate"

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



Shariah Advisor Profile

Mufti Muhammad Hasan

Mufti Muhammad Hasan, Shariah Advisor of 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 2019

By the Grace of Allah, the Shari'ah review of First Habib Modaraba managed by Habib Metropolitan Modaraba Management Company (Pvt.) Ltd. Was conducted for the year ended June 30, 2019 in accordance with requirement of the Shari'ah Compliance and Shari'ah Audit Mechanism for Modaraba.

It is acknowledged and certified in capacity of Sharia Advisor of the Modaraba that, the financial arrangements, contracts and transactions entered into by the company with its participants, stakeholders and customers were found in compliance with the requirements of Sharia rules and principles. During the review following areas were verified in compliance with Shari'ah compliance mechanism:

- Financing transactions i.e., Diminishing Musharakah and Ijarah (Lease) financing were reviewed and found as per guidelines.
- The financing transactions, description of assets, relevant documents and their sequence, delivery of assets, start of repayment and other requirements were reviewed and found proper.
- Lease Financing Transactions were executed on the basis of Ijarah Muntahia Bittamleek as described and allowed by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIF) Shariah Standard No. 9.
- 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 Musharkah were in accordance with weightages announced by the Modaraba on bi monthly basis.
- FHM conducted onsite trainings for the newly appointed staff during the year and nominated its staff members for different trainings on Islamic Finance conducted by NBFi & Modaraba Association of Pakistan .

Observations & Recommendations

- It was observed that FHM has transferred over its assets portfolio from Conventional Insurance to Takaful up to 90% of total assets. However, it is recommended to further improvement to ensure remaining portfolio be converted to Takaful to safeguard the risk of assets of the pool.
- It is also recommended that FHM should take proper measures for the regular trainings of the staff of Main Office and branches related to financing and treasury.
- FHM is also required to improve the system based modules of DM and Ijarah to be intact with the changes and requirements of Shariah Standards.
- All investment were made in shariah compliant shares however Dividend received from such Investment were purified as per KMI 30 index purification rate and transferred to charity accounts.

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 and in this regard, it is opined that, the affairs, activities and transactions, performed by the Modaraba during the year are in compliance with the rules & principles of Shari'ah.

May Allah bless FHM with the best Tawfeeq to accomplish His cherished tasks, All good deed are from Allah and weaknesses are from our sides that needs to be forgiven.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

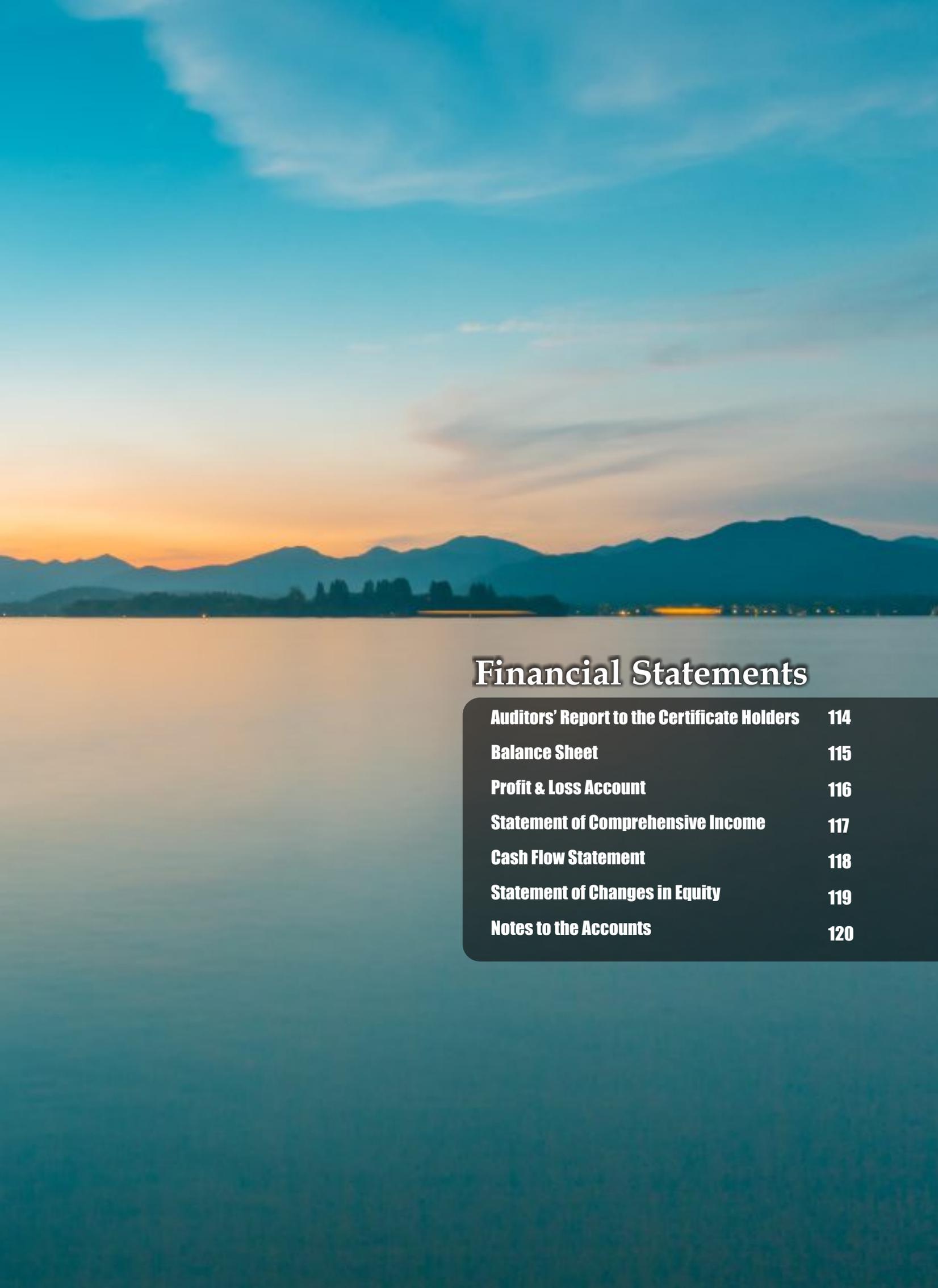
Mufti Muhammad Hasan

Shari'ah Advisor

Dated: 12 Dhu al-Qidah 1439 Hijri/ July 16, 2019







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 2019 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.

EY Ford Rhodes
Chartered Accountants
Audit Engagement Partner: Shaikh Ahmed Salman
Date: October 01, 2019
Karachi

BALANCE SHEET

AS AT JUNE 30, 2019

	Note	June 30, 2019	June 30, 2018
ASSETS			
NON-CURRENT ASSETS			
Lease financing assets	5	2,739,371,749	2,902,828,561
Fixed assets in own use	6	43,948,839	30,137,307
Intangible assets	7	177,386	307,451
Diminishing musharaka financing	8	4,489,820,384	3,349,956,311
Long term deposits	9	1,206,850	1,215,850
		7,274,525,208	6,284,445,480
CURRENT ASSETS			
Investments	10	1,117,360,806	1,258,858,121
Current portion of diminishing musharaka financing	8	2,450,084,489	2,245,975,863
Lease financing installments receivable	11	12,564,068	2,139,247
Diminishing Musharaka financing installments receivable	12	44,672,084	3,834,285
Advances and prepayments	13	3,905,163	4,595,951
Other receivables	14	33,255,784	44,856,094
Income tax refundable	15	137,031,924	113,683,111
Cash and bank balances	16	50,624,704	320,868,504
		3,849,499,022	3,994,811,176
TOTAL ASSETS		11,124,024,230	10,279,256,656
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorized certificate capital 220,000,000 (June 30, 2018: 220,000,000) certificates of Rs.5 each		1,100,000,000	1,100,000,000
Issued, subscribed and paid-up certificate capital	17	1,008,000,000	1,008,000,000
Reserves	18	2,503,722,123	2,434,258,336
Certificate holders' equity		3,511,722,123	3,442,258,336
SURPLUS ON REVALUATION OF INVESTMENTS	19	124,880,019	117,877,892
NON-CURRENT LIABILITIES			
Security deposits against lease financing assets	20	301,774,323	416,028,462
CURRENT LIABILITIES			
Certificates of investment (musharaka)	21	6,149,278,129	5,593,061,023
Security deposits - current portion	20	146,941,089	60,141,012
Unearned lease financing and diminishing musharaka installments		17,566,187	63,489,472
Advance lease financing and diminishing musharaka installments		32,284,117	26,163,905
Trade and other payables	22	452,085,462	426,956,952
Profit payable on certificates of investment (musharaka)		112,261,524	74,332,870
Advance against murabaha	23	225,000,000	25,000,000
Profit payable on murabaha financing		11,750,958	9,986
Unclaimed profit distributions		38,480,299	33,936,746
		7,185,647,765	6,303,091,966
TOTAL EQUITY AND LIABILITIES		11,124,024,230	10,279,256,656
CONTINGENCIES AND COMMITMENTS			
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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 Officer

Chief Financial Officer

Director

Director

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2019

	Note	June 30, 2019	June 30, 2018
-----Rupees-----			
Income from lease financing	25	179,312,769	192,241,470
Income from diminishing musharaka financing		734,364,170	393,547,475
Provision in respect of diminishing musharaka	8	(7,844,072)	-
Administrative expenses	26	(126,031,313)	(100,936,009)
		779,801,554	484,852,936
Other income	27	131,430,541	113,419,396
Impairment loss on investment in equity security classified as 'available-for-sale'		-	(860,483)
		911,232,095	597,411,849
Financial charges	28	(543,465,072)	(264,299,889)
Modaraba Management Company's remuneration	22.4	(36,776,702)	(33,311,460)
Sales tax on Modaraba Management Company's remuneration	22.5	(4,780,972)	(4,330,490)
Provision for Sindh Workers' Welfare Fund	22.3	(6,524,187)	(5,909,453)
Profit before taxation		319,685,162	289,560,557
Taxation	29	-	-
Profit for the year		319,685,162	289,560,557
Earning per certificate - basic and diluted	39	1.59	1.44

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 Officer

Chief Financial Officer

Director

Director

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED JUNE 30, 2019

	Note	June 30, 2019	June 30, 2018
-----Rupees-----			
Profit for the year		319,685,162	289,560,557
Components of other comprehensive income reflected in equity			
Items that will not be reclassified subsequently to profit and loss account			
Actuarial (loss) / gain on defined benefit plan	22.7(d)	(376,685)	30,244
Total comprehensive income for the year transferred to unappropriated profit		319,308,477	289,590,801
Components of other comprehensive income reflected below equity			
Items that will not be reclassified subsequently to profit and loss account			
Surplus on revaluation of investments classified as 'at fair value through other comprehensive income' - net	19	7,002,127	-
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
Total comprehensive income for the year		326,310,604	289,590,801

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 Officer

Chief Financial Officer

Director

Director

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2019

	Note	June 30, 2019	June 30, 2018
-----Rupees-----			
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	41	1,899,057,129	1,611,096,073
Disbursement of lease financing assets		(1,218,432,985)	(1,691,835,067)
Proceeds from transfer of lease financing assets		278,667,464	259,073,875
Diminishing musharaka financing - net		(1,343,972,699)	(1,304,294,370)
Long term deposits		9,000	(300,000)
Security deposits against lease financing assets		(27,454,062)	132,378,615
Financial charges paid		(491,805,883)	(240,141,611)
Gratuity paid		(2,075,000)	(1,968,816)
Tax paid		(23,629,561)	(24,038,820)
Net cash outflow from operating activities		(929,636,597)	(1,260,030,121)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of assets in own use		(24,407,886)	(23,992,704)
Purchase of intangible assets		-	(344,565)
Purchase of investments		(880,549,388)	(33,522,533)
Proceeds from sale of assets in own use		1,433,382	1,079,698
Proceeds from sale / maturity of investments		1,040,144,417	57,104,582
Dividends received		15,420,791	13,291,107
Net cash generated from investing activities		152,041,316	13,615,585
CASH FLOW FROM FINANCING ACTIVITIES			
Profit distribution paid		(247,456,447)	(199,579,752)
Proceeds from murabaha financing		225,000,000	25,000,000
Profit paid on murabaha financing		(1,409,178)	(5,812,667)
Payment on maturity of murabaha financing		(25,000,000)	(123,860,502)
Certificates of investment (musharaka)		556,217,106	1,679,276,291
Net cash inflow from financing activities		507,351,481	1,375,023,370
Net (decrease) / increase in cash and cash equivalents during the year		(270,243,800)	128,608,834
Cash and cash equivalents at beginning of the year		320,868,504	192,259,670
Cash and cash equivalents at end of the year		50,624,704	320,868,504

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 Officer

Chief Financial Officer

Director

Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2019

	Capital reserves			Revenue reserves		Total equity
	Certificate Capital	Certificate premium	Statutory reserves*	General reserves	Unappropriated profit	
	(Rupees)					
Balance as at July 01, 2017	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 at 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	<u>1,008,000,000</u>	<u>378,000,000</u>	<u>1,103,489,848</u>	<u>640,000,000</u>	<u>312,768,488</u>	<u>3,442,258,336</u>
Balance as at July 01, 2018	1,008,000,000	378,000,000	1,103,489,848	640,000,000	312,768,488	3,442,258,336
Profit distribution for the year ended June 30, 2018 at Rs.1.25 per certificate	-	-	-	-	(252,000,000)	(252,000,000)
Total comprehensive income for the year	-	-	-	-	319,308,477	319,308,477
Surplus transferred to unappropriated profit during the year	-	-	-	-	2,155,310	2,155,310
Transfer to statutory reserve	-	-	15,984,258	-	(15,984,258)	-
Balance as at June 30, 2019	<u>1,008,000,000</u>	<u>378,000,000</u>	<u>1,119,474,106</u>	<u>640,000,000</u>	<u>366,248,017</u>	<u>3,511,722,123</u>

* 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 Officer

Chief Financial Officer

Director

Director

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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 is at 6th Floor HBZ Plaza, I.I Chundrigar Road, Karachi.

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 the adoption of IFRS 9 (see note 3.3).

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.

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 IFRS - 9 'Financial Instruments', wherever applicable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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 22.7 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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 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 3 – Definition of a Business (Amendments)	January 01, 2020
IFRS 3 – Business Combinations : Previously held in a joint operation	January 01, 2019
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
IFRS 11 – Joint Arrangements : Previously held interests in a joint operation	January 01, 2019
IAS 1 / IAS 28 – Definition of Material (Amendments)	January 01, 2020
IAS 23 – Borrowing Costs – Borrowing cost eligible for capitalisation	January 01, 2019
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 Company's financial statements in the period of initial application other than IFRS 16 'Leases' for which the Company is currently evaluating the potential impact on its financial statements.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB in December 2017. Such improvements are generally effective for annual reporting period beginning on or after January 01, 2019. The Modaraba expects that such improvements to the standards will not have any material impact on the Company'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 January 01, 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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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:

IFRS 9 – Financial Instruments

IFRS 15 – Revenue from contracts with customers (Amendments)

IFRS 2 – Share-based Payments – Classification and Measurement of Share-based Payments Transactions (Amendments)

IFRS 4 – Insurance Contracts – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)

IAS 40 – Investment Property: Transfers of Investment Property (Amendments)

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any effect on the financial statements except as described in note 3.3

3.3 IFRS 9 - 'Financial Instruments'

IFRS 9 'Financial Instruments' has replaced IAS 39 'Financial Instruments: Recognition and Measurement' for annual periods beginning on or after July 01, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Modaraba has applied IFRS 9, with the initial application date of July 01, 2018 as notified by the Securities and Exchange Commission of Pakistan (SECP).

Upon adoption of IFRS 9, the Modaraba has not restated comparative information.

(a) Changes to Classification and measurement of financial assets

The IFRS 9 has replaced current categories of financial assets (Held For Trading (HFT), Available For Sale (AFS) and held-to-maturity) by the following classifications of financial assets:

- 1) Debt instruments at amortised cost
- 2) Debt instruments at Fair Value Through Other Comprehensive Income (FVOCI), with gains or losses recycled to profit and loss account on derecognition
- 3) Equity instruments at FVOCI, with no recycling of gains or losses to profit and loss account on derecognition
- 4) Financial assets at Fair Value through Profit or Loss

The accounting for financial liabilities remains largely the same as it was under IAS 39.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

Under IFRS 9, the classification is based on two criteria, a) the entity's business model for managing the assets; and b) whether the instruments' contractual cashflows represent 'solely payments of principal and profit' on the principal amount outstanding. The assessment of the Modoraba's business model was made as at the date of initial application i.e. July 01, 2018, and then applied retrospectively to those financial assets that were not derecognised before July 01, 2018.

As a result of the above assessment, the management has concluded that all the investments in shares of listed companies and Ijarah GOP sukuk bonds previously classified as 'Available for Sale' will be re-classified as 'at Fair Value through Other Comprehensive Income' in accordance with the objectives of the Modoraba.

The table below shows information relating to financial assets that have been reclassified as a result of transition to IFRS 9:

	As at June 30, 2018	Impact of adoption of IFRS 9 (Rupees)	As at July 01, 2018
Impact on Balance Sheet			
Investments - 'Available for sale'	1,258,858,121	(1,258,858,121)	-
Investments - 'At fair value through OCI'	-	1,258,858,121	1,258,858,121

(b) Impairment

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

However, NBF1 & Modaraba Association of Pakistan, based on the clarification of the SECP, have informed all its members that the provisioning criteria will remain those as framed under Modaraba Ordinance, 1980 and Rules & Regulations framed therein. Accordingly, the Modaraba has maintained provision against financing assets in accordance with relevant laws applicable to Modaraba.

Furthermore, the management has made an assessment of impairment under expected credit loss model of IFRS 9 for financial assets other than financing assets i.e. balances with banks and other financial assets, and concluded that impact is not material to 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.

4.1 Revenue recognition

Lease financing installments are recognized on accrual basis.

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

Income on diminishing musharaka financing is recognized on accrual basis.

Income on 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

4.2 Fixed assets

(a) Lease financing assets

Lease financing assets are stated at cost less accumulated depreciation. Depreciation is charged to profit and loss account 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 Organisation for Islamic Financial Institutions (AAOIFI) shariah standard.

(b) Assets in own use

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

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

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

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

(c) Gain or loss on disposal

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

(d) Impairment

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

4.3 Intangible assets

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

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

4.4 Financial instruments - New accounting policies effective for the period beginning on July 01, 2018

In the current period, the Modaraba has adopted IFRS 9 Financial Instruments. See note 3.3 for an explanation of the impact. Comparative figures for the year ended June 30, 2018 have not been restated as allowed by IFRS 9. Therefore, financial instruments in the comparative period are still accounted for in accordance with IAS 39.

Initial recognition and measurement

Financial assets and liabilities, with the exception of bank balances, loans and advances to employees / counter parties and due to counterparties, are initially recognised on the trade date, i.e., the date that the Modaraba becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

Bank balances and loans and advances to employees / counter parties are recognised when funds are transferred to the banks / employees / counterparties. The Modaraba recognises due to counterparties when funds reach the Modaraba.

All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Modarabas business model for managing them.

Financial assets measured at amortised cost

A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding. The Modaraba includes in this category short-term non-financing receivables, accrued income and other receivables.

Financial assets measured at fair value through profit or loss

A financial asset is measured at fair value through profit or loss if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and profit on the principal amount outstanding; or
- (b) It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- (c) At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets measured at fair value through OCI

Debt instrument

The Modaraba measures debt instruments at fair value through OCI if both of the following conditions are met:

- (a) The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

For debt instruments at fair value through OCI, profit income, foreign exchange revaluation and impairment losses or reversals are recognised in the profit and loss account and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit and loss account.

Equity instrument

Upon initial recognition, the Modaraba can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 - 'Financial Instruments: Presentation and are not held for trading'. The classification is determined on an instrument-by-instrument basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

Gains and losses on these financial assets are never recycled to profit and loss account. Dividends are recognised as other income in the statement of profit and loss account when the right of payment has been established, except when the Modaraba benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial liabilities

Financial liabilities measured at amortised cost

This category includes all financial liabilities, other than those measured at fair value through profit or loss. The Modaraba includes in this category short-term payables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired, or the Modaraba has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and the Modaraba has:

- (a) transferred substantially all of the risks and rewards of the asset; or
- (b) neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Modaraba has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Modaraba's continuing involvement in the asset. In that case, the Modaraba also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Modaraba has retained. The Modaraba derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Modaraba has a legally enforceable right to set-off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

4.5 Financial instruments - Following accounting policies were effective for the year ended or before June 30, 2018

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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.

4.6 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 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 and Diminishing musharaka financing, in accordance with the Prudential Regulations for Modarabas. Bad debts are written-off when identified.

4.8 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.

4.9 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.

4.10 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

4.11 Compensated absences

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

4.12 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.

4.13 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.

4.14 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.

4.15 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
First Habib Modaraba Employee Contributory Provident Fund	Associate	Common Management
First Habib Modaraba Employee Staff Gratuity Fund	Associate	Common Management
Habib Metro Modaraba	Associate	Common Management and Control

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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, 2018, were audited by KPMG AG, who expressed an unmodified opinion on those financial statements on April 23, 2019.

	Note	2019	2018
-----Rupees-----			
5. LEASE FINANCING ASSETS			
Lease financing assets	5.1	2,582,968,016	2,405,932,689
Advance against lease financing assets	5.2	156,403,733	496,895,872
		2,739,371,749	2,902,828,561

5.1 Lease financing assets

Particulars	COST			DEPRECIATION			Written down value as at end of the year	Rate of depreciation %
	As at beginning of the year	Additions / (disposals) during the year	As at end of the year	As at beginning of the year	Charge / (adjustments) for the year	As at end of the year		
	----- (Rupees) -----							
Plant, machinery and equipment*	703,554,089	264,471,579 (79,619,466)	888,406,202	451,426,014	174,976,947 (66,095,904)	560,307,057	328,099,145	8.33 to 50
Vehicles	3,866,952,960	1,294,453,545 (1,011,168,267)	4,150,238,238	1,713,148,346	943,180,160 (760,959,139)	1,895,369,367	2,254,868,871	15 to 33.33
	4,570,507,049	1,558,925,124 (1,090,787,733)	5,038,644,440	2,164,574,360	1,118,157,107 (827,055,043)	2,455,676,424	2,582,968,016	

Particulars	COST			DEPRECIATION			Written down value as at end of the year	Rate of depreciation %
	As at beginning of the year	Additions / (disposals) during the year	As at end of the year	As at beginning of the year	Charge / (adjustments) for the year	As at end of the year		
	----- (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
	4,062,243,833	1,503,405,631 (995,142,415)	4,570,507,049	1,929,734,659	986,942,283 (752,102,582)	2,164,574,360	2,405,932,689	

* The cost has been adjusted with impairment amounting to Rs.8.028 (2018: Rs.8.028) million.

	Note	2019	2018
-----Rupees-----			
5.2 Advances against lease financing assets			
As at beginning of the year		496,895,872	308,466,436
Add: Disbursements during the year		1,218,432,985	1,691,835,067
		1,715,328,857	2,000,301,503
Less: Transfers to lease financing assets		(1,558,925,124)	(1,503,405,631)
As at end of the year		156,403,733	496,895,872

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
Rupees			
6. FIXED ASSETS IN OWN USE			
Assets in own use	6.1	42,733,150	28,908,707
Capital work-in-progress	6.2	1,215,689	1,228,600
		43,948,839	30,137,307

6.1 Assets in own use

Particulars	2019							
	COST			DEPRECIATION			Written down value as at end of the year	Rate of depreciation %
	As at beginning of the year	Additions / (disposals) during the year	As at end of the year	As at beginning of the year	Charge / (adjustments) for the year	As at end of the year		
(Rupees)								
Office equipment	18,368,257	3,697,940 (150,000)	21,916,197	14,035,341	2,381,930 (149,999)	16,267,272	5,648,925	25 to 33.33
Furniture and fixture	13,620,126	796,200 (75,000)	14,341,326	7,204,006	1,763,001 (74,999)	8,892,008	5,449,318	20 to 25
Vehicles	9,510,128	18,483,943 (4,770,500)	23,223,571	4,785,932	2,350,127 (3,751,784)	3,384,275	19,839,296	16.67
Leasehold improvements	14,657,804	1,442,714	16,100,518	1,222,329	3,082,578	4,304,907	11,795,611	20
	56,156,315	24,420,797 (4,995,500)	75,581,612	27,247,608	9,577,636 (3,976,782)	32,848,462	42,733,150	

Particulars	2018							
	COST			DEPRECIATION			Written down value as at end of the year	Rate of depreciation %
	As at beginning of the year	Additions / (disposals) during the year	As at end of the year	As at beginning of the year	Charge / (adjustments) for the year	As at end of the year		
(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 to 25
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
	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	

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
Assets with Individual book value exceeding rupees 500,000								
Vehicles								
Toyota Corolla XLI (AM)	1,610,500	775,500	835,000	938,400	103,400	As per Company Policy	Amir Manzoor	Employee
	<u>1,610,500</u>	<u>775,500</u>	<u>835,000</u>	<u>938,400</u>	<u>103,400</u>			
Aggregate of other items of asset in own use with individual book value not exceeding Rupees 500,000	3,385,000	3,201,282	183,718	494,982	311,264			
Total as at 30 June, 2019	<u>4,995,500</u>	<u>3,976,782</u>	<u>1,018,718</u>	<u>1,433,382</u>	<u>414,664</u>			
Total as at 30 June, 2018	<u>2,847,549</u>	<u>1,904,382</u>	<u>943,167</u>	<u>1,079,698</u>	<u>136,531</u>			

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
-----Rupees-----			
6.2 Capital work-in-progress			
As at the beginning of the year		1,228,600	745,625
Add: Addition to capital work-in-progress		1,215,689	2,985,846
		2,444,289	3,731,471
Less: Transfers to assets in own use		(1,228,600)	(2,502,871)
As at end of the year		1,215,689	1,228,600

7. INTANGIBLE ASSETS

Particulars	COST			AMORTIZATION			Written down value as at end of the year	Rate of depreciation %
	As at beginning of the year	Additions / (disposals) during the year	As at end of the year	As at beginning of the year	Charge / (adjustments) for the year	As at end of the year		
----- (Rupees) -----								
Computer software - June 30, 2019	3,807,214	-	3,807,214	3,499,763	130,065	3,629,828	177,386	33.33
Computer software - June 30, 2018	3,462,649	344,565	3,807,214	3,427,130	72,633	3,499,763	307,451	33.33

	Note	2019	2018
-----Rupees-----			
8. DIMINISHING MUSHARAKA FINANCING			
Secured			
Diminishing musharaka financing	8.1	6,508,601,566	4,576,809,818
Less: Provision in respect of diminishing musharaka		(7,844,072)	-
	8.2	6,500,757,494	4,576,809,818
Less: Current portion shown in current assets		(2,450,084,489)	(2,245,975,863)
		4,050,673,005	2,330,833,955
Add: Advance against diminishing musharaka financing		439,147,379	1,019,122,356
		4,489,820,384	3,349,956,311

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

8.2 Aging of diminishing musharaka financing

Classification	Aging	2019	2018
Considered good	1 to 179 days	6,500,757,494	4,576,809,818
Portfolio classified as non-performing as per the requirement of the Prudential Regulations for Modarabas:			
Other asset especially mentioned (OAEM)	180 days to 1 year	4,182,571	-
Substandard	1 year or more	781,478	-
Doubtful	2 years or more	1,700,000	-
Loss	3 years or more	1,180,023	-
	8.2.1	7,844,072	-
		6,508,601,566	4,576,809,818

8.2.1 This also includes provision on subjective basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

10.2 This represents investment in AA- rated, privately placed, perpetual, unsecured, subordinated, non-cumulative, and contingent convertible shariah compliant sukuk of Meezan Bank Limited, having face value of Rs.1,000,000 per certificate and carries profit at the rate of 3 Months KIBOR + 1.75% per annum.

10.3 Investment in Ijarah GOP sukuk bonds

Number of sukuk bonds of Rs. 100 each		Name of issuing body	2019		2018		
			Average Cost	Market Value	Average Cost	Market Value	
2019	2018		------(Rupees)-----				
-	1,000,000	Government of Pakistan	10.3.1	-	-	1,002,776,390	1,003,800,000

10.3.1 Movement in premium on sukuk bonds	Note	2019	2018
		-----Rupees-----	
As at beginning of the year		2,776,390	8,118,310
Add: Addition to premium on purchase of sukuk bonds		-	-
		2,776,390	8,118,310
Less: Amortization of premium during the year		(2,776,390)	(5,341,920)
As at end of the year		-	2,776,390

10.3.2 These Ijarah GOP sukuk bonds were matured during the year.

10.4 These carry profit at rates ranging from 9.20% to 12.00% (2018: Nil) per annum, maturing latest by December 2019 (2018: Nil).

10.5 Movement in category of available for sale from last year is due to the adoption of IFRS 9 during the year by the Modaraba (see note 3.3).

11. LEASE FINANCING INSTALLMENTS RECEIVABLE

Secured - considered good

Lease financing installments due

Less: Provision against lease

financing installments receivable

11.1

	12,674,326	3,839,247
	(110,258)	(1,700,000)
	12,564,068	2,139,247
	12,564,068	2,139,247

11.1 Aging of lease financing installments receivable

Classification

Considered good

Aging

1 to 179 days

Portfolio classified as non-performing as per the requirement of the Prudential Regulations for Modarabas:

Other asset especially mentioned (OAEM)	180 days to 1 year	110,258	-
Substandard	1 year or more	-	1,700,000
Doubtful	2 years or more	-	-
Loss	3 years or more	-	-
	11.1.1	110,258	1,700,000
		12,674,326	3,839,247

11.1.1 This also includes provision on subjective basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
-----Rupees-----			
12. DIMINISHING MUSHARAKA FINANCING INSTALLMENTS RECEIVABLE			
Secured - considered good			
Diminishing Musharaka financing installments receivable		48,694,833	3,834,285
Less: Provision against Diminishing Musharaka financing installments receivable		(4,022,749)	-
	12.1	44,672,084	3,834,285
12.1 Aging of Diminishing Musharaka financing installments receivable			
Classification	Aging		
Considered good	1 to 179 days	44,672,084	3,834,285
Portfolio classified as non-performing as per the requirement of the Prudential Regulations for Modarabas:			
	180 days to 1 year	3,839,700	-
Other asset especially mentioned (OAEM)	Substandard	183,049	-
	Doubtful	-	-
	Loss	-	-
	12.1.1	4,022,749	-
		48,694,833	3,834,285
12.1.1 This also includes provision on subjective basis.			
13. ADVANCES AND PREPAYMENTS			
Advances		941,527	-
Prepayments		2,963,636	4,595,951
		3,905,163	4,595,951
14. OTHER RECEIVABLES			
Unsecured - considered good			
Profit receivable on modaraba deposit accounts		1,164,564	1,221,213
Profit receivable on Term Deposit Musharakas (TDMs)		7,301,416	-
Profit receivable on Ijarah GOP sukuk bonds		-	2,184,427
Profit receivable on sukuk		792,740	-
Advance tax		23,997,064	24,038,813
Receivable against disposal of shares		-	11,716,341
Dividend receivable		-	960,000
Other receivables		-	4,735,300
		33,255,784	44,856,094

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
-----Rupees-----			
15. INCOME TAX REFUNDABLE			
Income tax refund	15.1	137,031,924	113,683,111

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 2018, since the management is confident that the same shall be refunded.

16. CASH AND BANK BALANCES

Stamps in hand		554,950	699,900
At banks			
Current accounts			
State Bank of Pakistan		253,130	167,091
With other banks		12,114,823	37,049,405
Profit bearing accounts			
Modaraba deposit account with Habib Metropolitan Bank Limited (Islamic branch) - a related party	16.1	33,601,380	262,554,485
Modaraba deposit account with other financial institutions	16.2	4,100,421	20,397,623
		37,701,801	282,952,108
		50,624,704	320,868,504

16.1 The profit on the above modaraba deposit accounts ranges between 3.84% to 9.30% (2018: 3.80% to 3.84%) per annum.

16.2 The profit on the above modaraba deposit accounts ranges between 2.60% to 6.26% (2018: 2.00% to 5.95%) per annum.

17. ISSUED, SUBSCRIBED AND PAID-UP CERTIFICATE CAPITAL

2019	2018			
----- (Number of certificates) -----				
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	2019	2018
-----Rupees-----			
18. RESERVES			
Capital reserves			
Premium on issuance of certificates		378,000,000	378,000,000
Statutory reserves	18.1	1,119,474,106	1,103,489,848
		1,497,474,106	1,481,489,848
Revenue reserves			
General		640,000,000	640,000,000
Unappropriated profit		366,248,017	312,768,488
		1,006,248,017	952,768,488
		2,503,722,123	2,434,258,336

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	317,360,806	1,258,858,121
Less: Cost of investments	(192,480,787)	(1,140,980,229)
	124,880,019	117,877,892
Surplus on revaluation at beginning of the year	117,877,892	117,635,373
Surplus transferred to unappropriated profit during the year	(2,155,310)	(8,223,090)
Surplus on revaluation during the year	9,157,437	7,605,126
Impairment loss on investment in equity security classified as 'available-for-sale'	-	860,483
	7,002,127	242,519
	124,880,019	117,877,892

19.1 Surplus on revaluation of investments 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.

20. SECURITY DEPOSITS AGAINST LEASE FINANCING ASSETS

Lease security deposits	20.1	448,715,412	476,169,474
Less: Current portion shown under current liabilities		(146,941,089)	(60,141,012)
		301,774,323	416,028,462

20.1 These represent deposits from lease without any remuneration.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
-----Rupees-----			
21. CERTIFICATES OF INVESTMENT (MUSHARAKA)			
Unsecured			
Certificates of Investment (musharaka)		6,149,278,129	5,593,061,023
21.1 Movement in Certificates of Investment (musharaka)			
As at beginning of the year		5,593,061,023	3,913,784,732
Add: Certificates issued during the year	21.1.1	19,728,360,733	11,577,055,345
		25,321,421,756	15,490,840,077
Less: Encashment		(19,172,143,627)	(9,897,779,054)
As at end of the year		6,149,278,129	5,593,061,023
21.1.1 The rollover amount of Rs.3,209,819,520 (2018: Rs.3,438,805,107) 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 5.60% to 12.30% (2018: 5.20% to 6.55%) per annum.			
22. TRADE AND OTHER PAYABLES			
Accrued liabilities	22.1	104,696,571	81,838,111
Adjustable against lease financing contracts	22.2	195,852,949	173,045,449
Advance against sale of diminishing musharaka units		22,420,159	56,214,844
Lease financing payable		29,943	29,943
Diminishing musharaka financing payable		49,500	-
Diminishing musharaka customer contribution		8,570,293	10,509,133
Workers' Welfare Fund	22.3	30,992,908	24,468,721
Management fee payable	22.4	36,776,702	33,311,460
Sales tax on management fee payable	22.5	13,666,845	8,885,873
Sales tax on management fee payable to previous management company	22.6	38,653,418	38,653,418
Gratuity payable	22.7	376,174	-
Payable to provident fund	22.8	-	-
		452,085,462	426,956,952
22.1 This includes charity payable amounting to Rs.0.239 (2018: Rs.0.134) million. The reconciliation is as follows:			
Balance as at beginning of the year		133,958	729,850
Addition during the year		1,188,899	539,108
Less: Paid to recognized charitable organisations		(1,083,950)	(1,135,000)
Balance as at end of the year		238,907	133,958

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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.

Subsequent to the year end, the Modaraba received a notice vide letter no. SRB /AC-37/2019-20/63, wherein, the Sindh Revenue Board (SRB) has advised the Modaraba to pay off all its liabilities falling due under the Sindh Workers' Welfare Fund Act, 2014 (SWWF Act). As per SWWF Act, Workers' Welfare Fund (WWF) levy is required to be paid on total income accruing after December 31, 2013. As the Modaraba has its operations all across Pakistan therefore total income declared in its tax return is a cumulative sum of income for all provinces but the management understands that the SWWF Act is limited only to the province of Sindh and till the time there is any mechanism available for apportionment of total income relevant to the province of Sindh, no WWF liability to SRB can be paid out. On these grounds and foreseeing the expected WWF demand along with penal actions from SRB, the Modaraba filed an appeal with the Honorable Sindh High Court (SHC) and subsequent to the year end, the Honorable SHC has restrained the SRB from levy of WWF under the SWWF Act. However, the management 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) considering it as prudent.

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, 2019 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% (2018: 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. 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 4.10(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, 2019 using the Projected Unit Credit Method.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

Note	2019	2018
	-----Rupees-----	
b. Reconciliation of balance due to defined benefit plan:		
Present value of defined benefit obligation	29,800,925	26,013,336
Fair value of plan assets	(29,424,751)	(26,013,336)
Net defined liability / (assets)	376,174	-
c. Amount charged to profit and loss account (P&L):		
Current service cost	2,074,489	1,999,060
Interest cost	2,519,503	2,204,365
Expected return on plan assets	(2,519,503)	(2,204,365)
	2,074,489	1,999,060
Defined benefit plan		
Total defined benefit cost recognized in P&L and other comprehensive income	2,074,489	1,999,060
d. Re-measurement recognized in other comprehensive income (OCI) during the year:		
Actuarial gain on obligation	(484,315)	(1,240,824)
Actuarial loss on assets	861,000	1,210,580
Remeasurement loss / (gain) recognized in OCI	376,685	(30,244)
Total defined benefit cost recognized in P&L and OCI	2,451,174	1,968,816
e. Movement in the liability / (asset) recognized in the balance sheet:		
Balance as at beginning of the year	-	-
Net charge for the year	2,074,489	1,999,060
Remeasurement gain recognised in OCI	376,685	(30,244)
Contribution to the fund	(2,075,000)	(1,968,816)
Balance as at end of the year	376,174	-
f. Movement in the present value of defined benefit obligation:		
Balance as at beginning of the year	26,013,336	24,716,485
Current service cost	2,074,489	1,999,060
Interest cost	2,519,503	2,204,365
Actual benefits paid during the year	(322,088)	(1,665,750)
Actuarial gain	(484,315)	(1,240,824)
Balance as at end of the year	29,800,925	26,013,336

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
-----Rupees-----			
g. Movement in the fair value of plan assets:			
Balance as at beginning of the year		26,013,336	24,716,485
Expected return		2,519,503	2,204,365
Contributions		2,075,000	1,968,816
Actual benefits paid during the year		(322,088)	(1,665,750)
Actuarial loss		(861,000)	(1,210,580)
Balance as at end of the year		29,424,751	26,013,336
h. Principal actuarial assumptions used are as follows:			
Expected rate of long term salary increase per annum		14.50%	9.50%
Valuation discount rate		14.50%	9.50%

	2019	2018	2017	2016	2015
----- (Rupees) -----					
i. Comparisons for past years:					
As at end of the year					
Present value of defined benefit obligation	29,800,925	26,013,336	24,716,485	21,288,790	19,230,519
Fair value of plan assets	(29,424,751)	(26,013,336)	(24,716,485)	(21,288,790)	(19,230,519)
Deficit	376,174	-	-	-	-
Experience (gain) / loss on obligation	(484,315)	(1,240,824)	(85,901)	(1,103,482)	1,186,377
Experience loss on plan assets	(861,000)	(1,210,580)	(983,504)	(1,049,808)	(1,059,585)

	Note	2019	2018
-----Rupees-----			
j. Major categories / composition of plan assets are as follows:			
Habib Islamic Investment Certificate		25,620,000	23,194,204
Bank deposits		3,804,751	2,819,132
		29,424,751	26,013,336

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.1.658 (2018: Rs.0.994) million.

k. Expected gratuity cost for the year ending June 30, 2020

The expected gratuity cost charge for the year ending June 30, 2020 amounts to Rs. 2.442 million. The actual cost will be determined after valuation of the Fund as at June 30, 2020 when the actuarial gains and losses arising during the year ending June 30, 2020 will be available.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

22.8 Provident Fund related disclosures

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

	Note	2019	2018
-----Rupees-----			
Size of the fund - total assets		63,148,310	55,512,455
Cost of investments made		42,472,881	39,697,498
Fair value of investments	22.8.1 & 22.8.2	41,969,268	39,539,901
Percentage of investments made		66%	71%

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

	2019		2018	
	Percentage of the size of the fund	Rupees	Percentage of the size of the fund	Rupees
Investment in listed debt securities	0.20%	125,000	0.32%	175,000
Investment in unlisted debt securities	25.65%	16,200,000	47.60%	26,422,654
Investment in listed equity securities	3.62%	2,284,980	21.38%	11,870,210
Bank balances	36.99%	23,359,288	1.93%	1,072,037
	66%	41,969,268	71%	39,539,901

22.8.2 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.225 (2018: Rs.500) million has been agreed with an Islamic bank at profit rate of deposit rate + 1.00% (2018: 6 Month KIBOR + 0.25%) per annum, for financing of vehicles to be leased.

24. CONTINGENCIES AND COMMITMENTS

24.1 Contingencies

During the year, the Modaraba received a letter from Sindh Revenue Board (SRB) dated August 09, 2018, wherein, it is mentioned that the Assistant Commissioner (Unit-12) of the SRB came to know through scrutiny of the financial statements of the Modaraba for the fiscal year years 2012-2017 that the Modaraba is engaged in providing / rendering taxable services which falls under the Second Schedule of Sindh Sales Tax on Services Act, 2011 (the Act), and the sales tax on such services, i.e. on lease rentals / lease financing transactions aggregates to Rs.916.393 million which is outstanding. In view of this, the Modaraba was advised to submit certain financial records to SRB to ascertain the actual tax liability. Such letters were also received by some other Modarabas and collectively, a petition against the same was filed through a common legal counsel in the Honorable High Court of Sindh (HCS) challenging levy of Services Sales Tax on lease financing transactions including the vires of various headings of the Second Schedule of the Act. A stay order in this regard has been granted by the HCS stating that no adverse order in respect of the proposed treatment shall be made against the Petitioners.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

The management of the Modaraba based on its discussions with its legal counsel is of the view that in light of the stay order of the HCS and the merits of the matter involved, no provision for any sales tax liability on rentals of lease financing is required to be maintained in the financial statements for the year ended June 30, 2019.

24.2 Commitments

Commitments in respect of financing transactions amounted to Rs.338 (2018: Rs.279) million.

	Note	2019	2018
-----Rupees-----			
25. INCOME FROM LEASE FINANCING			
Lease financing installments	25.1	1,297,469,876	1,179,183,753
Less: Depreciation on lease financing assets		(1,118,157,107)	(986,942,283)
		179,312,769	192,241,470

25.1 This comprises of principal and profit components.

26. ADMINISTRATIVE EXPENSES

Salaries, allowances and other benefits	26.1	72,451,042	58,483,945
Printing, stationery and advertising		3,946,086	4,144,713
Travelling and conveyance		1,541,761	1,227,742
Insurance / takaful charges		522,654	323,409
Utilities		4,075,801	3,934,220
Postage		1,181,506	926,449
Newspapers and periodicals		34,513	31,047
Repairs and maintenance		2,634,237	2,320,557
Telecommunication		1,106,253	1,025,878
Fees and subscriptions		4,553,516	4,214,346
Legal and professional charges		5,209,812	2,356,629
Donations	26.2	840,000	840,000
Depreciation on fixed assets in own use	6.1	9,577,636	5,205,321
Amortization on intangible assets	7	130,065	72,633
Auditors' remuneration	26.3	2,818,595	2,339,574
Certificate registrar expenses		1,479,378	1,088,422
Vehicle running expenses		1,891,717	1,048,904
Office expense		2,230,354	2,238,441
Staff training and workshop		317,669	288,975
Staff hajj expenses		916,152	1,181,980
Rent expense		5,272,537	5,010,105
Information technology expenses		2,925,983	2,340,411
Miscellaneous		374,046	292,308
		126,031,313	100,936,009

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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:

	2019			2018		
	Officers*	Other employees	Total	Officers	Other employees	Total
	(Rupees)			(Rupees)		
Salaries	18,470,249	14,647,232	33,117,481	11,401,194	18,307,982	29,709,176
House rent	2,224,800	2,323,560	4,548,360	1,393,200	2,721,355	4,114,555
Other allowances	10,072,283	18,060,373	28,132,656	5,292,085	13,168,500	18,460,585
Insurance	849,971	1,042,778	1,892,749	433,183	1,404,029	1,837,212
Gratuity fund	1,424,103	650,386	2,074,489	987,838	1,011,222	1,999,060
Provident fund	1,485,312	1,199,995	2,685,307	913,420	1,449,936	2,363,356
	34,526,718	37,924,324	72,451,042	20,420,920	38,063,024	58,483,944
Number of employees	10	70	80	5	61	66

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 (2018: nil)

26.1.3 This includes contribution to staff provident fund amounting to Rs.2.685 (2018: Rs.2.363) 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	2019	2018
		(Rupees)	
26.3 Auditors' remuneration:			
Muniff Ziauddin & Co.			
Special audit			160,000
Out of pocket expenses		-	12,150
		-	172,150
Sales tax		-	12,800
		-	184,950
EY Ford Rhodes			
Audit fee		550,000	500,000
Special audit		450,000	300,000
Fee for half yearly review and code of corporate governance		220,000	200,000
Taxation and other services		1,134,384	979,124
Out of pocket expenses		275,860	95,500
		2,630,244	2,074,624
Sales tax		188,351	80,000
		2,818,595	2,154,624
		2,818,595	2,339,574

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
-----Rupees-----			
27. OTHER INCOME			
Dividend on shares	27.1	14,460,791	14,251,107
Gain on transfer of lease financing assets		14,934,774	16,034,042
Gain on sale of shares - net		-	1,431,899
Gain on sale of owned fixed assets - net		414,664	136,531
Profit on modaraba's deposit accounts		12,797,933	11,614,183
Profit on Term Deposit Musharakas (TDMs)		47,447,137	-
Profit on Ijarah GOP sukuk bonds		26,787,247	49,988,720
Profit on sukuk		8,008,110	-
Miscellaneous income		6,579,885	19,962,914
		131,430,541	113,419,396
27.1 Dividend on shares			
Meezan Bank Limited		6,553,875	4,237,500
Habib Sugar Mills Limited		4,154,337	2,643,669
Pakistan Petroleum Limited		172,500	2,136,188
Engro Fertilizers Limited		2,750,000	2,125,000
Pakistan Telecommunication Company Limited		-	2,000,000
The Hub Power Company Limited		280,000	810,000
Dawood Hercules Corporation Limited		750,000	100,000
Thatta Cement Company Limited		-	58,750
Fauji Cement Company Limited		50,000	140,000
		14,710,712	14,251,107
Less: Charity expense		(249,921)	-
		14,460,791	14,251,107
28. FINANCIAL CHARGES			
Profit on certificates of investment (musharaka)		529,734,534	262,111,117
Profit on murabaha financing		13,150,150	1,783,104
Bank commission and charges		580,389	405,668
		543,465,072	264,299,889
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			

	2019				2018			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Total future lease payments receivable	1,191,698,961	1,634,340,600	-	2,826,039,561	1,118,587,222	1,593,485,708	-	2,712,072,930

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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, First Habib Modaraba Employees' Provident Fund, First Habib Modaraba Employees' Gratuity Fund and key management personnel. Transactions and balances outstanding with related parties and associated undertakings are as follows:

			2019	2018
			Rupees	
Balances held				
Related party	Related party relationship	Nature of balances		
Habib Metropolitan Bank Limited	Holding Company	Bank Balances	45,314,995	299,220,335
		Certificates of investment (musharaka)	4,950,000,000	3,500,000,000
		Profit receivable	1,163,848	1,059,699
		Financial charges payable	74,258,904	33,930,822
		Utility charges payable	-	448,000
		Prepaid Utility charges	1,675,682	1,447,200
		Prepaid Rent	313,236	313,236
		Security deposit	130,000	130,000
		Lease financing assets*	2,941,523	22,713,700
Habib Bank AG Zurich	Ultimate Parent	Lease financing assets*	561,863	1,481,612
Habib Metropolitan Modaraba Management Company (Private) Limited	Management Company	Management fee payable	36,776,651	33,311,460
		Sale tax on management fee payable	13,666,838	8,885,873
Habib Metropolitan Financial Services Limited	Associate	Lease financing assets*	19,770	19,770
		Receivable against shares	-	11,716,341
Provident Fund	Associate	Certificates of investment (musharaka)	1,200,000	25,422,654
			2019	2018
			Rupees	
Transactions during the year	Related party relationship	Nature of transactions		
Habib Metropolitan Bank Limited	Holding Company	Profit on bank accounts	11,991,302	11,229,972
		Bank charges	563,191	403,362
		Utility charges	4,264,846	3,527,200
		Financial charges	386,695,215	119,700,348
		Lease financing installments received*	21,169,756	36,444,176
		Termination cost received	1,934,033	-
Habib Bank AG Zurich	Ultimate Parent	Lease financing installments received*	1,078,231	2,048,702
Habib Metropolitan Modaraba Management Company (Private) Limited	Management Company	Management fee	36,776,702	33,311,460
		Sale tax on management fee	4,780,972	4,330,490
		Management fee paid	33,311,460	35,041,406
		Dividend paid	25,200,000	20,160,000
Habib Metropolitan Financial Services Limited	Associate	Brokerage commission	29,695	220,000
		Purchase of securities	5,549,388	29,022,533
		Sale of securities	40,144,418	68,820,925
		Lease financing installments received*	-	501,369
Staff Retirement Benefit Fund	Associate	Gratuity fund	2,074,489	1,999,060
		Contribution made	2,075,000	1,968,816
Provident Fund	Associate	Contribution made	2,685,307	2,363,356

NOTES TO THE FINANCIAL STATEMENTS

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31.1 No remuneration in kind has been paid by the Modaraba to the directors and key management personnel of Modaraba 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, 2019, 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, 2019 is the carrying amount of the financial assets as set out below:

Note	2019	2018
-----Rupees-----		
Diminishing musharaka financing	6,939,904,873	5,595,932,174
Lease financing installments receivable	12,564,068	2,139,247
Diminishing musharaka financing installments receivable	44,672,084	3,834,285
Investment in sukuk and Term Deposit Musharakas (TDMs)	875,000,000	-
Long term deposits	1,206,850	1,215,850
Other receivables	9,258,720	20,817,281
Bank balances	49,816,624	320,001,513
	7,932,423,219	5,943,940,350

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				2019	2018
				-----Rupees-----	
Credit risk ratings					
Credit risk rating of the banks and their respective balances are given below:					
	Rating				
Banks	Short term	Long term	Agency		
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	45,314,995	299,220,335
Soneri Bank Limited	A1+	AA-	PACRA	-	20,311,343
Al Baraka Bank Limited	A1	A	PACRA	108,898	108,449
BankIslami Pakistan Limited	A1	A+	PACRA	244,667	244,602
Meezan Bank Limited	A1+	AA+	JCR-VIS	4,086,214	61,130
Bank Al-Habib Limited	A1+	AA+	PACRA	51,500	45,304
Dubai Islamic Bank Pakistan Limited	A1	AA	JCR-VIS	10,350	10,350
				49,816,624	320,001,513

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 38 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 35 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 Term Deposit Musharakas that are having short-term maturities. Only a limited proportion of its investments are of long-term in nature.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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, 2019, the fair value of equity and debt securities exposed to price risk was as follows:

Particulars	Average Cost	Fair Value	Average Cost	Fair Value
	2019	2019	2018	2018
----- (Rupees) -----				
Shares of listed companies	117,480,787	242,360,806	138,204,484	255,058,121
Ijarah GOP sukuk bonds	-	-	1,002,776,390	1,003,800,000
Sukuk	75,000,000	75,000,000	-	-
	<u>192,480,787</u>	<u>317,360,806</u>	<u>1,140,980,874</u>	<u>1,258,858,121</u>

Risk Management

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, 2019, the profile of the Modaraba's variable value financial instruments were as follows:

Note	2019	2018
	-----Rupees-----	
Variable rate instruments		
Assets		
Ijarah GOP sukuk bonds	-	1,003,800,000
Sukuk	75,000,000	-
Diminishing musharaka financing	6,508,601,566	4,576,809,818
Bank deposits	37,701,801	282,952,108
Liabilities		
Certificate of Investment (Musharaka)	(6,149,278,129)	(5,593,061,023)
Advance against murabaha financing	(225,000,000)	(25,000,000)
	<u>247,025,238</u>	<u>245,500,903</u>

Fair value sensitivity analysis for variable rate instruments

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

Asset / liability class (Having variable interest rates)	(Increase / Decrease)	Changes in profit / (loss)	
	(+/-)	------(Rupees)-----	
Assets			
Ijarah GOP sukuk bonds	100 basis points	-	10,038,000
Sukuk	100 basis points	750,000	-
Diminishing musharaka financing	100 basis points	65,086,016	45,768,098
Bank deposits	100 basis points	377,018	2,829,521
Liability			
Certificate of Investment (Musharaka)	100 basis points	(61,492,781)	(55,930,610)
Advance against murabaha financing	100 basis points	(2,250,000)	(250,000)

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 behaviour. 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

34. FAIR VALUE OF FINANCIAL AND NON-FINANCIAL ASSETS

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).

	2019				2019			
	Carrying amount			Total	Fair value			Total
	At fair value through OCI	At fair value through profit or loss	At amortised cost		Level 1	Level 2	Level 3	
	(Rupees)				(Rupees)			
Financial assets measured at fair value								
Shares of listed companies	242,360,806	-	-	242,360,806	242,360,806	-	-	242,360,806
Sukuk (note 34.1)	75,000,000	-	-	75,000,000	-	75,000,000	-	75,000,000
	<u>317,360,806</u>	<u>-</u>	<u>-</u>	<u>317,360,806</u>	<u>242,360,806</u>	<u>75,000,000</u>	<u>-</u>	<u>317,360,806</u>
Financial assets not measured at fair value								
(note 34.2)								
Investment in Term Deposit Musharaka (TDMs)	-	-	800,000,000	800,000,000				
Diminishing musharaka financing	-	-	6,939,904,873	6,939,904,873				
Long term deposits	-	-	1,206,850	1,206,850				
Lease financing installments receivables	-	-	12,564,068	12,564,068				
Diminishing musharaka financing installments receivables	-	-	44,672,084	44,672,084				
Advances	-	-	941,527	941,527				
Other receivables	-	-	9,258,720	9,258,720				
Cash and bank balances	-	-	50,624,704	50,624,704				
	<u>-</u>	<u>-</u>	<u>7,859,172,826</u>	<u>7,859,172,826</u>				

During the year ended June 30, 2019, 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.

	2019		
	At fair value	Other financial liabilities	Total
	(Rupees)		
Financial liabilities			
Security deposits against lease financing assets	-	448,715,412	448,715,412
Certificates of investment (musharaka)	-	6,149,278,129	6,149,278,129
Unearned lease financing and diminishing musharaka installments	-	17,566,187	17,566,187
Advance lease financing and diminishing musharaka installments	-	32,284,117	32,284,117
Trade and other payables	-	368,772,291	368,772,291
Profit payable on certificates of investment (musharaka)	-	112,261,524	112,261,524
Advance against murabaha	-	225,000,000	225,000,000
Profit payable on murabaha financing	-	11,750,958	11,750,958
Unclaimed profit distributions	-	38,480,299	38,480,299
	<u>-</u>	<u>7,404,108,917</u>	<u>7,404,108,917</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

	2018							
	Carrying amount				Fair value			
	Investments	Loans and other receivables	Cash and cash equivalents	Total	Level 1	Level 2	Level 3	Total
	(Rupees)				(Rupees)			
Financial assets measured at fair value								
'Available-for-sale'								
Shares of listed companies	255,058,121	-	-	255,058,121	255,058,121	-	-	255,058,121
Ijarah GOP sukuk bonds	1,003,800,000	-	-	1,003,800,000	-	1,003,800,000	-	1,003,800,000
	1,258,858,121	-	-	1,258,858,121	255,058,121	1,003,800,000	-	1,258,858,121
Financial assets not measured at fair value								
Diminishing musharaka financing	-	5,595,932,174	-	5,595,932,174				
Long term 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				
Other receivables	-	20,817,281	-	20,817,281				
Cash and bank balances	-	-	320,868,504	320,868,504				
	-	5,623,938,837	320,868,504	5,944,807,341				

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.

	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	-	354,948,940	354,948,940
Profit payable on certificates of investment (musharaka)	-	74,332,870	74,332,870
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
	-	6,647,112,416	6,647,112,416

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

Investment in sukuk, issued by Meezan Bank Limited, 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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.

	2019									
	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	2,739,371,749	90,898,593	166,461,249	240,001,028	447,058,064	689,108,763	427,307,417	688,536,635	-	-
Fixed assets in own use	43,948,839	977,023	1,943,762	2,842,972	5,450,647	10,411,876	8,824,083	9,839,078	3,659,398	-
Intangible assets	177,386	10,839	21,678	29,981	57,428	57,460	-	-	-	-
Diminishing musharaka financing	6,939,904,873	252,880,427	433,570,384	640,409,438	1,231,738,534	2,084,934,598	1,361,463,904	921,748,456	13,159,132	-
Investments	1,117,360,806	-	-	800,000,000	317,360,806	-	-	-	-	-
Lease financing installments receivable	12,564,068	12,564,068	-	-	-	-	-	-	-	-
Diminishing musharaka financing installments receivable	44,672,084	44,672,084	-	-	-	-	-	-	-	-
Advances, deposits and prepayments	5,112,013	631,481	779,140	208,071	129,255	3,364,066	-	-	-	-
Income tax refundable	137,031,524	-	-	-	137,031,524	-	-	-	-	-
Other receivables	33,255,784	9,258,720	-	-	23,997,064	-	-	-	-	-
Cash and bank balances	50,624,704	50,624,704	-	-	-	-	-	-	-	-
	11,124,024,230	462,517,939	602,776,213	1,883,491,480	2,162,823,722	2,797,876,763	1,797,595,404	1,800,124,169	16,818,530	-
Liabilities										
Security deposits against lease financing assets	448,715,412	50,110,826	11,050,920	11,625,257	74,048,942	88,553,669	128,696,285	84,629,513	-	-
Certificates of investment (musharaka)	6,149,278,129	2,590,085,548	3,447,106,678	73,200,000	78,885,903	-	-	-	-	-
Unearned lease financing and diminishing musharaka installments	17,566,187	-	-	-	17,566,187	-	-	-	-	-
Advance lease financing and diminishing musharaka installments	32,284,117	-	-	-	32,284,117	-	-	-	-	-
Trade and other payables	452,085,462	103,885,286	51,710,449	-	265,486,819	30,992,908	-	-	-	-
Profit payable on certificates of investment (musharaka)	112,261,524	46,554,487	62,930,549	1,336,343	1,440,145	-	-	-	-	-
Advance against murabaha	225,000,000	-	225,000,000	-	-	-	-	-	-	-
Profit payable on murabaha financing	11,750,958	-	11,750,958	-	-	-	-	-	-	-
Unclaimed profit distributions	38,480,299	38,480,299	-	-	-	-	-	-	-	-
	7,487,422,088	2,789,116,446	3,809,549,554	86,161,800	469,722,113	119,546,577	128,696,285	84,629,513	-	-
Difference	3,636,602,142									
Represented by:										
Issued, subscribed and paid-up certificate capital	1,008,000,000									
Reserves	2,503,722,123									
Total Equity	3,511,722,123									
Surplus on revaluation of investments	124,880,019									
	3,636,602,142									

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	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	-
Fixed assets in own use	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 receivable	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	-
Other receivables	44,856,094	18,616,354	-	2,184,427	24,055,313	-	-	-	-	-
Income tax refundable	113,683,111	-	-	-	113,683,111	-	-	-	-	-
Cash and bank balances	320,868,504	320,868,504	-	-	-	-	-	-	-	-
	10,279,256,656	429,435,405	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	-	-
Certificates 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 certificates of investment (musharaka)	74,332,870	35,664,206	36,567,785	696,053	1,404,826	-	-	-	-	-
Advance against murabaha financing	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	<u>3,560,136,228</u>									
Represented by:										
Issued, subscribed and paid-up certificate capital	1,008,000,000									
Reserves	2,434,258,336									
Total Equity	<u>3,442,258,336</u>									
Surplus on revaluation of investments	117,877,892									
	<u>3,560,136,228</u>									

36. FINANCIAL ASSETS AND LIABILITIES

	2019						
	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		
	(Rupees)						
Financial assets							
Cash and bank balances	37,701,801	-	37,701,801	12,922,903	-	12,922,903	50,624,704
Other receivables	-	-	-	9,258,720	-	9,258,720	9,258,720
Investments	800,000,000	75,000,000	875,000,000	242,360,806	-	242,360,806	1,117,360,806
Lease financing installments receivable	12,564,068	-	12,564,068	-	-	-	12,564,068
Diminishing musharaka financing installments receivable	44,672,084	-	44,672,084	-	-	-	44,672,084
Long term deposits	-	-	-	-	1,206,850	1,206,850	1,206,850
Advances	-	-	-	941,527	-	941,527	941,527
Diminishing musharaka financing	2,450,084,489	4,489,820,384	6,939,904,873	-	-	-	6,939,904,873
	3,345,022,442	4,564,820,384	7,909,842,826	264,542,429	2,148,377	266,690,806	8,176,533,632
Financial liabilities							
Security deposits against lease financing assets	-	-	-	146,941,089	301,774,323	448,715,412	448,715,412
Certificates of investment (musharaka)	6,149,278,129	-	6,149,278,129	-	-	-	6,149,278,129
Unearned lease financing and diminishing musharaka installments	17,566,187	-	17,566,187	-	-	-	17,566,187
Advance lease financing and diminishing musharaka installments	32,284,117	-	32,284,117	-	-	-	32,284,117
Advance against murabaha	225,000,000	-	225,000,000	-	-	-	225,000,000
Profit payable on murabaha financing	-	-	-	11,750,958	-	11,750,958	11,750,958
Trade and other payables	-	-	-	368,772,291	-	368,772,291	368,772,291
Profit payable on certificates of investment (musharaka)	-	-	-	112,261,524	-	112,261,524	112,261,524
Unclaimed profit distribution	-	-	-	38,480,299	-	38,480,299	38,480,299
	6,424,128,433	-	6,424,128,433	678,206,161	301,774,323	979,980,484	7,404,108,917
On balance sheet gap	(3,079,105,991)	4,564,820,384	1,485,714,393	(413,663,732)	(299,625,946)	(713,289,678)	772,424,715
Lease financing assets	944,418,934	1,794,952,815	2,739,371,749	-	-	-	2,739,371,749

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

	2018						Total
	Profit bearing			Non-profit bearing			
	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	
	----- (Rupees) -----						
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 receivable	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 financing assets	-	-	-	60,141,012	416,028,462	476,169,474	476,169,474
Certificates 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	25,000,000	-	25,000,000	-	-	-	25,000,000
Profit payable on murabaha financing	-	-	-	9,986	-	9,986	9,986
Trade and other payables	-	-	-	354,948,940	-	354,948,940	354,948,940
Profit payable on certificates of investment (musharaka)	-	-	-	74,332,870	-	74,332,870	74,332,870
Unclaimed profit distribution	-	-	-	33,936,746	-	33,936,746	33,936,746
	5,707,714,400	-	5,707,714,400	523,369,554	416,028,462	939,398,016	6,647,112,416
On balance sheet gap	(2,165,607,257)	3,349,956,311	1,184,349,054	(212,983,396)	(414,812,612)	(627,796,008)	556,553,046
Lease financing assets	291,748,473	2,611,080,088	2,902,828,561	-	-	-	2,902,828,561

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

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

(i) Yield / profit rate risk

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

(ii) Market risk

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

(iii) Fair values of financial assets and liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

37. SEGMENT BY CLASS OF BUSINESS OF FINANCING ASSETS

	2019		2018	
	Rupees	%	Rupees	%
Auto and allied	414,778,567	4.29	337,061,244	3.97
Cable and electric goods	279,917,995	2.89	310,866,942	3.66
Cargo, courier and logistic services	442,493,304	4.57	474,608,579	5.58
Cement	87,410,159	0.90	100,506,436	1.18
Chemical	661,847,623	6.84	625,795,301	7.36
Construction	159,943,915	1.65	168,229,830	1.98
Education	272,219,049	2.81	310,647,317	3.66
Fertilizer	207,034,654	2.14	208,855,092	2.46
Financial institutions	154,828,405	1.60	169,976,725	2.00
Food and allied	778,163,994	8.04	718,583,228	8.46
Fuel, power and energy	25,602,010	0.26	36,458,853	0.43
Glass and ceramics	54,336,317	0.56	50,954,658	0.60
Health care	174,860,471	1.81	199,347,254	2.35
Individuals	575,464,904	5.95	303,473,696	3.57
Information technology	286,498,264	2.96	238,024,849	2.80
Leather and tanneries	15,180,401	0.16	14,808,824	0.17
Oil and gas exploration	91,376,302	0.94	99,912,546	1.18
Paper and board	45,486,114	0.47	24,390,966	0.29
Pharmaceutical	1,677,465,684	17.33	1,149,118,918	13.52
Refinery, lubricant, oil and gas marketing	596,813,151	6.17	539,817,806	6.35
Services	1,807,116,764	18.67	1,765,273,795	20.77
Steel and engineering	336,558,392	3.48	202,417,112	2.38
Sugar and allied	139,310,550	1.44	126,001,423	1.48
Textile	352,101,567	3.64	323,629,341	3.81
Others	42,468,066	0.44	-	0.00
	9,679,276,622	100.00	8,498,760,735	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:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

	2019				2018			
	Advances, deposits, prepayments	Diminishing musharaka financing	Diminishing musharaka financing installment receivables	Lease financing installments receivables	Advances, deposits, prepayments	Diminishing musharaka financing	Diminishing musharaka financing installment receivables	Lease financing installments receivables
	(Rupees)				(Rupees)			
Segment by class of business								
Auto and allied	-	388,582,427	3,005,706	241,074	-	303,266,627	138,437	-
Cable and electrical goods	-	195,595,212	711,226	249,202	-	161,536,248	39,454	248,404
Cargo, courier and logistic services	-	267,685,449	2,155,437	222,552	-	236,169,846	326,829	-
Cement	-	87,410,159	439,962	-	-	100,506,436	41,407	-
Chemical	-	410,634,293	3,803,515	1,068,208	-	331,529,668	118,820	95,252
Construction	-	136,845,176	2,289,561	689,292	-	135,307,111	195,066	-
Education	-	145,101,088	438,839	195,166	-	155,946,382	47,774	-
Fertilizer	-	107,767,177	547,587	32,530	-	35,022,018	1,260	-
Financial institutions	2,621,418	100,635,168	174,866	245,561	2,068,048	136,850,634	26,137	-
Food and allied	-	761,102,828	3,276,360	-	-	665,051,606	496,475	442,692
Fuel, power and energy	-	23,810,899	153,224	8,688	-	26,312,364	21,656	2,634
Glass and ceramics	-	51,992,982	508,912	279,875	-	45,512,683	13,516	-
Health care	-	151,261,124	1,808,476	274,607	-	167,114,847	67,079	-
Individuals	-	571,628,296	2,161,270	61,225	-	297,132,960	454,091	-
Information technology	231,330	246,964,188	660,662	124,135	46,800	191,901,614	108,832	-
Leather and tennaries	-	11,821,101	104,432	26,157	-	10,009,824	25,733	-
Oil and gas exploration	-	73,158,295	785,005	-	-	70,308,488	118,741	-
Others	-	39,031,556	376,344	48,340	-	22,346,221	-	59,798
Paper and board	-	32,589,698	339,541	185,431	-	13,220,172	4,325	8,400
Pharmaceuticals	-	898,429,536	6,565,573	1,544,051	-	625,871,090	1,050,190	832,858
Refinery, lubricant, oil and gas marketing	-	510,823,611	3,541,409	39,560	-	462,958,078	115,371	1,800
Services	2,259,265	974,219,567	6,305,183	5,442,025	3,696,953	871,271,216	226,065	445,393
Steel and engineering	-	329,151,425	1,972,874	524,223	-	180,307,140	38,987	-
Sugar and allied	-	101,708,136	133,428	1,005,734	-	84,147,212	34,874	-
Textile	-	321,955,482	2,412,692	56,432	-	266,331,689	123,166	2,016
	5,112,013	6,939,904,873	44,672,084	12,564,068	5,811,801	5,595,932,174	3,834,285	2,139,247

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	2019	2018
		-----Rupees-----	
Profit for the year		319,685,162	289,560,557
Weighted average number of certificates of Rs. 5/- each		201,600,000	201,600,000
Earnings per certificate		1.59	1.44

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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	
	2019	2018	2019	2018	2019	2018
------(Rupees)-----						
Segment revenues and (losses) / profits						
Revenue - net of depreciation, where applicable	179,312,769	192,241,470	734,364,170	393,547,475	913,676,939	585,788,945
Costs	(258,419,568)	(149,243,158)	(285,045,504)	(115,056,731)	(543,465,072)	(264,299,889)
Reportable segment (loss) / profit	(79,106,799)	42,998,312	449,318,666	278,490,744	370,211,867	321,489,056
Segment assets and liabilities						
Reportable segment assets						
Lease financing asset	2,739,371,749	2,902,828,561	-	-	2,739,371,749	2,902,828,561
Diminishing musharaka financing	-	-	4,489,820,384	3,349,956,311	4,489,820,384	3,349,956,311
Current portion of diminishing musharaka financing	-	-	2,450,084,489	2,245,975,863	2,450,084,489	2,245,975,863
Lease financing installments receivable	12,564,068	2,139,247	-	-	12,564,068	2,139,247
Diminishing musharaka financing installments receivable	-	-	44,672,084	3,834,285	44,672,084	3,834,285
	2,751,935,817	2,904,967,808	6,984,576,957	5,599,766,459	9,736,512,774	8,504,734,267
Reportable segment liabilities						
Security deposits against lease financing assets	301,774,323	416,028,462	-	-	301,774,323	416,028,462
Certificates of investment (musharaka)	2,924,003,546	3,158,253,663	3,225,274,583	2,434,807,360	6,149,278,129	5,593,061,023
Security deposits - current portion	146,941,089	60,141,012	-	-	146,941,089	60,141,012
Unearned lease financing and diminishing musharaka installments	7,799,685	45,854,179	9,766,502	17,635,293	17,566,187	63,489,472
Advance lease financing and diminishing musharaka installments	28,967,486	23,451,257	3,316,631	2,712,648	32,284,117	26,163,905
Adjustable against lease financing contracts	195,852,949	173,045,449	-	-	195,852,949	173,045,449
Lease financing payable	29,943	29,943	-	-	29,943	29,943
Advance against sale of diminishing musharaka	-	-	22,420,159	56,214,844	22,420,159	56,214,844
Diminishing musharaka financing payable	-	-	49,500	-	49,500	-
Diminishing musharaka customer contribution	-	-	8,570,293	10,509,133	8,570,293	10,509,133
	3,605,369,021	3,876,803,965	3,269,397,668	2,521,879,278	6,874,766,689	6,398,683,243

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities, is as follow:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

Note	2019	2018
	-----Rupees-----	
Revenues		
Revenue classified in segment reported	913,676,939	585,788,945
Profit		
Profit classified in segment reported	370,211,867	321,489,056
Provision in respect of diminishing musharaka	(7,844,072)	-
Administrative expenses	(126,031,313)	(100,936,009)
Other income	131,430,541	113,419,396
Impairment loss on investment in equity security classified as 'available-for-sale'	-	(860,483)
Modaraba Management Company's remuneration	(36,776,702)	(33,311,460)
Sales tax on Modaraba Management Company's remuneration	(4,780,972)	(4,330,490)
Provision for Sindh Workers' Welfare Fund	(6,524,187)	(5,909,453)
Taxation	-	-
	319,685,162	289,560,557
Assets		
Assets classified in segment reported	9,736,512,774	8,504,734,267
Assets in own use	43,948,839	30,137,307
Intangible assets	177,386	307,451
Long term deposits	1,206,850	1,215,850
Investments	1,117,360,806	1,258,858,121
Advances and prepayments	3,905,163	4,595,951
Other receivables	33,255,784	44,856,094
Income tax refundable	137,031,924	113,683,111
Cash and bank balances	50,624,704	320,868,504
	11,124,024,230	10,279,256,656
Liabilities		
Liability classified in segment reported	6,874,766,689	6,398,683,243
Trade and other payables	225,162,618	187,157,583
Profit payable on certificates of investment (musharaka)	112,261,524	74,332,870
Profit payable on murabaha financing	11,750,958	9,986
Advance against murabaha financing	225,000,000	25,000,000
Unclaimed profit distribution	38,480,299	33,936,746
	7,487,422,088	6,719,120,428

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
-----Rupees-----			
41. CASH GENERATED FROM OPERATIONS			
Profit for the year		319,685,162	289,560,557
Adjustment for:			
Gain on disposal of assets:			
Lease financing assets		(14,934,774)	(16,034,042)
Assets in own use		(414,664)	(136,531)
Depreciation on fixed assets:			
Lease financing assets		1,118,157,107	986,942,283
Assets in own use		9,577,636	5,205,321
Amortization of intangible assets		130,065	72,633
Amortization of sukuk		2,776,390	5,341,920
Impairment loss on investment in equity security classified as 'available-for-sale'		-	860,483
Provision in respect of diminishing musharaka		7,844,072	-
Provision for gratuity		2,074,489	1,999,060
Dividend income		(14,460,791)	(14,251,107)
Gain on disposal of investments - net		-	(1,431,899)
Financial charges		542,884,684	263,894,221
Movement in working capital	41.1	(74,262,247)	89,073,174
		1,899,057,129	1,611,096,073
41.1 Movement in working capital			
(Decrease) / Increase in current assets:			
Lease financing installments receivable		(10,424,821)	(1,064,552)
Diminishing Musharaka financing installments receivable		(48,681,871)	(3,441,778)
Advances and prepayments		690,788	3,121,136
Income tax refundable		(23,348,813)	(24,677,033)
Other receivables		22,553,207	23,517,634
		(59,211,510)	(2,544,593)
Increase / (decrease) in current liabilities:			
Advance lease financing and diminishing musharaka installments		6,120,212	3,577,314
Unearned lease financing and diminishing musharaka installments		(45,923,285)	38,970,061
Trade and other payables		24,752,336	49,070,392
		(15,050,737)	91,617,767
		(74,262,247)	89,073,174

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

42. PROFIT DISTRIBUTION AND APPROPRIATION

Subsequent to the year ended June 30, 2019, the Board of Directors of the Modaraba Management Company has declared a final distribution of Rs.1.40 per certificate, amounting to total profit distribution of Rs.282 million (2018: Rs.1.25 per certificate, amounting to total profit distribution of Rs.252 million) in its meeting held on August 29, 2019.

	Note	2019	2018
-----Rupees-----			
43. NUMBER OF EMPLOYEES			
Total number of employees at end of the year		71	56
Average number of employees for the year		64	50

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, 2019 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 Officer

Chief Financial Officer

Director

Director