

First Habib Modaraba

(An Islamic Financial Institution)



Half Yearly Accounts

for the half year and quarter ended
December 31, 2017
(Un-audited)

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CORPORATE INFORMATION

BOARD OF DIRECTORS

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

LEGAL ADVISOR

Mohsin Tayebaly & Company
Ahmed & Qazi Advocates & Legal Consultants

AUDIT COMMITTEE

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

HUMAN RESOURCE COMMITTEE

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

REGISTRAR

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

AUDITOR

EY Ford Rhodes
Chartered Accountants

BANKERS

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

REGISTERED OFFICE

5th Floor, HBZ Plaza (Hirani Centre)
I.I. Chundrigar Road, Karachi.

Tel : 021-32635949-51
Fax : 021-32627373
UAN : 111-346-346
Web : www.habibmodaraba.com
Email : fhm@habibmodaraba.com

GEOGRAPHICAL PRESENCE - BRANCH OFFICES

Lahore Branch:

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

Islamabad Branch:

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

Multan Branch:

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

DIRECTORS' REPORT

On behalf of the Board of Directors, it is my great pleasure to present the un-audited accounts of the Modaraba for the six months ended December 31, 2017.

We have completed our first half of current financial year and depicted satisfactory position in overall business volume and profitability. Financing assets portfolio has been increased to Rs.7.526 billion and overall size of assets have also been enhanced by 14% as compared to same period of last corresponding period. Net profit has slightly decreased due to provision of management fee of Rs.17.511 million. The same provision was not been made in last year accounts of December, 2016, otherwise profitability of the period was not reduced and would be maintained at the level of last corresponding period. One more change has also been reported in surplus of revaluation in equity segment. Due to new direction of Securities & Exchange Commission of Pakistan, the revaluation which was part of equity now delinks with equity segment and has shown separately. This change has also slightly decreased equity portion as compared to figures of June 30, 2017.

Disbursements during the period were remained satisfactory. Total financing of Rs.2.366 billion was made as compared to Rs.2.066 billion of the same period of last year reflecting 15% increased. In order to support financing portfolio, size able increased has also been made in deposit side (Certificate of Investment on Musharaka basis), around 25% enhancement was made from same period of last year.

Recently State Bank of Pakistan (SBP) has raised its policy rate by 25 basis points to 6 percent in order to pre-empt overheating of the economy and rising inflation. According to SBP, it is right time to make policy decision that would balance growth and stability in medium to long term. Average headline inflation remains within the forecast range of SBP, but core inflation has continued to increase.

Country's current account and trade deficit has also sharply increased during the first half of this fiscal year, mainly due to low exports, slightly down home remittances and rising import bill. According to statistics the foreign exchange earnings from exports and remittances are insufficient to overcome rising trend of import bill. Petroleum product along with machineries and food are the main contributor for import bill. PKR depreciation and rising international oil prices are likely to increase inflation in the coming months. The year 2018 look challenging year due to upcoming election, rising inflation trend, increasing of trade and current account deficit and high import bill. However, keeping in view of performance of first half, we are hopeful that we will maintain the same and achieve our set target of the business for the period ended June 30, 2018.

The Board would like to express its sincere thanks and gratitude for the continued support and guidance provided by Securities & Exchange Commission of Pakistan and Registrar Modaraba, customers of the Modaraba for their patronage & business and Certificate holders who have remained committed to FHM. The Board also appreciates dedication, high level of professionalism and hard work of employees of FHM for smooth operations and achieving satisfactory results.

For and on behalf of Board of Directors

Muhammad Shoaib Ibrahim
Chief Executive Officer

Karachi: February 07, 2018

ڈائریکٹرز کی رپورٹ

میرے لیے یہ انتہائی خوشی کی بات ہے کہ میں بورڈ آف ڈائریکٹرز کی جانب سے ۳۱ دسمبر ۲۰۱۷ کی اختتام پذیر ششماہی کے غیر محتسب شدہ کھاتے پیش کروں۔

موجودہ مالی سال کا ہم نصف سال مکمل کر چکے ہیں جو کاروباری حجم اور منافع کی اطمینان بخش صورت حال دکھاتا ہے۔ فنانسنگ اثاثہ جات کے پورٹ فولیو ۵۲۶ ارب روپے تک بڑھ چکے ہیں اور گزشتہ سال کی اس مدت کے مقابلے میں مجموعی اثاثہ جات میں مقداری وسعت میں بھی ۱۴ فیصد اضافہ ہو چکا ہے۔ ۵۱۱ ارب روپے کی مینجمنٹ فیس کے مختص کئے جانے کی وجہ سے خالص منافع میں تھوڑی سی کمی آچکی ہے۔ دسمبر ۲۰۱۶ کے کھاتوں میں مینجمنٹ فیس کو مختص نہیں کیا گیا تھا، ورنہ اس مدت میں منافع بخشی میں کمی نہیں ہوتی اور اس کو گزشتہ سال اسی مدت کی سطح پر برقرار رکھا جاسکتا تھا۔ ملکیتی سرمایہ (equity) کے سیگمنٹ میں دوبارہ قدر پذیری (revaluation) میں زائد از ضرورت رپورٹ ہوا ہے۔ سیکیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان کی نئی ہدایت کے نتیجے میں قدر پذیری جو ملکیتی سرمایہ (equity) کا حصہ تھا اسے ملکیتی سرمایہ سیگمنٹ سے جدا کر کے علیحدہ سے دکھایا گیا ہے۔ اس تبدیلی سے بھی ۳۰ جون ۲۰۱۷ کے مقابلے میں ملکیتی سرمایہ کا حصہ معمولی کم ہوا ہے۔

اس مدت کے دوران ادائیگیاں اطمینان بخش تھیں۔ گزشتہ سال اسی مدت کی ۲۶۰۶ ارب روپے کی سرمایہ کاری کے مقابلے ۳۶۶ ارب روپے میں رہی جو ۱۵ فیصد اضافہ دکھارہی ہے۔ سرمایہ کاری پورٹ فولیو کی معاونت کے لیے ڈپازٹ کی مد میں (سرفیکٹ آف انویسٹمنٹ مشارکہ کی بنیاد پر) میں کافی بڑا اضافہ ہو چکا ہے، جو گزشتہ سال اسی مدت کے مقابلے میں تقریباً ۲۵ فیصد اضافہ ہو چکا ہے۔

حال ہی میں، بینک دولت پاکستان (SBP) نے اپنی پالیسی نرخ میں ۲۵ بیسس پوائنٹس (basis points) کی بنیاد پر ۶ فیصد کا اضافہ کر چکا ہے تاکہ معیشت میں گرم جوشی اور بڑھتا ہوا افراط زر کے سلسلے میں بیٹنگی بچاؤ کیا جاسکے۔ SBP کے مطابق قلیل المدت اور طویل المدت ترقی اور استحکام میں توازن برقرار رکھنے کے لیے یہ مناسب وقت ہے کہ پالیسی فیصلہ کیا جائے۔ اوسط سرخی کا افراط زر (average headline inflation) کے دیئے گئے اندازے کی حد میں رہا لیکن کلیدی افراط زر میں اضافہ جاری رہا۔

اس مالیاتی سال کے نصف میں ملک کے جاری کھاتے اور تجارتی خسارے میں تیزی سے اضافہ ہوا، جسکی وجہ کم برآمدات، ترسیل زر میں معمولی کمی اور بڑھتی ہوئی درآمدات ہیں۔ شماریات کے مطابق برآمدات اور ترسیل زر سے ہونے والا غیر ملکی زر مبادلہ برآمدات کے بڑھتے ہوئے رجحان کو روکنے کے لیے ناکافی ہے۔ درآمد کے بل میں بڑا حصہ پیٹرولیم کی مصنوعات کے ساتھ مشینوں اور فوڈ کا ہے۔ پاکستانی

روپے کی فرسودگی (depreciation) اور تیل کی بین الاقوامی بڑھتی ہوئی قیمتیں سے امکان ہے کہ آنے والے مہینوں میں افراط زر بڑھے گا۔ سال ۲۰۱۸ء مشکلات کا سال لگ رہا ہے جس کی وجہ آنے والا الیکشن، افراط زر کا بڑھتا ہوا رجحان، جاری مالیاتی کھاتے اور تجارتی خسارہ اور بلند دوا کا مائل ہیں۔ تاہم، پہلے نصف کی کارکردگی کو مد نظر رکھتے ہوئے، ہم پر امید ہیں کہ ہم اسے برقرار رکھیں گے اور ۲۰۱۸ء کے طے شدہ کاروباری اہداف حاصل کر لیں گے۔

بورڈ سیکوریٹیز اینڈ ایکسچینج کمیشن آف پاکستان، رجسٹرار مضاربہ کمپنیز کا ان کی وقتاً فوقتاً رہنمائی اور مسلسل حمایت کا شکریہ اور اظہار ممنونیت کرنا چاہتا ہے اور مضاربہ کے معزز گاہکوں کا ان کی سرپرستی، کاروبار اور حاملین سرٹیفیکیٹس کا فرسٹ حبیب مضاربہ کے ساتھ مخلص رہنے کا۔ بورڈ، ادارے کے رواں آپریشن اور اطمینان بخش نتائج کے حاصل کرنے کے سلسلے میں فرسٹ حبیب مضاربہ کے ملازمین کی لگن، اعلیٰ پائے کی پیشہ ورانہ خصوصیات اور اور سخت جدوجہد کو بھی سراہتا ہے۔

بورڈ آف ڈائریکٹرز کی جانب سے اور ان کے لیے

محمد شعیب ابراہیم
چیف ایگزیکٹو آفیسر

کراچی: ۷ فروری ۲۰۱۸ء

AUDITORS' REPORT

TO THE CERTIFICATE HOLDERS ON REVIEW OF INTERIM FINANCIAL STATEMENTS

Introduction

We have reviewed the accompanying condensed interim balance sheet of First Habib Modaraba (the Modaraba) as at 31 December 2017 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement and condensed interim statement of changes in equity, together with the notes forming part thereof (here-in-after referred to as "interim financial statements") for the six-month period then ended. The Management Company is responsible for the preparation and presentation of this interim financial statements in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Statements Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Other matter

The financial statements of the Modaraba for the year and period ended 30 June 2017 and 31 December 2016 were audited and reviewed respectively by another firm of Chartered Accountants, whose report dated 10 August 2017 and 24 February 2017 expressed an unqualified opinion and conclusion on such statements.

EY Ford Rhodes

Chartered Accountants

Engagement Partner: Shaikh Ahmed Salman

Date: 07 February 2018

Karachi



CONDENSED INTERIM BALANCE SHEET (UNAUDITED)

As at December 31, 2017

		(Unaudited)	(Audited)
	Note	December 31, 2017	June 30, 2017
			Restated (Note 3.3)
		Rupees	
ASSETS			
NON-CURRENT ASSETS			
Fixed assets - tangible			
Lease financing assets	4	2,596,286,350	2,440,975,610
Assets in own use	4	19,526,603	12,280,591
		2,615,812,953	2,453,256,201
Intangible assets		27,916	35,519
Long term advances, deposits and prepayments		1,933,900	3,070,000
Long term diminishing musharaka financing	5	2,951,690,456	2,653,337,842
		5,569,465,225	5,109,699,562
CURRENT ASSETS			
Investments	6	1,275,479,880	1,298,684,499
Current portion of diminishing musharaka financing	5	1,978,045,760	1,638,299,962
Lease financing installments receivables		2,217,294	991,649
Short term advances, deposits and prepayments		5,540,366	9,003,232
Income tax refundable	7	89,006,078	89,006,078
Other receivables		31,655,589	28,706,328
Cash and bank balances		240,737,125	192,259,670
		3,622,682,092	3,256,951,418
TOTAL ASSETS		9,192,147,317	8,366,650,980
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorized certificate capital 220,000,000 (June 30, 2017: 220,000,000) certificates of Rs.5 each		1,100,000,000	1,100,000,000
Issued, subscribed and paid-up certificate capital		1,008,000,000	1,008,000,000
Capital reserves		1,467,011,820	1,467,011,820
Revenue reserves		828,890,408	879,255,715
		3,303,902,228	3,354,267,535
SURPLUS ON REVALUATION OF INVESTMENTS	6	85,188,977	117,635,373
NON-CURRENT LIABILITIES			
Security deposits against lease financing assets		268,082,959	241,767,687
CURRENT LIABILITIES			
Certificates of investment (musharaka)	8	4,893,882,897	3,913,784,732
Current portion of security deposits against lease financing assets		105,254,210	102,023,172
Unearned lease financing and diminishing musharaka installments		54,862,564	24,519,411
Advance lease financing and diminishing musharaka installments		19,743,420	22,586,591
Trade and other payables		426,896,576	434,289,479
Advance against Murabaha		-	123,860,502
Unclaimed profit distributions		34,333,486	31,916,498
		5,534,973,153	4,652,980,385
TOTAL EQUITY AND LIABILITIES		9,192,147,317	8,366,650,980

CONTINGENCIES AND COMMITMENTS

The annexed notes from 1 to 17 form an integral part of these condensed interim financial statements.

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

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

DIRECTOR

DIRECTOR

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)

FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2017

		Half year ended		Quarter ended	
	Note	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
-----Rupees-----					
Income from lease financing		98,183,482	127,147,079	46,381,455	65,069,059
Profit on diminishing musharaka financing		186,047,710	147,123,086	94,924,127	76,206,218
Administrative expenses		(50,267,337)	(46,307,509)	(24,054,696)	(22,845,104)
		233,963,855	227,962,656	117,250,886	118,430,173
Other income	10	65,099,697	41,219,189	39,638,291	18,162,196
		299,063,552	269,181,845	156,889,177	136,592,369
Financial charges		(123,951,667)	(96,140,394)	(66,172,053)	(50,429,044)
Modaraba Management Company's remuneration	11	(17,511,189)	-	(17,511,189)	-
Sales tax on Modaraba Management Company's remuneration	11	(2,276,455)	-	(1,179,323)	-
Provision for Sindh Workers' Welfare Fund (SWWF)		(3,106,485)	(3,110,188)	(1,609,322)	(1,548,670)
Profit before taxation		152,217,756	169,931,263	70,417,290	84,614,655
Taxation	12	-	-	-	-
Profit for the period		152,217,756	169,931,263	70,417,290	84,614,655
Earning per certificate - basic and diluted	13	0.76	0.84	0.35	0.42

The annexed notes from 1 to 17 form an integral part of these condensed interim financial statements.

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

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

DIRECTOR

DIRECTOR

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2017

	Half year ended		Quarter ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	-----Rupees-----			
Profit for the period	152,217,756	169,931,263	70,417,290	84,614,655
(Deficit) / surplus on revaluation of investments classified as 'available-for-sale'	(32,446,396)	82,969,145	(77,763,069)	37,652,472
Actuarial loss on defined benefit plan	(983,063)	-	(983,063)	-
Total comprehensive income for the period	118,788,297	252,900,408	(8,328,842)	122,267,127

The annexed notes from 1 to 17 form an integral part of these condensed interim financial statements.

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

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

DIRECTOR

DIRECTOR

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)

FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2017

Note	December 31, 2017	December 31, 2016
	Rupees-----	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the period	152,217,756	169,931,263
Adjustment for:		
Depreciation and amortization	482,759,525	513,802,883
Amortization of premium on sukuk bonds	2,670,960	1,486,752
Financial charges	123,819,964	95,932,889
Gain on sale of investment in listed equity securities	(387,037)	(567,589)
Gain on transfer of lease financing assets	(9,054,047)	(6,408,800)
Gain on sale of assets in own use	(95,067)	(165,461)
Owned assets written off	3	29
Dividend income	(6,709,938)	(4,902,500)
	593,004,363	599,178,203
Changes in working capital		
(Increase) / decrease in current assets		
Lease financing installments receivables	(1,225,645)	(1,075,992)
Short term advances, deposits and prepayments	3,462,866	3,247,266
Other receivables	(2,383,646)	(416,755)
	(146,425)	1,754,519
Increase / (decrease) in current liabilities		
Unearned lease financing and diminishing musharaka installments	30,343,153	13,852,995
Advance lease financing and diminishing musharaka installments	(2,843,171)	(4,745,240)
Trade and other payables	(22,418,649)	12,120,451
	5,081,333	21,228,206
Cash generated from operations	750,157,027	792,092,191
Purchase of lease financing assets	(766,103,266)	(579,681,484)
Proceeds from transfer of lease financing assets	138,944,063	101,896,951
Diminishing musharaka financing - net	(638,098,412)	(812,867,694)
Long term advances, deposits and prepayments	1,136,100	(1,590,595)
Security deposits against lease financing assets	29,546,310	(9,927,315)
Financial charges paid	(105,737,732)	(98,114,664)
Tax paid	(565,615)	(3,500,321)
	(1,340,878,552)	(1,403,785,122)
Net cash used in operating activities	(590,721,525)	(611,692,931)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of assets in own use	(10,403,180)	(4,376,640)
Purchase of investments	(33,522,533)	(16,423,572)
Proceeds from sale of investments in shares	21,996,833	2,314,096
Proceeds from sale of assets in own use	1,402,822	165,500
Dividend received	6,709,938	4,902,500
Net cash used in investing activities	(13,816,120)	(13,418,116)
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends paid	(199,183,014)	(196,335,863)
Proceeds from murabaha financing	-	250,000,000
Profit paid on murabaha financing	(4,039,549)	-
Payment on maturity of murabaha financing	(123,860,502)	-
Certificate of investment (musharaka)	980,098,165	608,047,078
Net cash generated from financing activities	653,015,100	661,711,215
Net increase in cash and cash equivalents during the period	48,477,455	36,600,168
Cash and cash equivalents at the beginning of the period	192,259,670	248,143,222
Cash and cash equivalents at the end of the period	240,737,125	284,743,390

The annexed notes from 1 to 17 form an integral part of these condensed interim financial statements.

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

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

DIRECTOR

DIRECTOR

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2017

	Capital Reserves			Revenue Reserves		Total equity
	Certificate capital	Certificate premium	Statutory reserves*	General reserves	Unappropriated profit	
	Rupees					
Balance as at July 01, 2016 (restated, see note 3.3)	1,008,000,000	378,000,000	1,000,656,671	640,000,000	235,591,305	3,262,247,976
Profit distribution for the year ended June 30, 2016 @ Rs.1 per certificate	-	-	-	-	(201,600,000)	(201,600,000)
Total comprehensive income for the period	-	-	-	-	169,931,263	169,931,263
Balance as at December 31, 2016	1,008,000,000	378,000,000	1,000,656,671	640,000,000	203,922,568	3,230,579,239
Balance as at July 01, 2017 (restated, see note 3.3)	1,008,000,000	378,000,000	1,089,011,820	640,000,000	239,255,715	3,354,267,535
Profit distribution for the year ended June 30, 2017 @ Rs.1 per certificate	-	-	-	-	(201,600,000)	(201,600,000)
Total comprehensive income for the period	-	-	-	-	151,234,693	151,234,693
Balance as at December 31, 2017	1,008,000,000	378,000,000	1,089,011,820	640,000,000	188,890,408	3,303,902,228

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

The annexed notes from 1 to 17 form an integral part of these condensed interim financial statements.

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

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

DIRECTOR

DIRECTOR

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2017

1. LEGAL STATUS AND NATURE OF BUSINESS

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

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

2. BASIS OF PREPARATION

- 2.1** These condensed interim financial statements of the Modaraba for the six months period ended December 31, 2017 has been prepared in accordance with the requirements of the International Accounting Standard 34- Interim Financial Reporting, Islamic Financial Accounting Standard 2 (IFAS-2) and provisions of and directives issued under the repealed Companies Ordinance, 1984, the Modaraba Companies and Modarabas (Flotation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981, Prudential Regulations for Modarabas (hereinafter referred to as the relevant laws). In case where requirements differ, the provisions of or directives issued under the relevant laws and the said directives prevail.
- 2.2** Effective May 30, 2017, the Companies Act, 2017 (the Act) has been promulgated, however, the Securities and Exchange Commission of Pakistan (SECP) vide its circular No. 23 of 2017 dated October 04, 2017 decided that the companies whose financial year closes on or before December 31, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. Furthermore, the Institute of Chartered Accountants of Pakistan also issued clarification vide its circular dated October 06, 2017 which states that the interim financial statements of companies for the periods ending on or before December 31, 2017 shall also be prepared in accordance with the provisions of the repealed Companies Ordinance, 1984.
- 2.3** The condensed interim financial statements do not include all the information and disclosures required for full annual financial statements and should be read in conjunction with the annual financial statements of the Modaraba as at and for the year ended June 30, 2017.
- 2.4** These condensed interim financial statements are unaudited but subject to limited scope review by the external auditors as required by the Code of Corporate Governance and are being submitted to the certificate holders as required under Rule 10 of the Modaraba Companies and Modaraba Rules, 1981.
- 2.5** These condensed interim financial statements have been presented in Pak Rupees, which is the functional currency of the Modaraba.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

3.1 The accounting policies and methods of computation followed for the preparation of these condensed interim financial statements are the same as those applied in preparing the financial statements for the year ended June 30, 2017 except for the following amended IFRS interpretations which became effective during the period as mentioned in note 3.2 and 3.3 below:

3.2 New / Revised Standards, Interpretations and Amendments

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

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

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

Improvements to Accounting Standards Issued by the IASB

IFRS 12 Disclosure of interests in Other Entities - Clarification of the scope of the disclosure Requirement

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

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

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

Had there been no change in the above accounting policy, the equity of the Modaraba as at the period end would have been higher by Rs.85.189 million.

3.4 The preparation of condensed interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The significant judgements made by management in applying the Modaraba’s accounting policies and key sources of estimation of uncertainty are the same as those that were applied to the financial statements for the year ended June 30, 2017.

3.5 The financial risk management objectives and policies are consistent with those disclosed in the annual financial statements of the Modaraba for the year ended June 30, 2017.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2017

	Note	(Unaudited) December 31, 2017	(Audited) June 30, 2017
		Rupees-----	
4. OPERATING FIXED ASSETS - TANGIBLE			
Lease financing assets	4.1	2,596,286,350	2,440,975,610
Assets in own use	4.2	19,526,603	12,280,591
		2,615,812,953	2,453,256,201
4.1 Lease Financing assets			
Lease financing assets	4.1.1	1,922,085,532	2,132,509,174
Advance against lease financing assets		674,200,818	308,466,436
		2,596,286,350	2,440,975,610
4.1.1 Additions and disposals in lease financing assets			
Additions during the period / year			
Plant, machinery and equipment		17,874,110	91,594,591
Vehicles		317,825,777	838,639,563
Furniture and fixture		41,282,333	-
		376,982,220	930,234,154
Disposal (at book value) during the period / year			
Plant, machinery and equipment		1,258,300	15,721,646
Vehicles		105,244,398	289,112,456
		106,502,698	304,834,102
4.2 Additions and disposals in assets in own use			
Additions during the period / year			
Office equipment		942,126	2,143,515
Furniture and fixture		312,993	1,857,765
Vehicles		1,764,500	1,789,000
Leasehold improvements	4.2.1	7,383,561	1,134,573
		10,403,180	6,924,853
Disposal (at book value) during the period / year			
Office equipment		18,756	7
Furniture and fixture		87,505	63
Vehicles		468,370	1
		574,631	71

4.2.1 This includes capital work in progress amounting to Rs.4.88 (June 30, 2017: Rs.0.733) million.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2017

		(Unaudited) December 31, 2017	(Audited) June 30, 2017
	Note	Rupees	
5. DIMINISHING MUSHARAKA FINANCING - SECURED			
Diminishing musharaka financing		4,164,376,296	3,806,996,515
Less: Provision in respect of Diminishing Musharaka		(317,700)	(317,700)
		4,164,058,596	3,806,678,815
Less: Current portion		(1,978,045,760)	(1,638,299,962)
		2,186,012,836	2,168,378,853
Advance against diminishing musharaka financing		765,677,620	484,958,989
		2,951,690,456	2,653,337,842
6. INVESTMENTS			
Investment by category			
'Available-for-sale'			
Investment in listed equity securities		268,379,880	278,784,499
Investment in sukuk bonds	6.1	1,007,100,000	1,019,900,000
		1,275,479,880	1,298,684,499
6.1 These sukuk bonds are issued by the Government of Pakistan with the maturity term of 3 years from the date of issue. The profit on the sukuk shall be paid semi-annually on the basis of rental rate announced by the State Bank of Pakistan prior to start of each half year. The Modaraba has obtained permission from Registrar of Modaraba 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 Investment (Musharaka).			
6.2 Surplus on revaluation of investments classified as 'available-for-sale'			
Market value of investments		1,275,479,880	1,298,684,499
Less: Cost of investments		(1,190,290,903)	(1,181,049,126)
		85,188,977	117,635,373
Surplus on revaluation at the beginning of the period / year		117,635,373	53,807,298
(Surplus) / deficit transferred to profit and loss account during the period / year		(3,159,290)	6,892,732
(Deficit) / surplus on revaluation during the period / year		(29,287,106)	56,935,343
		(32,446,396)	63,828,075
		85,188,977	117,635,373

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2017

	Note	(Unaudited) December 31, 2017	(Audited) June 30, 2017
		-----Rupees-----	
7. INCOME TAX REFUNDABLE			
Income tax	7.1	89,006,078	89,006,078

7.1 This represents the advance tax deducted by the various withholding agents under section 153 of the Income Tax Ordinance, 2001. The management has claimed the tax deducted in return for Tax Year 2017 since the management is confident that the same shall be refunded.

8. CERTIFICATES OF INVESTMENT (MUSHARAKA)

Certificates of investment (musharaka) - unsecured	4,893,882,897	3,913,784,732
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8.1 These certificates have different denominations and are repayable within three months to five years. The estimated share of profit on these certificates ranges from 5.20% to 6.35% (June 30, 2017: 4.50% to 6.60%) per annum.

9. CONTINGENCIES AND COMMITMENTS

9.1 Contingencies

There are no contingencies to report as at December 31, 2017.

9.2 Commitments

Commitments in respect of lease financing transactions amounted to Rs.152.5 (June 30, 2017: Rs.157) million.

		(Un-audited)			
		Half year ended		Quarter ended	
	Note	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Rupees					
10. OTHER INCOME					
Dividend income		6,709,938	4,902,500	2,359,938	652,500
Gain on transfer of lease financing assets		9,054,047	6,408,800	5,034,393	3,302,736
Gain on sale of assets in own use		95,067	165,461	89,069	165,362
Profit on bank deposits		5,998,373	5,620,846	3,779,733	2,188,675
Gain on sale of investment in listed equity securities		387,037	567,589	345,801	-
Profit on sukuk bonds		27,780,975	21,998,036	13,890,487	10,997,760
Reversal of Workers' Welfare Fund (WWF)	10.1	12,861,211	-	12,861,211	-
Miscellaneous income		2,213,049	1,555,957	1,277,660	855,163
		65,099,697	41,219,189	39,638,291	18,162,196

10.1 During the financial year 2017, the Honorable Supreme Court of Pakistan passed a judgement declaring the insertion of amendments introduced in the Finance Acts, 2006 and 2008 pertaining to Workers' Welfare Fund Ordinance, 1971, as unlawful and thereby striking down such amendments. In view of the above, during the period, the management reassessed the situation based on the general industry practice and accordingly, reversed the entire provision for WWF amounting to Rs.12.861 million.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2017

11. MODARABA MANAGEMENT COMPANY'S FEE INCLUSIVE OF SALES TAX

11.1 The Modaraba Management Company is entitled to a remuneration for services rendered to the Modaraba under the provisions of the Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980 upto a maximum of 10% per annum of the net annual profits of the Modaraba. The fee for the period ended December 31, 2017 has been recognized at 10% (December 31, 2016: Nil) of profit for the period.

11.2 There is no change in the status of the Sindh Sales Tax levied by the Sindh Government at the rate of 13% on the remuneration of the Modaraba Management Company, as reported in note 19.2 to the annual financial statements of the Fund for the year ended June 30, 2017.

12. TAXATION

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

13. EARNINGS PER CERTIFICATE - BASIC AND DILUTED

There is no dilutive effect on earnings per certificate which is based on:

		(Un-audited)			
		Half year ended		Quarter ended	
Note	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	
Rupees					
Net profit for the period	152,217,756	169,931,263	70,417,290	84,614,655	
Weighted average number of ordinary certificates	201,600,000	201,600,000	201,600,000	201,600,000	
Basic earnings per certificate	0.76	0.84	0.35	0.42	

14. TRANSACTIONS WITH RELATED PARTIES

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2017

			(Unaudited)	(Audited)
			December 31, 2017	June 30, 2017
			Rupees	
Balances held				
Related party	Related party relationship	Nature of balances		
Habib Metropolitan Bank Limited	Holding Company	Bank Balances	139,677,979	191,502,199
		Certificates of investment (musharaka)	1,950,000,000	2,250,000,000
		Profit receivable	1,710,671	449,597
		Expenses payable	15,351,712	19,045,890
		Utility charges payable	-	1,632,000
		Security deposit	130,000	130,000
		Lease financing		
		installments receivable	54,855	-
		Lease financing assets	44,691,678	64,302,907
Habib Bank AG Zurich	Ultimate Parent	Lease financing assets	2,204,115	3,188,133
Habib Metropolitan Modaraba Management Company (Pvt.) Limited	Management Company	Management fee payable	17,511,189	35,041,406
		Sale tax on management fee payable	6,831,838	4,555,383
Habib Metropolitan Financial Services Limited	Associate	Lease financing assets	45,842	476,025
Habib Management (Pvt.) Ltd. (formerly Habib Modaraba Management (Pvt.) Limited)	Associate	Sale tax on management fee payable	38,653,418	38,653,418
Staff Retirement Benefit Fund	Associate	Payable to staff gratuity fund	2,270,206	-
Provident Fund	Associate	Certificates of investment (musharaka)	26,502,477	29,708,699
			(Unaudited)	(Audited)
			December 31, 2017	December 31, 2016
			Rupees	
Transactions during the period				
Related party	Related party relationship	Nature of transactions		
Habib Metropolitan Bank Limited	Holding Company	Profit on bank accounts	4,286,200	4,668,061
		Bank charges	131,169	206,539
		Utility charges	1,632,000	1,818,000
		Financial charges	77,262,674	48,197,948
		Lease financing installments received	21,026,701	19,387,987
Habib Bank AG Zurich	Ultimate Parent	Lease financing installments received	905,259	904,788
Habib Metropolitan Modaraba Management Company (Pvt.) Limited	Management Company	Management fee	17,511,189	-
		Sale tax on management fee	2,276,455	-
		Management fee paid	35,041,406	-
		Dividend Paid	20,160,000	-
Habib Metropolitan Financial Services Limited	Associate	Brokerage commission	165,843	-
		Purchase of securities	55,569,359	-
		Sale of securities	48,804,139	-
		Lease financing installments received	752,055	699,825
Habib Management (Pvt.) Ltd. (formerly Habib Modaraba Management (Pvt.) Limited)	Associate	Management fee paid	-	34,355,610
		Dividend Paid	104,271,172	100,501,732
Staff Retirement Benefit Fund	Associate	Gratuity fund	1,287,143	990,000
		Provident fund	1,151,206	1,086,922
Provident Fund	Associate	Contribution made	2,302,412	2,173,844

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2017

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

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3: those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2017 (Un-audited)							
Carrying amount				Fair value			
Investments	Loans and other receivables	Cash and cash equivalents	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value							
Rupees							
'Available for Sale'							
Listed equity securities	268,379,880	-	268,379,880	268,379,880	-	-	268,379,880
Sukuk bonds (note 15.1)	1,007,100,000	-	1,007,100,000	-	1,007,100,000	-	1,007,100,000
	1,275,479,880	-	1,275,479,880	268,379,880	1,007,100,000	-	1,275,479,880

Financial assets not measured at fair value (note 15.2)

Deposits	-	2,010,135	-	2,010,135
Diminishing musharaka financing	-	4,929,736,216	-	4,929,736,216
Lease financing installments receivable	-	2,217,294	-	2,217,294
Other receivables	-	6,342,945	-	6,342,945
Cash and bank balances	-	-	240,737,125	240,737,125
	-	4,940,306,590	240,737,125	5,181,043,715

June 30, 2017 (Audited)							
Carrying amount				Fair value			
Investments	Loans and other receivables	Cash and cash equivalents	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value							
Rupees							
'Available-for-sale'							
Listed equity securities	278,784,499	-	278,784,499	278,784,499	-	-	278,784,499
Sukuk bonds	1,019,900,000	-	1,019,900,000	-	1,019,900,000	-	1,019,900,000
	1,298,684,499	-	1,298,684,499	278,784,499	1,019,900,000	-	1,298,684,499

Financial assets not measured at fair value

Deposits	-	4,400,145	-	4,400,145
Diminishing musharaka financing	-	4,291,637,804	-	4,291,637,804
Lease financing installments receivables	-	991,649	-	991,649
Other receivables	-	2,794,295	-	2,794,295
Cash and bank balances	-	-	192,259,670	192,259,670
	-	4,299,823,893	192,259,670	4,492,083,563

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE HALF YEAR AND QUARTER ENDED DECEMBER 31, 2017

During the period ended December 31, 2017, there were no transfers between level 1 and level 2 fair value measurements, and no transfer into and out of level 3 fair value measurements.

	December 31, 2017 (Un-audited)			June 30, 2017 (Audited)		
	At fair value	Other financial liabilities	Total	At fair value	Other financial liabilities	Total
-----Rupees-----						
Financial liabilities						
Security deposits against lease financing assets	-	373,337,169	373,337,169	-	343,790,859	343,790,859
Certificates of investment (musharaka)	-	4,893,882,897	4,893,882,897	-	3,913,784,732	3,913,784,732
Unearned lease financing and diminishing musharaka installments	-	54,862,564	54,862,564	-	24,519,411	24,519,411
Advance lease financing and diminishing musharaka installments	-	19,743,420	19,743,420	-	22,586,591	22,586,591
Trade and other payables	-	426,896,576	426,896,576	-	434,289,479	434,289,479
Advance against Murabaha	-	-	-	-	123,860,502	123,860,502
Unclaimed profit distributions	-	34,333,486	34,333,486	-	31,916,498	31,916,498
	-	<u>5,803,056,112</u>	<u>5,803,056,112</u>	-	<u>4,894,748,072</u>	<u>4,894,748,072</u>

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

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

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

16. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 07, 2018 by the Board of Directors of the Management Company.

17. GENERAL

17.1 Corresponding figures have been reclassified / re-arranged wherever necessary to facilitate comparison in the presentation in the current period. However, there are no material reclassification / re-arrangement to report.

17.2 Figures for the quarters ended December 31, 2017 and December 31, 2016 as reported in these condensed interim financial statements have not been subject to limited scope review by the external auditors.

17.3 Figures have been rounded off to the nearest rupee.

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

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

DIRECTOR

DIRECTOR