







---

## **A JOURNEY OF LONG PARTNERSHIP**

---

According to Modaraba concept in Islamic Finance, Modaraba is a kind of partnership wherein one party provides finance to other for the purpose of carrying business and sharing profits earned through mixture of investment and expertise.

Being pioneering in Modaraba sector within the country, First Habib Modaraba (FHM) has developed partnership with various segments of investors and keep on generating value for all of them.

This partnership of FHM sown 29 years back and now has grown manifold. Enriching every relationship and creating huge benefits through sharing profits every year and complementing each other's progress.

FHM value and encourage mutually beneficial partnership all along on our long journey ahead.

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

# VISION



# MISSION

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

## CREDIT RATINGS - BY PACRA

**AA+**

LONG TERM

**A1+**

SHORT TERM

The Pakistan Credit Rating Agency (Private) Limited (PACRA) has once again maintained the long-term and short-term ratings of First Habib Modaraba at "AA+" and "A1+" respectively for the period ended 30<sup>th</sup> June 2013. These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

# CONTENTS

Vision and Mission	4	<b>Corporate Governance</b>	
About First Habib Modaraba (FHM)	9	Directors' Profile	52
Corporate Information	10	Certificate Holders' Information	54
Code of Business Conduct and Ethics	11	Pattern of Certificate Holding	56
Core Values	12	Statement of Compliance	58
Strategic Corporate Objectives	13	Review Report to the Certificate Holders	60
		Board Committees	61
<b>Management Review and Representations</b>		Organizational Structure	62
Directors' Report	14	Shariah Advisor's Profile	63
Economic Review	15	Role of Chairman and Chief Executive Officer	64
Financial Sector Overview	16	Performance Evaluation of the Board	65
Business Review of FHM	17	Performance Evaluation of the Chief Executive Officer	65
Awards and Achievements	18	Report of the Audit Committee	66
Business Development Activity	19	Avoiding Conflict of Interest Policy	68
Business Outlook	20	Policy for Protection of Data of the Company	68
Future Strategy	21	IT Governance Policy	69
Risk Management Framework	22	Environment and Social Responsibilities	70
Information Technology	25	Human Resource	71
Internal Control	26	Investors' Grievance Policy	72
Liquidity Risk Management Process	29	Stakeholders Engagement	73
Strategic Key Performance Indicators	30	Whistle Blowing Policy	74
Business Continuity Plan & DRP	31		
Segment-Wise Review	32	<b>Other Supplementary Information</b>	
Energy Saving Measures	33	Memberships	76
Quality Assurance	33	FHM Awards Calendar	78
Sustainability	34	FHM Events Calendar	79
Corporate Social Responsibility	34	Awards & Accolades	80
Energy Conservation	34	Products Detail	88
Customer Protection Measures	35		
Environment Protection Measures	35	<b>Financial Statements</b>	
Business Ethics and Anti-Corruption Measures	35	Shariah Advisors Review Report	93
		Auditors' Report to the Certificate Holders	96
<b>Stakeholder's Information</b>		Balance Sheet	97
Key Financial Data of Six Years at a Glance	38	Profit & Loss Account	98
Summary of Cash Flow	39	Statement of Comprehensive Income	99
Graphical Presentation of Financial Summary	40	Cash Flow Statement	100
Balance Sheet Composition	41	Statement of Changes in Equity	101
Horizontal Analysis	42	Notes to the Accounts	102
Vertical Analysis	43		
Comments on Financial Ratios	44	<b>Glossary</b>	128
Value Added Statement	46		
Share Price Sensitivity Analysis	47		
Variance in Quarterly Report	47		
Dupont Analysis	48		
Notice of Annual Review Meeting (ARM)	49		
ARM Decision and its Implementation	50		
Customer Satisfaction	51		







## About First Habib Modaraba

Alhamdulillah, First Habib Modaraba (FHM) has completed 29 years of successful business operation. FHM being the pioneer in Modaraba sector grew over the year on sound footing with the commitment of adding value to all our stakeholders particularly our investors.

FHM is well on its Vision to be a leading Islamic Financial Institution within the Modaraba sector and its mission to build institution on Trust, Integrity and enhance value through excellent performance and good governance.

The efficacy of FHM's business strategy and prudent risk management policies have always supported the management to maintain outstanding assets quality while ensuring sustainability of performance despite the increasingly competitive operating environment in Pakistan's financial market.

Since last several years FHM has been securing AA+ rating as long term rating from Pakistan Credit Rating Agency Ltd., (PACRA). Besides, FHM has received several awards and recognition on best performance, best corporate report, best corporate disclosure and corporate excellence received from reputable bodies, such as NBF and Modaraba Association, ICAP and ICMAP, Management Association of Pakistan, and SAFA an apex body of SAARC.

By the grace of God, FHM is among one of the best Islamic Financial Services Institutions within non-banking financial sector. Sound and satisfactory performance of FHM on year on year basis is outcome of our well planned corporate strategy and business focus which reach us to target market and capture right opportunities in right time.

Our strategy remains clear, focused and well targeted on business development, on building deep and long standing relationships with our all partners and on improving the service delivery and solutions.

We will continue our steady performance by striking a careful balance between risk and reward for achieving a sustained growth under the Shariah principle of Islamic Finance.

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

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

### AUDITORS

Muniff Ziauddin & Company  
Chartered Accountants

### LEGAL ADVISOR

Mohsin Tayebaly & Company  
Ahmed & Qazi Advocates & Legal Consultants

### AUDIT COMMITTEE

Mr. Syed Rasheed Akhtar	- Chairman
Mr. Abbas Ali Muhammad	- Member
Mr. Wazir Mumtaz Ahmed	- Member
Mr. Shakeel Ahmed	- Secretary

### HUMAN RESOURCE COMMITTEE

Mr. Abbas Ali Muhammad	- Chairman
Mr. Wazir Mumtaz Ahmed	- Member
Mr. Syed Rasheed Akhtar	- Member

### COMPANY SECRETARY

Mr. Adnan Thanwey

### REGISTRAR:

Noble Computer Services (Pvt.) Limited  
Mezzanine Floor, House of Habib Building  
(Siddiqsons Tower),  
3-Jinnah Cooperative Housing Society,  
Main Shahrah-e-Faisal, Karachi, Pakistan.  
Tel: 021-34325482-87

### BANKERS

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

### REGISTERED OFFICE

5<sup>th</sup> Floor, HBZ Plaza (Hirani Centre)  
I.I. Chundrigar Road, Karachi.

Tel: 021-32635949-51

Fax: 021-32627373

UAN : 111-346-346

Web : [www.habibmodaraba.com](http://www.habibmodaraba.com)

Email : [fhm@habibmodaraba.com](mailto:fhm@habibmodaraba.com)

### GEOGRAPHICAL PRESENCE - BRANCH OFFICES

#### Lahore Branch:

1st Floor, 5-Z Block, Phase III, Defence Housing  
Authority, Lahore.

Tel: 042-35693074-76, Fax: 042-35693077

#### Islamabad Branch:

Office No. 7, Mezzanine Floor, Razia Shareef Plaza  
Blue Area, Islamabad.

Tel: 051-32278865-67, Fax: 051-2278868

#### Multan Branch:

Mezzanine Floor, Abdali Tower,  
Abdali Road, Multan.

Tel : 061-4500121-3, Fax : 061-4588810

## CODE OF BUSINESS CONDUCT AND ETHICS

FHM's Code of Ethics spells out the standards of behavior and operating principles to be followed by the employees. Our Code of Ethics requires that it is necessary to ensure that the appropriate standards of behavior are followed to the letter and spirit in accordance with the approved and agreed Code of Conduct by the employees of FHM.

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

- \* Uphold Shariah governance culture and atmosphere in line with Islamic principles.
- \* 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.
- \* Should uphold fair view while choosing right and wrong.
- \* 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.

# OUR CORE VALUES ARE.....

## CUSTOMER FIRST

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

## INTEGRITY

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

## TEAM WORK

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

## 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.

## RESPONSIVE

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

## QUALITY SERVICE

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

# STRATEGIC CORPORATE OBJECTIVES



- ➔ To be the leading Modaraba within the Modaraba sector as an Islamic Financial Institution.
- ➔ To carry out all business transactions in line with approved mode of Shariah principles of Islamic finance.
- ➔ To maintain high ethical and professional standards.
- ➔ To build a high performance culture, with growth oriented focus.
- ➔ To promote economically productive ethical activities.
- ➔ To achieve sustainable growth and profitability in all areas of business of FHM.
- ➔ To provide state of art services to customers and develop service oriented culture within FHM.
- ➔ 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.

## DIRECTORS' REPORT



On behalf of the Board of Directors, I am pleased to present the audited accounts of the First Habib Modaraba (FHM) for the year ended June 30, 2014.

### Financials

Profit before modaraba company remuneration	329,489,599
Modaraba company remuneration	(32,948,960)
Sales tax on Management company remuneration	(5,271,834)
Profit for the year	285,443,429
Un-appropriated profit B/F	11,116,436
Profit available for appropriation	296,559,865
<hr/>	
Earning per certificate of Rs. 5/- each	1.42

### Appropriations

Cash dividend @ 22%	221,760,000
Transfer to Statutory Reserve	57,088,686
Unappropriated Profit C/F	17,711,179
	296,559,865

### Dividend payment

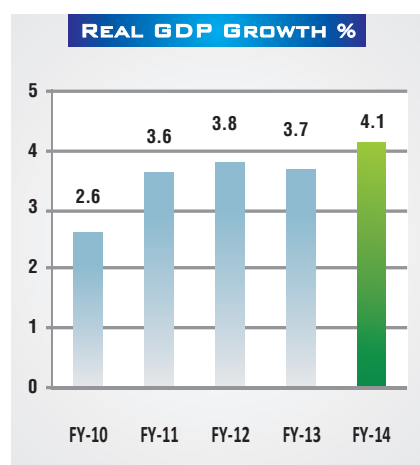
The board of directors has pleased to declare a cash dividend of 22% i.e. Rs.1.10 per certificate of Rs.5/- each for the period ended 30th June, 2014.



## ECONOMIC REVIEW

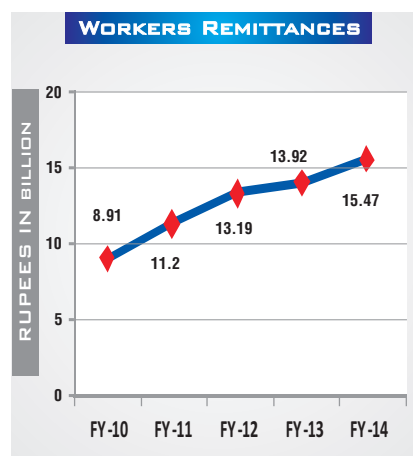
Despite challenges, the country's economy has performed reasonably well during 2013-2014 as compared to corresponding period of last year. The year represents a completion of the first fiscal tenure of the existing Government. The ruling party inherited some major challenges particularly terrorism, lawlessness, power shortage, economic mismanagement, unemployment and price hike. However, the major economic indicators including growth rate, inflation, foreign remittances, foreign exchange reserves, external trade and industrial growth have shown satisfactory position to some extent.

The economy is showing encouraging sign by following serious economic agenda and striving sincerely to implement it. Early positive results, particularly stabilizing foreign exchange reserves, appreciation of exchange rate, better industrial growth and exceptional increases in remittances, historical heights of Karachi Stock Exchange, successful launching of Eurobond and auction of 3G/4G licenses are the key achievement of present government.



The GDP is estimated to have grown towards the end of the year at a rate of 4.1% as compared to the budgeted rate of 4.4% for the year and a rate of 3.7% in the prior year. The growth momentum is broad based and all the three major sectors namely

agriculture, industrial and services have provided support to improve economic growth. The industrial sector particularly Large Manufacturing sector posted good growth as compared to growth rate of last year



The government borrowing for the outgoing fiscal year has also reduced. Lower borrowing from domestic channels by the government was largely on account of foreign funds received by the country. The inflation for FY14 witnessed an uptick to 8.62% in contrast with preceding year inflation of 7.36%. It is pertinent to note that preceding year inflation was the lowest inflation numbers recorded in the preceding five years.

In South Asia, performance of Pakistan is improving quantitatively and qualitatively as the growth is broad based and touched almost all sectors of the economy. The growth recorded for 2013-14 is the highest level of achievement since 2008-09 and it is expected that the same will increase further in coming years as business climate is gradually improving in positive direction.

In a report issued early this month, IMF has expressed satisfaction on the overall performance of the government in meeting the targets agreed between the government and IMF. Recently Moody's Investors

Service has upgraded the outlook of Pakistan's economy from negative to stable. In a report published by the agency on the progress of Pakistan's economy, Moody's said the country's foreign exchange reserves had significantly improved and its current account deficit is also under control.

In latest update on monetary policy statement, the State Bank of Pakistan (SBP) has decided to keep the policy rate unchanged at 10 percent. According to SBP the economic conditions are certainly better at the beginning of FY15 than a year ago but a detailed assessment of the economy indicates that some challenges and vulnerabilities are still remained with economy.

In conclusion we expect that overall positive growth sentiments together with continuation of IMF program, encouraging note of ADB and Moody's about the Pakistan's economy, government's privatization plan, stability of Pak Rupee, high sentiment of investors and better perception of Pakistan in global market, this result in further strengthening of business environment and sound external position in current financial year. However, security issues and non-ending energy crises will remain major challenges for economic growth at a desire level.

## FINANCIAL SECTOR OVERVIEW

Financial institutions of our country deliver significant and unique value to the country's economy and businesses, investors, and savers. Particularly our banking sector is playing vital role for economic development of Pakistan.

The banking sector in during the year 2013 remained slightly under pressure due to challenging operating environment with high level of competition and economic uncertainties. However, performance for the year ended 31st December, 2013, remained satisfactory and increase in overall assets, deposit and profits have been reported. During the years the assets grew at 8% and deposit base has expanded by 14%. Profitability of banks has risen and major share of profit remain with five big banks of the country.

After a gap of six years, advances of Pakistan scheduled banks grew by 10.8% in FY14 as compared to 3.4% in FY13. According to report the advances growth is highest since 2008 economic crisis and is broad-based mainly in external trade activities, working capital, fixed investment and consumer financing.

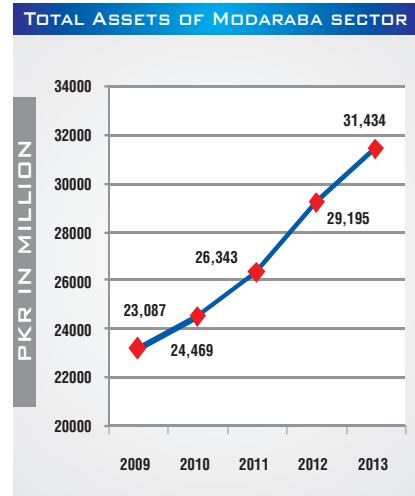
Likewise Islamic Banking industry is also growing at good pace with annual growth rate of around 30% since last several years. The assets size of Islamic banks is reached to over one trillion Pak rupees and deposits grown to over Rs.800.0 billion with branch network of about 1300.

The NBF & Modaraba Sector has also performed well for the period ended 30th June, 2013 particularly with reference to some of the members who turnaround their entities and booked profits during the year after booking losses since the financial tsunami of 2008. The Modaraba Sector continued to perform well within the NBF sector and distributed good dividends. The asset base of the Modaraba sector grew from Rs.29,196

million to Rs.31,434 million (an increase of 7.5% y-o-y). The total equity of the Modaraba sector went up to Rs.13,824 million.

Recently government has formed Steering Committee for promotion of Islamic banking and finance within the country. Modaraba sector has also become the part of this committee and a subcommittee formed by the Government having representation of SBP and SECP. We are hopeful that work undertaken by these committees will provide comprehensive solutions across the board for further promotion of Islamic finance within banking and non-banking sector.

SECP is very keen for development of a strong NBF sector. A year back SECP constituted an NBF Sector Reform Committee to conduct an in-depth review of the whole business model and prevalent regime with a fresh perspective and suggest reforms for the growth of NBF sector. The recommendations of the Committee were published in the form of a report for public consultation. A good number of market professionals, industry participants and financial institutions provided comments on the report. At present SECP is in process



to change regulatory framework of Modarabas and NBFCs in the light of recommendations of reform committee and it is expected that same will be implemented soon. We are hopeful that reform will greatly support for expansion of NBFC and Modaraba sector.

### SHARE OF FHM IN MODARABA SECTOR

Following table shows the market share of FHM as per the NBF & Modaraba Association of Pakistan Year Book 2013 for the financial year ended 30th June, 2013.

**(Rupees in million)**

	<b>Combine position of 24 Modarabas</b>	<b>FHM Share</b>	<b>% of FHM share to All Modarabas</b>
Total Equity	13,824	3,053	22%
Total Assets	31,434	4,719	15%
Ijarah Assets	10,100	2,942	29%
Net Profit	2,035	992.39	49%

## BUSINESS REVIEW OF FHM



Alhamdulillah, FHM has completed 29th year of successful business operation as non-bank Islamic financial institutions within the Modaraba sector. The enviable track record of more than quarter of century is the success story of sheer hard work and commitment to provide the investors a sound and continuous return. Consistency in distribution of dividends among the certificate holders along with increase in certificate holders' equity has made FHM a leading Modaraba within the sector.

FHM being pioneer in the Modaraba and Non-Banking Islamic Financial sector played a vital role for promotion of Islamic Finance in Pakistan's Islamic Financial Market. Over the years the 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.

Our successful performance history shapes the way for our future growth opportunities. The management remains committed in providing its valued investors with good return on their investment. We have been consistently gaining our due share within the market over the years. The confidence of our all stakeholders are also strengthening on the financial stability of FHM.

FHM focus on growth in prudent manner, commitment to deliver customer centric solutions through well defined corporate policies and coordinate action with team work for long term sustainable development.

During the year overall performance of the entire financial sector remained under pressure due to challenging operating environment with high level competition and economic uncertainties. However, under these challenging conditions, the performance of FHM remained satisfactory. The profitability has been maintained despite of reduction of discount rate by the SBP and increase of cost of business due to inflationary pressure within the economy.

During the year under review the disbursements with respect to Ijarah (lease) and Diminishing Musharaka financing were made of Rs.1,402.0 million and Rs.900.0 million respectively. Major portion of financing remain within the assets category of motor vehicle i.e. 76% of total financing and leading sector of disbursement were targeted such as Pharmaceuticals, Services, Food & Allied and Chemicals. Size of balance sheets has also been enhanced by 11% over last year.

Keeping in view of our strategy on product diversification, we have been continuously concentrating on the Diminishing Musharaka financing product. Disbursement in this

segment made of 41% of total financing as compared to 16% of last year. Our branches outside Karachi, i.e. Lahore, Islamabad and Multan have made significant contribution in disbursement as compared to corresponding period of last year and their share remain 52% of total financing. Moreover, good new corporate customers had also been added by these branches which will support to further enhance business volume in respective areas.

On liability side, good growth within the Certificate of Musharaka (COM) has also been made. The outstanding amount under COM was Rs.1,533.0 million at the end of year as compared to Rs.1,007.0 million of corresponding period of last year which grew by 52%. 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.

Alhamdulillah, during the year recovery on our financing portfolio remained at satisfactory level due to our continuous cautious lending approach while financing.

We Insha'Allah, keep focus on our core business objective i.e. to build quality assets portfolio in prudent manner in order to give sound and stable return to our investors by following best business practices and good governance.

## AWARDS AND ACHIEVEMENTS



Alhamdulillah, once again FHM has earned a series of accolades from prestigious institutions.

### **Best performing Modaraba Award from NBF and Modaraba Association of Pakistan**

For the financial year ended 30th June, 2013, the NBF and Modaraba Association of Pakistan, has awarded best performing Modaraba award to FHM within the Modaraba sector. The FHM has secured 1st position in above award category.

So far FHM has received 13 awards from NBF and Modaraba Association of Pakistan within last 15 years.

### **Best Corporate & Sustainability Report Award from ICAP/ICMAP**

The Joint Committee of Institute of Chartered Accountant of Pakistan (ICAP) and Institute of Cost & Management Accountant Pakistan (ICMAP) in their ceremony held on 22nd August, 2013 has awarded "Best Corporate Report Award" to FHM under the category of NBFCs.

According to sector segmentation of above committee, the NBFCs sector consisting on Insurance, Leasing, Investment banks, and Modarabas. Within the NBFCs sector five listed entities were selected and awarded for best report. Alhamdulillah, FHM is

one of them, secured "Second Position". By the Grace of God, this is fourth consecutive year for best corporate award and FHM is the only Modaraba in entire Modaraba sector who has been receiving this award since last four consecutive years.

### **Best Presented Account Award from "SAFA"**

South Asian Federation of Accountants (SAFA) in its award ceremony held in Islamabad, on 3rd May, 2014, awarded SAFA BPA "Certificate of Merit" award to FHM from the category of "Financial Services Sector" for "Best Presented Accounts" and "Corporate Governance Disclosures" for the year 2012. Within this sector, FHM was only nominees from Pakistan. This is fourth consecutive "Certificate of Merit" award to Habib Modaraba from SAFA committee.

SAFA is an Apex Body of South Asian Association for Regional Co-operation (SAARC) and represents membership of the national chartered accountancy and cost and management accountancy institutions in South Asian Countries namely Bangladesh, India, Nepal, Sri Lanka and Pakistan. By the grace of God, this is again a great achievement not only for FHM but certainly an honor for entire Modaraba and NBF sector.

### **Corporate Excellence Award from Management Association of Pakistan.**

In 29th Corporate Excellence Awards ceremony held in 22nd August, 2013, the Management Association of Pakistan (MAP) has awarded "Certificate of Excellence" award to FHM from the category of Equity Investment Instruments Sector. Alhamdulillah, since last six consecutive years FHM has been receiving this award. So far FHM has secured five Excellence Certificate Awards and one Excellence Trophy Award.

### **Credit Rating**

Pakistan Credit Rating Agency (Private) Limited, (PACRA) has again reposed their confidence in sound and stable position of FHM and maintained rating scale of AA+ for long term and A1+ for short term for the period ended 30th June, 2013. A1+ is highest rating in the short term scale. PACRA updated their rating on 14th January, 2014.

As per PACRA's assessment, these ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments. PACRA further added that FHM's sustained market position supplemented by robust asset quality and low leveraging.



## BUSINESS DEVELOPMENT ACTIVITY

During the year under review, we have successfully added good assets in our financing portfolio through financing of Ijarah and Diminishing Musharakah (DM) to sound and good quality customers. As diversification in mode of financing the concentration on enhancement in Diminishing Musharakah financing was made. The share of DM financing has been increased to 41% of total financing as compared to 16% of last year.

Financing on other mode such as Murabaha, Salam and Istisna are still keeping in abeyance due to tax issues as these modes are in nature of buy and sale of goods and tax authority treats income of such mode as trading income which does not qualify for income tax exemption within the relevant provision under the Tax Ordinance for Modarabas.

We are further exploring the possibility of entering into rental business segments of generator sets and other equipment. Our marketing department has made their initial study and found sound business segment. A detail study is in process which will cover financial feasibility, availability of potential customer & market, timeline of development of infrastructure & expertise to manage such business including hiring of asset manager and formation of appraisal and credit risk management techniques.

Within our assets category, motor vehicle is a major segment of our financing which is mainly in corporate sector. We reported in our last report that due to high prices of motor car, the corporate entities are gradually switching to give car allowances to their employees instead of providing company car. We have already started financing to corporate employees as individual financing and so far we have successfully developed a small portfolio. For 2014-15, we are planning to further expand individual car financing segment within the employees of good corporate entities with due care

strong credit appraisal and credit risk management.

Commercial vehicle is also one of the potential area within auto financing. In past our Modaraba kept away from this segment due to majority hold of un-organized sector in this business. However, as per market information now good corporate entities are



coming in Freight Forwarding and Logistic business and we are considering to start financing in this business on small level as a diversification in assets category.

We feel that this industry plays an important role in overall economy of the country and it is a back bone of any economy. A strong freight forwarding industry is imperative if the country is to capitalize on emerging opportunities as well as enhancing the efficiency of vulnerable industries. Pakistan freight forwarding industry has lot of potential as there are huge movements of goods from one end to another end within the country. Besides, due to geographical location of Pakistan it also offers vast opportunities to act as transit hub for its neighboring countries.

We are further studying to open more new location in province of Khyber Pakhtunkhwa (KPK) preferably in Peshawar. FHM has no presence in

KP and as initial information gathered by our marketing team that the business opportunities are gearing up in Peshawar for assets financing and generation of funds under Sharia compliant deposits i.e. Certificate of Musharaka. During the year open a one more branch in Punjab was postponed due to not having good experience with Multan branch. So far

our Multan branch is struggling for generation of deposits and engaging good corporate customer for financing.

The new government has taking care of energy issues and recently signed and given go ahead of several projects of energy sector for generation of electricity. We feel that by the passage of time energy crisis will minimize and this will open new business opportunities within the country particularly in Punjab province.

## BUSINESS OUTLOOK

The International Monetary Fund down its 2014 forecast for global economic growth. It reported that after negative surprises from the United States and China, the global economy is now expected to grow only 3.4% this year lowering its April estimate of 3.7%. In 2013, the world economy grew 3.2%. The unusual harsh weather and other factor lead to lowering the estimated growth. The geopolitical risks have increased due to recent development in Middle East which may spike oil prices and push inflation.

If we look at Pakistan's economy there are encouraging sign to some extent. However, achieving fiscal sustainability has been a major recurring challenge for policymakers. Fiscal discipline which has eroded in recent past is difficult to manage instantly.

The Tax-to-GDP ratio remained between 8.5pc to 9.5pc in recent years, one of the lowest in the region, and reflects structural imbalances. As a result, the country has relied largely on loan based and foreign remittances.

Higher fiscal deficits and very limited foreign inflows during recent past have resulted increase in short-term domestic borrowing and debt servicing costs.

If we look at financial sector, over the year private sectors lending showed satisfactory growth. Most economists said a healthy uptick in the private sector is a positive sign for the economy, indicating revival of industrial activities. The growth in credit off-take has started accelerating after last few years.

Likewise, size of Islamic Financial industry has also expanded and now at present is around 10% of overall banking assets base. The industry with its increasingly international footprint continues to demonstrate its resilience. The range of Shari'ah-compliant products and services available globally have significantly widened and capturing the market share.

Owing to overall positive growth sentiments and satisfactory views of IMF and other multilateral organizations on Pakistan, we expect positive growth in economy which will definitely lead to healthy business environment.





## FUTURE STRATEGY



Global Islamic finance since its inception decades back has grown substantially from being a niche into a vibrant industry. Growing annually by more than 20 percent, the Islamic financial industry asset base has increased to over US\$ 1.6 trillion. Similarly in Pakistan Islamic banking has been growing by over 30 percent annually and now its asset base has crossed Pak rupees 1 trillion mark.

However, with growth of this industry, the intense competitions within the Islamic financial institutions particularly with Islamic commercial banks are also growing. We being non-banking financial institutions also struggling hard to cope with this challenge particularly generation of low cost generation of funds which Islamic banks are enjoying at great level which support them to finance quality customer at competitive rate.

Under the current challenging economic environment we remain vigilant to the changing market dynamics and stands well positioned to further strengthen the existing growth momentum by focusing on enhancing market outreach and adding good customer within the existing portfolio through offering value added products and services.

As our business strategy we remain focused on following area in 2014-15.

- Add new good customers within the portfolio.
- Concentrate on products as diversification.
- Enhance size of retail deposit base from medium to long term for good quality lending.
- Enhance size of investment in sound, stable and dividend paying Shariah compliant listed securities along with Sukuk and Musharaka based TFCs.
- Refresh tool of risk management processes particularly credit risk management in line with latest techniques.
- Further strengthen Shariah governance and compliance culture.
- Further develop operation capacity of human resource through proper training.
- Keep abreast with technological advancements and upgrade core application with strong focus on better internal control and provide state of art services to customer.

Besides, as our core corporate strategy will also be focusing to reap the benefits of Islamic finance industry which is growing at good pace locally and worldwide. We have been continuously aligning our strategy particularly our business development strategies in such way to tap the potential market of Islamic finance to great extent as non-banking Islamic financial institutions.



- Expand market outreach through opening new locations.

## RISK MANAGEMENT FRAMEWORK

FHM manages risk through a framework of sound risk principles. Risk is an integral part of the financing business and risk management entails adoption of several measures to strengthen ability to cope with the dynamics of a complex business environment in which we operate. It involves setting the most appropriate course of action under uncertainty by predicting through its experience and then identifying, assessing, understanding, communicating and addressing the same.

Disciplined risk management and control are essential to our success. The approach to risk is grounded on the strong practices of Corporate Governance that are intended to strengthen FHM's enterprise risk management framework and also position the Modaraba to manage the changing business environment in an effective and efficient manner. Risk management is an essential pillar of our business strategy and is as critical in fulfilling the objective of the Modaraba. Risk management function is actively involved in measuring, controlling and reporting the risks across the organizations.

The governance of risk management starts with our Board, which plays an important role in reviewing and approving risk management policies and practices. The firm's governance structure provides the protocol and responsibilities for decision-making on risk management issues and ensures their adequate implementation.

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

FHM's risk management capabilities are circle around a strong management structure sound information system, an effective risk-rating system and robust policies. The primary objective of risk management is to maintain the FHM's financial

strength and ensure efficient capital deployment to support business growth.

### Risk types

At FHM, we possess a comprehensive risk management framework that enables us to monitor, evaluate and manage the risks we assume in conducting our day-to-day activities.

These include credit, market, liquidity and operational risk exposures which we can define as follows.

### Credit risk:

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

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

### Market risk:

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

### Liquidity and funding risk:

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

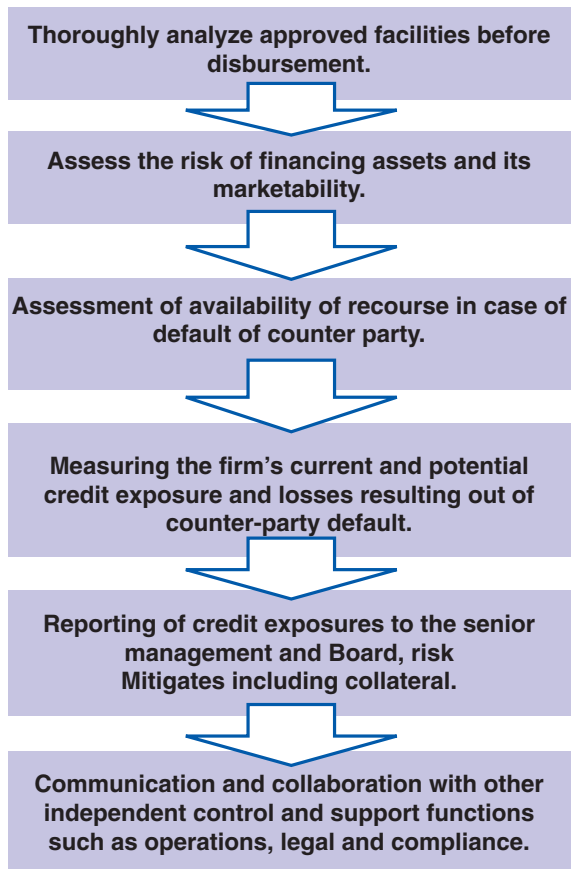
### Operational risk:

The risk of loss arising from inadequate or failed internal processes, people and systems, or the risk of loss resulting from external causes, whether deliberate, accidental or natural. Other related operational risks include:

- Legal risk
- Shariah non-compliance risk
- Reputational risk
- Compliance risk
- Strategic risk



**Credit risk management**



**Market risk management**

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

- Interest rate risk: Interest rate risk is the exposure of FHM's financial condition to adverse movements in interest rates arising from re-pricing and/ or maturity mismatches, changes in underlying rates and other characteristics of assets and liabilities in the normal course of business.
- Equity price risk: Results from exposures to changes in prices and volatility of individual equities, baskets of equities and equity indices.

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

market risks. ALCO members analyze the changes in interest rates and 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 risks. These include maintaining of:

- An interest rate risk management review process.
- Appropriate limits on risk taking.
- Adequate systems of risk measurement.
- A comprehensive interest rate risk reporting system and effective internal controls.

At present our almost 95% financing portfolio is linked with floating rate which review on quarterly/half yearly basis. This rate review support for interest rate risk management in case of volatile rate in the market. FHM has an adequate system of internal controls to ensure the integrity of its interest rate risk management processes and to promote effective and efficient operations, reliable financial and regulatory reporting and compliance with relevant laws, regulations and institutional policies.

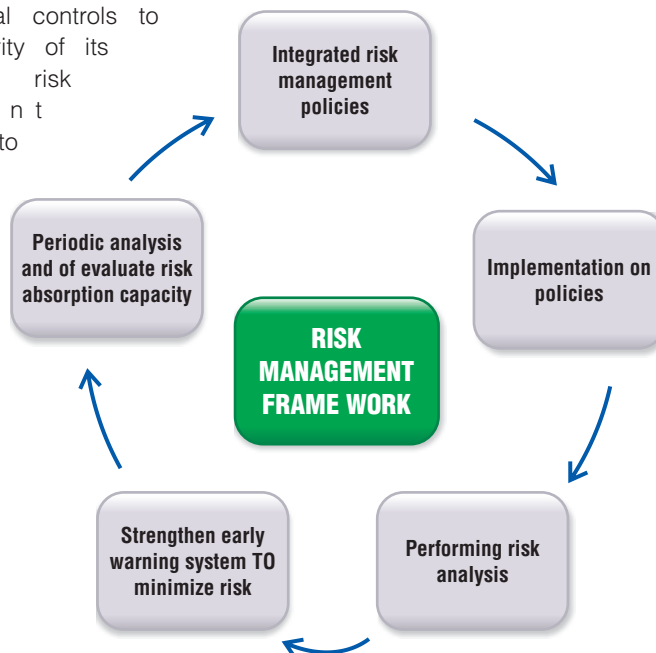
**Liquidity risk management**

Liquidity is of critical importance to financial institutions. Insufficient liquidity has been the cause behind most recent failures of financial institutions. FHM possesses a comprehensive and conservative set of liquidity and funding policies to address both firm-specific and broader industry/ market liquidity events. Our principal objective is to create a well-capitalized firm with a strong inherent ability of our core businesses to continue to generate revenue, even under adverse circumstances.

We manage liquidity risks according to the following principles:

**Asset-liability management:**

We assess anticipated holding periods for our assets and their expected liquidity in a stressed environment. We manage maturities and diversity of our funding across markets, products and counter-parties and seek to maintain liabilities of appropriate tenor relative to our asset base.





**Excess liquidity:**

We maintain substantially excess liquidity to meet a broad range of potential cash outflows and collateral needs in a stressed environment. We invest our liquid funds in a manner which emphasizes the need for security and liquidity.

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

FHM possesses adequate internal controls over its liquidity risk management process. An effective system has created a strong control environment with an in-built process of identifying and evaluating liquidity risks. It also possesses an adequate information system that produces regular independent reports and

evaluations to review adherence with established policies and procedures.

**Risk Management and control principles**

For effective risk management around the business and operations we focus on following areas which support us towards achieving an appropriate balance between risk and return.

- Comprehensive and transparent risk disclosure mechanism to senior management at all levels.
- Independent control functions which monitor the effectiveness of the business's risk management capabilities and also oversee risk-taking activities.
- Monitor and control risk exposures at level of individual customer at specific portfolio and at aggregate firm wide level across all risk type.

During the year we have made progress and updated by relevant department under the guidance of Board of Directors and senior management for further strengthen risk management framework.

- Improving risk management approaches and methodologies.
- Refining understanding of key staff members about risks being faced in daily operations.
- Refresh and reinforce stress-testing capabilities and embedding them across the operations.
- Strengthen recovery process through regular review of customers repayment behavior.
- Regular review of customers borrowing trend through eCIB.
- Improve Shariah audit mechanism to minimize risk of Shariah non-compliance.
- Enhancing staff skills by providing training on an ongoing basis.
- Strengthening 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.



## INFORMATION TECHNOLOGY

Technology is playing an important role in the working of any business segment particularly in service provider institutions. It supports for sophisticated product development, better infrastructure, implementation of reliable techniques for control of risks and helps the financial intermediaries to increase outreach in diversified markets.

To cope with rapidly changing services needs of the customers, the management of FHM continuously focusing on improvement and upgrading of infrastructure of Information Technology. Our IT solutions department playing a strategic role in capturing, designing and administering products as well as enhancing the quality of service delivery.

During the year FHM has taken several initiatives for technological advancement for operational efficiency, strengthening security aspects, to provide stable and sound processing environment and better coordination within the branches and main office.

System Support Department (SSD) continuously engage with end user of application for further improvement within the existing system in order to give speedy and quality service to customer of FHM. SSD is enhancing automations in major areas of business and existing products within the ERP. Document Management System is fully implemented which is now supporting to provide fast and timely exchange of documents and correspondences with customers. This has significantly reduced physical work load and enhance the working capacity and quality delivery of operational staff.

Digitalization of document is another important task completed by said department. SSD find user occasionally busy in paper work which increases their workload, overload storage capacity with



cumbersome process of retrieving information. After digitalization, now the documents are electronically available at relevant desk at all branches with accurate data and information.

SSD is also working on to further empower branches to delegate more rights for better operational working. However, this will without compromising of required security aspects, processes of risk management and centralized control

and compliances. Further up gradation of FHM web particularly enhancement of customer facilitation area is also in process.

We believe that for innovation and for business growth, the role of IT is very vital. The management is fully cognizant with the importance of technological advancement and pays their full attention on this department as an integral part of business of FHM.

### Training & Development

Human Resource Development (HRD) is a strategic and comprehensive management area that involves establishing policies, practices, and administrative structures that focus on an organization's most valuable resource i.e. their people.

The management of FHM is always believe that by investing on human resource for upgrading their professional knowledge support us for enhancement of their professional capacity which ultimately benefit to FHM.

### Orientation

Besides, for new inductee, the orientation always arranged to make them acquainted with set up of organization, its business philosophy and strategic objectives.



## INTERNAL CONTROL

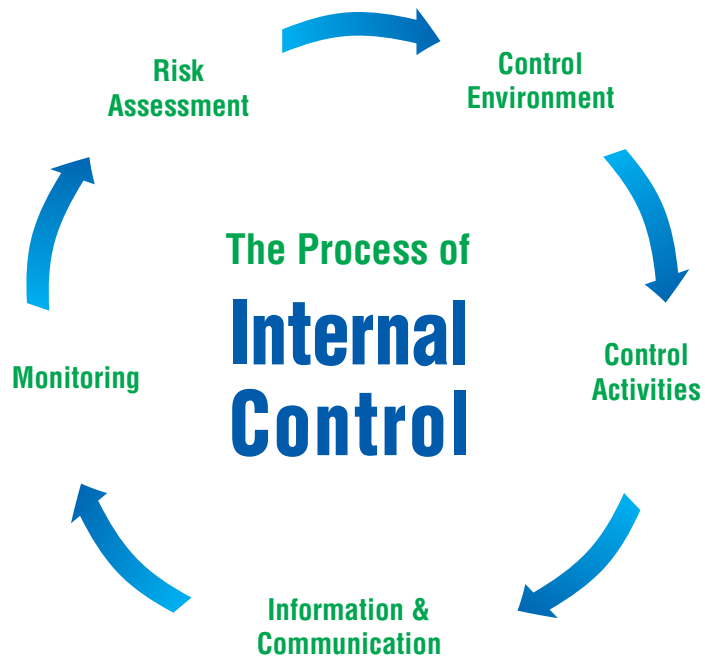
A system of effective internal controls is a critical component for any organization particularly for financial institutions. Sound and strong internal control can help to ensure that goal and objectivity of organization will be achieved which ultimately support for long term sustainability and profitability. Internal Control is a process designed to provide reasonable assurance regarding the achievement of objectives of organizations.

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

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.
- Improved reporting throughout the organization.

Compliance and internal control functions are well integrated and entrusted with the responsibilities to oversee operations and rectifications of irregularities and control lapses pointed out through audit reviews. Concerted efforts are made to improve the control environment at every level by continuous review and streamlining of procedures to prevent and rectify control lapses. The department also ensures the compliance of regulatory requirement, FHM's internal policies and procedures with specific emphasis on KYC, AML and Shariah audit mechanism.

The scope of internal audit is independent function which review and assess the adequacy and effectiveness of the control activities across the FHM as well as to ensure implementation and compliance with all the prescribed policies and procedures.



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

During the year following control mechanism further strengthen:

- Audit approach: Risk and system based further improved
- ERP and integrated control further increased.

- Documentation management application introduced which enhanced error free working.

This has further enhanced compliance and control environment including quality of human resource and operational working.

Internal control activities are ongoing process that includes identification, evaluation and management of significant risks faced by FHM. However, function of said segment is continuously improving and strengthening in line with required regulatory compliance and best business practices.



### Shariah Compliance and Audit Mechanism

Alhamdulillah, more than two years have been passed since the issuance of guidelines of Shariah Compliance and Audit Mechanism. Our Shariah compliance department is not only fully functional but the operations of the department are continuously



improving under the supervision and guidance of Shariah Advisor. The Shariah compliance and governance are monitored through:

1. Surprise audit
2. On job training
3. Conducting in house workshops

Within the HR training, the training and learning of Islamic finance is the main area of overall learning of staff members. The training focus always remains on enhancement of Islamic Finance knowledge. The management of FHM is fully committed for Shariah governance and Shariah compliance culture within the Modaraba. Strong and effective Shariah governance and compliance culture within the Modaraba is the prime objective of FHM. A complete Shariah Audit report of Shariah Advisor for the period ended 30th June, 2014, is also attached along with this report.

### The Board of Directors and Audit Committee

The following changes have taken place within Board of Directors of the Habib Modaraba Management (Pvt.) Limited (the Company), the

management company of First Habib Modaraba since the Directors' report for the year ended June 30, 2013.

- Due to sad demise of Mr. Wazir Husain Jafree, Mr. Syed Rasheed Akhtar was appointed in his place, on April 02, 2014.
- Two new directors have been appointed within board i.e. Mr. Mohammad Haroon Ahmed and Mr. Mohammed Hashim.
- 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 boards welcome all new directors and hopeful that FHM will be greatly benefited with professional experience and expertise of newly inducted directors.
- Consequent upon the expiry of the term of directors of the Company, fresh elections were held on May 30, 2014. Accordingly, six persons have been duly elected / re-elected as the directors whose consent were received by the Management Company namely Mr. Wazir Mumtaz Ahmed, Mr. Muhammad Shoaib Ibrahim, Mr. Abbas Ali Muhammad, Mr. Syed Rasheed Akhtar, Mr. Mohammad Haroon Ahmed and Mr. Mohammed Hashim.
- In order to comply with new Code of Corporate Governance, Mr. Syed Rasheed Akhtar has also been appointed as Chairman Audit Committee within the capacity of Independent Director within the board.

### Directors training & Orientation

In order to comply with Code of Corporate Governance, Mr. Muhammad Shoaib Ibrahim, CEO has attended directors training program arranged by Institutes of Chartered Accountant of Pakistan (ICAP). Mr.

Shoaib successfully attended the both training session and qualified as "Certified Director" from ICAP. We are planning to send our other member of board for directors program in current year as well.

For new directors, an orientation is arranged to make them acquainted with the set up of FHM, its business philosophy and strategic objectives.

### Board Meeting Outside Pakistan

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

### Pattern of Certificate Holders

A Statement showing pattern of Certificate Holding of the Modaraba and additional information as at June 30, 2014 is included in this report. The Directors, CEO, CFO, Company Secretary and their spouses and minor children did not carry out any transaction in the certificates of the Modaraba during the year except those reported.

### Provident Fund and Gratuity

The value of investments of provident fund and gratuity based on audited accounts as at December 31, 2013 are Rs. 35.641 million and Rs. 17.448 million respectively.

### Attendance of Board meetings

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

<b>Name of Directors</b>	<b>Number of meetings attended</b>
Mr. Wazir Mumtaz Ahmed	4
Mr. Muhammad Shoaib Ibrahim	4
Mr. Abbas Ali Muhammad	4
Mr. Wazir Husain Jafree (Late)	2
Mr. Syed Rasheed Akhtar	1
Mr. Mohammad Haroon Ahmed	1

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

On behalf of the Board of Directors

**Muhammad Shoaib Ibrahim**  
Chief Executive Officer

#### **Auditors**

Karachi: July 23, 2014

Present auditors M/s Muniif Ziauddin & Co. Chartered Accountant, are being eligible to offer themselves for reappointment as auditors for the financial year ending June 30, 2015. However their appointment will be subject to approval from Registrar Modaraba Office.

#### **Conclusion**

Looking ahead, in 2014-15 we will strive to enhance market outreach and add quality assets through sound customer based portfolio. While cost efficiencies remain a priority, we will continue to invest, as always, in people and technology. FHM remains determined in maintaining its status as leading Modaraba. Under the prevailing circumstances we remained committed to our strategy of steady growth.

#### **Acknowledgment**

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 of 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 FHM.

## LIQUIDITY RISK MANAGEMENT PROCESS

Liquidity refers to the ability of an institution to meet demands for funds. Liquidity management means ensuring that the institution maintains sufficient cash and liquid assets i.e.

- \* To satisfy client demand for credit facility and deposits withdrawals, and
- \* To pay the institution's expenses.

FHM's liquidity risk governance structure is modelled in such a way so as to ensure that its liquidity position is

optimized to support business requirements and support for deposit withdrawal. The Assets Liability Management Committee (ALCO) plays a vital role for liquidity management. ALCO meets



regularly and make sure that sound liquidity are in placed while going through with maturity profile both financing and deposit side and ensure the availability of sufficient surplus funds for unanticipated contingencies.

As per direction of ALCO, the treasury department keeps sizeable funds with banks to meet any eventuality. As a liquidity management strategy, FHM has been keeping good amount in GOP Ijara Sukuk which is sovereign and also carrying good profit return.

FHM's day-to-day liquidity management process is initiated by the Treasury Division which is entrusted to monitor and manage the daily liquidity requirement based on forecasts of cash flow analysis for short and medium tenors. Treasury is also responsible for maintaining contingency funding arrangements with banks to meet possible unexpected out flows. Treasury Division also compiles a monthly liquidity gap report to the Securities & Exchange Commission of Pakistan, Registrar Modaraba Office.

## STRATEGIC KEY PERFORMANCE INDICATORS

FHM over the years has shown resilience and stable performance within the Modaraba sector in most Key Performance Indicator. During the year overall performance of the entire financial sector remained under pressure due to challenging operating environment with high level of competition and economic uncertainties. However, under these challenging conditions, the performance of FHM remained satisfactory. The profitability has been maintained despite of reduction of discount rate by the SBP during the year 2013-14 and increase of cost of business due to inflationary pressure within the economy.

The strategic key performance indicators during the year were as follows:

- \* 13% growth in financing assets
- \* 52% growth in Certificate of Musharaka (deposits)
- \* 41% growth in Diminishing Musharaka financing
- \* 14% growth in Balance Sheet size
- \* 10% increase in dividend payment

Core Strategic Drives	Objective	Progress
Drive to maintain profitability while coping up with the operational challenges.	Sustained profitability	Profitability has been maintained despite difficult operating environment
Drive to give best return to Modaraba Certificate holders	Sound and stable return to investor	Cash dividend of 22% has been declared
Concentrate on other financing product segment	Product diversification	41% enhancement has been made in Diminishing Musharaka financing
Increase client base and financing size	Enhancement of business volume and profitability	During the year 13% growth has been made in financing assets.
Diversified and sustainable deposit base	Leveraging through low cost funds	Certificate of Musharaka (COM) has been increased to 52% which greatly supported to assets financing.
Prudent and cautious lending approach	Sound lending portfolio and good assets quality	Satisfactory recovery. No provision was made for doubtful or bad debts.

### Strategies to be followed to further strengthen key performance indicators in 2014-15

- \* Capture a larger portion of the market opportunities
- \* Add new good customers within the portfolio.
- \* Expand market outreach through opening new locations.
- \* Concentrate on products as diversification.
- \* Enhance size of retail deposit base from medium to long term for good quality lending.
- \* Enhance size of investment in sound, stable and dividend paying Shariah compliant listed securities along with Sukuk and Musharkah based TFCs.

## BUSINESS CONTINUITY PLAN (BCP) DISASTER RECOVERY PLANNING (DRP)

### Business Continuity Plan (BCP)

Business Continuity Planning is best described as the processes and procedures that are carried out by an organization to ensure that any type of business functions continue to operate if there is any operational disaster or force majeure. BCP planning enables us to re-organize any disconnected operational services as quickly as possible. It covers our all critical operational processes and procedures.

### 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 ensure the immediate recovery of data and back to normal operations whenever it is needed.

At FHM the board every year reviews BCP and DR plan in order to protect the business functions, assets and employees. Contingency plans for core services, key systems and priority business processes revisit as part of existing management processes to ensure that continuity plans remain relevant. These plans provide each business unit with the necessary guidelines and procedures in case of an emergency. Continuous updates of these plans are performed annually, to ensure that they are kept up to date with changes in systems and business units.

Our relevant department has taken following measures to ensure the quickly and smooth availability of PCB/DR.

⇒ FHM arranged third Party BCP/DR solution from M/s. Cube XS Weatherly (Pvt) Ltd.

- \* 200 GB Data Storage for daily update of FHM Data with encryption and secured Layer
- \* Two BCP Seats at Cube XS Premises



⇒ Repeatedly perform BCP MOCK Exercise. The objectives of the MOCK exercise are as follows:

- \* Demonstrate viability of the Business Continuity Plan by applying well defined and relevant disruption scenarios that may highlight discrepancies or inconsistencies.
- \* Use the results of the MOCK exercise to update and improve the plan.
- \* Educate the responsible persons on the workings of the plan.

⇒ Store saved data in Bank's Locker at Karachi & Lahore on monthly basis.

⇒ For the recovery of critical IT systems and services in a fallback situation, FHM has created environment at laptops with full equipped devices for restoring IT systems and data from backups or archives.



## SEGMENT-WISE REVIEW

### Financing

#### \* Ijara (Leasing)

Ijarah financing of Rs.1,402.0 were made out of total financing of Rs.2,302.0 million as compared to financing of Rs.2,254 last year. Within disbursement, leading sector of disbursement was targeted such as Pharmaceuticals, Services, Food & Allied and Chemicals.

#### \* Diminishing Musharkah

Financing in Diminishing Musharkah of Rs.900.0 was made as compare to Rs.364.0 of last year. Keeping in view of our strategy on product diversification, we have been continuously concentrating on this financing product. Disbursement in this segment was 41% of total financing as compared to 16% of last year.

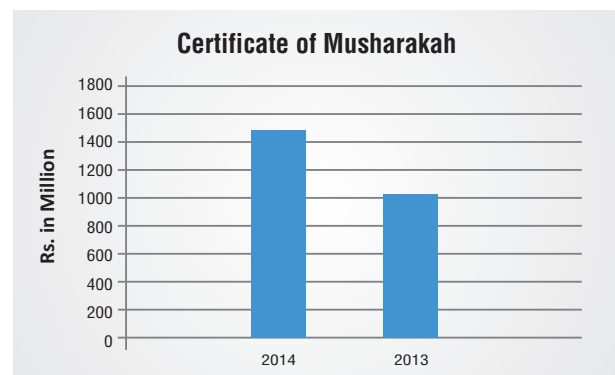
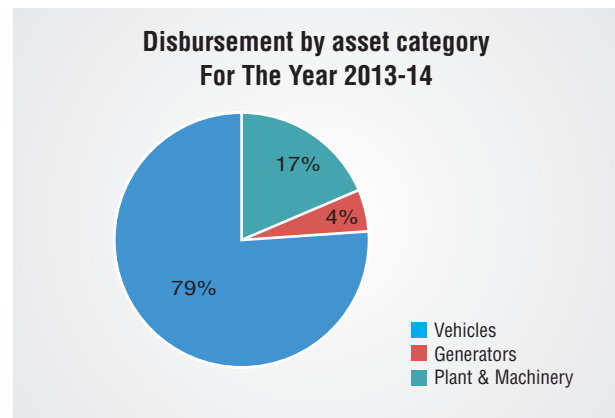
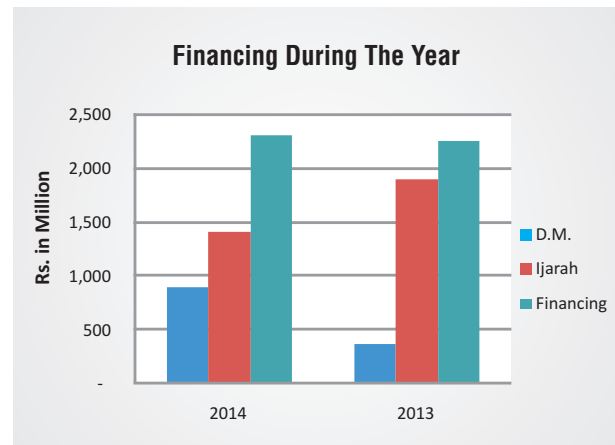
Our branches outside Karachi, i.e. Lahore, Islamabad and Multan have made significant contribution in assets booking as compared corresponding period of last year and they made significant contribution in overall disbursement. Moreover, good new corporate customers had also been added by these branches which have supported to further enhance business volume in their respective areas.

### Assets category and sector

Major portion of financing remain within the assets category of motor vehicle i.e. 76% of total financing and rest of financing was made within the assets of generator set, machinery and equipment. The leading sector of disbursement were targeted such as Pharmaceuticals, Services, Food & Allied and Chemicals which were around 50% of total financing.

### Certificate of Musharakah

On liability side, good growth within the Certificate of Musharakah (COM) has also been made. The outstanding amount under COM was Rs.1,533.0 million at the end of year as compared to Rs.1,007.0 million of corresponding period of last year, grew by 52%. 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 desire level.



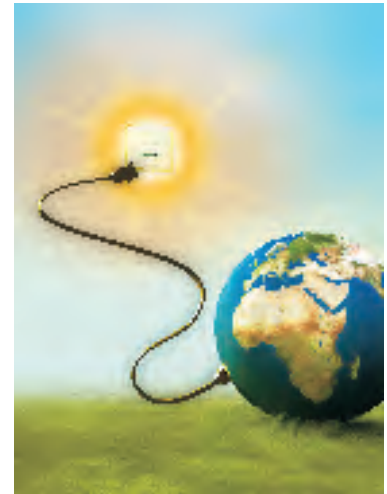
## ENERGY SAVING MEASURES

Energy conservation is vital for environment, 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 polices so that benefit of energy conservation can be achieved.

The undermentioned measures have been initiated at FHM

- \* Efficient use of electricity through use of energy savers.
- \* Use of energy efficient hardware such as laptops etc.
- \* Economical use of water
- \* Economical use of air conditioners

The management is committed toward the pollution free environment through efficient consumption of energy and other resource. The awareness of staff members are regularly enhance through various dialogue, discussion and training sessions.



## QUALITY ASSURANCE

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

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

We judge our quality by:

- \* Regular visits of Senior Executives to customers to get their feedbacks.



- \* Mystery calls are made to marketing staff to check the behavior and response time.
- \* Feedback form has been kept on website.
- \* Keep on minimize proposal turnover time.

## SUSTAINABILITY

### Corporate Social Responsibility

Corporate social Responsibility (CSR) is undertaking the role of "Corporate Citizen". It ensures that business values and policies are align In such a way to balance between improving and developing the wealth of business and contributing for betterment of society in an effective 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.

1. Encourage staff members for avoiding of unnecessary wastage of resources such as excessive consumption of energy and paper printing etc.
2. Motivate staff members for participation in activities which are beneficial for better environment at large.
3. Contribution on social community projects by staff members which are indeed a catalyst for any good corporate institution.

4. In order to keep customers' interest safe, FHM, from time to time address their grievances through their feedback and regular visits.
5. 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.
6. 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.
7. Strong internal controls are the one of the main corporate objectives. FHM promote sound ethical practices within the staff members with Risk & Reward concept.

We must say that 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.

### Energy conservation

Encourage staff members for avoiding of unnecessary wastage of resources such as excessive consumption of energy etc.



### 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.

### 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.

**We Learn**

**We Adapt**

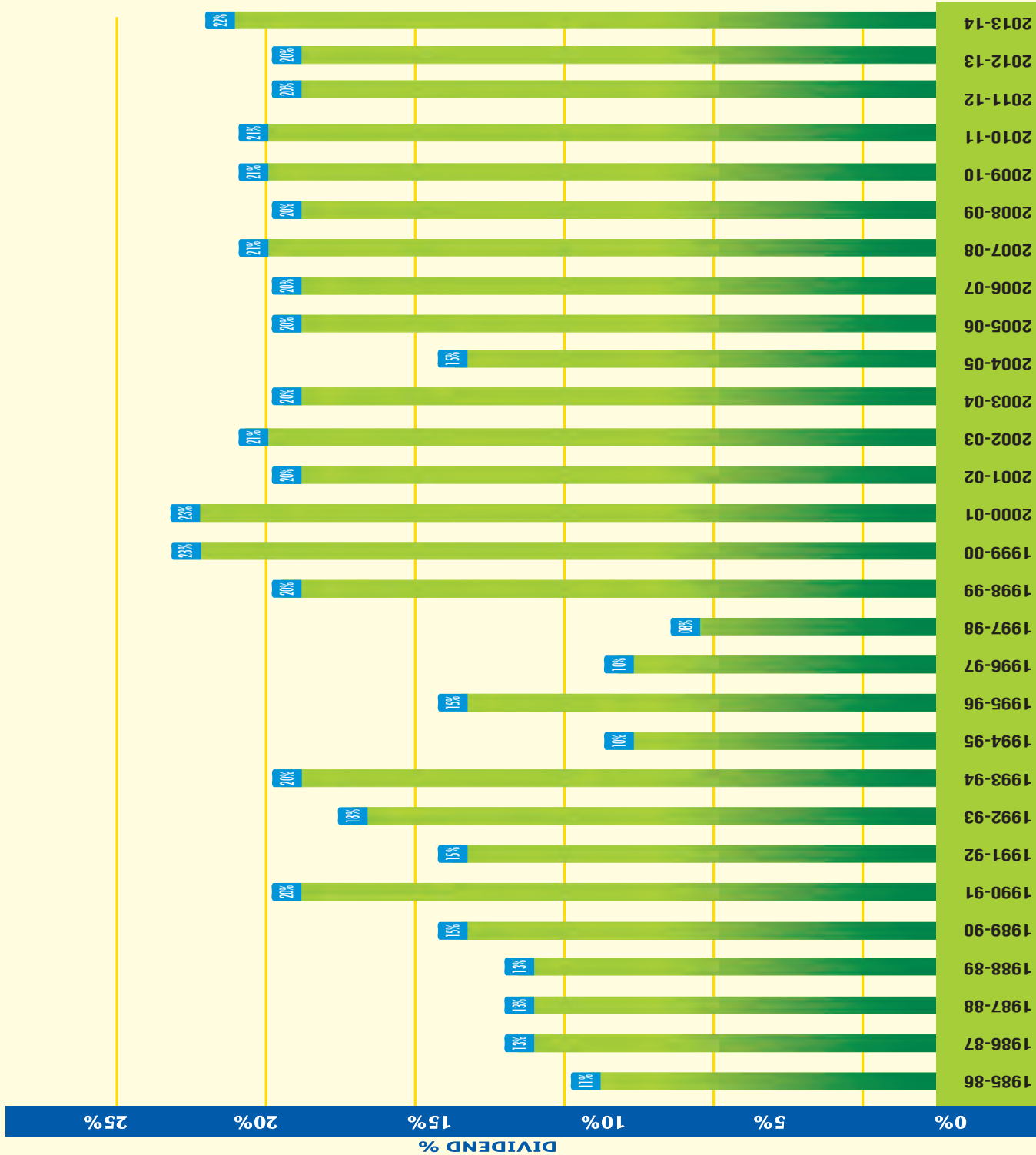
**We Perform**

**We Deliver**

Through continuous learning we adapt the change and keep on strengthening our position for best performance and deliver even better results with each passing year.



## Delivering 29 Years of unbroken dividend payout Average Dividend Payment 17.50% per year



## WE DELIVER

Our core strategy is to focus on businesses where we possess a differentiated proposition and which have the capacity to deliver high quality and sustainable earnings & return to our valued investors. We firm believe that by adopting best business practices and good governance are keys to the ongoing creation and delivery of value to our all stakeholders.

By the grace of God, FHM has been maintaining its history of continuous payment of dividend to its Certificate Holders for last 29 years with average pay out of around 17.50%. Within last 15 years the average payment of dividend is around 20.50%.

Simultaneously, FHM has also added substantial value of Certificate of Modaraba through strong reserve building which has not only strengthens Certificate Holders' equity but also enhanced their certificate value. Modaraba Certificate holders also enjoy good capital gain at the time whenever they disinvestment their investment through equity market.

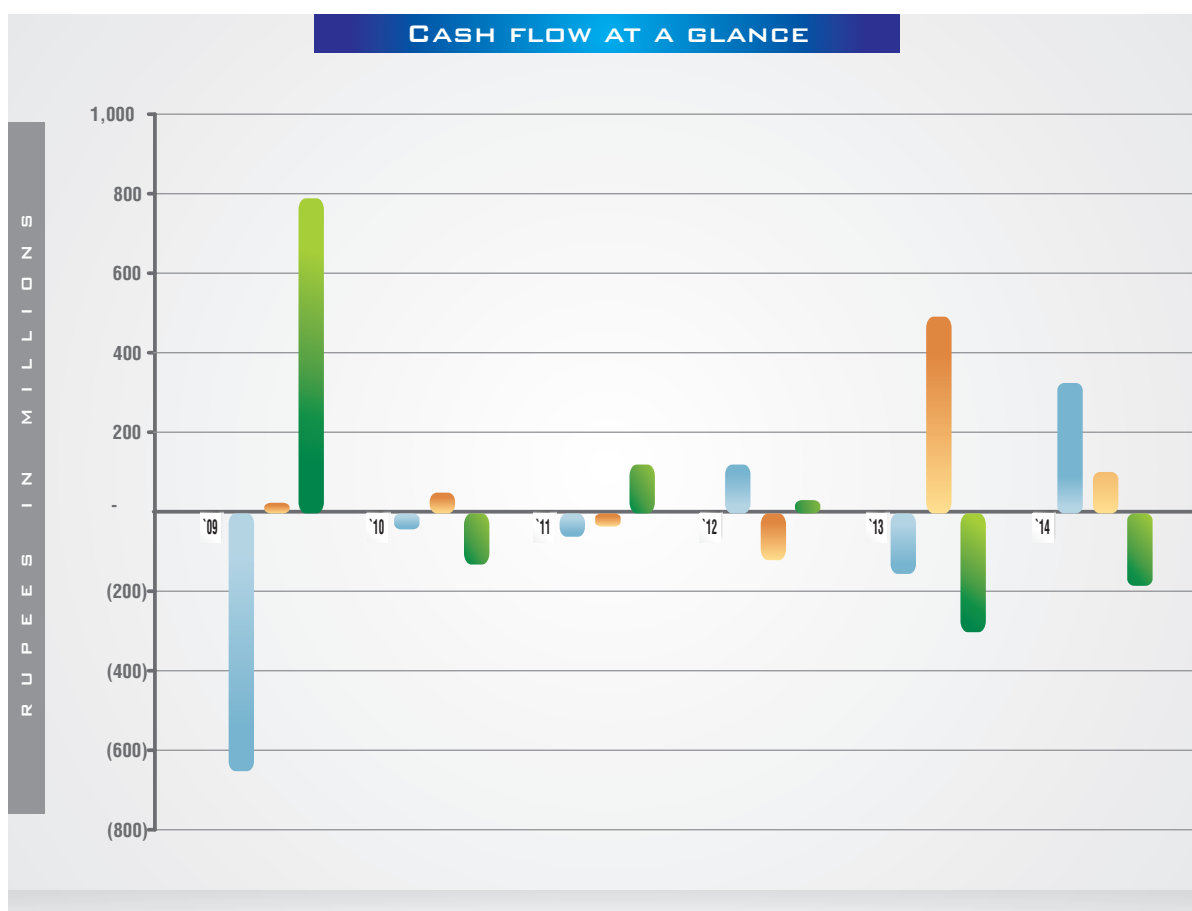
## KEY FINANCIAL DATA OF SIX YEARS AT A GLANCE

KEY FINANCIAL DATA	Rupees in Million					
	2014	2013	2012	2011	2010	2009
Total Assets	5,392.99	4,719.29	4,565.42	4,075.21	3,777.83	3,281.20
Ijarah Assets	2,868.62	2,941.64	2,501.15	2,372.96	2,435.30	2,096.89
Ijarah Disbursement	1,400.90	1,889.71	1,465.28	1,226.65	1,512.37	1,150.74
Current Assets	1,893.90	1,404.85	1,818.51	1,531.47	1,302.28	1,163.36
Current Liabilities	1,894.27	1,401.51	1,229.15	820.81	728.55	527.70
Total Liabilities	2,184.38	1,666.44	1,438.22	1,015.59	885.69	663.05
Paid-up Capital	1,008.00	1,008.00	1,008.00	1,008.00	1,008.00	1,008.00
Reserves	2,200.62	2,044.84	2,119.20	2,051.62	1,884.20	1,610.15
Certificate Holders' Equity	3,208.62	3,052.84	3,127.20	3,059.62	2,892.20	2,618.15
Gross Revenue	1,603.47	1,531.86	1,451.50	1,437.27	1,348.64	1,666.23
Net Profit	285.44	992.80	345.43	277.95	267.42	243.61
Earning Per Certificate - Rs.5/- each	1.42	4.92	1.71	1.38	1.33	1.21
Cash Dividend (%)	22.00	20.00	20.00	22.00	21.00	20.00
Ijarah Rental	297.92	316.68	333.39	327.34	311.18	351.55

STAKEHOLDER INFORMATION	2014	2013	2012	2011	2010	2009
<b>Profitability Ratios</b>						
Profit after tax ratio (%)	17.80	64.81	23.80	19.34	19.83	14.62
Gross yield on earning assets (%)	32.69	34.15	33.22	37.26	38.08	56.50
Gross spread ratio (%)	10.06	2.42	12.11	12.96	12.88	9.35
Cost / Income ratio (%)	81.27	54.56	76.35	79.80	79.40	84.57
Return on equity (%)	9.21	32.92	15.52	13.22	13.13	12.36
Return on assets (%)	5.29	21.04	7.57	6.82	7.08	7.42
Return on capital employed (%)	9.69	34.61	12.11	10.03	10.78	11.82
Gross profit ratio (%)	22.66	14.71	23.37	22.65	22.02	20.25
Net profit to sale (%)	17.80	64.81	23.80	19.34	19.83	14.62
EBITDA margin to sale (%)	25.00	79.58	31.48	25.87	26.74	22.09
Income / Expense ratio	1.14	1.13	1.17	1.18	1.18	1.12
<b>Liquidity Ratios</b>						
Advance to deposit ratio	2.56	3.46	2.97	4.25	4.86	6.07
Current ratio	1.00	1.00	1.48	1.87	1.79	2.20
Cash to current liabilities (%)	20.00	9.00	10.00	20.00	29.00	57.00
Cashflow from operations to sale (%)	-11.00	-21.00	2.00	9.00	8.00	48.00
<b>Turnover ratio</b>						
Total Asset Turnover Ratio (%)	32.03	52.71	35.51	37.52	38.18	53.46
Fixed Asset Turnover Ratio (%)	49.37	75.05	59.02	60.11	58.27	82.83
<b>Investment / Market ratio</b>						
Market Value Per Share	9.75	9.90	7.70	8.15	6.70	5.77
High	10.81	9.90	9.34	8.19	7.33	7.85
Low	8.50	7.10	6.30	5.66	5.50	4.37
EPS (Earning per share)	1.42	4.92	1.71	1.38	1.33	1.21
Price earning ratio	6.87	2.01	4.50	5.91	5.04	4.77
Price to book ratio	0.63	0.66	0.70	0.78	0.66	0.59
Dividend Yield ratio (%)	11.28	10.10	12.99	13.50	15.67	17.33
Dividend Payout ratio (%)	77.69	20.31	58.36	79.78	79.16	82.75
<b>Dividend cover ratio</b>	1.29	4.92	1.71	1.25	1.27	1.21
Cash dividend (%)	22.00	20.00	20.00	22.00	21.00	20.00
Cash dividend per share	1.10	1.00	1.00	1.10	1.05	1.00
Book Value Per Share	15.38	14.96	11.04	10.43	10.10	9.78
Dividend (in million rupees)	222.00	202.00	202.00	222.00	212.00	202.00
Profit Growth Ratio (%) [YoY]	-71.00	187.00	24.00	4.00	10.00	-9.00
Profit Growth Ratio (%) [base year 2009]	17.00	308.00	42.00	14.00	10.00	-
<b>Capital Structure ratio</b>						
Net assets per share	15.92	15.14	15.51	15.18	14.35	12.99
Earning asset to total asset ratio (%)	90.95	95.05	95.71	94.66	93.76	89.88

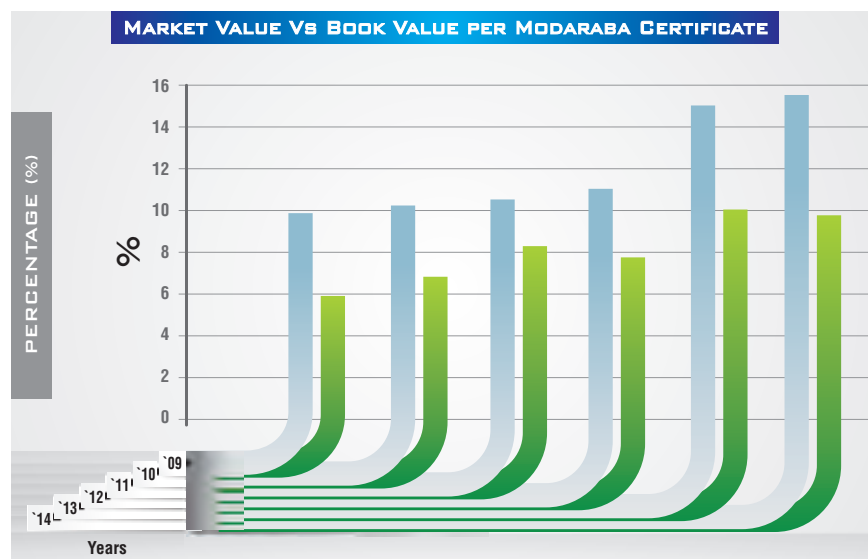
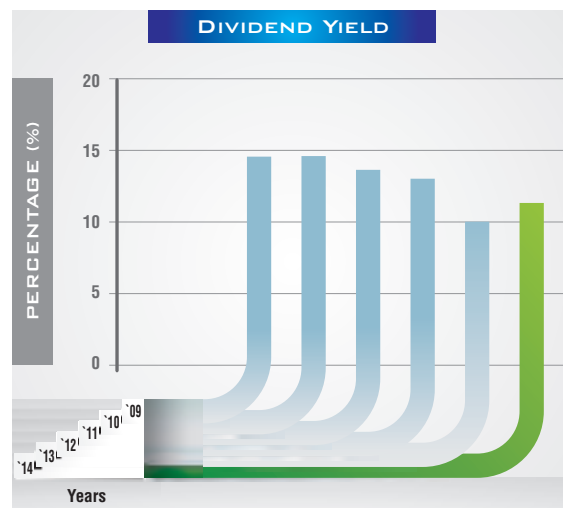
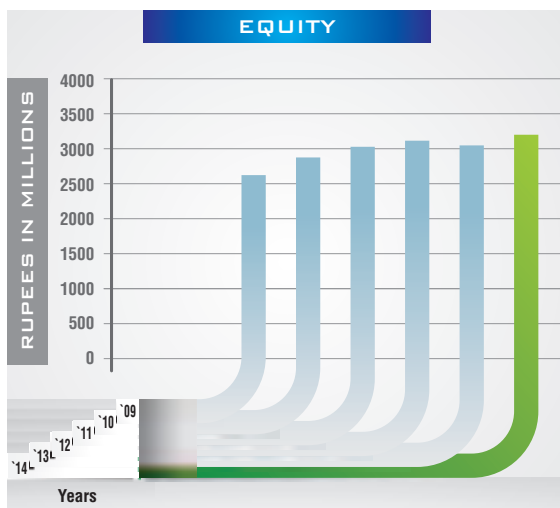
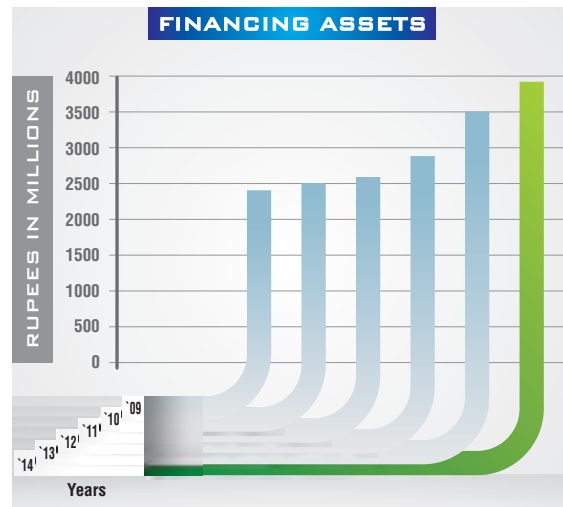
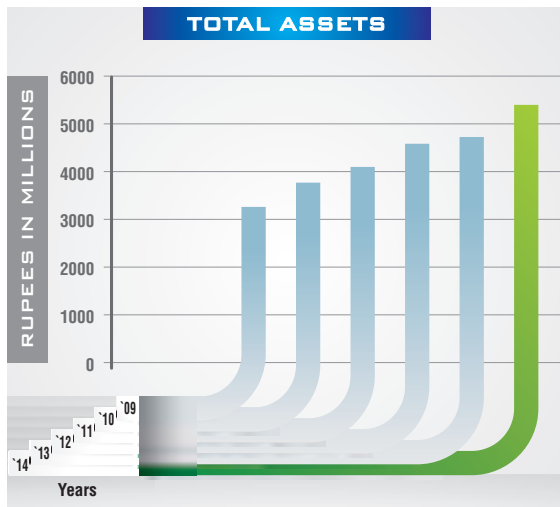
## SUMMARY OF CASH FLOW

	Rupees in Million					
	2014	2013	2012	2011	2010	2009
Cash & cash equivalents at the beginning of the year	131	122	112	212	302	150
Net Cash flow from operating activities	(183)	(325)	25	130	(102)	805
Net Cash flow from investing activities	97	495	(150)	(118)	47	17
Net Cash flow from financing activities	326	(161)	136	(112)	(34)	(670)
Net increase/decrease in cash & cash equivalent	240	8	11	(101)	(90)	152
Cash & cash equivalents at the end of the year	371	131	122	112	212	302



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

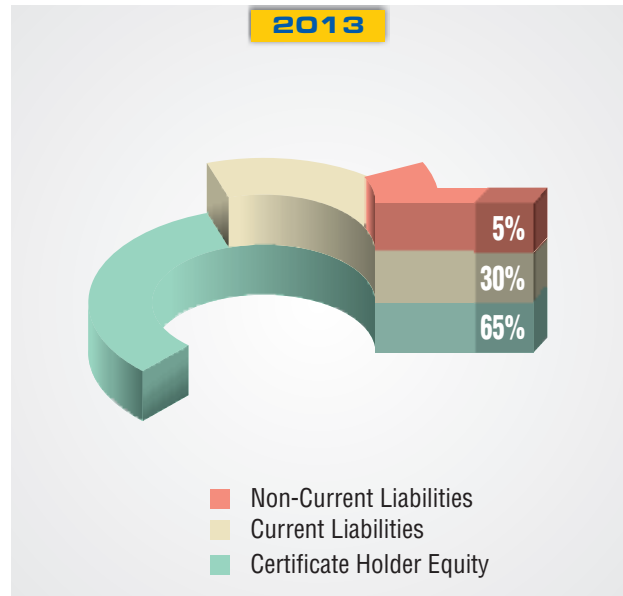
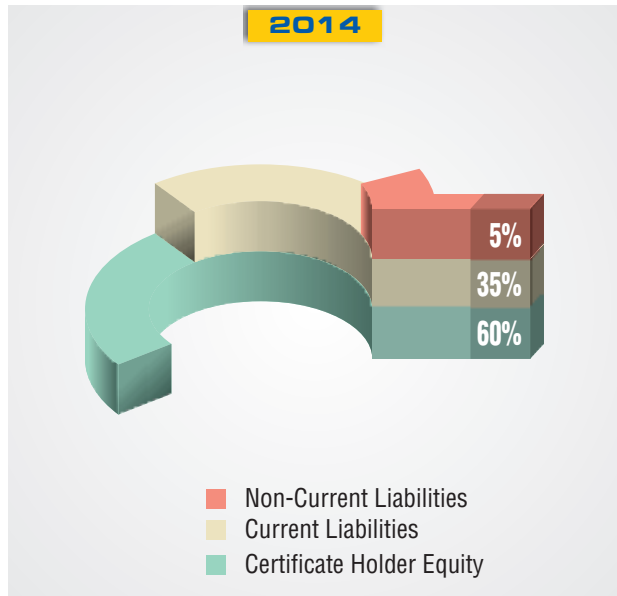
## GRAPHICAL PRESENTATION OF FINANCIAL SUMMARY



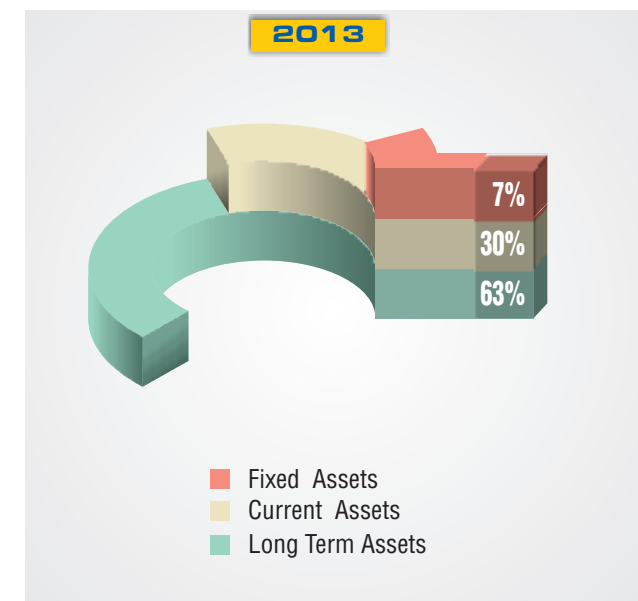
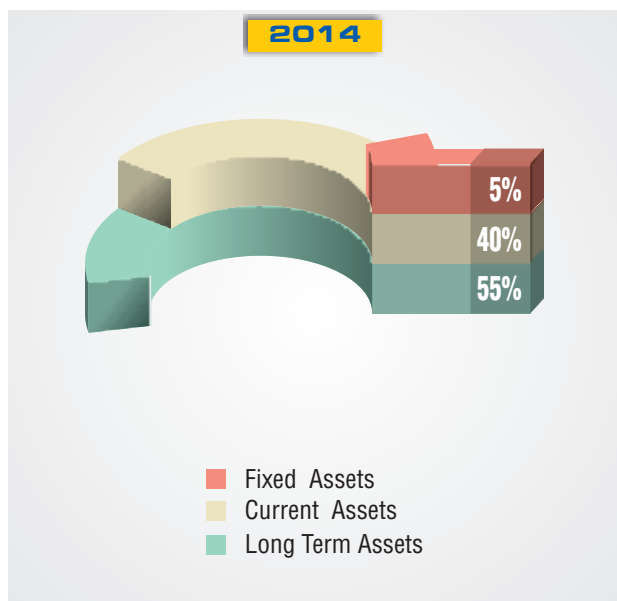
■ Market Value Per Modaraba Certificate    ■ Book Value Per Modaraba Certificate

## BALANCE SHEET COMPOSITION

### EQUITY & LIABILITIES



### ASSETS





## HORIZONTAL ANALYSIS

<b>BALANCE SHEET (%)</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>						
<b>NON-CURRENT ASSETS</b>						
Fixed Assets - tangible						
Ijarah Assets	(2.48)	17.61	5.40	(2.56)	16.14	(22.80)
Assets in own use	(16.56)	67.03	43.47	(11.49)	(7.31)	(9.92)
Intangible Assets	6.50	(33.70)	2,131.66	36.01	451.60	(61.52)
Investment in diminishing musharaka	73.45	51.86	44.26	402.48	130.15	0.00
Long-term advances & deposits	(51.86)	64.33	(46.53)	81.85	1,850.00	(93.39)
<b>CURRENT ASSETS</b>						
Investments	(2.20)	(32.90)	18.75	20.70	25.36	(26.54)
Current maturity of diminishing musharaka	132.32	28.97	108.69	88.27	236.42	0.00
Short-term Murabaha finance	0.00	0.00	0.00	0.00	0.00	0.00
Ijarah rental receivable - secured, considered good	181.66	3.01	(20.58)	(9.27)	(58.27)	254.31
Loan & advances	-	-	-	-	-	(100.00)
Trade deposits & short-term prepayments	(25.29)	122.33	3.12	195.36	154.68	(33.11)
Other receivables	61.65	32.69	19.07	158.54	(26.62)	(41.51)
Tax refund due from Government	(17.38)	33.48	63.08	1,642.05	0.00	0.00
Cash & bank balances	184.09	6.74	(24.23)	(23.93)	(29.72)	101.14
<b>TOTAL ASSETS</b>	<b>14.28</b>	<b>3.37</b>	<b>12.03</b>	<b>7.87</b>	<b>15.14</b>	<b>(18.49)</b>
<b>EQUITY &amp; LIABILITIES</b>						
<b>CAPITAL &amp; RESERVES</b>						
Authorized Certificate capital	0.00	0.00	0.00	0.00	0.00	0.00
Issued, subscribed & paid-up capital	0.00	0.00	0.00	0.00	0.00	0.00
Reserves	7.62	(3.51)	3.29	8.89	17.02	(12.44)
<b>Certificate holders' equity</b>	<b>5.10</b>	<b>(2.38)</b>	<b>2.21</b>	<b>5.79</b>	<b>10.47</b>	<b>(8.03)</b>
<b>NON-CURRENT LIABILITIES</b>						
Long-term Murabaha finances	-	-	-	-	-	(100.00)
Certificates of Musharaka - unsecured	-	-	(100.00)	347.51	(89.48)	(85.21)
Security deposits against Ijarah assets	9.50	26.72	9.02	22.56	21.31	(31.54)
<b>CURRENT LIABILITIES</b>						
Murabaha finances - current portion	-	-	-	-	-	(100.00)
Certificates of Musharaka - current portion	52.18	3.97	58.82	18.59	49.83	5.92
Security deposits - current portion	48.36	(5.52)	18.86	(44.79)	(4.58)	33.15
Unearned Ijarah rentals	(85.40)	55.73	77.03	(36.97)	107.22	264.87
Advance Ijarah rentals received	63.97	5.87	(9.18)	(5.59)	3.74	(9.22)
Trade & other payables	(19.10)	86.96	29.64	61.11	43.67	(32.61)
Taxation - net	0.00	0.00	0.00	0.00	653.27	(70.83)
Unclaimed profit distribution	10.19	8.56	9.33	7.39	11.67	12.25
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>14.28</b>	<b>3.37</b>	<b>12.03</b>	<b>7.87</b>	<b>15.14</b>	<b>(18.49)</b>

<b>PROFIT &amp; LOSS ACCOUNT (%)</b>	<b>2013</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Ijarah rentals	1.83	5.46	(0.87)	5.67	(19.27)	(0.25)
Profit on diminishing musharaka	90.36	8.01	140.30	192.82	78.48	0.00
Depreciation on Ijarah assets	3.94	8.71	(1.69)	5.82	(21.36)	(2.85)
Administrative expenses	3.82	17.73	3.90	16.51	3.66	13.11
Other Income	(87.01)	463.15	85.14	(2.24)	6.72	(50.62)
Other charges	(72.28)	34.44	115.07	(53.49)	(69.49)	14,932.29
Financial charges	11.97	11.73	38.63	30.13	(32.21)	(51.73)
Modaraba company's management fee	(71.35)	203.09	22.90	3.93	9.77	(9.39)
<b>Profit for the year</b>	<b>(71.17)</b>	<b>187.28</b>	<b>24.29</b>	<b>3.93</b>	<b>9.77</b>	<b>(9.39)</b>

## VERTICAL ANALYSIS

### BALANCE SHEET (%)

	2014	2013	2012	2011	2010	2009
<b>ASSETS</b>						
<b>NON-CURRENT ASSETS</b>						
Fixed Assets - tangible						
Ijarah Assets	53.19	62.33	54.78	58.23	64.46	63.91
Assets in own use	0.21	0.28	0.18	0.14	0.17	0.21
Intangible Assets	0.0278	0.0299	0.0466	0.0023	0.0019	0.0004
Investment in diminishing musharaka	11.43	7.53	5.13	3.98	0.85	0.43
Long-term advances & deposits	0.02	0.05	0.03	0.07	0.04	0.43
<b>CURRENT ASSETS</b>						
Investments	18.08	21.13	32.55	30.71	27.44	25.20
Current maturity of diminishing musharaka	8.24	4.05	3.25	1.74	1.00	0.34
Ijarah rental receivable - secured, considered good	0.18	0.07	0.07	0.11	0.13	0.35
Trade deposits & short-term prepayments	0.16	0.24	0.11	0.12	0.04	0.02
Other receivables	0.99	0.70	0.54	0.51	0.21	0.34
Tax refund due from Government	0.58	0.80	0.62	0.43	0.03	0.00
<b>Cash &amp; bank balances</b>	<b>6.88</b>	<b>2.77</b>	<b>2.68</b>	<b>3.96</b>	<b>5.62</b>	<b>9.21</b>
<b>TOTAL ASSETS</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>EQUITY &amp; LIABILITIES</b>						
<b>CAPITAL &amp; RESERVES</b>						
Authorized Certificate capital	20.40	23.31	24.09	26.99	29.12	33.52
Issued, subscribed & paid-up capital	18.69	21.36	22.08	24.73	26.68	30.72
Reserves	40.81	43.33	46.42	50.34	49.87	49.07
<b>Certificate holders' equity</b>	<b>59.50</b>	<b>64.69</b>	<b>68.50</b>	<b>75.08</b>	<b>76.56</b>	<b>79.79</b>
<b>NON-CURRENT LIABILITIES</b>						
Certificates of Musharaka - unsecured	-	-	-	0.07	0.02	0.19
Security deposits against Ijarah assets	5.38	5.61	4.58	4.71	4.14	3.93
Total Non-Current Liabilities	5.38	5.61	4.58	4.78	4.16	4.13
<b>CURRENT LIABILITIES</b>						
Certificates of Musharaka - current portion	28.44	21.36	21.23	14.98	13.62	10.47
Security deposits - current portion	1.50	1.16	1.27	1.19	2.33	2.82
Unearned Ijarah rentals	0.07	0.58	0.38	0.24	0.42	0.23
Advance Ijarah rentals received	0.60	0.42	0.41	0.51	0.58	0.64
Trade & other payables	4.01	5.67	3.14	2.71	1.81	1.45
Taxation - net	0.05	0.059	0.061	0.068	0.074	0.011
Unclaimed profit distribution	0.44	0.46	0.43	0.44	0.45	0.46
Total Current Liabilities	35.12	29.70	26.92	20.14	19.28	16.08
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

### PROFIT & LOSS ACCOUNT (%)

	2014	2013	2012	2011	2010	2009
Ijarah rentals	94.16	96.79	96.86	98.68	99.52	99.78
Profit on diminishing musharaka	5.84	3.21	3.14	1.32	0.48	0.22
	100.00	100.00	100.00	100.00	100.00	100.00
Depreciation on Ijarah assets	80.27	78.64	76.29	76.92	76.82	78.86
Administrative expenses	4.69	4.60	4.12	3.93	3.56	2.77
Other Income	8.22	64.46	12.07	6.46	6.99	5.29
Other charges	0.39	1.42	1.11	0.51	1.16	3.08
Financial charges	7.60	6.91	6.52	4.67	3.79	4.51
Modaraba company's management fee	2.18	7.76	2.70	2.18	2.21	1.63
<b>Profit for the year</b>	<b>18.95</b>	<b>66.93</b>	<b>24.57</b>	<b>19.60</b>	<b>19.92</b>	<b>14.65</b>

## COMMENTS ON FINANCIAL RATIOS

### Profitability Ratios:

- \* Gross profit ratio is 22.6% is slightly improved as compared to last year.
- \* The profit after tax ratio is 17.80% as compared to 64.81% in prior year due to the realized gain on sale of listed securities in 2012-13.
- \* Net profit to sales ratio decreased to 17.8% in 2014 from 64.81% in 2013 is mainly due to the reason mentioned above.
- \* Gross yield to earning ratio is maintained.
- \* Cost to income ratio is 81% which is maintained as compared to previous years.
- \* Return on equity is slightly lower than last year because of building up of reserves.
- \* Gross spread ratio is slightly lower than the previous years except for last year.
- \* Return on capital employed is also lower than previous years because of building up of reserves.
- \* EBITDA margin to sale has been in between 22% to 34% except for last year because of realized gain on disinvestment of securities.
- \* Income to expense ratio has been maintained.

### Liquidity Ratios:

- \* Cash to current liabilities is 20% in 2014, as compared to 9% in prior year is mainly due to improved working capital management.
- \* Advance to deposit ratio slightly reduced because of building of deposits.
- \* Current ratio has been maintained.
- \* Cash flow from operations has been slightly on negative side. This is due to the limitation of presenting cash generated from deposit i.e. certificate of Musharaka in operating activities by IFRS.

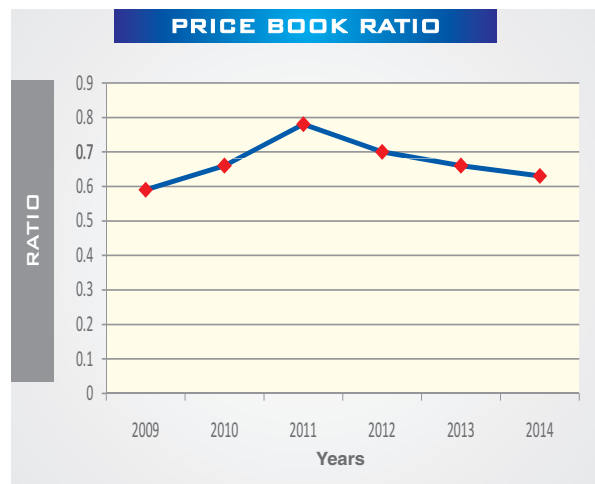
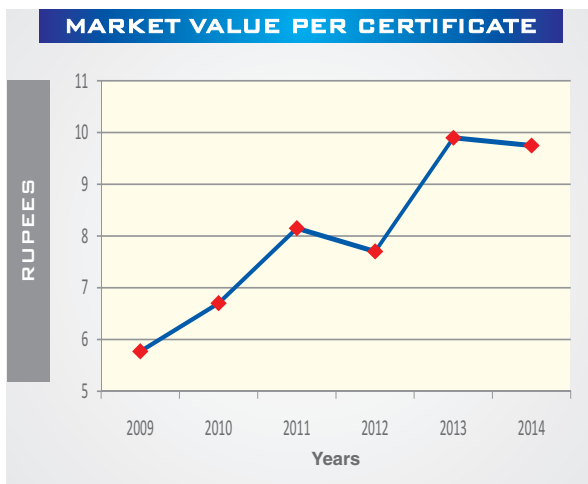
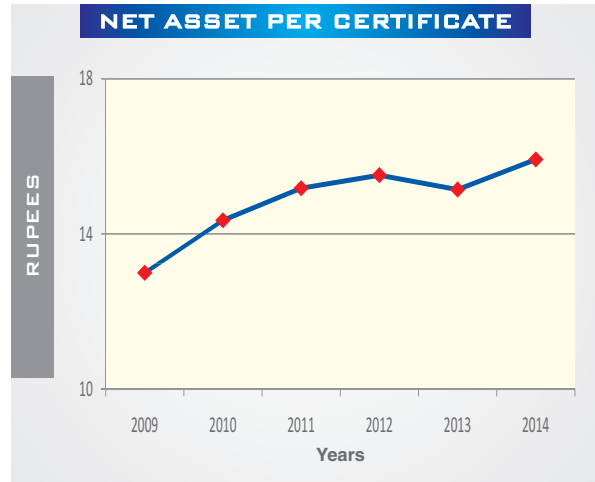
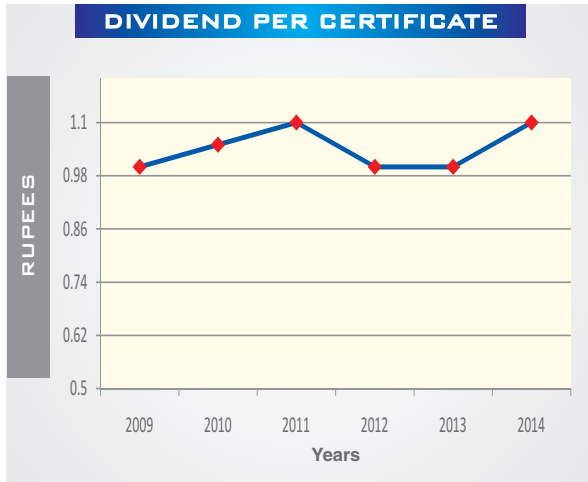
### Activity / Turnover Ratios:

- \* Total asset turnover ratio is 32.03% in 2014 as compared to 52.71% in prior year is mainly due to the sale of listed securities in previous year.
- \* Earning assets to total assets is slightly decreased from 98% to 95%.
- \* Net assets per share have been consistently maintained.

### Investment / Market Ratios:

- \* EPS has been remained in between Rs.1.30 to Rs.1.70 in last seven years except in 2013 where EPS was increased due to onetime gain on sale of capital market securities.
- \* P/E ratio increased from 2.01 to 6.87 in 2014 mainly due to the decrease in earning price per share from 4.92 to 1.42 in 2013.
- \* Dividend yield increased to 11.28% in 2014 from 10.10% is mainly due to increased profit from operations.
- \* Book value per share has increased from Rs.14.96 to Rs.15.38 in 2014 due to the increased in equity.
- \* Dividend payout ratio has increased from 20.31 to 77.69.
- \* Cash dividend per Modaraba certificate has also increased from 20% to 22%.
- \* Market value per certificate of Modaraba has been consistently maintained.
- \* No abnormal variation in the market price of Modaraba certificates over the period of six years.
- \* Dividend cover ratio has been in between 1.21 to 1.71 over the period of six years except for last year due to sale of investments in capital market.
- \* Dividend per Modaraba Certificate has been improved from 1.0 to 1.10 as compared to last year.

## COMMENTS ON FINANCIAL RATIOS



## VALUE ADDED STATEMENT

	2014		2013	
	Rupees	(%)	Rupees	(%)
<b>Value Added</b>				
Revenue from operations	391,507,973		365,849,805	
Other income / charges	117,674,293		934,776,929	
Value added by financial services	509,182,266		1,300,626,734	
Operating expense	28,778,545		20,843,358	
	480,403,721	100.00	1,279,783,376	100.00

### Value Allocated

To Employees				
Salaries, allowances & other benefits	40,712,407	8.85	41,183,558	3.22
To provider of finance				
As profit on Certificate of Musharaka	114,767,714	24.95	102,499,415	8.01
To Modarib				
As management company remuneration	32,948,960	7.16	115,726,134	9.04
To certificate holders				
Profit on certificates	221,760,000	43.83	201,600,000	15.75
To Society				
Donation	840,000	0.18	961,857	0.08
To expansion & growth				
As Depreciation	5,691,211	1.24	5,157,446	0.40
As Reserve and Retained earning	63,683,429	13.79	812,654,966	63.50
	480,403,721	100.00	1,279,783,376	100.00





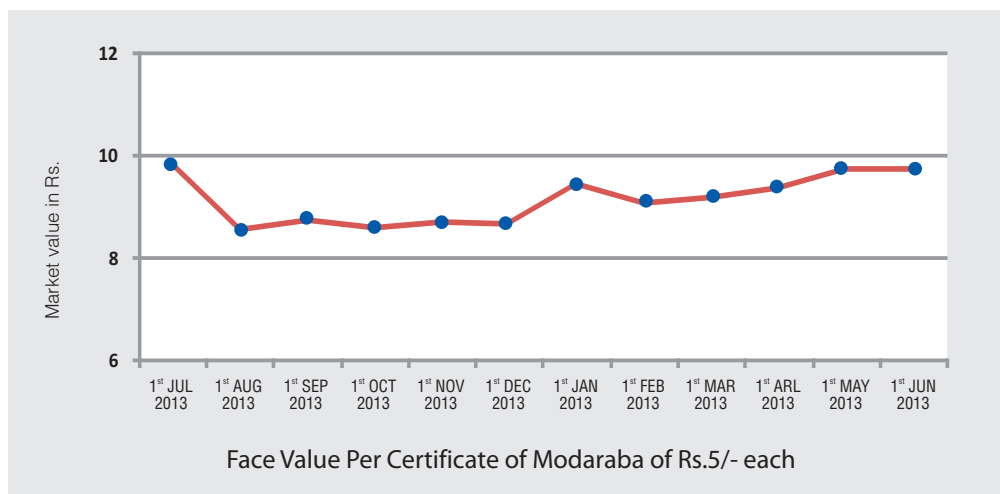
## SHARE PRICE SENSITIVITY ANALYSIS

**Earnings:** News on earnings, profits, future business prospects and positive or negative development on business activities could enhance or dilute interest of investors in the listed Modaraba Certificates

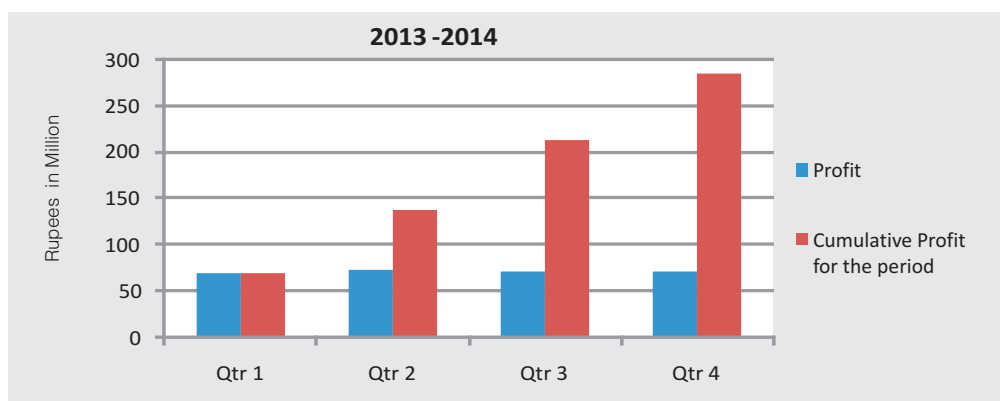
**Government Policies-** Government policies such as taxation measures, business policies and change in policy rate by State Bank of Pakistan, could be perceived as positive or negative for business which may affect Modaraba Certificate price at stock exchange. Positive economic reforms can attract investors.

**Change at political front-** Any positive or negative news at political front could also affect the market price.

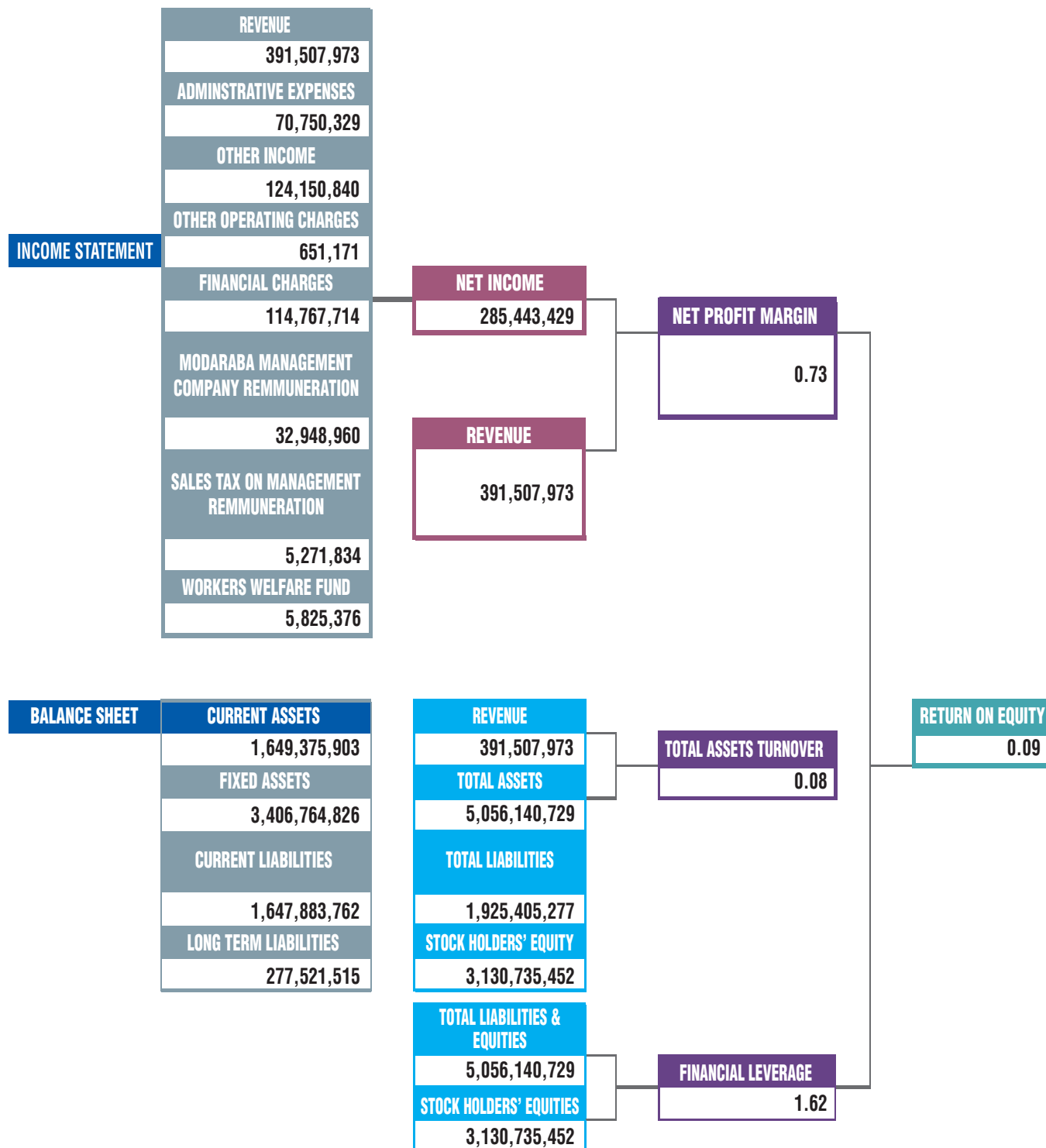
**Announcement of dividends-** Expected distribution from earning could increase or decrease the Modaraba Certificate prices.



## ANALYSIS OF VARIATION IN RESULTS REPORTED IN QUATERLY ACCOUNTS



## DUPONT ANALYSIS



## NOTICE OF ANNUAL REVIEW MEETING

Notice is hereby given that the Annual Review Meeting of certificate-holders of First Habib Modaraba will be held on September 16, 2014 at 9.00 a.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, 2014.

The certificate holders whose names appear in the register of certificate holders of FHM as on September 09, 2014 will be eligible to attend the Annual Review Meeting.

By order of the Board

Adnan Thanwey  
Company Secretary

Karachi: August 9, 2014

### REQUEST TO CERTIFICATE HOLDERS

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

In order to comply with the directives of SECP vide their SRO 831(1) 2012 dated July 5, 2012, the Registrar Office may withhold the dispatch of Dividend Warrant under section 251(2)(a) of the Companies Ordinance, 1984 of those Certificate Holders who fails to submit the copy of CNIC before the close of book of Certificate Holders for entitlement of dividend as for the year ended June 30, 2014 announced by the Board of Directors in their meeting held on July 23, 2014.

**Noble Computer Services (Pvt.) Limited:** Mezzanine Floor, House of Habib Building, (Siddiqsons Tower), 3-Jinnah Cooperative Housing Society, Main Shahrah-e-Faisal, Karachi, Pakistan. Tel: 021-34325482-87

## ARM DECISION AND ITS IMPLEMENTATION



In compliance with direction of Registrar of Modaraba, Securities & Exchange Commission of Pakistan (SECP), First Habib Modaraba (FHM) conducted Annual Review Meeting (ARM) of Certificate Holders of FHM on 7th August, 2013, in order to review performance of FHM for the year ended June 30, 2013. 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 ARM is separate with Annual General Meeting (AGM) in terms of voting right and election of directors along with approval of external auditor.

The following were present from FHM

Mr. Wazir Mumtaz	-	Chairman
Mr. Abbas Ali Mohammad	-	Director
Mr. Muhammad Shoaib Ibrahim	-	Chief Executive Officer
Mr. Tehsin Abbas	-	Chief Financial Officer
Mr. Adnan Thanwey	-	Company Secretary

CEO has briefed about the business activity and performance of FHM during the year 2013-14 reported in directors' report attached with annual report. He also commented in detail on key financial figures reported in financial accounts of FHM.

The Certificate Holders acknowledged the hard and dedicated efforts of FHM particularly on financial performance and declaration on cash dividend of 20% for the year ended 30th June, 2013. The Certificate Holders were also highlighted certain points made their reservation as follows.

- Management must consider increase in dividend payment in coming years.
- Administrative expenses has been increased in 2012-13 which should be curtailed in coming year.
- Why FHM has made provision on WWF since there is some legal disputes.
- The legal applicability of Sales tax on management company's remuneration.
- Alternate income segment in the absence of dividend income for 2013-14.
- Few Certificate Holders not received annual report.

CEO and CFO have addressed all the questions/reservations at the entire satisfaction of Certificate Holders. Other points and suggestion were also noted for future compliance and most of them have been resolved during 2013-14 except those that were legal or tax related.

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

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

We understand that our commitment to satisfy customer's needs must be fulfilled within a professional and ethical framework, thereby creating an 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 Sharia'h 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.

### **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 for more than two decades 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 completed Certification of Director Training Program conducted by Institute of Chartered Accountants of Pakistan. He is also Certified Islamic banker from Professional's Institute of Excellence who are academic partner of University of Marathon U.S.A. and Pakistan Institute of Banking Studies, Pakistan. On number of occasions he remained as an Executive Member of Modaraba Association of Pakistan and also remained the Chairman of Modaraba Association of Pakistan.

### **Abbas Ali Muhammad – Director**

Mr. Abbas Ali Muhammad started his career from Bombay (India). He joined Habib Investment Company in the year 1951 as a "Trainee Officer". In 1971, became the Chief Executive of Habib Investment Company. This executive position also involved business management of several reputed companies as a Director. Mr. Abbas Ali Muhammad has over 54 years of experience in financial management.

### **Mohammad Haroon Ahmed – Director**

Mr. Mohammad Haroon Ahmed is a seasoned banker, his banking career spans over 54 years. He did his commerce graduation in the year 1963 and Law graduation in 1965 and further expanded his education by getting banking diploma from IBP and D.A. LCC (Accounts) Diploma from London Chamber of Commerce. He carries a diversified experience of working on various senior positions in Pakistan and abroad. He has worked with BCCI, Habib Bank AG Zurich and Habib Metropolitan Bank Limited on very senior and key positions.

## DIRECTORS' PROFILE

### Syed Rasheed Akhtar – Director

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

### Mohammad Hashim – Director

Mr. Mohammad Hashim is a Commerce Graduate from University of Karachi and has Banking diploma from Institute of Bankers Pakistan (IBP), presently associate with Habib Metropolitan Bank Limited, handling as Head of Foreign Investors Portfolio Management. Mr. Hashim has 44 years of Banking experience of local and international banking particularly of Middle East region.

Mr. Hashim is carrying very rich experience of local and international money market, portfolio management and secondary market operation.

## CERTIFICATE HOLDERS INFORMATION

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

Share Registrar Office:  
M/s. Noble Computer Services (Pvt.) Limited  
Siddiqsons Tower  
3-Jinnah Cooperative Housing Society,  
Main Shahrah-e-Faisal,  
Karachi - 75350  
PABX: (92-21) - 34325482-87  
Fax: (92-21) 34325442

### Listing on Stock Exchanges

First Habib Modaraba (FHM) Modaraba Certificates are listed on Karachi Stock Exchange (KSE), Lahore Stock Exchange (LSE) and Islamabad Stock Exchange (ISE).

### Investor Service Centre

FHM share department is operated by Noble Computer Services (Pvt.) Limited. It also functions as an Investor Service Centre and has been servicing nearly 4,882 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. Azadar Jafri at Registrar Office, Noble Computer Services (Pvt.) Limited and Mr. Adnan Thanwey, Assistant Vice President & Company Secretary at FHM.

FHM share department has online connectivity with Central Depository Company of Pakistan Limited. 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. Azadar Jafri  
Head of Operations  
Noble Computer Services (Pvt.) Limited

**Contact Person:**  
Mr. Adnan Thanwey  
Assistant Vice President/Company Secretary  
First Habib Modaraba

### Dividend Announcement:

The Board of Directors of the Management Company has approved Cash dividend of 22% (Re.1.10/- per Modaraba Certificate of Rs.5/- each) for the financial year ended 30th June, 2014.

### Book Closure Dates.

The Certificate Transfer Book of the Modaraba will remain close from 10-09-14 to 17-09-14 (both days are inclusive).

### Payment of dividend

The dividend warrants will be sent to Modaraba Certificate Holders within statutory time limit i.e. within 45 days from the re-opening of Certificate Transfer Book to those Modaraba Certificate Holders whose name appear in the Register of Member of the Modaraba after entertaining all requests for transfer of certificate lodge with the Modaraba before the book closure date either in physical form or through CDC.

## CERTIFICATE HOLDERS INFORMATION

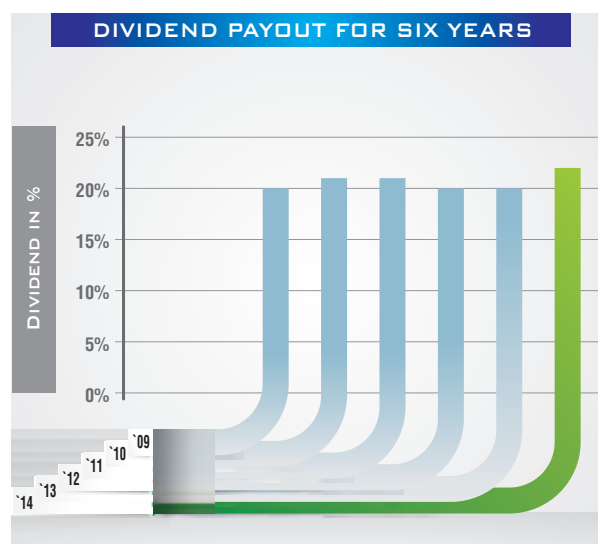
- (i) For certificates held in Physical Form: to certificate holders whose names appear in the Register of Members of the Modaraba after entertaining all requests for transfer of certificates lodged with the Modaraba before the book closure date.
- (ii) For shares held in electronic form: to certificate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

### Withholding of Tax & Zakat on Dividend

In pursuant to the provisions of Finance Act, 2014 effective July 1, 2014, the rates of deduction of income tax under Section 150 of the income Tax Ordinance, 2001 has prescribed following tax rates for payment of dividend for filers & non-filers of income tax return, unless the Certificate holder's income is tax-exempt.

1. Rate of tax deduction for filers of income tax return. 10%
2. Rate of tax deduction for non-filers of income tax return. 15%

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



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

### Dividend Warrant

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

## PATTERN OF CERTIFICATE HOLDING AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE

As at 30th June, 2014

CATEGORY NO.	CATEGORIES OF CERTIFICATES HOLDERS	NUMBER OF CERTIFICATES HELD	CATEGORY WISE NO. OF CERTIFICATES HOLDERS	CATEGORY WISE CERTIFICATES HELD	PERCENTAGE (%)
1	INDIVIDUALS		4,787	53,705,704	26.70
2	INVESTMENT COMPANIES		3	55,460	.03
3	JOINT STOCK COMPANIES		38	2,617,655	1.30
4	DIRECTOR, CHIEF EXECUTIVE OFFICER, AND THEIR SPOUSE AND MINOR CHILDREN.		3	169,552	0.02
	MR. ABBAS ALI MUHAMMAD	40,000			
	MR. MUHAMMAD HAROON AHMAD	71,200			
	MRS SHAMS HASHIM AND MOHAMMAD HASHIM	58,352			
5	EXECUTIVES		-	-	
6	ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES		3	100,858,232	50.03
	HABIB MODARABA MANAGEMENT (PVT) LIMITED	100,501,732			
	TRUSTEE OF HABIB MODARABA MANAGEMENT (PVT) LTD. EMPLOYEES CONTRIBUTORY PF	125,000			
	TRUSTEE OF FIRST HABIB MODARABA EMPLOYEES CONTRIBUTORY PF	231,500			
7	PUBLIC SECTOR COMPANIES AND COOPERATIONS		-	-	-
8	BANKS, DFIS, NBFIS INSURANCE COMPANIES, MODARABAS & MUTUAL FUNDS		13	10,520,984	5.22
9	MUTUAL FUNDS		1	1,584,070	0.79
	NATIONAL BANK OF PAKISTAN - TRUSTEE DEPARTMENT NIT (U) FUND	1,584,070			
10	FOREIGN INVESTORS		13	3,051,896	1.51
11	COOPERATIVE SOCIETIES		2	24,936,735	12.37
12	CHARITABLE TRUSTS		8	1,190,808	0.59
13	OTHERS		11	2,908,904	1.44
	TOTAL		4,880	201,600,000	100

## PATTERN OF CERTIFICATE HOLDING

As at 30th June, 2014

Number of Certificate Holders	Certificate Holdings		Total Certificate Held
686	1	100	35,099
1,037	101	500	324,185
667	501	1,000	513,306
1,401	1,001	5,000	3,329,717
386	5,001	10,000	2,940,687
140	10,001	15,000	1,708,007
86	15,001	20,000	1,579,712
80	20,001	25,000	1,834,477
52	25,001	30,000	1,468,645
26	30,001	35,000	848,002
37	35,001	40,000	1,425,038
27	40,001	45,000	1,130,128
31	45,001	50,000	1,516,702
16	50,001	55,000	840,745
11	55,001	60,000	641,772
9	60,001	65,000	569,232
4	65,001	70,000	276,240
11	70,001	75,000	803,445
5	75,001	80,000	390,500
8	80,001	85,000	650,646
2	85,001	90,000	175,000
8	90,001	95,000	734,708
18	95,001	100,000	1,787,816
7	100,001	105,000	708,361
4	105,001	110,000	433,500
1	110,001	115,000	111,000
4	115,001	120,000	470,920
4	120,001	125,000	495,960
3	125,001	130,000	382,684
4	130,001	135,000	523,588
4	135,001	140,000	549,008
6	140,001	145,000	856,992
5	145,001	150,000	741,504
4	150,001	155,000	607,900
2	155,001	160,000	320,000
5	160,001	165,000	808,940
2	165,001	170,000	338,391
1	170,001	175,000	171,360
1	180,001	185,000	180,500
1	185,001	190,000	190,000
1	190,001	195,000	192,000
1	195,001	200,000	200,000
4	200,001	205,000	807,645
1	205,001	210,000	206,600
4	210,001	215,000	850,796
3	215,001	220,000	652,620
2	225,001	230,000	456,800
1	230,001	235,000	231,500
2	240,001	245,000	481,944
1	245,001	250,000	249,000
1	250,001	255,000	255,000
1	255,001	260,000	259,500
2	260,001	265,000	520,796
2	265,001	270,000	538,000
1	270,001	275,000	270,200
2	280,001	285,000	564,480
1	290,001	295,000	293,000
2	295,001	300,000	600,000
1	320,001	325,000	322,560
1	325,001	330,000	326,000
1	340,001	345,000	342,672
1	345,001	350,000	350,000
1	375,001	380,000	379,296
2	385,001	390,000	778,000
2	400,001	405,000	800,800
1	405,001	410,000	410,000
1	415,001	420,000	416,500
1	420,001	425,000	424,500
1	425,001	430,000	425,344
1	445,001	450,000	446,000
2	455,001	460,000	917,011
1	500,001	505,000	504,138
1	535,001	540,000	537,500
1	590,001	595,000	592,600
1	600,001	605,000	602,400
1	640,001	645,000	645,000
2	680,001	685,000	1,370,000
1	745,001	750,000	750,000
3	820,001	825,000	2,472,832
2	850,001	855,000	1,705,500
1	855,001	860,000	858,500
1	1,195,001	1,200,000	1,200,000
1	1,200,001	1,205,000	1,200,800
1	1,300,001	1,305,000	1,300,192
1	1,395,001	1,400,000	1,396,000
1	1,580,001	1,585,000	1,584,070
1	1,825,001	1,830,000	1,828,000
1	2,010,001	2,015,000	2,015,000
1	2,110,001	2,115,000	2,111,000
1	2,140,001	2,145,000	2,143,315
1	3,965,001	3,970,000	3,969,000
1	20,155,001	20,160,000	20,160,000
1	21,990,001	21,995,000	21,993,294
1	24,925,001	24,930,000	24,929,440
1	58,345,001	58,350,000	58,348,438
4,880			201,600,000



## STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE – YEAR ENDED JUNE 30, 2014

In connection with your review of Statement of Compliance with the Best Practices of the Code of Corporate Governance (the Code) prepared by the Board of Directors of Habib Modaraba Management (Private) Limited (the Management Company) in respect of First Habib Modaraba (the Modaraba) for the year ended June 30, 2014, we confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your review:

The statement is being presented to comply with the code of Corporate Governance (CCG) contained in Regulation 35 of Listing Regulations (chapter XI) of Karachi Stock Exchange Limited, Lahore Stock Exchange Limited, and Islamabad Stock Exchange Limited for the purpose of establishing a frame of good governance, whereby a listed company is managed in compliance with the best practice of corporate governance.

The Modaraba has applied the principles contained in the CCG in the following manner;

1. At present the Board comprises of six directors of which five are non-executives and only the Chief Executive Officer is an Executive Director.

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

The independent director meets the criteria of independence under clause i(b) of CCG.

2. The Directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Management Company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurring on the Board during the period and was filled up by the directors.
5. The Modaraba has prepared a “Code of Conduct” and has ensured that appropriate steps have been taken to disseminate it throughout the Modaraba along with its supporting policies and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Modaraba which are well implemented.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the Board.
8. The board has arranged one training program for its director during the year.
9. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

10. No appointment of CFO, Company Secretary and Head of Internal Audit has been made during the year.
11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises three members, of whom all are non-executive directors including the Chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises three members, of whom all are non-executive directors including the Chairman of the committee.
18. The Board has set up an effective internal audit function.
19. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Modaraba's securities, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.

Karachi: July 23, 2014

**Muhammad Shoab Ibrahim**  
Chief Executive Officer

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

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of **HABIB MODARABA MANAGEMENT (PRIVATE) LIMITED**, the Management Company of **FIRST HABIB MODARABA**, for the year ended June 30, 2014 to comply with the requirements of Listing Regulations No 35(Chapter XI) of the Karachi Stock Exchange Limited, Lahore Stock Exchange Limited and Islamabad Stock Exchange Limited where the Modaraba is listed.

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

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba's compliance, in all material respects, with the best practices contained in the Code as applicable to the Modaraba for the year ended June 30, 2014.

Karachi : July 23, 2014

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

## BOARD COMMITTEES

### Audit Committee Terms of Reference

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

The audit committee comprises of the following members:

Members	No. of Meeting Attended
Mr. Abbas Ali Muhammad Non Executive (Chairman)	4
Mr. Wazir Mumtaz Ahmed Non Executive (Member)	4
Mr. Wazir Husain Jafree (Late) Non Executive (Member)	2
Mr. Syed Rasheed Akhtar Non Executive (Member)	-
<small>Mr. Syed Rashed Akhtar has been appointed as Director in place of Mr. Wazir Hussain Jafree (Late) on &gt;&gt;&gt;&gt;. Subsequently, in the BOD meeting held on April 29, 2014 he has been appointed as a Member and Chairman of Audit Committee and attended the Audit Committee meeting held on July 23, 2014.</small>	
<b>Secretary to Audit Committee</b> Mr. Shakeel Ahmed Mangroria	4

### HR Committee Terms of Reference

The committee shall be responsible for:

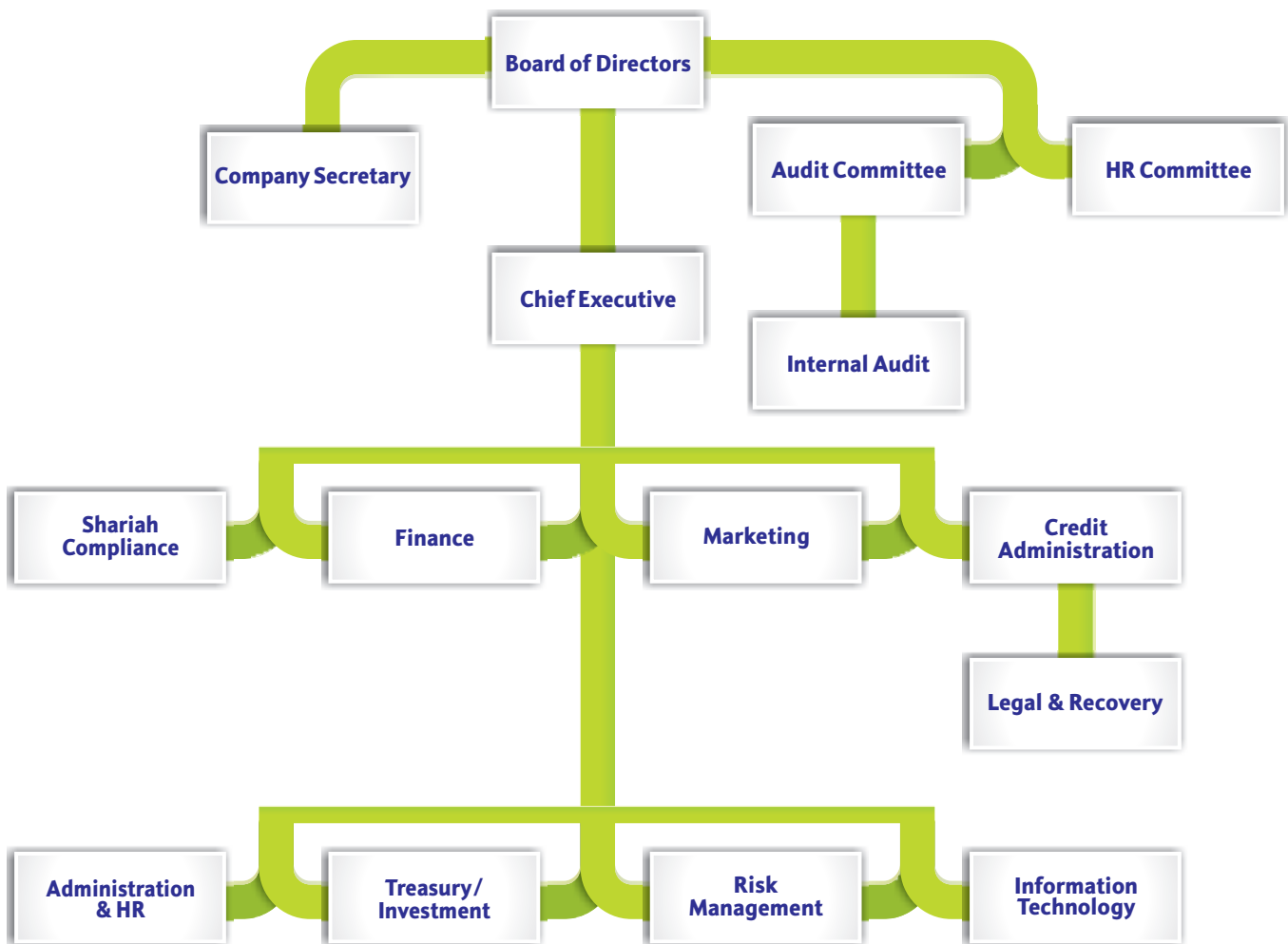
- i) recommending human resource management policies to the board;
- ii) recommending to the board the selection, evaluation, compensation (including retirement benefits) and succession planning of the CEO;
- iii) recommending to the board the selection, evaluation, compensation (including retirement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

The Human Resource committee comprises of the following members:

Members	No. of Meeting Attended
Mr. Abbas Ali Muhammad Non Executive (Chairman)	2
Mr. Wazir Mumtaz Ahmed Non Executive (Member)	2
Mr. Wazir Husain Jafree (Late) Non Executive (Member)	2

## ORGANIZATIONAL STRUCTURE

For the year ended June 30, 2014



## SHARIAH ADVISER PROFILE

### Mufti Abdul Sattar Laghari

Mufti Abdul Sattar Laghari holds a ShahadatulA'almiah (Dars e Nizami) and a Master scholar from JamiaDarul-Uloom, Korangi, Karachi. He holds Specialization (Takhassus) in Islamic Fiqh and Fatwa from Darullftawallrshad Nazimabad 4 Karachi with Master in Islamic Studies from University of Karachi.

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

He has been providing Shariah Advisory services since 2005. He previously worked as Shariah Advisor in Islamic Banking Division of National Bank of Pakistan and presently associated as Shariah Advisor with Islamic Banking Division of Habib Metropolitan Bank Limited. Besides, he is Shariah Advisor of Standard Chartered Modaraba & KASB Modaraba and also gives Shariah advisory services to NBFIs and Modaraba Association of Pakistan from time to time.

Mufti Laghari has remained a member of sub committees for review of some AAOIFI Shariah standards at State Bank of Pakistan. He is a master trainer in Islamic Banking and Finance and has conducted extensive courses throughout Pakistan. During his career he has also issued numerous fatawas on general as well as financial & Islamic Banking issues.





## ROLE OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

At FHM the role of Chairman and the Chief Executive are separate and their responsibilities are clearly set out as follows. 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 operations of the Board and its committees.
- \* Make sure that the board focuses on its key tasks.
- \* Always ensure that issues relevant to those areas are considered by the Board.
- \* 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 ensure that the Directors are properly informed and that sufficient information is provided to enable the Directors to form appropriate judgments.

### 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. He has done master's in Business Administration 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 (DarulUloom), Karachi, Pakistan.

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 of the FHM
- \* To make Shariah governance within the operation of FHM.
- \* To Enable Board of Directors to fulfill its governance functions
- \* To give directions for achievement of business objective of the FHM.
- \* Maintain market presence and profitability of the FHM.
- \* 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 organizations.

## PERFORMANCE EVALUATION OF THE BOARD

Board of Directors act as governing trustees of FHM on behalf of the regulator and Certificate holders of Modaraba. There isn't a scheme for annual appraisal of the board's performance as whole. However, each member of the Board carried out a self-assessment of his own effectiveness as an individual as well as effectiveness of the Board as a team for the year 2013-14. Furthermore, the FHM is abiding by the Code of Conduct which is formulated by the Board. The Board set following evaluation criteria to judge its performance.

- \* Ensures that compliance mechanism of Shariah governance is in place and followed diligently.
- \* Compliance with all relevant regulatory laws and regulations by management of FHM.
- \* Review of the long term strategic business plans and goals and its achievement.
- \* Proper risk management tools are in placed which supports for company's performance and growth.
- \* Make sure adequate internal control system within FHM and its regular assessment through self-assessment and audit committee.
- \* Ensuring required quorum of Board meeting is available in order to have detailed deliberation and quality decision on matters of significance.
- \* According to new Code of Corporate Governance, ensures the training of board particularly new member is fully aware of his roles and responsibility preferably knowledge on Islamic finance.

## PERFORMANCE EVALUATION OF THE CHIEF EXECUTIVE OFFICER

The Chief Executive Officer (CEO) is responsible for leading the development and execution of the FHM's long term strategy with a view to creating certificate holders value. The CEO's leadership role also entails being ultimately responsible for all day-to-day management decisions and for implementing the FHM's long and short term plans.

The CEO coordinates between the Board and management of the FHM and communicates to the Board on behalf of management. The CEO also communicates on behalf of the FHM to certificate holders, employees, regulators, other stakeholders of FHM.

During the year CEO of FHM being part of the Board was present in every meeting of the Board. The CEO provided overview of the FHM's performance to the Board and addresses any specific questions by the Board members.

The performance of CEO is assessed through performance and target given by the board. The key factors of evaluation include financial performance, business process, compliance, risk management, sound internal control and human resource management. The boards found that during the year all the above areas have successfully managed at satisfactory level in accordance with strategy set by the board.

## REPORT OF THE AUDIT COMMITTEE

### Composition of the Committee

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

The following are the members of Audit Committee.

**Mr. Rasheed Akther**  
Chairman of Audit Committee  
Non-Executive Independent Director

**Mr. Wazir Mumtaz Ahmed**  
Non-Executive Director

**Mr. Abbas Ali Mohammed**  
Non-Executive Director

### Scope of Audit Committee

The Committee is playing active role in overseeing FHM financial matters and governance issues. The Committee has deepened its focus on the effectiveness of internal control, compliance, assurance, internal audit functions, and other responsibilities given by the Board of Directors. The Committee is authorized to investigate any matter within its terms of reference, access all documents and information. However, the Committee has no executive function and its primary objective is to review and make their reservation/suggestion on the financial and governance functions of FHM.

### Internal Control Framework (ICF)

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

- \* Effectiveness and efficiency of operations.
- \* Reliability of financial reporting.
- \* Compliance with applicable laws and regulations.
- \* Improved reporting throughout the organization.

Compliance and ICF functions are well integrated and entrusted with the responsibilities to oversee operations and rectifications of irregularities and control lapses pointed out through audit committee reviews from time to time. Concerted efforts are made to improve the control environment at every level by continuous review and streamlining of procedures to prevent and rectify control lapses. The department also ensures the compliances of regulatory requirement, FHM's internal policies and procedures with specific emphasis on KYC, AML and



Shariah audit mechanism. The Audit Committee actively monitors implementation to ensure that identified risks are mitigated to safeguard the interest of the institutions. During the year following control mechanism further strengthen such as:

- \* Audit approach: Risk and system based further improved
- \* ERP and integrated control further increased.
- \* Documentation management application introduced which enhanced error free working.

### Role of Internal Auditor

The Internal Auditor plays very effective role to support Audit Committee to discharge their responsibilities. The relationship between the Audit Committee and internal auditor is central to enabling the committee to satisfactory deliver assigned task given by board of directors. Internal audit is functionally responsible to the Audit Committee and works to the committee through its department. Reports by internal audit help the Audit Committee with a key source of information to view entity's operation.

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

- \* Evaluates and provides reasonable assurance that risk management, control, and governance systems are functioning as intended and will enable the organization's objectives and goals to be met.
- \* Reports risk management issues and internal control deficiencies identified directly to the audit committee and provide recommendations for improving the organization's operations, in terms of both efficient and effective performance.
- \* Evaluates information security and associated risk exposures.

- \* Evaluates regulatory compliance program with consultation from legal counsel.
- \* Evaluates the organization readiness in case of business interruption.
- \* Maintains open communication with management and the audit committee.
- \* Coordinate with other internal and external resources as appropriate.

#### Conduct of meeting by Audit Committee

The Audit Committee has concluded its review of the conduct and operations of the FHM during 2013-14, and report that;

- \* Four meetings of Audit Committee were held during the year 2013-14
- \* The Audit Committee reviewed quarterly, half yearly and annual financial statements of the FHM prior to their approval by the Board of Directors.
- \* The Audit Committee has reviewed and approved all related party transactions.
- \* The Audit Committee has recommended to the Board of Directors that M/s. Munif Ziauddin & Company, Chartered Accountants being eligible, appointed to act as statutory auditors of FHM for the financial year ended June 30th 2014.
- \* The Audit Committee has reviewed management letter issued by external auditors and management response.
- \* The Head of Internal Audit has access to the Chairman of the Board Audit Committee and the Committee has ensured sufficient internal audit acumen and that the function has all necessary access to Management and the right to seek information and explanations.
- \* The internal audit function has carried out its duties under the charter defined by the Committee.

Apart from above, the Committee also reviewed and deliberated upon.

- \* An update on entire audit activity carried out by Internal Audit Function during the year.
- \* Significant Internal Audit findings pertaining to Audit committee.
- \* Update on evaluation of ICF system by internal audit as well as compliance thereon by the management.

- \* Compliance Status of Shariah advisor's Reports.

#### External Audit

External audit is an independent function of audit. For the period ended 30th June, 2014 this function has been done by M/s Muniff Ziauddin, Chartered Accountant as an external auditor of FHM.

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

The Audit Committee approves the audited accounts of FHM for the period ended 30th June, 2014 audited by M/s Muniff Ziauddin, Chartered Accountant and confirms that there is no material non-compliance found within the audited accounts or narrated by auditors.

Chairman  
Audit Committee

## **AVOIDING CONFLICT OF INTEREST POLICY**

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 under Sections 236(1) the Companies Ordinance 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 no. 16 of Stock Exchange it is also required to mention "Related Party Disclosure" in annual balance sheet. For this purpose all directors have already submitted annual declaration to Secretary on their holding in Certificate of Modaraba.

## **POLICY FOR PROTECTION OF DATA OF THE COMPANY"**

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

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

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

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

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



## IT GOVERNANCE POLICY

Information Technology has become a backbone for conducting business particularly in financial sector where a quality customer service is core business objective of the organizations and it depends exclusive on use of Information and Communications Technologies. In an increasingly regulated world, organizations of all sizes and industries need to effectively manage and protect information. IT Governance has become a hot topic and inadequate compliance and security controls not only vulnerable to business risks but also expose to legislative and regulatory breaches. This ultimately led to inefficient business processes and lack of customer confidence which impact organization's sustainability and profitability.

Within IT Governance framework of FHM the right alignment of IT objective those of the defined in the business terms of FHM are ensured by the Information Technology Governance mechanism. IT Governance which forms an integral part of the FHM's Corporate Governance supports for achieving optimum results through linking between strategic direction and information system management of FHM. It makes sure that all stakeholders' interests are taken into account and that processes provide measurable results. FHM IT department having the vision to aligned its vision with the very strategic objective of the organization.

FHM's IT governance covers following functional areas.

### Compliance area

Investing in licensed applications in compliance with relevant laws.

### Financial reporting area

Integration of the different systems used by various departments.

### IT Security area

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



### Judicious Capital Expenditure

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

### IT Risk Management functions

IT related Risk Management processes are frequently reviewed and strengthen in order to effectively manage them to mitigate the risk and security threats.

### Paperless documentation processes

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



## 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

We consider that human capital is a one of the most important and vital resources for sustainable development and growth of any organizations. Human Resource (HR) department always ensures that all the new induction is well assessed as per job requirement, appointed on merit along with required competencies and skills. Hiring a quality personnel and retaining them are the crucial task of HR department.

HR department always seeks for qualified, educated and talented candidate and do not discriminate with regard to race, language, religious belief or gender. We only consider employees' relevant skills and competencies as those are the attributes that create sustainable value.

Similarly, for the existing employees, HR department is proactively engaged in an ongoing process of developing human capital and bringing it in line with required working standards in terms of skills and competencies including moral and ethical values. We always focused to induct personnel having good educational background and multi-functional skills.

FHM has policy of promoting employees within the organization with strong succession plan which is placed at all levels. We have also stringent promotion criteria for employees which are on merit based with pre-defined eligibility parameters. Moreover we have comprehensively designed performance appraisal process which is reviewed every year at the time of annual increment and promotion. HR department also give priority on training and development of employees, spending good amount on this segment each year which plays a vital part for professional grooming of staff members.

HR department constantly strives to improve HR system and processes in line with strategic vision and direction of Board, HR committee and management of FHM for betterment and well being of employees and institutions.



### Succession Planning

FHM's management review succession planning regularly to provide leadership continuity. We believe that changes are inevitable and in order to meet any vacuum in any key position due to retirement, resignation etc., the relevant vacancy can be filled without any delay. Performance evaluation based on one to one interaction, cross functional team exposure and target achievement help the assessment of potential candidates for succession planning.

All employees are encouraged to develop skills that further improve their personal and professional development. We recognized that a successful transition of key management and team building minimize disruption and ensure business continuation along with sustainable future growth.

## INVESTORS' GRIEVANCE POLICY

We at FHM endeavor to address all complaints regarding service deficiencies or other grievance of our investor in a reasonable time and manner. Investor complaints constitute an important voice of investor and this must be handled through a well-structured grievance redress framework. Complaint redressal is supported by a review mechanism to minimize the recurrence of similar issues in future. We realize that quick and effective handling and resolution of customers/investors grievance is very important in order to improve service standard of any institutions.

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

- \* Every customers/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.
- \* Those staff members responsible to manage the customer's grievance are encouraged to give periodically training in line with modern techniques for proper handling of the job.



### Grievance redress handling mechanism

- \* Handling of all the investors' grievances for the FHM is a centralized function and is being handled by the compliance department at head office.
- \* A designated email ID has been allocated where the investors can make complain and same is monitored by the compliance department on regular basis.
- \* An Investor can also make a written complaint through letter.
- \* All the investor grievances received via email ID shall be scrutinize and verified by the compliance department and it would initiate necessary steps to resolve the complaint within the reasonable time frame.
- \* Audit & Compliance Department will obtain all information available on the complaint which is considered necessary for a proper investigation, look into all the necessary information and resolve these as soon as possible.
- \* Any serious complaint must 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 by:

### Learning

Identifying and understanding

### Innovating

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

### Performing

Enhancing performance.

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

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

### Certificate Holders

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

### Customer

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

### MAPPING OF STAKEHOLDERS OF FHM



### Employees

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

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

### Government/Regulators

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

### Suppliers

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

### Communities

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

## WHISTLE BLOWING POLICY

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



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

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

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

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

The HR department having excellent appraisal and monitoring system in which regular session with respect to dealing with the situation in which whistle blower can be encouraged and benefited for his/her courage. Pre Format Application forms available at each employee desktop in the form of soft copy for easy and prompt access to high management.

All the information kept confidential and shall not be used as against the interest of whistle blower.



# FOCUSED STRATEGY

At FHM, while remaining within our strategy, we further stretch our wings to accelerate growth momentum which encircle around our following focused business strategies.

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

**52%**  
**Growth in**  
**Certificate of**  
**Musharkah**

**13%**  
**Growth in**  
**Financing**  
**assets**



# MEMBERSHIPS

**Islamic Financial  
Services Board (IFSB)**  
MALAYSIA

**Management Association  
of Pakistan (MAP)**

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

**Marketing Association  
of Pakistan (MAP)**

**NBFI & Modaraba  
Association of Pakistan**

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



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



The Islamic Financial Services Board (IFSB), is based in Kuala Lumpur, Malaysia, was officially inaugurated in 2002. The Islamic Financial Services Board (IFSB) is an international standard-setting organization that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors. The IFSB also conducts research and coordinates initiatives on industry related issues, as well as organizes roundtables, seminars and conferences for regulators and industry stakeholders.



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.

## FHM Awards Calendar

- 1999-00** Best Performing Modaraba Award by The Modaraba Association of Pakistan
- 2000-01** Best Performing Modaraba Award by The Modaraba Association of Pakistan
- 2001-02** Best Performing Modaraba Award by The Modaraba Association of Pakistan
- 2002-03** Best Performing Modaraba Award by The Modaraba Association of Pakistan
- 2005-06** Best Performing Modaraba Award by The Modaraba Association of Pakistan
- 2006-07** Best Performing Modaraba Award by The Modaraba Association of Pakistan
- 2007-08** Best Performing Modaraba Award by The Modaraba Association of Pakistan  
Corporate Excellence Certificate Award by The Management Association of Pakistan
- 2008-09** Best Performing Modaraba Award by Modaraba Association of Pakistan  
Corporate Excellence Certificate Award by The Management Association of Pakistan
- 2009-10** Best Performing Modaraba Award by The Modaraba Association of Pakistan  
Corporate Excellence Trophy Award by The Management Association of Pakistan
- 2010-11** Best Performing Modaraba Award by The Modaraba Association of Pakistan  
Corporate Excellence Certificate Award by The Management Association of Pakistan  
Best Corporate Report Award by The Joint Committee of ICAP and ICMAP  
Best Presented Accounts and Corporate Disclosure Award by SAFA
- 2011-12** Best Performing Modaraba Award by The NBFI's & Modaraba Association of Pakistan  
Corporate Excellence Certificate Award by The Management Association of Pakistan  
Best Corporate Report Award by The Joint Committee of ICAP and ICMAP  
Best Presented Accounts and Corporate Disclosure Award by SAFA  
Brand of the Year Award by The Brands Foundation of Pakistan
- 2012-13** Best Performing Modaraba Award by The NBFI's & Modaraba Association of Pakistan  
Best Corporate Report Award by The Joint Committee of ICAP and ICMAP  
Best Presented Accounts and Corporate Disclosure Award by SAFA
- 2013-14** Best Performing Modaraba Award by The Modaraba Association of Pakistan  
Corporate Excellence Certificate Award by The Management Association of Pakistan  
Best Corporate Report Award by The Joint Committee of ICAP and ICMAP  
Best Presented Accounts and Corporate Disclosure Award by SAFA

## 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	2010
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

### Financial Calendar

2014

Ist Quarter Result issued on	October 28, 2013
2nd Quarter Result issued on	February 18, 2014
3rd Quarter Result issued on	April 29, 2014
Annual Result issued on	July 23, 2014
Annual Review Meeting	Scheduled on September 16, 2014

2013

Ist Quarter Result issued on	October 25, 2012
2nd Quarter Result issued on	February 25, 2013
3rd Quarter Result issued on	April 25, 2013
Annual Result issued on	July 16, 2013
Annual Review Meeting	Scheduled on August 7, 2013



The NBF & Modaraba Association of Pakistan

has given

**FIRST POSITION**

*Best Performing Modaraba Award 2013*  
to

**First Habib Modaraba**



2012



2011



2010



2009



2008



2013



2007



2006



2005



2002



2001



2000



1999

By the Grace of God, during last 15 years, FHM has received 13 awards as Best Performing Modaraba from the NBF and Modaraba Association of Pakistan within Modaraba sector.



For the financial year ended 30th June, 2013, the NBFI and Modaraba Association of Pakistan, has awarded best performing Modaraba award to FHM within the Modaraba sector. The FHM has secured 1st position in above award category.

So far FHM has received 13 awards from NBFI and Modaraba Association of Pakistan within last 15 years.



**29<sup>th</sup> map**  
**CORPORATE EXCELLENCE AWARD**



**MANAGEMENT ASSOCIATION OF PAKISTAN**

has given the

**Corporate Excellence Certificate**

to

**FIRST HABIB MODARABA**



**2013**

**2010**

**Awards received in previous years**



**2008**



**2009**



**2011**



**2012**



In 29th Corporate Excellence Awards ceremony held in 22nd August, 2013, the Management Association of Pakistan (MAP) has awarded “Certificate of Excellence” award to FHM from the category of Equity Investment Instruments Sector. Alhamdulillah, since last six consecutive years FHM has been receiving this award. So far FHM has secured five Excellence Certificate Awards and one Excellence Trophy Award.



Institute of Chartered Accountants of Pakistan

**JOINT COMMITTEE OF ICAP AND ICMAP**  
has given  
**BEST CORPORATE REPORT AWARD - 2012**  
to  
**FIRST HABIB MODARABA**



Institute of Cost & Management Accountants of Pakistan

**2012**



**2009**

The Joint Committee of ICAP & ICMAP has selected annual report of First Habib Modaraba for the year ended 30th June, 2012, as a best corporate report within the category of NBFIs sector.



**2010**



**2011**





The Joint Committee of Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost & Management Accountants of Pakistan (ICMAP) in their ceremony held on 22nd August, 2013 has awarded “Best Corporate Report Award” to First Habib Modaraba (FHM) under the category of NBFCs.

FHM has secured “Second Position”. By the grace of God, FHM is the only Modaraba in entire Modaraba sector who has been receiving this award since last four consecutive years.



**First Habib Modaraba**

has received



**Certificate of Merit Award**

For Best Presented Annual Report Awards & Corporate Governance Disclosures for 2012

from **SOUTH ASIAN FEDERATION OF ACCOUNTANTS (SAFA)**

in the category of Financial Services Sector



**2012**

SAFA in its award ceremony held in Islamabad, Pakistan on 3rd May, 2014 awarded SAFA "Certificate of Merit" Award to First Habib Modaraba (FHM) in the category of "Financial Services Sector" for "Best Presented Accounts" and "Corporate Governance Disclosures" for the year 2012.

**By the grace of God FHM has been receiving this award since last four consecutive years.**



2011



2010



2009





South Asian Federation of Accountants (SAFA) in its award ceremony held in Islamabad, on 3rd May, 2014, awarded SAFA BPA "Certificate of Merit" award to FHM from the category of "Financial Services Sector" for "Best Presented Accounts" and "Corporate Governance Disclosures" for the year 2012. Within this sector, FHM was only nominee from Pakistan. This is fourth consecutive "Certificate of Merit" award to Habib Modaraba from SAFA committee.



## PRODUCT DETAIL

### LEASE (IJARAH)



Ijarah is a contract of renting/ hiring/leasing for usufruct of the assets under which Modaraba arrange finances for moveable fixed assets at agreed rental and period with an undertaking to purchase the assets by the customer. Rental and Purchase price is fixed in Advance.

### DIMINISHING MUSHARAKA



(Shirkatul Mutanqish) is a type of Shirkah where one partner purchases the other partner's share gradually. Two partners acquire any asset (vehicle/ machinery/ property) with an intention that one or both partner will use this asset or any one rent out its share in the property to another and sharek undertakes to purchase the share of other partner until it acquires the complete ownership.

### CAR-NAMA



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

### MURABAHA



It is contract of sales of goods on deferred payment basis in which Modaraba buys the goods and sell them to the customer of deferred payment basis. In this transaction, seller i.e. Modaraba disclose the cost and profit thereon.

## PRODUCT DETAIL

Salam means a contract in which whole payment made in advance for goods to be delivered later; thus the contract creates a liability for the seller. Amount given, as Salam cannot be called back, unlike Qard.



SALAM

This is a contractual agreement for manufacturing goods and commodities, allowing cash payment in advance and future delivery or a future payment and future delivery.



ISTISNA

It is a partnership where profit is shared as per agreed ratio at the inception of shirkah, while the loss is shared in proportion of capital investment of each partner. All the partners are entitled to participate in the management of the business.



MUSHARAKA

It is on the basis of this expertise and know-how that FHM presents a prime investment opportunity in the form of Certificate of Musharaka (COM) and promises best possible returns to investors with complete security.



CERTIFICATE  
OF MUSHARAKA

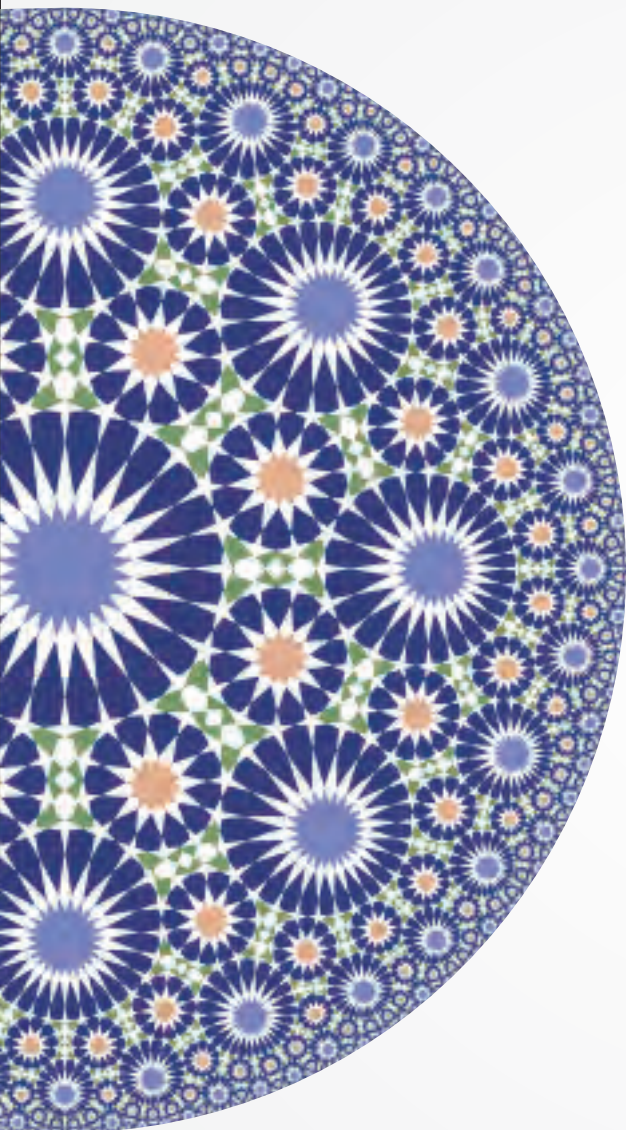
## We **Journey Together** to Prosperity

---

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.

We are willing to work towards continuous journey of success by respecting and valuing of our all partners.

We have aligned our business strategy with large commitment to corporate responsibility, wellbeing of employees, customers, communities, environment and national development for long term sustainability. Working side by side with our stakeholders, we see clearly that their success drives our success as we journey together to prosperity.



## FINANCIAL STATEMENTS

Shariah Advisor's Review Report	93
Auditors' Report to the Certificate Holders	96
Balance Sheet	97
Profit & Loss Account	98
Statement of Comprehensive Income	99
Cash Flow Statement	100
Statement of Changes in Equity	101
Notes to the Accounts	102







*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 2014**

By the Grace of Allah, another active year of the Modaraba was completed with growth. During this year, the Modaraba executed already established Islamic financing products and transactions under the guidance and supervision of Shariah Advisor. During the year, the Sharia Compliance Department (SCD) of First Habib Modaraba held several meetings to review financing products, concepts, transactions, processes and their Shariah-compliance frame work, referred to them by the Sharia Advisor.

As part of the Shariah-compliance framework a full-fledged Shariah Compliance Department (SCD) is working under my supervision. The role of SCD is facilitating product development activities, refining existing products & procedures, performing Shariah compliance reviews of existing product and their agreement, coordinating with Modaraba's management and internal Shariah Auditor. Following were the major developments that took place during the year:

### **Research & New Product Development**

Alhamdulillah, during the year, further improvements were made in the processing, product and Liability side operations as per my directions. The adherence with Shariah and continue growth of modaraba adding value to the Islamic financial institutions palette of the Pakistan.

The DM-Diminishing Musharika was offered to a larger number of clients compared to previous years.

### **Training & Development**

Trained Human Resource is extremely important for the success of Modaraba Industry. To ensure every employee gets proper training, management emphasis to start inhouse shariah training for all staff members.

During the year 2013-14 in-house training sessions were conducted about existing and new products in which most of the relevant employees participated. Such type of training enhances the Islamic financing expertise of the modaraba's employees. Besides this, the modaraba also nominated its staff in training programs conducted by Center for Islamic Economics (CIE) where renowned scholars share their knowledge especially for Branch Managers.

### **Review of Assets**

The Modaraba primarily used Ijarah and Diminishing Musharakah, for its financing activities during the year. It is encouraging to note that the Modaraba has moved towards diversification in the usage of financing products and has reduced the reliance on Ijarah only, as is evident from the Modaraba's financing portfolio. In this context the share of Diminishing Musharika Financing was significantly increased. The Modaraba's total financing portfolio reached Rs.3.9 billion (gross) as of June 30,2014.

### **Review of Liabilities**

On the liability side, the Modaraba offered scheme of Certificate of Musharika (COM) based on the mode of Shirkat. Total COM of the Modaraba increased by 52% and reached a sum of Rs.1.5 billion as at June 30, 2014.

During the year, the modaraba accepted deposits on the mode of Musharakah for short-term liquidity management from individuals and corporate clients. It is heartening to observe that the further improvement has been made in profit payment mechanism to make it more transparent under the direction of Shariah Advisor.



## Shariah Audit & Compliance Reviews

The Shariah Audit function plays a vital role in achieving the objective of ensuring Shariah compliance by evaluating the adherence to Shariah guidelines in each and every activity undertaken by the Modaraba. The Shariah Audit function keeps a continuous check on all activities of the Modaraba.

To strengthen the internal Sharia controls mechanism the management of FHM has started monthly Audit which further enhance the shariah Governance and reduced the day to day shariah operational errors. These audits not only cover the transactions that the departments undertake but also include an evaluation of the Shariah knowledge of staff.

During the year, credit approvals, restructuring of financing facilities, customer-specific transaction process flows and security documents were reviewed to ensure Sharia compliance while offering financing products to the customers.

During the year 2014, facilities were disbursed under Ijarah and Diminishing Musharika to Corporate, SME/Commercial customers and Individuals, it has been witnessed that the major disbursements has been made direct to Suppliers.

In addition to the above-mentioned compliance measures, Sharia audit & compliance review of major portion of transaction were conducted during the year to gain firsthand understanding of the activities being carried out in the Modaraba. An exercise of gauging the basic understanding of the staff about the structures and concepts of Islamic banking & finance was also conducted by way of meetings and on the spot training sessions were also conducted to address any shortcomings identified during the course of such reviews.

Further to note it was witnessed that Ijarah Rental were charged only upon delivery of asset and no rental was charged if assets were not delivered or not in use of customer due to total loss/theft/snatched etc.

The review covered overall Shariah-compliance of the Modaraba's operations and their alignment with the guidelines given by Shariah Advisor and the SECP. In the process, following areas were looked into specially:

- Suppliers' existence was confirmed on sample basis
- Financing Agreements for Ijarah and Diminishing Musharakah were reviewed
- Declarations, description of assets, relevant purchase invoices, sequence and order of the documents were reviewed to obviate the possibility of fictitious transactions
- Transaction Process Flows and Transaction Checklist
- Purchase deeds, treatment of ownership related cost & recovery of rentals in Ijarah transactions
- Ownership ratio in Diminishing Musharakah and issuance of timely unit sale receipts
- Investment made in stock with reference to the stock screening criteria
- Other related documents and procedures followed by different functional areas
- Profit-sharing ratio, profit weightages, projections, and profit distribution mechanism.
- Termination Process of Financing Facilities.

## Observations

It was observed that on some occasions following in exactitudes has been witnessed that; (1) agreements and documents were not properly filled;(2)missing of information in execution of sale & lease back transactions; (3) On some occasions shariah checklist, credit checklist, process flow and respective approvals omitted; (4) Telephonic client request received instead of written; (5) It is also observed, he FHM efforts towards converting its portfolio from conventional insurance to Takaful, management stance to convert its entire portfolio to takafulis difficult due to weak risk appetite and absorption capacity of Takaful companies and inadequate re-takaful arrangement within the

country. Keeping in view of current circumstances of Takaful industry and further opening of Takaful windows with large Insurance companies it is strongly recommended to make effort for the conversion of portfolio from conventional Insurance to Takaful.

### Charity

An amount of Rs.1,456,155/- was transferred to the Charity Payable Account recovered from customers due to delay in repayment in various financial transactions. I have witnessed the list of charitable institution an amount of Rs.2.0 million was paid from the charity account as per Shariah Guidelines of SECP.

### Recommendation

Based on the review of various transactions and operations of the Modaraba, I recommend that:

- Keeping in view of current circumstances of Takaful Industry and further opening of Takaful windows of Insurance Companies it has been highly recommended that FHM should insure its assets through takaful.
- The Modaraba's IT system must be further strengthened to facilitate its customers and compliance mechanism.
- The Modaraba should focus on new innovations and explore the possibility of entering into more specialized Sharia compliant financing modes such as Murabaha, Salam, Istisna and Musawamah.
- Due care regarding the mind set and commitment towards the cause of Islamic Financing should be taken during the process of hiring of new staff.
- The Modaraba should continue its policy of expansion to spread Islamic Financing and in this regard continue its focus on employees' training related to Islamic Financing products and services and process offered by the Modaraba with specific focus on front line staff.

### Conclusion

It is mandatory on the management and employees to ensure application of Sharia principles and guidelines issued by the SECP and Shariah Advisor and to ensure Shariah-compliance in all activities of the Modaraba. The prime responsibility for ensuring Shariah-compliance of the Modaraba's operations thus lies with the management.

Based on the extensive reviews of sample cases for each class of transaction, related documentation, processes, profit distribution mechanism for the depositors and management's representation made in this regard, in my opinion, the affairs, activities and transactions, performed by the Modaraba during the year comply with the rules & principles of Islamic Shariah in light of the guidelines and directives given by the SECP and myself. Further it is highly appreciated that Modaraba Management and staff are fully committed to adhere the shariah guidelines and directives issued by SECP and Shariah Advisor.

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

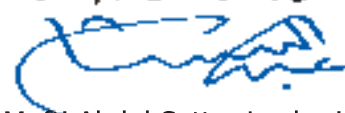
Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

**Mufti Abdul Sattar Leghari**

Shariah Advisor

Dated: 5th Ramazan-ul-Mubarak 1435 H/July 4, 2014

الخاطمني والصواب من منهم الصواب



Mufti Abdul Sattar Leghari  
Shariah Advisor  
First Habib Modaraba

## **AUDITORS' REPORT TO THE CERTIFICATE HOLDERS**

We have audited the annexed balance sheet of First Habib Modaraba (the Modaraba) as at June 30, 2014 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 Modaraba Management (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 except for change in accounting policy as stated in note 4.1 to the accompanying financial statements, with which we concur;
  - ii) the expenditure incurred during the year was for the purpose of the Modaraba's business and
  - iii) the business conducted, investment made, and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- c) In our opinion and to the best of our information and according to explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof confirm with the approved accounting standards as applicable in Pakistan and give the information required by the Modaraba companies and the Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and the Modaraba Rules, 1981 in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at June 30, 2014 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 Ushar Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Karachi : July 23, 2014

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

## BALANCE SHEET

As at June 30, 2014

	Note	2014	2013
-----Rupees-----			
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Fixed assets - tangible			
Ijarah (lease) assets	5	<b>2,868,616,976</b>	2,941,637,969
Assets in own use	5.2	<b>11,204,147</b>	13,427,992
		<b>2,879,821,123</b>	2,955,065,960
Intangible assets	6	<b>1,500,691</b>	1,409,165
Diminishing musharaka financing	7	<b>616,572,857</b>	355,467,154
Long term advances, deposits and prepayments	8	<b>1,200,050</b>	2,492,650
		<b>3,499,094,721</b>	3,314,434,929
<b>CURRENT ASSETS</b>			
Investments	9	<b>975,232,743</b>	997,145,487
Current portion of diminishing musharaka financing	7	<b>444,546,723</b>	191,350,842
Ijarah (lease) installments receivable	10	<b>9,915,676</b>	3,520,410
Advances and short term prepayments	11	<b>8,455,814</b>	11,318,384
Other receivables	12	<b>53,303,169</b>	32,973,716
Tax refund due from Government	13	<b>31,314,018</b>	37,903,024
Cash and bank balances	14	<b>371,131,886</b>	130,639,915
		<b>1,893,900,029</b>	1,404,851,777
<b>TOTAL ASSETS</b>		<b>5,392,994,749</b>	4,719,286,707
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Certificate capital :			
Authorized			
220,000,000 (2013: 220,000,000)			
certificates of Rs. 5/- each		<b>1,100,000,000</b>	1,100,000,000
Issued, subscribed and paid-up capital	15	<b>1,008,000,000</b>	1,008,000,000
Reserves	16	<b>2,200,619,366</b>	2,044,851,536
Certificate holders' equity		<b>3,208,619,366</b>	3,052,851,536
<b>NON-CURRENT LIABILITIES</b>			
Security deposits against ijarah (lease) assets	17	<b>290,104,583</b>	264,938,447
<b>CURRENT LIABILITIES</b>			
Certificates of musharaka	18	<b>1,533,668,767</b>	1,007,807,729
Security deposits - current portion	17	<b>81,132,842</b>	54,685,080
Unearned ijarah (lease) and diminishing musharaka installments		<b>3,979,895</b>	27,255,215
Advance ijarah (lease) and diminishing musharaka installments		<b>32,471,878</b>	19,804,076
Trade and other payables	19	<b>188,147,386</b>	249,042,452
Profit payable on certificate of musharaka		<b>28,379,755</b>	18,602,889
Taxation		<b>2,790,833</b>	2,790,833
Unclaimed profit distribution		<b>23,699,444</b>	21,508,450
		<b>1,894,270,800</b>	1,401,496,724
<b>CONTINGENCIES AND COMMITMENTS</b>	20		
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>5,392,994,749</b>	4,719,286,707

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

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

## PROFIT AND LOSS ACCOUNT

For the year ended June 30, 2014

	Note	2014	Re-stated 2013
-----Rupees-----			
Income from ijarah (leasing)	21	297,916,695	316,683,782
Profit on diminishing musharaka financing		93,591,278	49,166,023
		391,507,973	365,849,805
Administrative expenses	22	(70,750,329)	(67,723,800)
		320,757,644	298,126,005
Other income	23	124,150,840	955,770,578
Other operating charges	24	(651,171)	(740,800)
		444,257,313	1,253,155,783
Financial charges	25	(114,767,714)	(102,499,415)
		329,489,599	1,150,656,368
Modaraba Management Company's remuneration		(32,948,960)	(115,023,395)
Services sales tax on Managemet Company's remuneration	26	(5,271,834)	(22,568,120)
		291,268,805	1,013,064,853
Wokers Welfare Fund		(5,825,376)	(20,261,297)
<b>Profit before taxation</b>		<b>285,443,429</b>	<b>992,803,556</b>
Taxation		-	-
<b>Profit for the year</b>		<b>285,443,429</b>	<b>992,803,556</b>
Earnings per certificate - basic and diluted	37	1.42	4.92

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

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2014

	2014	Re-stated 2013
	-----Rupees-----	
Profit for the year	<b>285,443,429</b>	992,803,556
Movement in available for sale investments	<b>71,152,023</b>	(864,422,907)
Acturial gain/(loss) on defined benefit plan	<b>772,378</b>	(422,419)
<b>Total comprehensive income for the year</b>	<b>357,367,830</b>	127,958,230

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



## CASH FLOW STATEMENT

For the year ended June 30, 2014

	Note	2014	2013
-----Rupees-----			
<b>Cash flow from operating activities</b>			
Cash generated from operations	39	1,505,079,519	1,491,382,034
Purchase of ijarah (lease) assets		(1,400,901,865)	(1,889,712,152)
Proceeds from sale of ijarah (lease) assets		281,632,637	302,262,670
Diminishing musharaka financing - net		(514,301,584)	(164,380,665)
Musta'jir's security deposits:			
Received		119,354,126	134,367,098
Refunded / adjusted		(67,740,228)	(81,703,793)
Net Musta'jir's security deposits		51,613,898	52,663,305
Financial charges paid		(104,789,343)	(115,521,249)
Gratuity paid		(895,719)	(1,868,594)
Net cash outflow from operating activities		(182,562,458)	(325,174,651)
<b>Cash flow from investing activities</b>			
Purchase of owned assets (including intangibles)		(5,030,800)	(9,845,156)
Proceeds from disposal of owned assets		1,497,081	364,950
Purchase of investments - available for sale		(7,143,406)	(12,338,388)
Investment in Islamic investment certificate		-	300,000,000
Investment in Ijarah Sukuk bonds		-	(800,160,000)
Redemption of Sukuk bonds		100,160,000	-
Proceeds from disposal of investments		47,259	916,923,747
Dividend received		5,779,663	100,837,606
Long-term advances, deposits and prepayments		1,292,600	(975,800)
Net cash generated from investing activities		96,602,397	494,806,959
<b>Cash flow from financing activities</b>			
Profit distribution paid		(199,409,006)	(199,903,250)
Certificates of musharaka		525,861,038	38,516,770
Net cash inflow / (outflow) from financing activities		326,452,032	(161,386,480)
Net increase in cash and cash equivalents		240,491,971	8,245,828
Cash and cash equivalents at the beginning of the year		130,639,915	122,394,087
Cash and cash equivalents at the end of the year		371,131,886	130,639,915

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

## STATEMENT OF CHANGES IN EQUITY

For the year ended June 30, 2014

	Capital reserves			Revenue Reserves			Total reserves	Total
	Certificate capital	Certificate premium	Statutory reserve	General reserve	Unrealized gain on investments	Unappropriated profit		
	-----Rupees-----							
Balance as at July 01, 2012	1,008,000,000	378,000,000	578,891,321	50,000,000	901,105,975	210,496,010	2,118,493,306	3,126,493,306
Profit distribution for the year ended June 30, 2012 at 20%	-	-	-	-	-	(201,600,000)	(201,600,000)	(201,600,000)
Total comprehensive income for the year - Restated	-	-	-	-	(864,422,907)	992,381,137	127,958,230	127,958,230
Transfer to statutory reserve at 20% - Restated	-	-	198,560,711	-	-	(198,560,711)	-	-
Balance as on June 30, 2013 - Restated	1,008,000,000	378,000,000	777,452,032	50,000,000	36,683,068	802,716,436	2,044,851,536	3,052,851,536
Balance as on July 01, 2013	1,008,000,000	378,000,000	777,452,032	50,000,000	36,683,068	802,716,436	2,044,851,536	3,052,851,536
Profit distribution for the year ended June 30, 2013 at 20%	-	-	-	-	-	(201,600,000)	(201,600,000)	(201,600,000)
Transfer to general reserve	-	-	-	590,000,000	-	(590,000,000)	-	-
Total comprehensive income for the year	-	-	-	-	71,152,023	286,215,807	357,367,830	357,367,830
Transfer to statutory reserve at 20%	-	-	57,088,686	-	-	(57,088,686)	-	-
Balance as at June 30, 2014	1,008,000,000	378,000,000	834,540,718	640,000,000	107,835,091	240,243,557	2,200,619,366	3,208,619,366

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

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended June 30, 2014

### **1 STATUS AND NATURE OF BUSINESS**

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

### **2 BASIS OF PREPARATION**

#### **2.1 Statement of compliance**

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

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

#### **2.2 Basis of measurement**

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

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

The Securities and Exchange Commission of Pakistan (SECP) has directed that Islamic Financial Accounting Standard 2 shall be followed in regard to the financial statements by companies and modarabas while accounting for Ijarah (Lease) transactions as defined by the said standard.

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

#### **2.3 Functional and presentation currency**

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

#### **2.4 Significant accounting estimates and judgments**

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

## 2.5 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.

## 2.6 Staff retirement benefits

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

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

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

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

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

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

Standard, Interpretation or Amendment	"Effective date (annual periods beginning on or after) "
IFRIC 21 An interpretation on the accounting for levies imposed by governments	January 1, 2014
IAS 32 Offsetting Financial Assets and Financial Liabilities - (Amendment)	January 1, 2014
IAS 36 Impairment of Assets - (Amendment)	January 1, 2014
IAS 39 Financial Instruments: Recognition and Measurement (Amendment)	January 1, 2014
IAS 19 Employee Benefits (Amendment)	January 1, 2014

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

The following new standards have been issued by the IASB and notified by the SECP for application in Pakistan but their applicability start form the annual period beginning on or after January 01, 2015.

Standard or Interpretation	"IASB Effective date (annual periods beginning on or after) "
IFRS 10 Consolidated Financial Statements	January 01, 2013
IFRS 11 Joint Arrangements	January 01, 2013
IFRS 12 Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13 Fair Value Measurement	January 01, 2013

### Standards, ammendments and interpretations to be published approved accounting standards that are effective in the current year.

The following standards, amendments and interpretations are effective for the accounting period beginning on or after January 1, 2013. However, these are not either not relevant to the Modaraba's operation or are not expected to have significant impact on the Modaraba's financial statements other than certain additional disclosures.

- Amendments to IAS 1- Presentation of financial statements- Clarification of requirements for comparative information.
- Amendments to IAS 16- Property, Plant and Equipment- Classification of servicing equipment.
- Amendments to IAS 32- Financial Instruments: Presentation - Tax effects of distribution to holder of equity instrument, and transaction costs of an equity transactions.
- Amendments to IAS 34- Interim Financial Reporting- Interim reporting of segment information for total assets and total liabilities.
- IFRIC 20- Stripping cost in the Production Phase of a Surface Mine.

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

##### **4.1 Change in accounting policy**

The Modaraba has adopted the amended accounting standards which become effective during the year. Other than this, the accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year.

During the year (with effect from January 01, 2013) the Modaraba has adopted IAS 19, (Revised) 'Employee Benefits'. The amendments in the revised standard require the Modaraba to eliminate the corridor approach and recognize all actuarial gains and losses (now called 'remeasurements' that result from the remeasurements of defined benefit obligations and fair value of plan assets at the balance sheet date) in other comprehensive income as they occur, immediately recognize all past service costs and replace interest cost and expected return on plan assets with an interest amount that is calculated by applying the discount rate to the net defined benefits liability / asset.

Previously the company accounted for the actuarial gain/loss with respect to actuarial valuation of its retirement benefit plan immediately in the relevant period. Since the company has already accounted for the actuarial gain / loss and the liability was fully recorded hence there is no impact of it in the balance sheet.

The change in accounting policy has been applied retrospectively. The effect of the change in the accounting policy on the current and the prior period financial statements have been summarized below:

	2014	2013
	-----Rupees-----	
<b>Impact on Profit and Loss Account</b>		
(Increase) /Decrease in administrative expenses	<b>(772,378)</b>	422,418
<b>Impact on Other Comprehensive Income</b>		
Recognition of Actuarial gain/ (loss)	<b>772,378</b>	(422,418)

##### **4.2 Revenue recognition**

Ijarah (lease) installments are recognized on accrual basis.

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

Income on diminishing musharaka financing is recognized on accrual basis.

Income on Sukuk bond is recognized on accrual basis.

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

Return on deposit accounts is recognized on accrual basis.

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



### 4.3 Fixed assets – Tangible

#### (a) Ijarah (lease) assets

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

#### (b) Assets in own use

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

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

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

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

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

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

#### (d) Impairment

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

### 4.4 Intangible assets

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

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

### 4.5 Financial assets

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

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

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

#### ii) Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Modaraba has the positive intention and ability to hold to maturity. Investments intended to be

held for an undefined period are not included in this classification. Other long-term investments, that are intended to be held-to-maturity, are subsequently measured at amortized cost.

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

**iii) Loans and receivables**

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

**iv) Available-for-sale**

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

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

**4.6 Trade date accounting**

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

**4.7 Financial liabilities**

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

**4.8 Recognition and derecognition of financial instruments**

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

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

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

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

**4.9 Offsetting of financial assets and financial liabilities**

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

#### 4.10 Ijarah (lease) installments and Murabaha finance receivables

Ijarah (lease) installments and Murabaha finance receivables are stated net of provision and suspense income. Provision is recognized for Ijarah (lease) installments receivable, in accordance with the Prudential Regulations for Modarabas. Bad debts are written-off when identified.

#### 4.11 Cash and cash equivalents

Cash and cash equivalents are carried at cost.

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

#### 4.12 Finance arrangements including certificates of musharaka

These are carried on the balance sheet at their principal amount.

Profits on these arrangements are recognized as expense in the period in which they are 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 year after determination of the actual rate.

#### 4.13 Staff retirement benefits

##### (a) Gratuity scheme

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

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

##### (b) Provident fund

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

#### 4.14 Compensated absences

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

#### 4.15 Taxation

##### Current

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

##### Deferred

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

#### 4.16 Provisions

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

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

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

#### 4.18 Related party transactions

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

	Note	2014	2013
<b>5 IJARAH (LEASE) ASSETS</b>		-----Rupees-----	
Ijarah (lease) assets	5.1	<b>2,704,571,676</b>	2,502,492,870
Advance against ijarah (lease) assets	5.1.1	<b>164,045,300</b>	439,145,099
		<b>2,868,616,976</b>	2,941,637,969

#### 5.1 Ijarah (lease) assets

Particulars	June 30, 2014								
	C O S T			D E P R E C I A T I O N			Impairment	Written down value as at June 30, 2014	Rate of depreciation %
	As at July 01, 2013	Additions / (disposals) during the year	As at June 30, 2014	As at July 01, 2013	Charge / (adjustments) for the year	As at June 30, 2014			
	-----Rupees-----								
Plant, machinery and equipment	888,742,978	204,100,516	762,608,753	497,541,640	191,642,073	389,940,792	8,028,061	364,639,900	8.33 to 50
		(330,234,741)			(299,242,921)				
Vehicles	3,525,994,153	1,471,847,326	4,108,560,842	1,406,674,561	1,020,319,736	1,768,629,066	-	2,339,931,775	15 to 33.33
		(889,280,637)			(658,365,231)				
	4,414,737,131	1,675,947,842	4,871,169,595	1,904,216,201	1,211,961,809	2,158,569,858	8,028,061	2,704,571,676	
		(1,219,515,378)			(957,608,152)				

Particulars	June 30, 2013								
	C O S T			D E P R E C I A T I O N			Impairment	Written down value as at June 30, 2013	Rate of depreciation %
	As at July 01, 2012	Additions / (disposals) during the year	As at June 30, 2013	As at July 01, 2012	Charge / (adjustments) for the year	As at June 30, 2013			
	-----Rupees-----								
Plant, machinery and equipment	1,061,709,906	234,030,076	888,742,978	576,915,350	274,606,437	497,541,640	8,028,061	383,173,277	8.33 to 50
		(406,997,004)			(353,980,147)				
Vehicles	3,054,755,930	1,535,354,797	3,525,994,153	1,349,187,299	891,404,724	1,406,674,561	-	2,119,319,592	15 to 33.33
		(1,064,116,574)			(833,917,462)				
	4,116,465,836	1,769,384,873	4,414,737,131	1,926,102,649	1,166,011,161	1,904,216,201	8,028,061	2,502,492,869	
		(1,471,113,578)			(1,187,897,609)				

#### 5.1.1 Advance against ijarah (lease) assets

The ijarah (lease) assets cost includes an amount of Rs.164.045 million (2013: Rs.439.145 million) relating to advance against ijarah (lease) assets which have not yet been delivered to Mustajirs.

## 5.2 Assets in own use

Particulars	June 30, 2014							Rate of depreciation %
	C O S T			D E P R E C I A T I O N			Written down value as at June 30, 2014	
	As at July 01, 2013	Additions / (disposals) during the year	As at June 30, 2014	As at July 01, 2013	Charge / (adjustments) for the year	As at June 30, 2014		
Rupees								
Office equipment	12,490,609	1,040,037	13,203,846	6,630,340	2,907,251	9,253,302	3,950,544	25 to 33.33
		(326,800)			(284,288)			
Furniture and fixture	8,626,915	414,604	8,649,519	6,965,759	632,860	7,352,604	1,296,915	20
		(392,000)			(246,015)			
Vehicles	8,503,349	2,635,500	8,932,349	2,596,782	1,301,992	2,975,660	5,956,689	16.67
		(2,206,500)			(923,114)			
	29,620,873	4,090,141	30,785,714	16,192,881	4,842,102	19,581,567	11,204,147	
		(2,925,300)			(1,453,416)			

Particulars	June 30, 2013							Rate of depreciation %
	C O S T			D E P R E C I A T I O N			Written down value as at June 30, 2013	
	As at July 01, 2012	Additions / (disposals) during the year	As at June 30, 2013	As at July 01, 2012	Charge / (adjustments) for the year	As at June 30, 2013		
Rupees								
Office equipment	9,624,902	4,283,087	12,490,609	5,718,105	2,314,317	6,630,340	5,860,269	25 to 33.33
		(1,417,380)			(1,402,082)			
Furniture and fixture	8,257,446	813,269	8,626,915	6,753,472	656,073	6,965,759	1,661,156	20
		(443,800)			(443,786)			
Vehicles	9,782,063	4,660,628	8,503,349	7,153,626	1,382,490	2,596,782	5,906,567	16.67
		(5,939,342)			(5,939,334)			
	27,664,411	9,756,984	29,620,873	19,625,203	4,352,880	16,192,881	13,427,992	
		(7,800,522)			(7,785,202)			

## 5.3 Disposal of assets in own use

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	Rupees					
Motor vehicle	1,537,500	254,115	1,283,385	1,283,385	As per Company policy	Fayyaz Hussain Qazi
Motor vehicle	669,000	668,999	1	-	As per Company policy	Imran Khan
Furniture & Fixture	142,000	141,988	12	18,700	Quotation	Pak Beauty Furnishing Karachi
Furniture & Fixture	225,000	79,027	145,973	145,973	As per Company policy	Fayyaz Hussain Qazi
Furniture & Fixture	25,000	24,999	1	-	As per Company policy	Tehsin Abbas
Office Equipment	50,000	11,977	38,023	38,023	As per Company policy	Fayyaz Hussain Qazi
Office Equipment	264,400	264,389	11	11,000	Quotation	Print Tech. Karachi
Office Equipment	602,054	597,552	4,502	-	Scrap	
	3,514,954	2,043,046	1,471,908	1,497,081		



**6 INTANGIBLE ASSETS**

Particulars	C O S T			DEPRECIATION			Written down value as at June 30, 2014	Rate of depreciation %
	As at July 01, 2013	Additions / (disposals) during the year	As at June 30, 2014	As at July 01, 2013	Charge / (adjustments) for the year	As at June 30, 2014		
-----Rupees-----								
Computer software - 2014	2,978,780	940,659 (589,654)	3,329,785	1,569,615	849,109 (589,630)	1,829,094	1,500,691	33.33
2013	2,890,608	88,172	2,978,780	765,049	804,566	1,569,615	1,409,165	33.33

	Note	2014	2013
-----Rupees-----			
<b>7 DIMINISHING MUSHARAKA FINANCING</b>			
Secured			
Diminishing musharaka financing	7.1	<b>1,012,672,680</b>	369,309,326
Less: Current portion shown in current assets		<b>(444,546,723)</b>	(191,350,842)
		<b>568,125,957</b>	177,958,484
Advance against diminishing musharaka financing		<b>48,446,900</b>	177,508,670
		<b>616,572,857</b>	355,467,154

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

	2014	2013
-----Rupees-----		
<b>8 LONG-TERM ADVANCES, DEPOSITS AND PREPAYMENTS</b>		
Advances	-	508,800
Long-term deposits		
Security deposit to Central Depository Company of Pakistan Limited	<b>150,000</b>	150,000
Security deposit of Lahore office	<b>120,000</b>	120,000
Security deposit of Islamabad office	<b>130,000</b>	130,000
Security deposit to Habib Metropolitan Bank for locker	<b>70,000</b>	70,000
Miscellaneous deposits	<b>65,850</b>	64,850
	<b>535,850</b>	534,850
Prepayments		
Prepaid rent	<b>664,200</b>	1,449,000
	<b>1,200,050</b>	2,492,650

	Note	2014	2013
-----Rupees-----			
<b>9 INVESTMENTS</b>			
Available for sale			
Investment in shares	9.1	146,192,743	96,985,487
Investment in Ijarah Sukuk bonds	9.2	829,040,000	900,160,000
		<b>975,232,743</b>	<b>997,145,487</b>

## 9.1 Investment in shares

Shares of listed companies	Name of company	2014		2013	
		Average cost	2014 Carrying value at fair value (Market price)	Average cost	2013 Carrying value at fair value (Market price)
		-----Rupees-----			
<b>Number of shares</b>					
<b>2014</b>					
<b>2013</b>					
		<b>Automobile and Parts</b>			
330	330	1,750	90,384	1,750	49,078
		<b>Banks</b>			
2,010,555	2,010,555	10,157,636	19,824,072	10,157,636	13,088,713
1,082,992	1,082,992	15,490,038	46,828,574	15,490,038	31,406,768
		<b>Equity Investment Instrument</b>			
5,000	5,000	43,690	68,350	43,690	80,000
5,000	5,000	39,090	66,050	39,090	64,900
		<b>Pharma and Bio Tech</b>			
1,000	1,000	46,348	572,320	46,348	328,090
		<b>Chemicals</b>			
-	334	-	-	45,369	20,083
-	110	-	-	2,805	18,810
665	665	90,062	259,576	90,062	110,676
		<b>Food Producers</b>			
602,857	602,857	11,109,831	22,004,281	11,109,831	14,239,482
		<b>Telecommunication</b>			
5,000	5,000	76,788	127,350	76,788	110,950
		<b>Oil and Gas</b>			
3,168	2,880	294,463	1,231,877	294,463	922,694
239,698	168,749	29,640,234	53,773,849	22,496,828	35,703,913
2,000	2,000	145,640	522,560	145,640	457,500
1,000	1,000	95,691	373,430	95,691	136,570
		<b>Cement</b>			
1,000	1,000	126,129	410,300	126,129	209,720
		<b>Fertilizer</b>			
1,000	1,000	40,262	39,770	40,262	37,540
		67,397,652	146,192,743	60,302,420	96,985,487

## 9.2 Investment in Ijarah Sukuk bonds

Investment in sukuk	800,000,000	829,040,000	900,160,000	900,160,000
---------------------	-------------	-------------	-------------	-------------

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

	Note	2014	2013
-----Rupees-----			
<b>10 IJARAH (LEASE) INSTALLMENTS RECEIVABLE</b>			
Secured - considered good			
Ijarah (lease) installments due		<b>11,808,772</b>	5,415,105
Suspense ijarah (lease) installments	10.1	<b>(1,893,096)</b>	(1,894,695)
		<b>9,915,676</b>	3,520,410
<b>10.1</b>	Suspense ijarah (lease) installments represent amounts overdue on ijarah (lease) assets.		
<b>11 ADVANCES AND SHORT TERM PREPAYMENTS</b>			
Advances		<b>5,965,428</b>	9,466,145
Short term prepayments		<b>2,490,386</b>	1,852,239
		<b>8,455,814</b>	11,318,384
<b>12 OTHER RECEIVABLES</b>			
Unsecured - considered good			
Profit receivable on modaraba deposit accounts		<b>2,720,553</b>	7,369,198
Profit receivable on Ijarah Sukuk bond		<b>20,152,910</b>	11,693,762
Advance tax		<b>29,105,854</b>	13,663,843
Registration charges receivable		<b>712,110</b>	212,867
Other receivables		<b>611,742</b>	34,046
		<b>53,303,169</b>	32,973,716
<b>13 TAX REFUND DUE FROM GOVERNMENT</b>			
Income tax refundable		<b>31,314,018</b>	37,903,024
		<b>31,314,018</b>	37,903,024
<b>14 CASH AND BANK BALANCES</b>			
Stamps in hand		<b>483,421</b>	117,521
Cash at banks			
Current account			
State Bank of Pakistan		<b>58,740</b>	126,215
With other banks		<b>680,941</b>	446,994
Deposit accounts			
Modaraba Deposit account Burj Bank Limited	14.1	-	51,782
Modaraba Deposit account HMB Islamic branch	14.2	<b>369,908,783</b>	129,880,712
Redemption fund for Certificates of Musharaka	14.3	<b>1</b>	16,692
		<b>369,908,784</b>	129,949,185
		<b>371,131,886</b>	130,639,915

**14.1** The profit on the above modaraba deposit account ranges between 5.48% per annum (2013: 5.25% to 5.75% per annum).

**14.2** The profit on the above modaraba deposit account ranges between 7.56% to 9.02% per annum (2013: 8.25% to 10.50% per annum).

**14.3** The profit on the above redemption fund account ranges between 7.56% to 9.02% per annum (2013: 8.25% to 10.50% p.a)

		Note	2014	2013
			Rupees	
<b>15</b>	<b>ISSUED, SUBSCRIBED AND PAID-UP CAPITAL</b>			
	<b>2014</b>	<b>2013</b>		
	(Number of certificates)			
	<b>193,900,000</b>	193,900,000	Certificates of Rs. 5/- each issued for cash	<b>969,500,000</b>
				969,500,000
	<b>7,700,000</b>	7,700,000	Certificates of Rs. 5/- each issued as bonus	<b>38,500,000</b>
				38,500,000
	<b>201,600,000</b>	201,600,000		<b>1,008,000,000</b>
				1,008,000,000

**16 RESERVES**

<b>Capital reserves</b>				
	Premium on issuance of certificates		<b>378,000,000</b>	378,000,000
	Statutory	16.1	<b>834,540,718</b>	777,452,032
			<b>1,212,540,718</b>	1,155,452,032
<b>Revenue reserves</b>				
	General		<b>640,000,000</b>	50,000,000
	Unrealized gain on available-for-sale investments		<b>107,835,091</b>	36,683,068
	Unappropriated profit		<b>240,243,557</b>	802,716,436
			<b>988,078,648</b>	889,399,504
			<b>2,200,619,366</b>	2,044,851,536

**16.1** This represents profit set aside to comply with requirement of Prudential Regulations for Modarabas issued by SECP, which is not available for distribution.

**17 SECURITY DEPOSITS AGAINST IJARAH (LEASE) ASSETS**

	Musta'jir's security deposits	17.1	<b>371,237,425</b>	319,623,527
	Less: Current portion shown under current liabilities		<b>(81,132,842)</b>	(54,685,080)
			<b>290,104,583</b>	264,938,447

**17.1** These represent interest free deposits repayable at the maturity of respective ijarah (lease) terms.

**18 CERTIFICATES OF MUSHARAKA**

	Unsecured			
	Certificates of Musharaka	18.1	<b>1,533,668,767</b>	1,007,807,729

**18.1** The estimated share of profit paid / payable on the above unsecured finance ranges between 8.25% to 10.00% per annum (2013: 8.50% to 11.75% per annum).

		Note	2014	2013
			Re-stated	
<b>19</b>	<b>TRADE AND OTHER PAYABLES</b>			
			Rupees	
	Accrued liabilities		<b>21,381,652</b>	14,360,102
	Adjustable against ijarah (lease) contracts	19.1	<b>91,045,949</b>	62,035,949
	Advance against sale of diminishing musharaka units		<b>1,366,922</b>	7,063,463
	Workers' Welfare Fund		<b>12,861,211</b>	27,288,684
	Management fee payable		<b>32,948,960</b>	115,726,134
	Sales tax on management fee payable	19.2	<b>28,542,693</b>	22,568,120
	Gratuity payable	19.3	-	-
			<b>188,147,386</b>	249,042,452

- 19.1** This relates to withholding tax deposited pertaining to ijarah (lease) vehicles. The amounts are adjustable against ijarah (lease) contracts upon receipt of refunds from tax authorities.
- 19.2** This represents balance payable to the Modaraba Management Company in respect of the levy of Sindh Sales Tax on management fee payable to Modaraba Management Company which has been recorded as per the provisions of The Sindh Sales Tax on Service Act, 2011.

During the prior year the provision for Sindh Sales Tax on management fee amounting to Rs. 4.164 million was reversed in the financial statements, on the basis of tax consultant's opinion. This was previously accounted for in order to reflect the excess input tax that would have been adjustable against the output tax on the other services subject to levy of sales tax and any excess input tax would have been refundable. The NBF & Modaraba Association of Pakistan has challenged the applicability of Sales Tax on remuneration of Management Company. The Association is of the view that this fee is not the remuneration for the supply of services rather it is the share of profit for Management Company.

Therefore, the management went in the appeal with the commissioner of Sindh Revenue Board and the matter is not decided as yet.

**19.3 Staff retirement benefits - Defined benefit plan**

**a General description**

As mentioned in note 4.12, the Modaraba operates an approved funded gratuity scheme for all of its permanent employees. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at June 30, 2014 using the Projected Unit Credit Method.

	2014	Re-stated 2013
	-----Rupees-----	
<b>b Reconciliation of balance due to defined benefit plan:</b>		
Present value of defined benefit obligation	17,838,624	18,720,102
Fair value of plan assets	(17,838,624)	(18,720,102)
Net defined liability/ (assets)	-	-
<b>c Amount charged to profit and loss account:</b>		
Current service cost	1,759,842	1,441,954
Interest cost	2,042,524	2,224,899
Expected return on plan assets	(2,134,269)	(2,224,425)
	1,668,097	1,442,428
<b>d Re-measurement recognized in other comprehensive income during the year</b>		
Actuarial (gain)/Loss on obligation	(1,342,769)	(156,097)
Actuarial (gain)/loss on assets	570,391	578,516
Remeasurement (gain)/loss recognized in OCI	(772,378)	422,419
Total defined benefit cost recognized in P&L and OCI	895,719	1,864,847
<b>e Movement in the liability / (asset) recognized in the balance sheet:</b>		
Balance as at July 01	-	3,747
Net charge for the year	1,668,097	1,442,428
Re- measurement (gain)/loss recognised in OCI	(772,378)	422,419
Contribution to the fund	(895,719)	(1,868,594)
Balance as at June 30	-	-

	2014	2013
	-----Rupees-----	
<b>f Movement in the present value of defined benefit obligation:</b>		
Balance as at July 01	18,720,102	15,905,346
Current service cost	1,759,842	1,441,954
Interest cost	2,042,524	2,224,899
Actuarial (gain) / loss	(1,342,769)	(156,097)
Actual benefits paid during the year	(3,341,075)	(696,000)
Balance as at June 30	17,838,624	18,720,102

<b>g Movement in the fair value of plan assets:</b>		
Balance as at July 01	18,720,102	15,901,599
Expected return	2,134,269	2,224,425
Contributions	895,719	1,868,594
Actuarial (loss) / gain	(570,391)	(578,516)
Actual benefits paid during the year	(3,341,075)	(696,000)
Balance as at June 30	17,838,624	18,720,102

**h Principal actuarial assumptions used are as follows:**

Expected rate of long term salary increase per annum	13.00%	11.00%
First year salary increase	13.00%	12.30%
Valuation discount rate	13.00%	11.00%

	2014	2013	2012	2011	2010
	-----Rupees-----				
<b>i Comparisons for past years:</b>					
As at June 30					
Present value of defined benefit obligation	17,838,624	18,720,102	15,905,347	13,452,894	10,910,565
Fair value of plan assets	(17,838,624)	(18,720,102)	(15,901,599)	(13,630,327)	(11,098,664)
Deficit / (surplus)	-	-	3,748	(177,433)	(188,099)
Experience loss / (gain) on obligation	(1,342,769)	(156,097)	364,558	113,585	447,437
Experience (loss) / gain on plan assets	(3,341,075)	(578,516)	(577,403)	134,610	47,519

	2014	2013
	-----Rupees-----	
<b>Major categories / composition of plan assets are as follows:</b>		
Bank Deposit	17,838,624	18,275,493

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.1.514 million (2013: Rs.1.714 million).

**Defined benefit plan**

Contribution for the year allocated to administrative expenses	895,719	1,442,428
--	---------	-----------



### Expected

The expected gratuity cost charge for the year ending June 30, 2015 amounts to Rs.1.696 million. The actual cost will be determined after valuation of the Fund as at June 30, 2015 when the actuarial gains and losses arising during the year ending June 30, 2015 will be available.

	Note	2014	2013
		-----Rupees-----	
<b>19.4</b>	The reconciliation of charity payable is as follows:		
	Balance as at July 01	961,857	-
	Addition during the year	1,456,155	1,711,857
	Less: Paid to recognized charitable organisations	(2,000,000)	(750,000)
	Balance as at June 30	418,012	961,857

## 20 CONTINGENCIES AND COMMITMENTS

### Contingencies

There were no contingencies as at the balance sheet date. (2013: Nil)

### Commitments

Commitments in respect of financing transactions amounted to Rs.109.900 million (2013: Rs.52.761 million).

## 21 INCOME FROM IJARAH (LEASING)

Ijarah (leasing) installments	1,509,878,504	1,482,694,942
Less: Depreciation on ijarah (lease) assets	(1,211,961,809)	(1,166,011,160)
	297,916,695	316,683,782

## 22 ADMINISTRATIVE EXPENSES

Salaries, allowances and other benefits	27	40,712,407	40,761,139
Printing, stationery and advertising		3,627,516	3,006,358
Travelling and conveyance		786,705	1,036,321
Insurance		381,824	557,373
Utilities		1,811,092	826,655
Postage		472,877	485,268
Newspapers and periodicals		35,190	39,853
Repairs and maintenance		1,013,333	1,340,293
Telecommunication		760,605	820,217
Fees and subscriptions		3,514,193	3,517,906
Legal and professional charges		2,271,769	1,266,038
Donations	22.1	840,000	936,000
Depreciation on fixed assets in own use	5.2	4,842,102	4,352,880
Amortization on intangible assets	6	849,109	804,566
Certificate registrar expenses		1,541,375	1,489,751
Vehicle running expenses		1,673,461	1,300,498
Office expense		1,145,878	1,012,533
Staff training and workshop		280,360	292,500
Staff Hajj expenses		897,200	800,456
Rent expense		1,966,999	1,821,000
I.T expenses		1,270,467	1,214,483
Miscellaneous		55,867	41,712
		70,750,329	67,723,800

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

	Note	2014	2013
		-----Rupees-----	
<b>23 OTHER INCOME</b>			
Dividend on shares		5,779,663	100,837,606
Gain on transfer of ijarah (lease) assets		19,671,587	19,046,700
Gain on sale of shares		15,256	779,993,176
Gain on sale of owned fixed assets - net		25,199	349,200
Profit on Modaraba's deposit accounts		17,966,981	16,790,437
Profit on redemption reserve fund - COM		971	495
Profit on Sukuk		79,978,020	20,763,939
Profit on Islamic Investment Certificates		-	17,706,015
Miscellaneous income		713,163	283,010
		<b>124,150,840</b>	<b>955,770,578</b>

**24 OTHER OPERATING CHARGES**

Loss on sale of shares		16,171	-
Professional tax		100,000	200,000
Auditor's remuneration	24.1	535,000	540,800
		<b>651,171</b>	<b>740,800</b>

**24.1 Auditor's remuneration:**

Audit fee		300,000	300,000
Fee for review of half yearly financial statements and Statement of Compliance with Code of Corporate Governance		170,000	170,000
CDC monitoring compliance		10,000	50,000
Out of pocket expenses		55,000	20,800
		<b>535,000</b>	<b>540,800</b>

**25 FINANCIAL CHARGES**

Profit on certificates of musharaka		114,566,209	102,411,937
Bank commission and charges		201,505	87,478
		<b>114,767,714</b>	<b>102,499,415</b>

**26 SERVICE SALES TAX ON MANAGEMENT COMPANY REMMUNERATION**

Current year		5,271,834	18,403,743
Prior year		-	4,164,377
		<b>5,271,834</b>	<b>22,568,120</b>

## 27 REMUNERATION OF OFFICERS AND OTHER EMPLOYEES

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

	2014			2013		
	Officers	Other employees	Total	Officers	Other employees	Total
	-----Rupees-----			-----Rupees-----		
Salaries	17,959,506	6,831,489	24,790,995	18,974,200	6,042,550	25,016,750
House rent	2,284,200	1,080,900	3,365,100	2,397,600	811,800	3,209,400
Conveyance and other allowances	4,352,400	2,984,872	7,337,272	4,031,300	3,026,930	7,058,230
Group insurance	1,009,782	456,699	1,466,481	1,485,754	639,123	2,124,877
Gratuity Fund	1,370,493	297,604	1,668,097	1,479,165	385,681	1,442,427
Provident fund	1,429,726	654,736	2,084,462	1,443,390	466,065	1,909,455
	<b>28,406,107</b>	<b>12,306,300</b>	<b>40,712,407</b>	29,811,409	11,372,149	40,761,139
Number of persons	15	21	36	15	21	36

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

## 28 IJARAH (LEASE) INSTALLMENTS RECEIVABLE WITHIN ONE YEAR

Ijarah (lease) installments receivable in respect of existing ijarah (lease), in the subsequent financial year ending June 30, 2015 amounts to Rs.1,200.511 million (2013: Rs.1,130.334 million). Ijarah (lease) installments recoverable within the next twelve months shall be treated as current assets for the purpose of calculating current ratio (as per BPRD Circular No. 8 dated April 11, 1998).

## 29 TRANSACTIONS WITH RELATED PARTIES

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

Relationship	Nature of transaction	2014	2013
		-----Rupees-----	
<b>Balances with related parties</b>			
Modaraba Management Company	Payable to modaraba management company	32,948,960	115,724,134
Modaraba Management Company	Sale tax on management fee payable	28,542,693	22,567,800
First Habib Modaraba Provident Fund	Investment in Certificate of Musharaka	28,341,245	30,663,998
<b>Expense for the year</b>			
Modaraba Management Company	Modaraba company's management fee	32,948,960	115,724,134
First Habib Modaraba Gratuity Fund	Gratuity fund	1,668,097	1,864,846
First Habib Modaraba Provident Fund	Provident fund	2,084,462	1,909,455
<b>Payments made during the year</b>			
First Habib Modaraba Gratuity Fund	Contribution to staff gratuity fund	895,719	1,868,594
First Habib Modaraba Provident Fund	Contribution to staff provident fund	4,168,924	3,818,910
Modaraba Management Company	Dividend paid	100,501,732	100,501,732
Modaraba Management Company	Management fee	115,023,395	38,338,298

**29.1** No remuneration in kind has been paid by the Modaraba to the Directors and Key Management Personnel.

### 30 CAPITAL MANAGEMENT

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

### 31 FINANCIAL INSTRUMENTS

#### 31.1 Risk management policies

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

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

- Credit Risk
- Liquidity Risk
- Market Risk.

#### 31.2 Credit Risk

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

##### Exposure to Credit Risk

The maximum exposure to credit risk before any credit enhancements at June 30, 2014 is the carrying amount of the financial assets as set out below:

	2014	2013
	-----Rupees-----	
Diminishing musharaka financing	1,061,119,580	546,817,996
Ijarah (lease) installments receivables	9,915,676	3,520,410
Investments	975,232,743	997,145,487
Deposits	535,850	534,850
Other receivables	24,197,315	19,309,873
Bank balances	371,131,886	130,639,915
	<b>2,442,133,050</b>	<b>1,697,968,531</b>

The aging of Ijarah (lease) installments receivables at the reporting date is:

Past due 1-30 days	9,410,578	2,177,958
Past due over 30-90 days	505,098	1,342,452
	<b>9,915,676</b>	<b>3,520,410</b>

### 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 36 to the financial statements.

### Impaired Assets

Refer note 4.3 and 5.1 to the financial statements for details on impairment of assets.

### 31.3 Liquidity risk

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

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

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

### Mitigating / managing the risk

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

### 31.4 Market Risk

#### a Market Price Risk

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

### Exposure

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

As at June 30, 2014, the fair value of equity and debt securities exposed to price risk was as follows:

Particulars	Average Cost	Fair Value	Average Cost	Fair Value
	2014	2014	2013	2013
	-----Rupees-----			
Equity securities	67,397,652	146,192,743	60,302,420	96,985,487
Ijarah Sukuk bonds	800,000,000	829,040,000	900,160,000	900,160,000
	<b>867,397,652</b>	<b>975,232,743</b>	960,462,420	997,145,487

### Risk Management

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

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

## b Profit rate risk

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

### Risk exposure

The Modaraba has Ijarah (leasing) portfolio. The majority of Ijarah (leasing) portfolio is linked with KIBOR rate as a bench mark. The Modaraba reviews KIBOR on Ijarah (leasing) portfolio on quarterly / six monthly basis.

As at June 30, 2014, the profile of the Modaraba's variable value financial instruments were as follows:

	2014	2013
	-----Rupees-----	
<b>Variable rate instruments</b>		
Ijarah Sukuk bonds	800,000,000	900,160,000
Islamic deposits	369,908,783	129,932,493
Diminishing musharaka financing	1,012,672,680	369,309,326
<b>Liability</b>		
Certificate of musharaka	(1,533,668,767)	(1,007,807,729)
	<b>648,912,696</b>	391,594,090

### Fair value sensitivity analysis for variable rate instruments

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

Asset / liability class (Having variable interest rates)	(Increase / Decrease) (+/-)	Changes in profit / (loss)	
		2014	2013
		-----Rupees-----	
<b>Assets</b>			
Ijarah Sukuk bonds	100 basis points	8,000,000	9,001,600
Diminishing musharaka financing	100 basis points	10,126,727	3,693,093
Islamic deposits	100 basis points	3,699,088	1,299,325
<b>Liability</b>			
Certificate of musharaka	100 basis points	(15,336,688)	(10,078,077)

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 fixed 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 fixed interest portfolio to pass the benchmark of the average duration.

### **31.5 Operational risks**

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

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

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

## **32 FAIR VALUE OF FINANCIAL INVESTMENTS**

The Modaraba's accounting policy on fair value measurements of the investments is detailed in note 4.5 to these financial statements.

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

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

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

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

As at June 30, 2014, all the investments were categorised in level 1 except for Sukuk bonds which are categorized in level 2.

### 33 MATURITIES OF ASSETS AND LIABILITIES

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

	2014			
	Total	Up to one year	Over one year to five years	Over five years
Rupees				
<b>Assets</b>				
Ijarah (lease) fixed assets - tangible	2,868,616,976	329,818,690	2,538,798,286	-
Owned fixed assets - tangible	11,204,147	-	11,204,147	-
Intangible assets	1,500,691	-	1,500,691	-
Long term advances, deposits and prepayments	1,200,050	-	1,200,050	-
Diminishing musharaka financing	1,061,119,580	444,546,723	616,572,857	-
Investments	975,232,743	975,232,743	-	-
Ijarah (lease) installments receivable	9,915,676	9,915,676	-	-
Advances and short term prepayments	8,455,814	8,455,814	-	-
Other receivables	53,303,169	53,303,169	-	-
Tax refund due from Government	31,314,018	31,314,018	-	-
Cash and bank balances	371,131,886	371,131,886	-	-
	5,392,994,749	2,223,718,719	3,169,276,031	-
<b>Liabilities</b>				
Security deposits against ijarah (lease) assets	371,237,425	81,132,842	290,104,583	-
Certificates of musharaka	1,533,668,767	1,533,668,767	-	-
Unearned ijarah (lease) and diminishing musharaka installments	3,979,895	3,979,895	-	-
Advance ijarah (lease) and diminishing musharaka installments	32,471,878	32,471,878	-	-
Trade and other payables	188,147,386	188,147,386	-	-
Profit payable on certificate of musharaka	28,379,755	28,379,755	-	-
Taxation	2,790,833	2,790,833	-	-
Unclaimed profit distribution	23,699,444	23,699,444	-	-
	2,184,375,383	1,894,270,800	290,104,583	-
	3,208,619,366	329,447,919	2,879,171,448	-
<b>Represented by:</b>				
Issued, subscribed and paid-up capital	1,008,000,000			
Reserves	2,200,619,366			
	3,208,619,366			

	2013			
	Total	Up to one year	Over one year to five years	Over five years
Rupees				
<b>Assets</b>				
Ijarah (lease) fixed assets - tangible	2,941,637,969	247,725,896	2,693,912,073	-
Owned fixed assets - tangible	13,427,992	-	13,427,992	-
Intangible assets	1,409,165	-	1,409,165	-
Long term advances, deposits and prepayments	2,492,650	-	2,492,650	-
Diminishing musharaka financing	546,817,996	191,350,842	355,467,154	-
Investments - available for sale	997,145,487	997,145,487	-	-
Investments - held to maturity	-	-	-	-
Ijarah (lease) installments receivable	3,520,410	3,520,410	-	-
Advances and short term prepayments	11,318,384	11,318,384	-	-
Other receivables	32,973,716	32,973,716	-	-
Tax refund due from Government	37,903,024	37,903,024	-	-
Cash and bank balances	130,639,915	130,639,915	-	-
	4,719,286,707	1,652,577,673	3,066,709,034	-
<b>Liabilities</b>				
Security deposits against ijarah (lease) assets	319,623,527	54,685,080	264,938,447	-
Certificates of musharaka	1,007,807,729	1,007,807,729	-	-
Unearned ijarah (lease) and diminishing musharaka installments	27,255,215	27,255,215	-	-
Advance ijarah (lease) and diminishing musharaka installments	19,804,076	19,804,076	-	-
Trade and other payables	249,042,452	249,042,452	-	-
Profit payable on certificate of musharaka	18,602,889	18,602,889	-	-
Taxation - net	2,790,833	2,790,833	-	-
Unclaimed profit distribution	21,508,450	21,508,450	-	-
	1,666,435,171	1,401,496,724	264,938,447	-
	3,052,851,536	251,080,949	2,801,770,586	-
<b>Represented by:</b>				
Issued, subscribed and paid-up capital	1,008,000,000			
Reserves	2,044,851,536			
	3,052,851,536			

**34 FINANCIAL ASSETS AND LIABILITIES**

	Profit bearing			Non-Profit bearing			Total
	Maturity upto one year	Maturity after one year upto five years	Sub-total	Maturity upto one year	Maturity after one year and upto five years	Sub-total	
<b>Financial assets</b>							
Cash and bank balances	369,908,784	-	369,908,784	1,223,102	-	1,223,102	371,131,886
Other receivables	-	-	-	24,197,315	-	24,197,315	24,197,315
Investments	829,040,000	-	829,040,000	146,192,743	-	146,192,743	975,232,743
Ijarah (lease) installments receivables	-	-	-	9,915,676	-	9,915,676	9,915,676
Advances	-	-	-	5,965,428	-	5,965,428	5,965,428
Long term deposits	-	-	-	-	535,850	535,850	535,850
Diminishing musharaka financing	444,546,723	616,572,857	1,061,119,580	-	-	-	1,061,119,580
	1,643,495,507	616,572,857	2,260,068,364	187,494,264	535,850	188,030,114	2,448,098,478
<b>Financial liabilities</b>							
Security deposits against ijarah (lease) assets	-	-	-	81,132,842	290,104,583	371,237,425	371,237,425
Certificates of musharaka	1,533,668,767	-	1,533,668,767	-	-	-	1,533,668,767
Trade and other payables	-	-	-	82,873,304	-	82,873,304	82,873,304
Unclaimed profit distribution	-	-	-	23,699,444	-	23,699,444	23,699,444
	1,533,668,767	-	1,533,668,767	187,705,590	290,104,583	477,810,173	2,011,478,940
On balance sheet gap	109,826,740	616,572,857	726,399,597	(211,326)	(289,568,733)	(289,780,059)	436,619,538
Ijarah (lease) assets	329,818,690	2,538,798,286	2,868,616,976	-	-	-	2,868,616,976

\*Ijarah (lease) 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 Ijarah (lease) installments receivable against Ijarah (lease) assets, other assets, other liabilities and other items cannot be calculated with sufficient reliability due to absence of current active market for such assets and liabilities.

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

	2014		2013	
	Rupees	%	Rupees	%
Auto and allied	58,131,173	1.48	83,175,404	2.38
Financial institutions	126,385,902	3.22	126,417,097	3.62
Cable and electric goods	249,452,732	6.35	109,691,106	3.14
Fertilizer	156,427,333	3.98	123,602,079	3.54
Pharmaceutical	774,789,325	19.72	651,943,876	18.69
Individuals	84,058,596	2.14	61,735,230	1.77
Education	123,587,077	3.14	41,036,884	1.18
Steel and engineering	31,300,431	0.80	48,376,748	1.39
Food and allied	360,224,629	9.17	285,545,747	8.19
Fuel, power and energy	36,495,961	0.93	33,256,612	0.95
Glass and ceramics	12,534,455	0.32	20,178,804	0.58
Health care	77,404,137	1.97	64,358,999	1.84
Information technology	228,492,847	5.81	241,610,833	6.93
Paper and board	14,528,320	0.37	19,473,096	0.56
Services	592,676,253	15.08	599,070,983	17.17
Sugar and allied	164,687,561	4.19	147,190,969	4.22
Oil & gas exploration	78,873,221	2.01	72,559,881	2.08
Textile	237,521,275	6.04	168,709,011	4.84
Cargo, courier logistic services	114,399,679	2.91	209,744,295	6.01
Refinery, lubricant, oil and gas marketing	48,715,145	1.24	45,349,925	1.30
Cement	15,810,684	0.40	8,379,000	0.24
Leather and Tennaries	28,320,477	0.72	18,902,450	0.54
Chemical	314,919,343	8.01	269,041,233	7.71
Construction	-	0.00	24,770	0.00
Others	-	0.00	39,080,932	1.12
	<b>3,929,736,556</b>	<b>100.00</b>	<b>3,488,455,964</b>	<b>100.00</b>

**35.1** Modaraba's operations are restricted to Pakistan only.

### 36 CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

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

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

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

2014		2013	
Advances, deposits, prepayments and other receivables	Ijarah (lease) installments receivables	Advances, deposits, prepayments and other receivables	Ijarah (lease) installments receivables

**Segment by class of business**

	-----Rupees-----			
Financial institutions	29,178,463	-	19,062,960	86,689
Textile	-	505,098	-	177,578
Chemical and pharmaceutical	-	-	-	12,905
I.T and Telecommunications	62,400	7,234,868	46,800	695,769
Consumer	-	-	-	23,029
Food and allied	1,050	-	1,050	-
Fuel and energy	8,000	-	8,000	-
Insurance companies	-	-	-	-
FMCG	-	1,868,987	-	2,341,959
Others	1,394,786	306,723	1,445,239	182,481
Services	-	-	-	-
	<b>30,644,699</b>	<b>9,915,676</b>	<b>20,564,049</b>	<b>3,520,410</b>

**37 EARNINGS PER CERTIFICATE**

**37.1 Basic**

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

	2014	2013
	-----Rupees-----	
Profit for the year	285,443,429	992,803,556
Weighted average number of certificates	201,600,000	201,600,000
Earnings per certificate	1.42	4.92

**37.2 Diluted**

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

**38 SEGMENT INFORMATION**

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

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

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

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

	Note	Re-stated	
		2014	2013
-----Rupees-----			
<b>39 CASH GENERATED FROM OPERATIONS</b>			
Profit for the year		285,443,429	992,803,556
Adjustment for:			
Gain on disposal of assets			
Ijarah (lease)		(19,671,587)	(19,046,700)
In own use - net		(25,199)	(349,200)
Depreciation fixed assets			
Ijarah (lease) assets		1,211,961,809	1,166,011,160
In own use		4,842,102	4,352,880
Loss on sale of shares		16,171	-
Owned assets sold / written off		25	-
Amortization of intangible assets		849,109	804,566
Provision for gratuity		1,668,097	1,442,428
Dividend income		(5,779,663)	(100,837,606)
Gain on disposal of investments		(15,256)	(779,993,176)
Profit paid to COM holder's		114,566,209	102,411,937
Movement in working capital	39.1	(88,775,728)	123,782,190
		<b>1,505,079,519</b>	<b>1,491,382,034</b>

### 39.1 Movement in working capital

Decrease / (increase) in current assets:			
Ijarah (lease) installments receivable		(6,395,266)	(102,707)
Advances and short term prepayments		2,862,570	(6,227,653)
Tax refund due from Government		6,589,006	(9,432,310)
Other receivables		(20,329,454)	(8,124,109)
Increase / (decrease) in current liabilities:			
Advance ijarah (lease) and diminishing musharaka installments		12,667,802	1,098,619
Unearned ijarah (lease) and diminishing musharaka installments		(23,275,320)	9,753,868
Trade and other payables		(60,895,066)	136,816,481
		<b>(88,775,728)</b>	<b>123,782,190</b>

### 40 PROFIT DISTRIBUTION AND APPROPRIATION

Subsequent to the year ended June 30, 2014 the Board of Directors of the Management Company has declared a final distribution of Re.1.10 per certificate, amounting to total profit distribution of Rs.221.760 million (2013: Re.1/- per certificate amounting to total profit distribution of Rs.201.600 million) in its meeting held on July 23, 2014.

### 41 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on July 23, 2014 by the Board of Directors of the Modaraba Management Company.

### 42 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.

### 43 GENERAL

Figures have been rounded off to the nearest rupee.

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR



## **GLOSSARY**

### **AML**

Anti Money Laundering

### **CEO**

Chief Executive Officer

### **CFO**

Chief Financial Officer

### **FHM**

First Habib Modaraba

### **Companies Ordinance**

Companies Ordinance 1984

### **CSR**

Corporate Social Responsibility

### **Earning per share (EPS)**

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

### **IASB**

International Accounting Standards Board

### **IFRS**

International Financial Reporting Standards

### **ITO**

Income Tax Ordinance, 2001

### **KIBOR**

Karachi Inter Bank Offer Rate

### **KYC**

Know your Customer

### **WWF**

Workers Welfare Fund

### **EOBI**

Employees Old Age Benefits Institution

### **SRO**

Statutory Regulatory Order

### **IFAC**

International Federation of Accountants

### **CCG**

Code of Corporate Governance

### **IFAS**

Islamic Financial Accounting Standard

### **SAFA**

South Asian Federation of Accountants

### **SAARC**

South Asian Association of Regional Cooperation

### **NBFI & Modaraba**

NBFI & Modaraba Association of Pakistan

### **MAP**

Management Association of Pakistan

### **MAP**

Modaraba Association of Pakistan

### **MAP**

Marketing Association of Pakistan

### **PACRA**

Pakistan Credit Rating Agency Limited

### **ICF**

Internal Control Framework

### **ERP**

Enterprise Resource Program

### **IFSB**

Islamic Financial Services Board

### **IIFM**

International Islamic Financial Market

### **IBP**

Institute of Bankers of Pakistan