



# First Habib Modaraba

(AN ISLAMIC FINANCIAL INSTITUTION)

## *Sustainability Report 2011*









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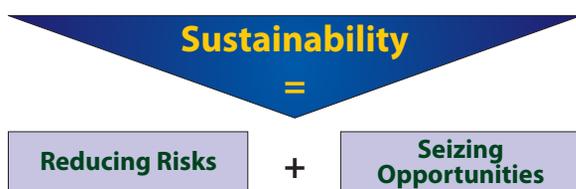


# Chief Executive's Vision on Sustainability

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, exorbitant debt-servicing burdens, inadequate and aging public utilities and infrastructure, high energy prices, and growing food insecurity. Now it has become utmost important to discuss and establish proper framework for sustainability and sustainable development which address problem of poverty alleviations, economic development and macroeconomic stability.

In the coming decades, our planet will be a very different place. By 2050, there will be an additional three billion people on Earth and 70% of the world's population will be living in cities. With the growth of China and India's economy and population, the pressure on natural resources will grow. Risks associated with poverty, land degradation, water scarcity and climate change are now pressing in with increasing urgency.

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.



Sustainable Business is a non-traditional strategy that strives to maximize efficiency and effectiveness while restoring environmental quality, building social equity and increasing long-term profitability.



As key forces in society, organizations of all kinds have an important role to play in achieving this goal. Sustainable development means building our communities so that we can all live comfortably without consuming all of our resources. It is for environmental, economic and social well being for today and tomorrow. Sustainable development is an economic issue, but there is an ethical standpoint that lies behind.

**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.**

Finance is very important for the economic welfare of people. It is finance that enables one to produce what one expects others to buy, thus enabling one to earn a living. With greater specialization, longer periods of production and larger markets. Sustainability lies on following main areas.

1. Energy, Green Growth and Efficiency
2. Opportunity of Sustainable Agriculture
3. Energy Resource Sustainability
4. Education
5. Building competitiveness
6. Reduce wastage of resources
7. Improve quality of life

Finance plays a very vital part for achievement of sustainability and sustainable development. Social well being for communities is also an important part of sustainability. It can be derived by adopting ethical boundaries and its support. Within the finance if we talk about ethical finance than it can be achieved through Islamic Finance which is governed under Shariah principles.

Definitions of Islamic Finance range from the very narrow i.e. interest free banking to the very broad sense i.e. entire financial operations. A useful definition is the following: Islamic financial institutions are those that are based, in their objectives and operations, on Shariah principles.

Two aspects of Islamic finance must be singled out. First is the risk-sharing philosophy: the lender must share in the borrower's risk. Since fixed, predetermined interest rates guarantee a return to the lender and fall disproportionately on the borrower, they are seen as exploitative, socially unproductive and economically wasteful. The preferred mode of financing is profit-and-loss sharing (PLS). Second is the promotion of economic and social development through specific business practices and through Charity, donations and Zakat.

A Sharia based business model is derived from the idea that Islamic Financial Institutions (IFIs) are not only responsible to their immediate shareholders, but owe a trust and faith to society or community where they serve. Thus embracing social and environmental sustainability would demonstrate a more comprehensive and ethical approach to doing business for (IFIs)

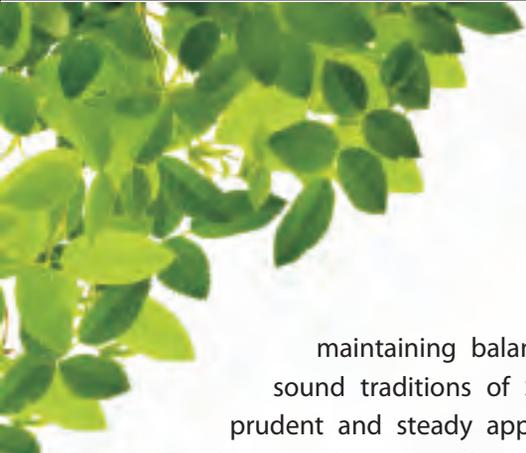
At FHM, we are translating this holistic understanding into actions based on values and our way of doing shariah compliant business activities. First, the trust, transparency and ethical way of doing business this upholds our transactions with all stakeholders. Second, the empowerment of Employees to speak up and provide ideas on doing things differently which lead them for better tomorrow.

Alhamdulillah, FHM has completed its 26th year of business operation. FHM is well on its way to realizing its VISION of "To be a leading Islamic Financial Institution within the Modaraba sector" and its mission "To become an institution built on trust, integrity, Good Governance with commitment to add value to all stakeholders".

What we are doing is important, but what we will do in future even more so. We know that we need to do more to give back to the environment and society. We also know that our transformational journey is incremental and every step we take will get us a little closer to our vision.

In Islamic financial market, we at FHM wish to continue to strengthen our commitment in displaying a responsible role working under Shariah principles within the Modaraba sector. By





maintaining balance between the sound traditions of Shariah with the prudent and steady approach, makes us unique, and indeed resilient, to the turbulence seen in the financial industry particularly in non banking financial sector of Pakistan in recent years. The overall strategy is clear and our corporate values are the same as when we first started: uphold Islamic Shariah principles, support ongoing initiatives in the Islamic financing industry and participate in assisting the socio-economic endeavors of local communities.

Our sustainability priorities are multi-fold. Adherences to Shariah principles, Employees wellbeing, promote and strengthen culture of trust and transparency, and exceeding customer expectations are priorities to us. While working on business growth we give equal importance to the eco system by restriction of participation of business deals which harmful to environment and society.

**To conduct responsible business and repay to society are main corporate objectives. Sharing of handsome profits amongst investors and certificates are aspiration of FHM.**

It is matter of great satisfaction that FHM has been maintaining its history of continuous payment of dividend to its Certificate Holders for last 26 years with average pay out of around 17%. Within last 12 years the average payment of dividend is more than 20% percent. This is due to sincere commitment of FHM towards well being of society through sharing of profits.

The Management of FHM has always given emphasis on building-up quality asset portfolio. The efficacy of FHM's business strategy and prudent risk management policies has supported the management to maintain outstanding assets quality while ensuring sustainability of performance, despite the increasingly



**FHM is committed to promote sustainable business practices. We believe that our responsibility is primarily about conducting our business in transparent and ethical way that not only enhances value for all stakeholders but also by giving support to events that enhance the well being of the community.**

competitive operating environment in Pakistan's financial market.

Business transactions have always been done through strictly following of Shariah principles and risk management parameters keeping in view the safety of investor's funds. It can be judged with the performance of FHM of twenty six years and this would convince that **"Stability of Operation"** and **"Sustainability of Growth"** are well achieved in every year.

FHM is committed to promote sustainable business practices. We believe that our responsibility is primarily about conducting our business in transparent and ethical way that not only enhances value for all stakeholders but also by giving support to events that enhance the well being of the community.

Through this first report, we have been able to identify our role in a sustainable future. We do respect values and give importance to all our stakeholders i.e. employees, customers, investors, governments, non-governmental organizations, academia and educational institutions – to Rebalance and build tomorrow's society. This recognition reflects our commitment to do what



it takes to reach the always-rising bar for sustainability performance within the sector. We also know that it is not enough to say we are sustainable. We are determined to prove it with continuous progress toward tangible goals that will ensure the long-term health of our institutions, communities and the planet we share.

**Muhammad Shoaib Ibrahim**  
Chief Executive Officer





# Spirit of Sustainability

## MODARABA MODEL

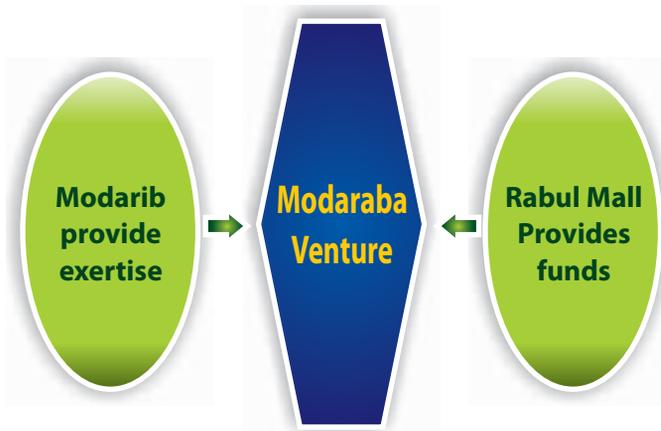
**Social well being and distribution of wealth through Modaraba model Sharing expertise and profits**

Modaraba is a kind of partnership, wherein one party provides finance to the other for the purpose of carrying on business. The party who provides the finance, is called the “Rabb-ul-Mal”, whereas the other party who puts its management skills for the Modaraba is called the “Modarib” (working partner)

Modaraba is one of the prime modes of Islamic Financial System. The concept of Modaraba was given fourteen hundred years back by our Holy Prophet Hazrat Muhammad (peace be upon him). An Islamic economic and financial system is ruled-based system comprising a set of rules and laws, collectively referred to a Shariah governing economic, social, political and cultural rulings of Muslim societies.



## MODARABA VENTURE



In Pakistan the Modaraba as corporate entity has been successfully practiced since last more than two decades. This concept was brought in early 80's in pursuance of the report of Council of Islamic Ideology on the elimination of Riba from the financial system of the country.

The Modaraba Companies & Modaraba (Floatation & Control ) Ordinance, 1980 and Modaraba Companies and Modarabas Rules 1981, were promulgated in early 80's by the Government of Pakistan. The Ordinance and Rules provides matters relating to the registration of Modaraba companies and the floatation, management and regulation of Modarabas.

### Sustainability and Value additions for Certificate Holders/Investors at First Habib Modaraba (FHM)

FHM commenced its business operation in March, 1985, with an initial capital of Rs.25.0 million only. Continuing with solid, dynamic and prudent approach now the FHM has a total equity base over Rs.2.8 billion and assets size around Rs.4.0 billion.

The basic aim of the FHM was to make contribution towards the transformation of our mercantile as well as financial system and dealings in line with principles elaborated in Shariah. FHM being pioneer in the Modaraba and Non-Banking Islamic Financial sector played a very vital role for promotion of Islamic Finance in Pakistan's Islamic Financial Market.

FHM always remain best performing Modaraba within the Modaraba sector. The management of FHM is heir of rich tradition of trading and banking and finance. Business Operations of FHM have always been backed by valuable expertise in the field of fund management.

Alhamdulillah, now FHM has completed almost quarter of centaury and is well on its way of achieving its:

### *Vision*

To be a leading Islamic Financial Institution within the Modaraba sector

### *Mission*

To become an institution built on Trust, Integrity, Good Governance with commitment to add value to all stakeholders".





The Management of FHM has always given emphasis on building-up quality asset portfolio. The efficacy of FHM's business strategy and prudent risk management policies has supported the management to maintain outstanding assets quality while ensuring sustainability of performance, despite the increasingly competitive operating environment in Pakistan's financial market.

Business transactions have always been done on economic considerations, keeping in view the safety of investor's funds. It can be observed that FHM is much stronger today in terms of the healthy size of Equity, strong Balance Sheet Footing and sound Profitability.

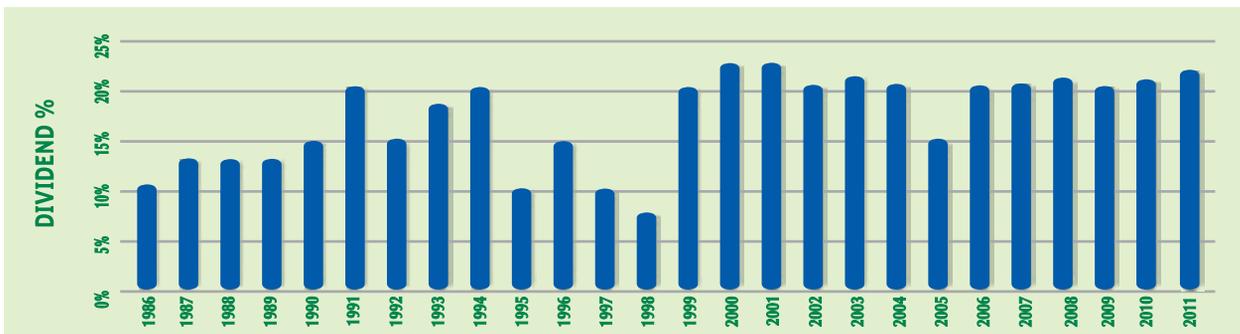
The main components of success of FHM were excellent team work across all levels of the organization. Due to hard and dedicated work of all staff members made FHM the premier Modaraba within the Modaraba sector.

## ACHIEVEMENTS OF 26 YEARS OF BUSINESS OPERATIONS

### Continuous payment of dividends

FHM never failed to give dividend in any single year and profit has always been given in shape of cash dividend and stock dividend every year in 26 years of business operations without any fail. The average distribution of the dividends is around 17% and an average distribution of last 10 years is around 20%.

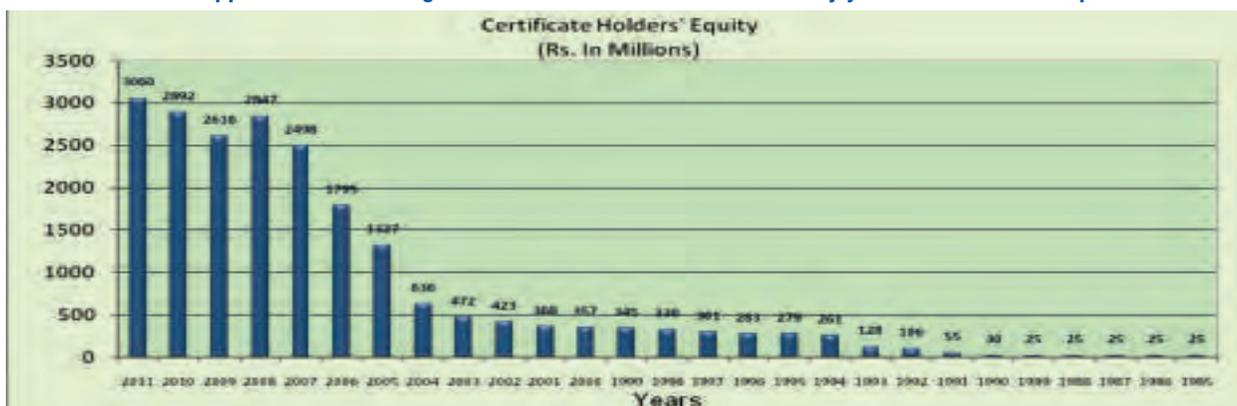
#### A sustainable approach – Sharing the profits every year with Certificate Holders



### Sound Equity

Through judicious administration of funds and sound investment policies, FHM has assembled a very handsome asset base and equity size. FHM is maintaining Highest Equity base and sound profitability, within Modaraba sector since last several years

#### A Sustainable approach - Enhancing the value of Certificate holders every year since business operations





### **Profitable Venture since Inception**

By the grace of God, due to unmatched business & finance skills of the management the FHM remain profitable venture since the beginning of business operations. By applying strict risk management policies and best business practices Alhamdulillah, FHM has never incurred losses in any year during the business operation of last 26 years.

### **Credit Rating**

With continuing sound financial positions, FHM is maintaining "AA+" credit rating since last several years. According to PACRA vide their press release dated 13th December, 2011, the FHM was assigned rating scale of AA+ for long term and A1+ for short term. As per PACRA's assessment these rating denote a very low expectation of credit risk emanating from very strong capacity for timely payment of financial commitments and sound risk absorption capacity emanating from an equity dominated financial structure.

### **Recipient of "Best Performing Modaraba" award**

During last 13 years, FHM has received 11 awards as best performing Modaraba from the NBFBI and Modaraba Association of Pakistan (MAP) within Modaraba sector between the positions from first to third.

### **Recipient Corporate Excellence Award**

Besides best performance award, the FHM is also receiving "Corporate Excellence Certificate Award" from Management Association of Pakistan for last four consecutive years within the category of Non Banking Financial Sector and Equity Investment Instrument. So far FHM has secured three Excellence Certificate Awards and one Excellence Trophy Award.

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

The joint committee of ICAP and ICMAP has selected annual report of First Habib Modaraba for the year ended 30th June, 2010, as a best corporate report and given "Best Corporate Report Award" under the category of Non Banking Financial Institutions (NBFBI) which comprising on Insurance, Leasing, Investment Banks, Mutual Funds and Modarabas. This ceremony was held on November 11, 2011 at Karachi. This 2nd consecutive award received by FHM.

### **SAFA "CERTIFICATE OF MERIT AWARD"**

South Asian Federation of Accountants (SAFA) in its Award Ceremony held in Dhaka Bangladesh, on 29th November 2011, awarded a "Certificate of Merit Award" to First Habib Modaraba for "Best Presented Accounts" and "Corporate Governance Disclosures" for the year 2010. This award has been given from the category of Non-Banking Financial Sector.

Within this sector, there were only two nominees from Pakistan and First Habib Modaraba was one of them. This is second consecutive "Certificate of Merit" award to Habib Modaraba from SAFA committee. SAFA is an Apex body of SAARC. This body represents member of the chartered accountancy and management accountancy institution in the South Asian countries namely Bangladesh, India, Nepal and Pakistan.

### **Brand of the Year Award**

Habib Modaraba received "Brand of the Year" award of the year 2010 from the Brands Foundation of Pakistan. This award was given in the category of Non Banking Financial Institutions.





# Report Scope and Boundaries

This is our first Sustainability Report which covers our responsibilities to our stakeholders and our ongoing commitment to transparency, accountability and good governance. This Report discloses our steady growth over the period of 26 years of business operations and our consistency in performance and generations of businesses which ultimately contribute to economy, well being of society and support to environment which are most important for us as well as for our all stakeholders.

We have included commitments in every area of this Report which enables us to track our performance and coordinate our efforts across our operations within the country more effectively. We have consolidated data from various sources available at FHM's head office, other branches throughout country Our Sustainability Report is aligned with our Annual Report 2011 and our corporate website.

## **Reporting Scope:**

This Report covers all significant environmental, economic and social impacts resulting from FHM's activities in the Financial Year i.e. July, 2010 to June, 2011. This report is organized by the five core areas of our sustainability strategy i.e. Shariah Principles, People, Planet, Performance and Society. The information reported in each of these core areas is based on ongoing feedback, through training and workshops, through market forces, we receive from various sources including from our stakeholders.

**Reporting Period:** This Report describes activities and achievements of financial year July, 2010 to June, 2011. In some cases, the Report covers activities outside this period in order to update our reader of report to have complete data about performance and sustainability.

**Reporting Cycle:** Once a year

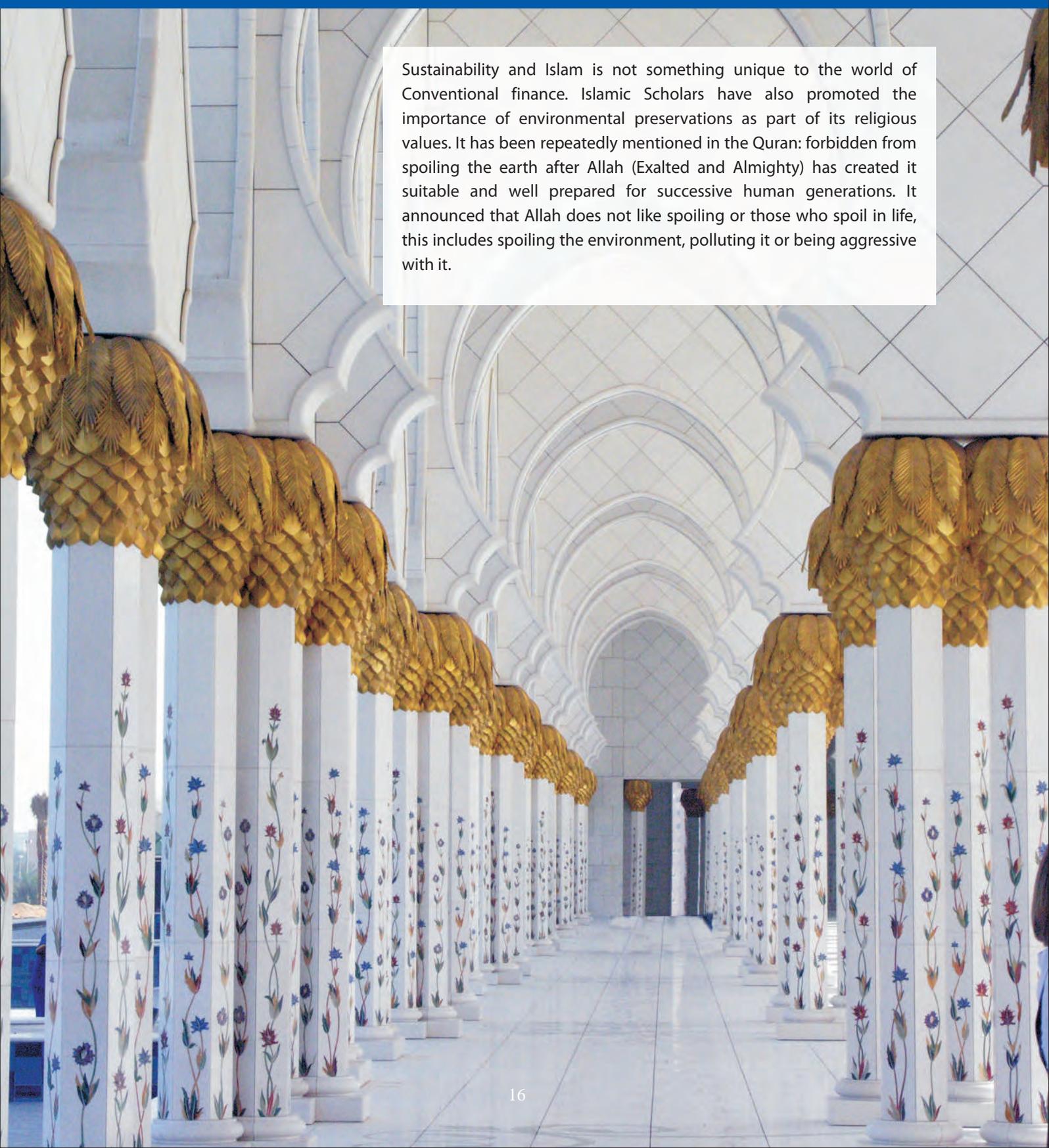
## **Reporting Framework:**

We have tried our level best to align our approach to sustainability management and reporting with the guidelines and principles laid down in Global Reporting Initiative (GRI) G3 Guidelines.





# Shariah Spirit



Sustainability and Islam is not something unique to the world of Conventional finance. Islamic Scholars have also promoted the importance of environmental preservations as part of its religious values. It has been repeatedly mentioned in the Quran: forbidden from spoiling the earth after Allah (Exalted and Almighty) has created it suitable and well prepared for successive human generations. It announced that Allah does not like spoiling or those who spoil in life, this includes spoiling the environment, polluting it or being aggressive with it.

There are following main reasons why IFIs more observant of social and environmental sustainability as part of their core business model and not just as a Corporate Social Responsibility initiative.

## **ethical observant**

A Sharia based business model is derived from the idea that Islamic Financial Institutions (IFIs) are not only responsible to their immediate shareholders, but owe a trust and faith to society or community where they serve. Thus embracing social and environmental sustainability would demonstrate a more comprehensive and ethical approach to doing business by FHM

## **profitability and market share**

Many IFIs that have taken the path of sustainability have reached on conclusion that being socially and environmentally responsible does not necessarily end with handsome profits. FHM believes that in fact IFIs actually flourish because they are committed for well being of society by following ethical way of doing businesses.

## **risk management within shariah framework**

Projects which are heavily exposed to social and environmental risks are arguably more exposed to business risk. Indeed, good risk management is one of the key reasons and FHM with Shariah framework extend their social and environmental as assessment as part of the overall credit assessment.

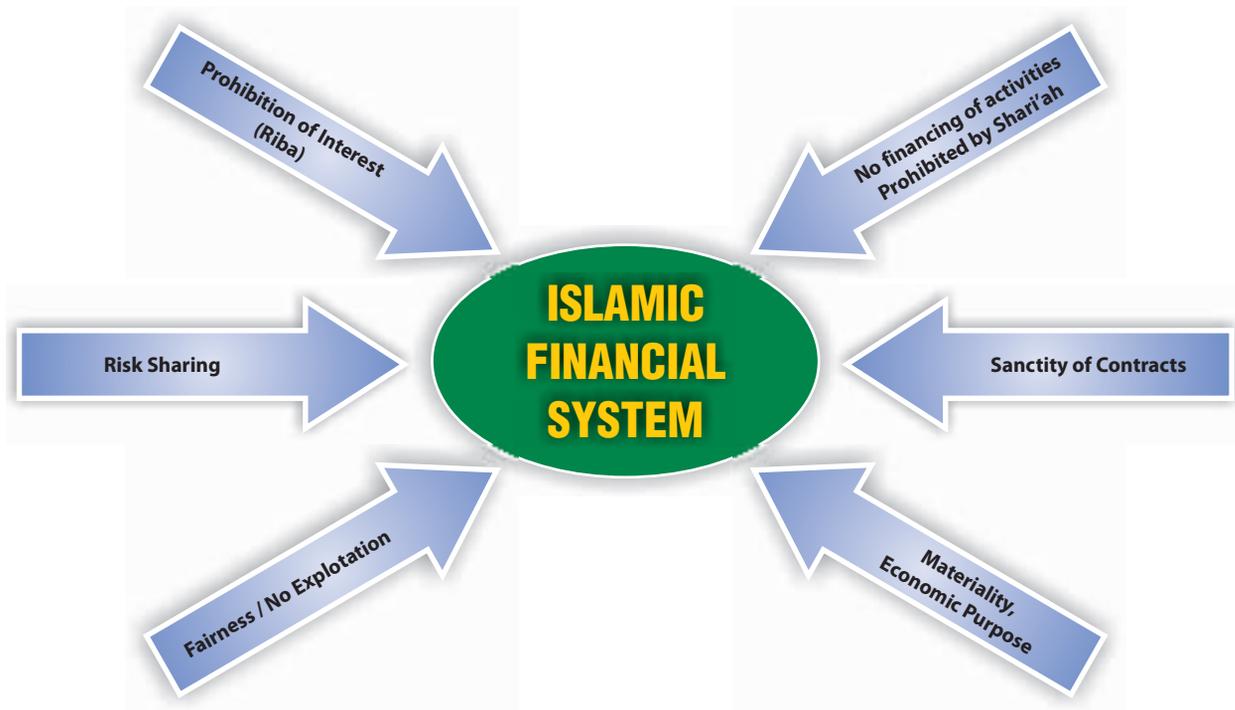
## **different approach**

IFIs are being perceived as indistinguishable from its conventional competitors. As Islamic finance gains wider acceptance and become more mainstream, the FHM, like others industry player comes under increasing pressure to demonstrate its distinctiveness.



## Strong pillars of Islamic Finance

On practice side, the Islamic Finance covers wide area of well being of society through sharing profits, fairness, no exploitations and development of real assets within business for equal distributions of wealth amongst the all stakeholders. The following are main foundations pillars of Islamic Finance from where it differentiate from conventional one and encourage sustainable development within the Society.



### Sanctity of Contracts

The relationship between the parties and the contents of the contract evidencing such relationship must be complied with Shari'ah rulings/Islamic Law of contracts. No one can execute any contract for the profit motive or not for profit motive which is based on certain subject matters prohibited by Shari'ah like gambling, wine etc.,

### Materiality, economic purpose

Each financial transaction must generate economic purpose. Thus purchasing some commodities from a party and then selling the same to the same party does not serve any economic purpose

### Fairness/no exploitation

No party to the contract will do any act which could lead to deceive the other's rights. Each and every material element of the contract must be known to both the parties to the contract. Thus there must be no hidden facts which can harm any party to the contract.

### Risk sharing

If a person or party desires to earn profit then he/it will have to take the risk of ownership of the asset or capital which to be used for profit earnings.

**"AL KHIRAJ BID DAMAN "** Meaning to say that no profit or gain is allowed without bearing due responsibilities of ownership.



### Prohibition of interest

No lending and borrowing of money to earn excess compensation by the lender on money lent is allowed. Thus, interest of every kind is prohibited

### Real Assets and Services

All transactions are asset or real services based. Real services mean the services providers do provide services which in fact invisible but have real value and can be priced in an arm length transactions.

### It is Ethical and Socially Responsible

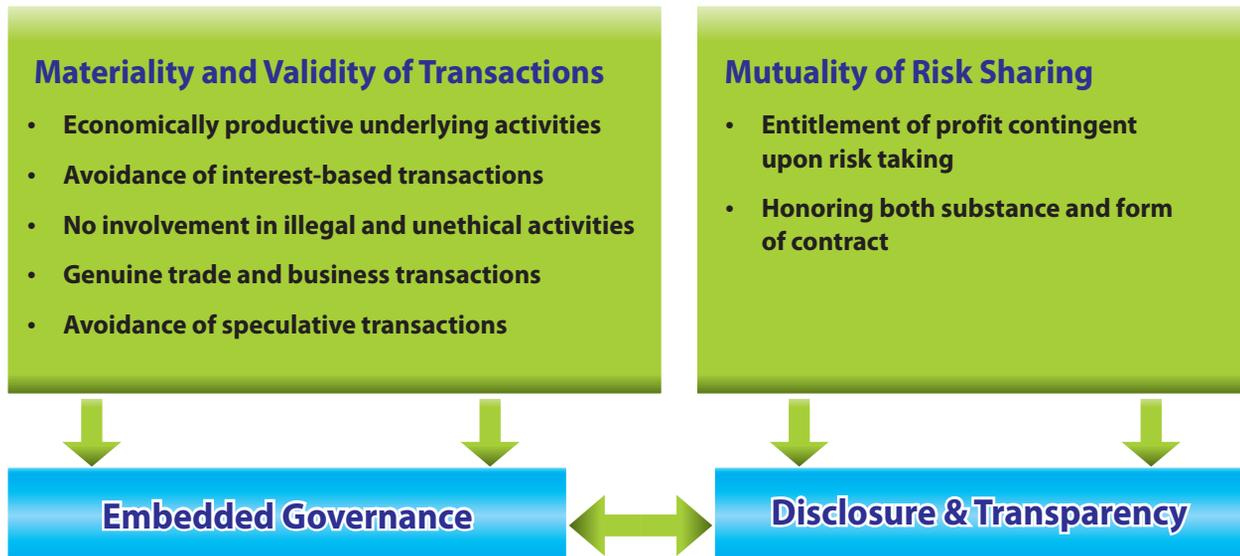
It is socially - responsible banking/ financing because it operates under Shari'ah restrictions. It does not permit financing of prohibited goods / Industries. It starves evil out of the society. Ethics and moral values play a major role in investment decisions.

Islamic finance derives its key strength from its inherent underlying principles. Islamic financial transactions must be accompanied by an underlying productive economic activity that will generate legitimate income and wealth, thereby establishing a close link between the financial transactions and productive flows.

## OVERARCHING PRINCIPLES

### Towards Achieving the objectives of Shari'ah (Maqasid al-Shari'ah)

- High ethical values - justice, fairness, trust honesty and integrity
- Protection of religion, life lineage, intellect and wealth
- More equitable distribution of wealth





**Therefore, the concept of sustainability is not new to Sharia compliant finance as scholars have long promoted the importance of environmental conservation and its protection. FHM has already their way to tap into key sustainability values through their ethical orientation, where not only responsible to their all stakeholders, but owe a fiduciary duty to community and society as whole.**

## How we differ from Others

<b>Financing</b>	Based on the principle that funds do not generate funds, unless they coupled with an activity of work and real assets
<b>Credit</b>	Murabaha is used, whereby a Murabaha-based credit is needed by our customer. The FHM owns the commodity and then sells it to the customer on deferred payment basis.
<b>Creation of Ownership</b>	Actively encourage entrepreneurs by funding small enterprises by way of partnerships that end with ownership.
<b>No Exploitation</b>	If the debtor is in difficulty, time always granted him to pay in reasonable time. No further profits charged on delay of financial obligation by the customer.
<b>Investment of funds</b>	Funds must be invested in lawful areas that achieve social and Economic development. Areas prohibited by Shariah always avoided.

Many factors of Shariah compliant finance contribute to our success. It is safe to say that Islamic finance is in a relatively safer position compared with conventional finance, by virtue of being asset-backed and certain Shariah limitations for financing.





# Corporate Profile



First Habib Modaraba (FHM) is a perpetual multipurpose Modaraba managed by Habib Modaraba Management (Pvt.) Limited. FHM is listed on the all three stock exchanges of Pakistan.

FHM commenced its business operation in March, 1985, with an initial capital of Rs.25.0 million only. Continuing with solid, dynamic and prudent approach now the FHM has an assets size over Rs.4.0 billion.

FHM is one of the leading financial services provider within Modaraba and NBFIs sector of Pakistan catering to the needs of its investors, customers and almost all the sectors of corporate across Pakistan. Head office based in



Karachi FHM has extended its network to four branches across Punjab, employing 32 persons and serving over 300 customers through financing of over Rs. 2.6 billion. FHM has the distinction of holding highest equity base within Modaraba and NBFIs sector to 3.1 billion with profit and asset size of 277.92 million and 4.1 billion respectively as on June 30, 2011.

The basic aim of the FHM was to make contribution towards the transformation of our mercantile as well as financial system and dealings in line with principles elaborated in Shariah. FHM being pioneer in the Modaraba and Non-Banking Islamic Financial sector has occupied a stable position to offer unparalleled services targeted at customers needs so as to play a very vital role for promotion of Islamic Finance in Pakistan's Islamic Financial Market.

FHM always remain best performing Modaraba within the Modaraba sector. The management of FHM is heir of rich tradition of trading and banking and finance. Business Operations of FHM have always been backed by valuable expertise in the field of fund management.

The Management of FHM has always given emphasis on building-up quality asset portfolio. The efficacy of FHM's business strategy and prudent risk management policies has supported the management to maintain outstanding assets quality while ensuring sustainability of performance, despite the increasingly competitive operating environment in Pakistan's financial market.

**Business transactions have always been done on economic considerations, keeping in view the safety of investor's funds. It can be judged with the performance of FHM of twenty six years and this would convince that "Stability of Operation" and "Sustainability of Growth" are well achieved in every year.**

Business transactions have always been done on economic considerations, keeping in view the safety of investor's funds. It can be judged with the performance of FHM of twenty six years and this would convince that "Stability of Operation" and "Sustainability of Growth" are well achieved in every year.

High quality customer service is an integral part of FHM's philosophy. It is our constant endeavor to provide services with wider accessibility. Our corporate slogan is "Customer First".

FHM is committed to promote sustainable business practices. We believe that our responsibility is primarily about conducting our business in transparent and ethical way that not only enhances value for all stakeholders but also by giving support to events that enhance the well being of the community.

The main components of success of FHM were excellent team work across all levels of the organization. Due to hard and dedicated work of all staff members made FHM the premier Modaraba within the Modaraba sector.

By the grace of God, FHM has been maintaining its status as leading Modaraba within the Modaraba sector and ranking top position amongst its peer group. The board of directors declared cash dividend of 22% for the period ended 30th June, 2011. It is matter of great satisfaction that FHM has been maintaining its history of continuous payment of dividend to its Certificate Holders for last 26 years with average pay out of around 17%. Within last 12 years the average payment of dividend is more than 20% percent This is due to sincere commitment of FHM towards handsome and quick return to investor.



### 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.





### SALAM

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.



### ISTISNA

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.



### MUSHARKA

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.



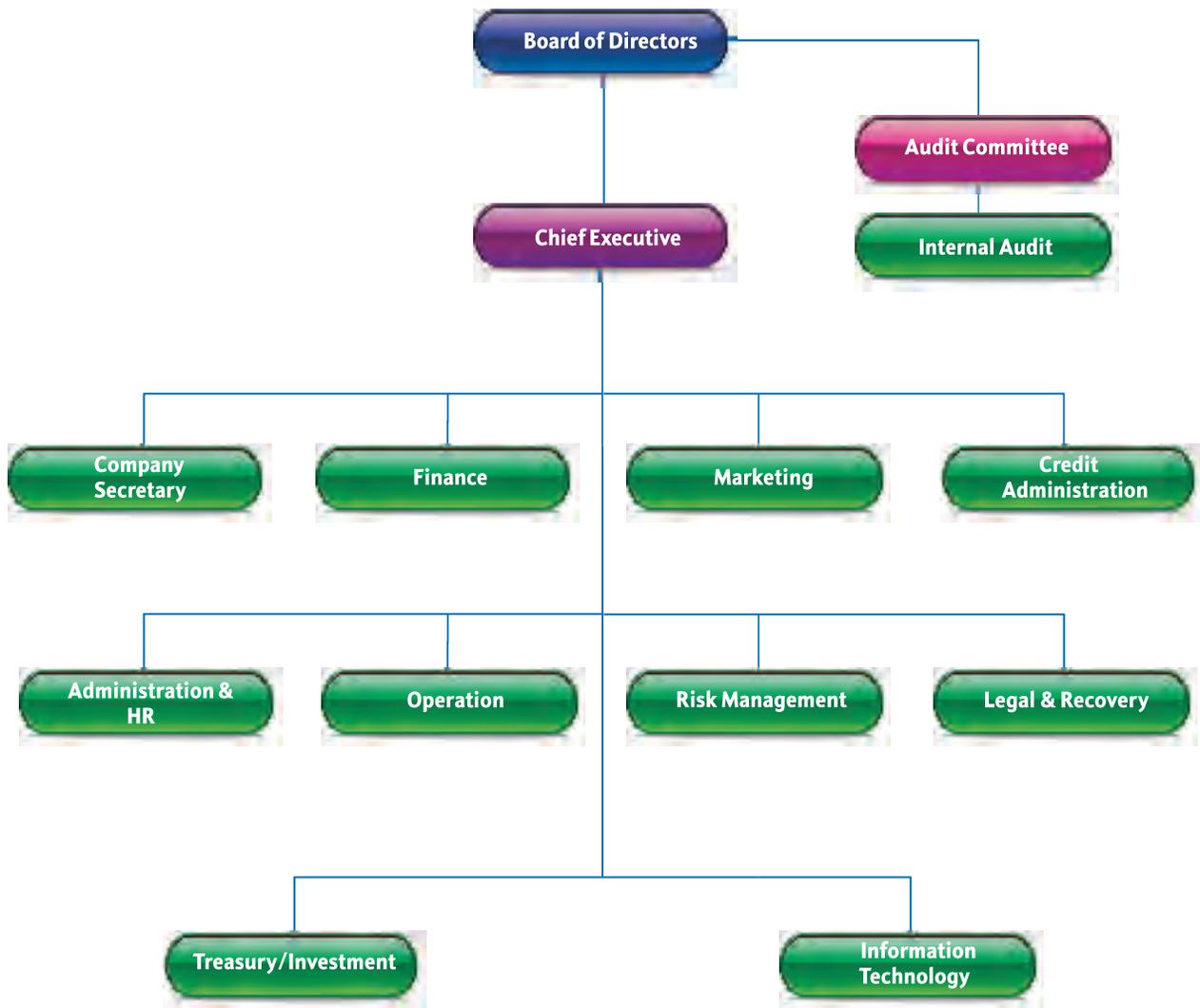
### CERTIFICATE OF MUSHARAKA

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.





## ORGANISATIONAL STRUCTURE





## LOCATIONS

### HEAD OFFICE

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

### LAHORE OFFICE

1st Floor, 5-Z, Commercial Area,  
Phase III, D.H.A. Lahore

### ISLAMABAD OFFICE

Mezzanine Floor, Razia Sharif Plaza,  
Blue Area, Islamabad

### FAISALABAD

P-74, Kotwali Road  
Faisalabad





## AWARDS

# Awards

Received During 2010-2011



### Best Performing Modaraba

FHM has secured first position in the category of best performing Modaraba within Modaraba sector from NBF and Modaraba Association of Pakistan on October 29, 2010.



### Corporate Excellence Award

FHM has received Certificate of Excellence in Equity Investment Instruments Sector from Management Association of Pakistan.



### Best Corporate Report Awards 2009

Ceremony held on October 28 2010, Joint Committee of Institute of Chartered Accountants of Pakistan and Institute of Cost and Management Accountants of Pakistan has awarded second position to FHM in Financial-NBFI Sector for best corporate report Awards.



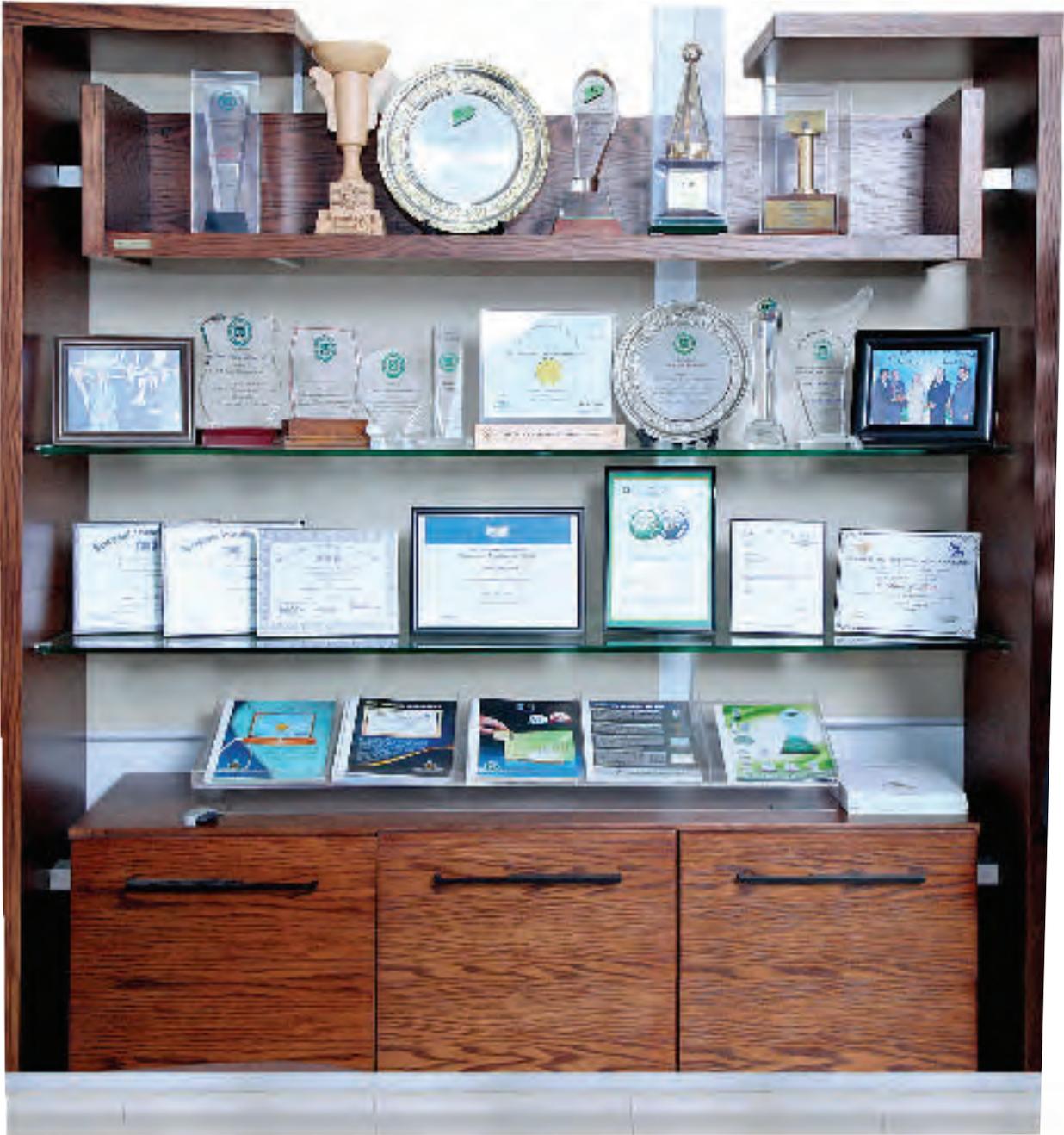
### Best Presented Accounts and Corporate Governance Disclosure Awards

South Asian Federation of Accountants (SAFA) in its summit 2010 held in Nepal on December 12, 2010 awarded Certificate of Merit to FHM for Best Presented Accounts and Corporate Governance Disclosure in the category of Non Banking Financial Sector.



# Awards

Received In Previous Years



# SUSTAINABILITY OF CREDIT WORTHINESS

## CREDIT RATING

The image features a hand in a dark suit sleeve placing a blue block labeled 'AA+' into a larger structure of similar blocks. The structure is composed of two rows of four blocks each, with the top row containing 'AA+', 'AA+', 'AA+', and 'AA+' and the bottom row containing 'AA+', 'AA+', 'AA+', and 'AA+'. The blocks are set against a background of a blue sky with clouds and green grass. Above the hand, there are two floating credit rating boxes: a green one for 'Long Term AA+' and a blue one for 'Short Term A1+'. The text 'AA+ is the highest used in PACRA ratings' is written between these boxes. At the top center is the PACRA logo, which consists of the word 'PACRA' in a vertical blue bar next to a grid of squares. At the bottom left is the logo for 'First Habib Modaraba', featuring a green shield with a white lion and four stars, with the name 'First Habib Modaraba' written below it. The text 'Rating Maintained' is written in blue at the bottom center of the image.



## Press Release

### PACRA MAINTAINS RATING OF FIRST HABIB MODARABA

Lahore: 20-June-2011

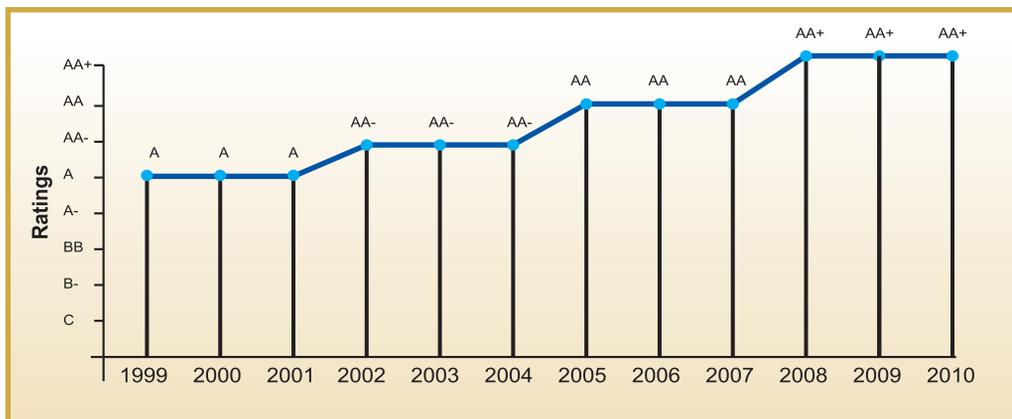
The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term rating of "AA+" (Double A plus) and "A1+" (A One Plus) respectively of First Habib Modaraba (FHM). These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The ratings denote FHM's sound risk absorption capacity emanating from a strong equity base. Moreover, the Modaraba has a healthy liquidity profile, as reflected in its sizable investment book, yielding a stable dividend stream. FHM's risk-averse business strategy has enabled the Modaraba to sustain very strong asset quality despite continuing distressed economic conditions. Ijarah financing continues to remain FHM's strong forte, though the management is working to diversify its financing portfolio by tapping hitherto unexplored potential areas of business. Meanwhile, FHM's association with the House of Habib remains a key factor.

About the Modaraba: First Habib Modaraba, established in 1985 and listed on all the bourses of the country, is a perpetual multipurpose modaraba engaged in Islamic modes of financing, mainly Ijarah (lease). FHM, managed by Habib Modaraba Management (Pvt.) Limited (HCML) is associated with House of Habib (HoH).

The board of directors of FHM comprises professionals having vast experience of banking and finance. The MD, Mr. Muhammad Shoab, Ex-Chairman of Modaraba Association of Pakistan, has been associated with the Modaraba since its inception. The management team is composed of seasoned professionals who have been associated with the Modaraba for a long period.

### Rating growth during last 12 years





## EDGE WITHIN THE SECTOR

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### **Credit Rating**

During the year, rating of FHM has been maintained to AA+ for long term and A1+ for short term (A1+ is the highest level in PACRA rating scale for short term rating). FHM is maintaining A category rating last 12 years from Pakistan Credit Rating Agency (Private) Ltd.

### **Highest Equity and Profitability**

Maintaining Highest Equity and Profitability, within Modaraba sector since last several years.

### **Unbroken Dividend Payout History**

Since the beginning of operation the FHM has been paying dividend to its certificate holders every year without any fail.

### **Profitable Venture since Inception**

By the grace of God, due to unmatched business & finance skills of the management, FHM remain profitable venture since the beginning. By applying strict risk management policies and best business practices Allhamdolillah, FHM has never incurred losses in any year during the business operation of last 26 years. No doubts, it is a very remarkable achievement of FHM, which is rarely available within the sector of non-banking financial institutions.

### **Excellent Investment Portfolio**

So far, FHM has developed a very lucrative investment portfolio, which is not only yielding good dividend return but also has handsome unrealized gain.



## ACHIEVEMENTS

### **Recipient of Best Performing Modaraba Award**

During last 13 years, FHM has received 10 awards as best performing Modaraba from Modaraba Association of Pakistan (MAP). For the year ended 30th June 2010 FHM has once again received best performing Modaraba "1st Position Award" from MAP.

### **Recipient of Corporate Excellence Award**

FHM is receiving "Corporate Excellence Award" from Management Association of Pakistan for last four consecutive years within the category of Leasing and Modaraba sector. So far FHM has secured three Excellence Certificate Awards and one Excellence Trophy Award.

### **Recipient of Best Corporate Report Award from ICAP/ICMAP**

The Joint Committee of ICAP & ICMAP has given "Best Corporate Report Award" to FHM under the category of Non Banking Financial Institution. The NBFI is one of the largest sectors comprising of Insurance, Leasing, Investment Banks, Mutual Funds and Modarabas. This category having more than 100 listed entities and out of which the Joint Committee of ICAP and ICMAP had selected five entities and FHM was one of them, ranked as second position. FHM is the first Modaraba who has awarded for best corporate report award.

### **Recipient of SAFA "Certificate of Merit Award"**

SAFA in its Summit 2010 held in Nepal on 12th December, 2010 awarded a "Certificate of Merit Award" to First Habib Modaraba for Best Presented Accounts and Corporate Governance Disclosures in the category of Non-Banking Financial Sector.

South Asian Federation of Accountants (SAFA) is an Apex Body of South Asian Association for Regional Co-operation (SAARC) and a Regional Grouping of International Federation of Accountants (IFAC).

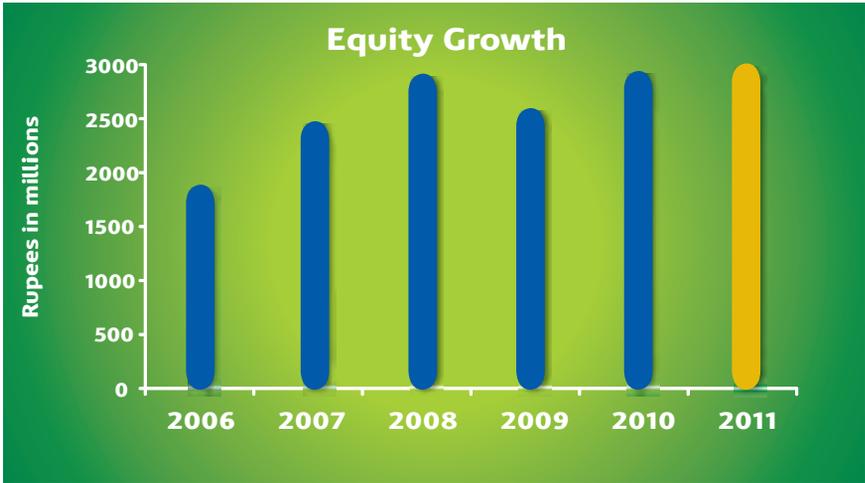


## KEY FINANCIAL DATA

	(Rupees in million)					
	2011	2010	2009	2008	2007	2006
Total Assets	4,075.21	3,777.83	3,281.20	4,025.65	5,000.90	3,889.85
Ijarah Assets	2,372.96	2,435.30	2,096.89	2,716.03	3,185.14	2,744.84
Gross Ijarah Disbursement	1,226.65	1,512.37	1,150.74	1,074.80	1,780.60	1,719.96
Current Assets	1,531.47	1,302.28	1,163.36	1,300.79	1,808.28	1,136.05
Current Liabilities	820.81	728.55	527.70	778.52	1,811.58	1,531.28
Total Liabilities	1,015.59	885.69	663.05	1,178.83	2,503.21	2,094.53
Paid-up Capital	1,008.00	1,008.00	1,008.00	1,008.00	504.00	504.00
Reserves	2,051.62	1,884.20	1,610.15	1,838.82	1,993.69	1,291.31
Certificate Holders' Equity	3,059.62	2,892.20	2,618.15	2,846.82	2,497.69	1,795.31
Gross Revenue	1,437.27	1,348.64	1,666.23	1,666.79	1,502.96	1,206.40
Net Profit	277.92	267.42	243.61	268.86	149.31	141.08
Earning Per Certificate - Rs.5/- each	1.38	1.33	1.21	1.50	1.36	1.40
Cash Dividend	22%	21%	20%	21%	20%	20%
Ijarah Rental	327.34	311.18	351.55	317.30	286.49	254.95

### STAKEHOLDER INFORMATION

	2011	2010	2009	2008	2007	2006
<b>Profitability Ratios</b>						
Profit after tax ratio (%)	19.34	19.83	14.62	16.13	9.93	11.69
Gross yield on earning assets (%)	42.19	41.54	59.99	48.02	32.80	33.25
Gross spread ratio (%)	12.96	12.88	9.35	5.45	3.76	8.84
Cost / Income ratio (%)	81.82	81.46	86.11	85.43	90.64	88.63
Return on equity (%)	13.22	13.13	12.36	13.87	14.71	14.60
Return on assets (%)	6.82	7.08	7.42	6.68	2.99	3.63
Return on capital employed (%)	10.03	10.78	11.82	11.39	8.41	9.76
Gross profit ratio (%)	22.65	22.02	20.25	17.20	18.11	21.01
Net profit to sale (%)	19.34	19.83	14.62	16.13	9.93	11.69
EBITDA margin to sale (%)	25.87	26.74	22.09	20.39	13.34	15.06
Income / Expense ratio	1.18	1.18	1.12	1.08	1.05	1.11
<b>Liquidity Ratios</b>						
Advance to deposit ratio	4.25	4.86	6.07	7.39	2.67	2.73
Current ratio	1.87	1.79	2.20	1.67	1.00	0.74
Cash to current liabilities	20%	29%	57%	19%	7%	5%
Cashflow from operations to sale	9%	8%	48%	34%	15%	49%
<b>Turnover ratio</b>						
Total Asset Turnover Ratio (%)	37.52	38.18	53.46	45.82	31.91	31.90
Fixed Asset Turnover Ratio (%)	60.11	58.27	82.83	67.70	49.98	45.06
<b>Investment / Market ratio</b>						
Market Value Per Share	8.15	6.70	5.77	7.77	13.50	6.95
High	8.19	7.33	7.85	16.35	13.80	8.30
Low	5.66	5.50	4.37	7.39	6.55	6.50
EPS (Earning per share)	1.38	1.33	1.21	1.50	1.36	1.40
Price earning ratio	5.91	5.04	4.77	5.18	9.93	4.96
Price to book ratio	0.78	0.66	0.59	0.81	1.34	0.73
Dividend Yield ratio (%)	13.50	15.67	17.33	13.51	7.41	14.39
Dividend Payout ratio (%)	79.79	79.16	82.75	78.73	67.51	71.45
Dividend cover ratio	1.25	1.27	1.21	1.43	1.36	1.40
Cash dividend (%)	22%	21%	20%	21%	20%	20%
Cash dividend per share	1.10	1.05	1.00	1.05	1.00	1.00
Book Value Per Share	10.43	10.10	9.78	9.62	10.07	9.59
Dividend (in million rupees)	222	212	202	212	101	101
Profit Growth Ratio (%) [YoY]	4	10	(9)	80	6	39
Profit Growth Ratio (%) [base year 2006]	97	90	73	91	6	-
<b>Capital Structure ratio</b>						
Net assets per share	15.18	14.35	12.99	14.12	24.78	17.81
Earning asset to total asset ratio (%)	94.66	93.76	89.88	95.43	97.28	95.94

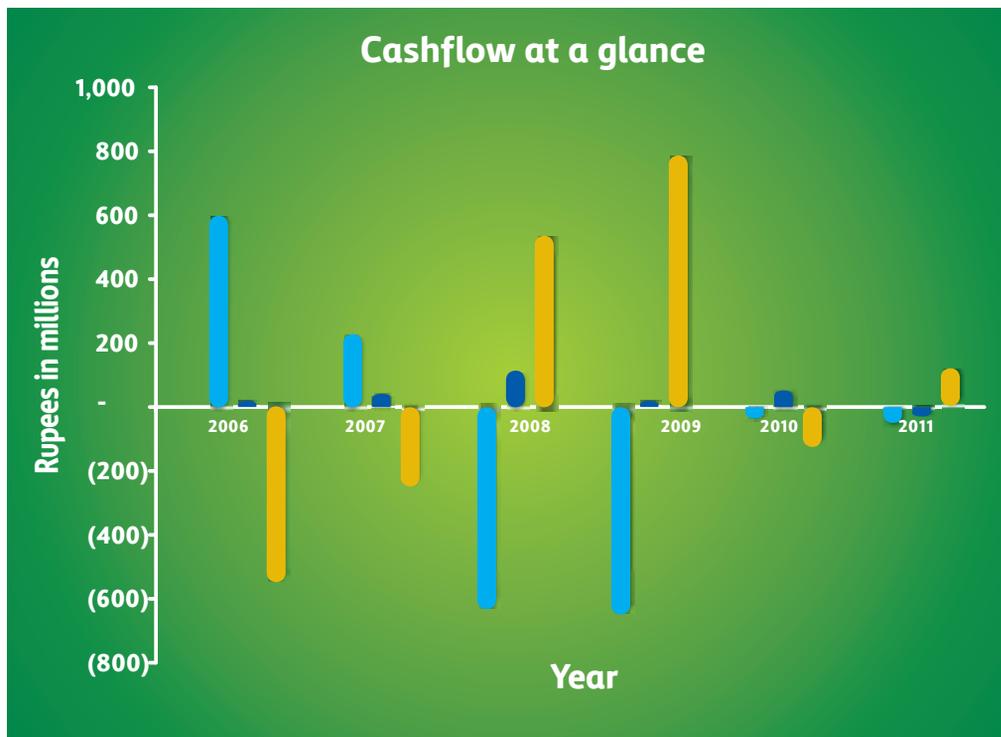




## SUMMARY OF CASH FLOW

(in million rupees)

	2011	2010	2009	2008	2007	2006
Cash & cash equivalents at the beginning of the year	212	302	150	125	73	32
Net Cash flow from operating activities	130	(102)	805	560	(233)	(589)
Net Cash flow from investing activities	(68)	47	17	125	39	8
Net Cash flow from financing activities	(112)	(34)	(670)	(660)	245	623
Net increase/decrease in cash & cash equivalent	(51)	(90)	152	25	52	42
Cash & cash equivalents at the end of the year	162	212	302	150	125	73

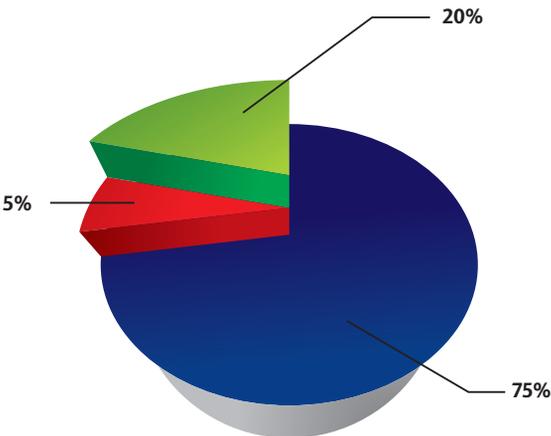


- Net Cash flow from operating activities
- Net Cash flow from investing activities
- Net Cash flow from financing activities



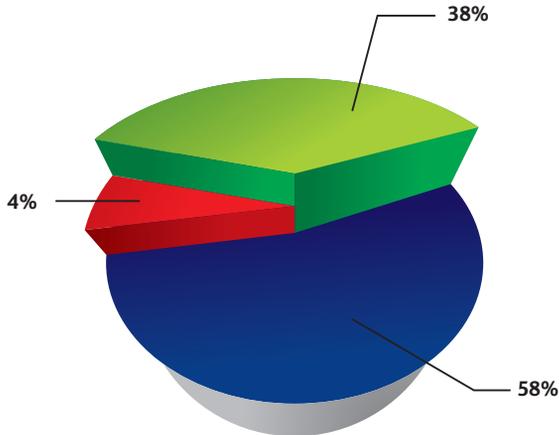
**BALANCE SHEET COMPOSITION**

**Equity & Liabilities  
2011**



- Current Liabilities
- Non-Current Liabilities
- Certificate Holders' Equity

**Assets  
2011**



- Leased Assets
- Long-term Assets
- Current Assets





# Governance

First Habib Modaraba (FHM) places emphasis on the composition and balance of the Board to ensure it consists of a diverse skills and background. Board members have relevant industry experience and a strong knowledge of business, financial and management risks. The roles and responsibilities of the Chairman and Chief Executive are clearly separated.

The board believes that the mixed pool of skills, knowledge and experience drives the FHM vision and strategy. This ensures a continuous improvement of FHM governance standard. The detail of Board members skills and experience are given below.

## Wazir Mumtaz Ahmed - Chairman

Mr. Wazir Mumtaz Ahmed is a seasoned banker. His banking career span spread over a period of 46 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 reach up to the position of Senior Executive Vice President in the Bank.

## Muhammad Shoaib Ibrahim - Chief Executive Officer

Muhammad Shoaib is associated with 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. He has completed Post Graduate Diploma (PGD) in Islamic Banking and Finance from Centre of Islamic Economics (Darul Ulum), Karachi, Pakistan. He is also Certified Islamic banker from Professional's Institute of Excellence who are academic

## Corporate Governance



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. At present he is the member of Executive Committee of NBFIs and Modaraba Association of Pakistan.

## Wazir Husain Jafree – Director

Mr. Wazir Husain Jafree is a seasoned banker. He has done his Master in Economics from Karachi University. His banking career spans over more than 46 years. He carries a well diversified experience of working on various senior positions in Pakistan and abroad. He has worked with Habib Bank Limited (HBL), Bank of Credit & Commerce International (BCCI) & Bank AL Habib Limited (BAHL). He also served as Member Executive Committee of Modaraba Association of Pakistan.

## Abbasali 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. He was also involved in business management of several reputed companies as a Director. Mr. Abbas Ali Muhammad has over 60 years of experience in financial management.

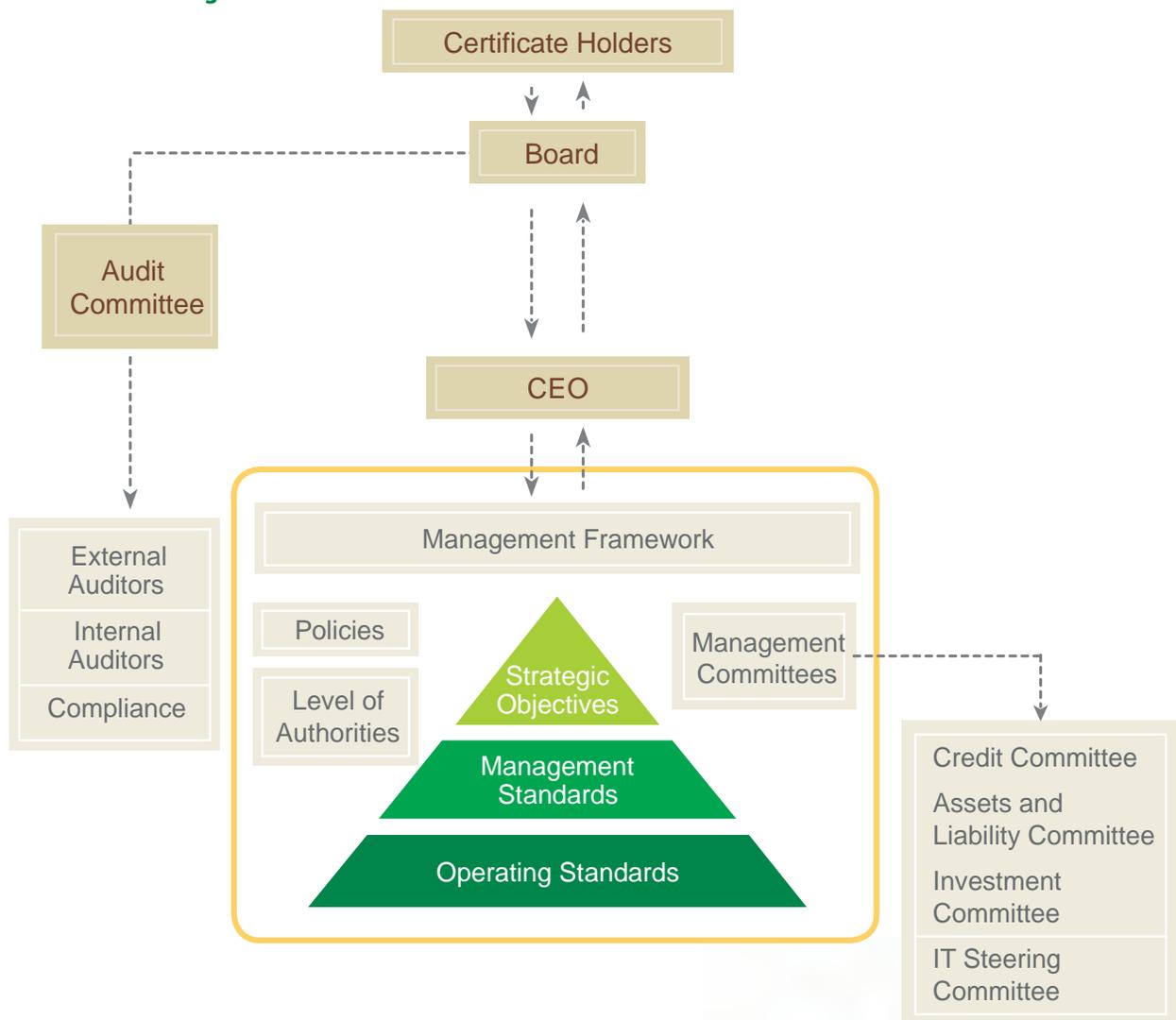


## Board and Management Committees

The board delegates certain aspects of its governance responsibilities to the Board Audit committee, that operates within clearly defined terms of reference primarily to assist the Board in the execution of its duties and responsibilities. Although the Board has granted such authority to the committee, the ultimate responsibility for final decisions on all matters lies with the entire Board.

The Board has also established various executive level management committees to assist the Board in managing the FHM operations. This includes:

- **Credit Committee**
- **Assets and Liability Committee**
- **Investment Committee**
- **IT Steering Committee**





## **Internal Control**

The board has overall responsibility for maintaining sound internal control and Shariah compliance mechanism that cover financial control, operational and compliance controls and risk management.

The Audit Committee of the Board periodically reviews the actions taken on internal control issues identified in reports prepared by the Internal Audit and Compliance department, external auditors and regulatory authorities.

FHM's Internal Audit operates an annual audit plan approved by the audit committee. The board approves the appointment of the head of internal audit while the audit committee receives reports at each meeting in respect to the outcomes of internal audit programs.

The independent Internal Audit, incorporating credit inspection, oversees all functions across FHM and has direct access to the board through the audit committee.

## **Risk Management**

The identification, mitigation and management of risks associated with business are an essential element of FHM strategy. Specific risk management policies, strategies and procedures have been implemented to measure, monitor, manage and report on the key risks to which the FHM is exposed.

## **Risk Governance Structure**

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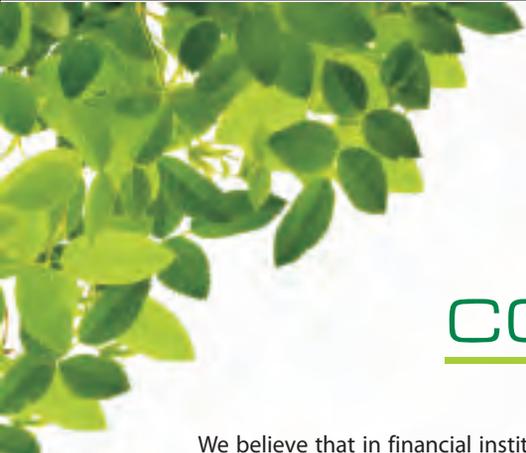
## **Risk Management Strategy**

A structured framework has been established to ensure that FHM's business strategy and operations are linked to its risk management objectives. The risk management strategy is underpinned by an integrated framework of responsibilities and functions driven from board level down to operational levels, covering all aspects of risk, most notably market, credit, liquidity and operational risks.

**This framework recognizes that:**

- The Board is ultimately responsible for managing risk, with Board Committees given delegated authority from the board to oversee and recommend, taking into account FHM's risk tolerance, overall business strategy and management expertise.
- Board Committees endorse FHM's risk management policies prior to submission to the board for approval. This way they assist the board in relation to oversight of the implementation of the risk strategy and development of appropriate procedures, controls and systems.
- Management Committees reporting directly to the Managing Director, have responsibility for establishing, maintaining and monitoring the implementation of the risk management policies and procedures,
- Support and control functions link into the Management Committees to ensure that the implementation of risk management policies encompasses all aspects of FHM's activities.





# CODE OF ETHICS

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.

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

**Compliance with laws and regulations**

**Uphold Shariah governance**

**To respect our Customer, Certificate Holders and Investors**

**To maintain sound atmosphere and clean organisational culture**

**To be careful about environment health and safety**

## **For comply of laws and regulations, we:**

- We comply with all law and ethical standards.
- To ensure timely submit all required information and returns with regulator and with other stakeholders.
- To compete in accordance with the law and business ethics.
- To maintain transparency of accounts with accurate recording of transactions.
- To do not get involved in politics and maintain neutrality.

## **For Shariah Governance, we:**

- We do not engage in such business activities which against the principles of **Islamic finance**.
- We actively encourage entrepreneurs by funding small enterprises by way of partnerships that end with ownership.
- We follow all transaction's process flow which is in line with Islamic principles of finance.
- Our all credit facility transactions process through internal Shariah mechanisms which are monitored by Shariah advisor.
- We encourage required training of staff members for Shariah compliances.

## **For respect of our Customers and Investors, we**

- We respect customers' need and design our financial products according to their business requirement without compromising principles of **Islamic Finance**.
- We uphold fairness in all business transactions and no exploitation or deceive customers' rights.

- We continuously upgrade our technological supports for better and timely information to our certificate holders, investors and customers.
- We put priority on customer satisfaction and their business growth.

## **For clean organization culture and good atmosphere**

- We maintain and develop a cordial relationship with employees based on the principle of mutually beneficial existence and prosperity.
- We do not permit any illicit activity for the pursuit of personal gain or benefit.
- We committed to provide a work place of equal opportunity to all employees, and do not permit the formation of any faction or private group within the Company that might endanger this commitment.
- We promote a sound organizational atmosphere

## **For Environment health and safety**

- We always make sure that business model of such customers should not involved in activity which may harmful for environment or health of society as a whole.
- We provide safe and healthy environment to our employees which always supports for better performance. All the employees are well covered health and life insurance policies.
- We motivate staff members for participation in activities which are beneficial for better environment at large.
- We pursue environment friendly management.

## CORPORATE MEMBERSHIPS



**ISLAMIC FINANCIAL  
SERVICES BOARD**  
(Malaysia)

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.



السوق المالية  
الإسلامية الدولية  
**International Islamic  
Financial Market**  
(Bahrain)

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

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



**NBF & Modaraba**  
Association of Pakistan

NBF & Modaraba Association Of Pakistan was incorporated on 29th July, 2010 by merging Modaraba Association of Pakistan (MAP) and Leasing Association of Pakistan (LAP). The total numbers of members of the Association are 40 (forty) which includes 27 modarabas, 10 leasing companies and 3 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**

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**

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.





# Economic Contribution



## Contribution to Economic Growth

Our economic contribution includes direct employment, buying from local suppliers and contribution to the national exchequer via indirect taxes.

In the year ended June 30, 2011 FHM generated over Rs. 431.0 million of economic value, of which the majority was distributed to our employees, certificate holders and investors, suppliers and government as well as local communities through our social activities.

## Value Added

Revenue from operations	346,280,687
Other income / charges	84,404,871
Value added by Ijarah services	430,685,558

Operating expense	19,717,164
	<u>410,968,394</u>

## Value Allocated

<b>To Employees</b>	
Salaries, allowances & other benefits	32,156,792

<b>To provider of finance</b>	
As profit on Certificate of Musharaka	66,172,247

<b>To Modarib</b>	
As management fee	30,880,220

<b>To certificate holders</b>	
Profit on certificates	221,760,000

<b>To Society</b>	
Donation	840,000

<b>To expansion &amp; growth</b>	
As Depreciation	2,997,156
As Reserve and Retained earning	56,161,979
	<u>410,968,394</u>

### Market Share

Following table shows the market share of FHM as per the MAP Year Book 2011 (NBFI & Modaraba Association of Pakistan) for the financial year ended 30th June, 2011.

(Rupees in million)

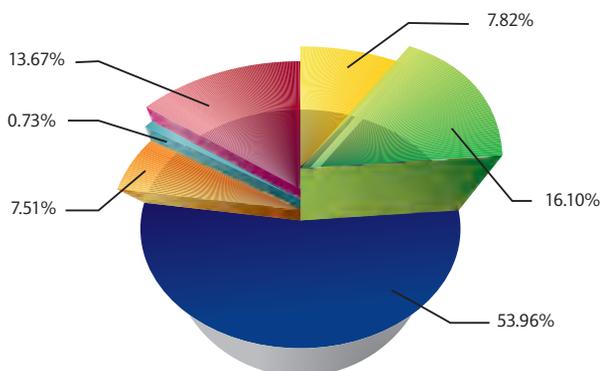
	Combine position of 26 Modarabas	FHM Share	% of FHM share to All Modarabas
Total Equity	12,421.26	3,059.00	25
Total Assets	26,342.19	4,075.58	15
Ijarah Assets	8,967.81	2,372.90	26
Net Profit	1,127.55	277.92	25

### Sourcing

FHM seeks to source locally to maximize the economic benefit, in 2010-2011 only FHM purchase over 1.0 billion comprising over more than 90% of vehicles purchases from local manufacturers.

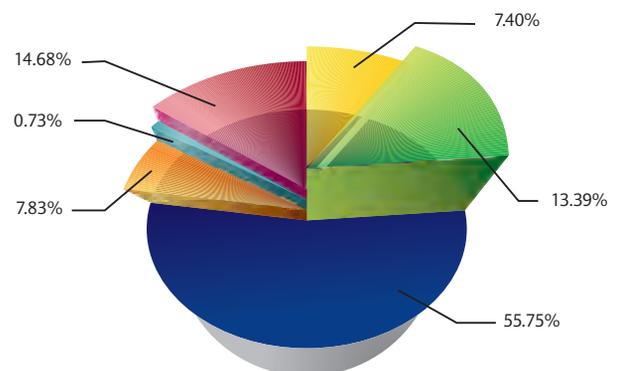
FHM IS well aware of its influence with its suppliers and the importance of developing close relationship to maximize its service standards for the ultimate benefit to our customers.

Value Allocated 2011



■ Salaries, allowances & other benefits  
■ As Management Fee  
■ To Provider of Finance  
■ Profits on Certificates  
■ As Depreciation  
■ As Reserve and Retained Earning

Value Allocated 2010



■ Salaries, allowances & other benefits  
■ As Management Fee  
■ To Provider of Finance  
■ Profits on Certificates  
■ As Depreciation  
■ As Reserve and Retained Earning





# *Stakeholders Engagement*

Stakeholder engagement has always been a crucial to an organizations performance. Stakeholder engagement is integral to the department's business. A stakeholder is someone who is affected by company action or affects company action.



Today's organizational challenges and the need to achieve sustainable development make it more important to pay more attention on this segment. 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, and spans the entire life of a project.



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**

1. Identifying and understanding

**Innovating**

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

**Performing**

3. Enhancing performance.

At FHM, we always utmost 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.





## Mapping of Stakeholders of FHM

In our business here are some key stakeholders what we try to do to meet or exceed their expectations of as responsible Corporate venture. We want to engage with individuals and groups who can help us continue to improve in these areas. Our stakeholders impact on our business activities. 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 suggestion for improvements of businesses. FHM updates their Certificate holders and investors through Annual Report, Quarterly Financial announcements, investors 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 their business needs without compromising principles of Islamic Finance. Being Islamic Financial Institutions, it is built 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

### Employee

In today's dynamic financial world, organizations are constantly evolving. The Human Assets always plays immense motivating factor towards fetching any target objective. First Habib having excellent blend of professional person who have committed and focus in fostering the Modaraba to run the path of achievement and prestige.

FHM is continuously striving to make such policies for employees which should be more customized and competitive, to foster team work, to encourage creativity and to ensure career progression. 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 and supportive in fulfillment of their personal goals.

## 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.

## Industry Peers

FHM is members of various associations at national and international levels. These are:-

- NBFI and Modaraba Association of Pakistan.
- Marketing Association of Pakistan
- Management Association of Pakistan
- Islamic Financial Board of Malaysia
- International Financial and Capital market of Bahrain

FHM aggressively participate and support these associations through conferences, workshops, networking events and panel discussion on various seminars arranged by these associations. FHM actively participate as members of NBFI and Modaraba Association of Pakistan and support for promotions and betterment of Modaraba sectors.

## Communities

Economic sufficiency, optimal health, and happy relationships are some of the fundamental needs that contribute to our quality of life. The importance of social well being is recognized by governments and policy makers. Policy makers have the potential to influence outcomes in social policy areas including, health, education, employment and family. 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.





# *Corporate Social Responsibility*



## Corporate Social Responsibility and Sustainable Development: The Islamic Hallmark

Islamic Perspectives on CSR In contrast to the Western theories, the Islamic view of CSR takes a rather holistic approach. It gives spiritual view based on the teachings of the Holy Quran and Sunnah providing a better alternative philosophical framework for human's interaction with nature.

- CSR and Sustainable Development have a more holistic approach – taqwa-centric (God consciousness) Taqwa-centric is based upon these axioms:
- Tawhid (Oneness of God)
- Rububiyyah (A degree of tawhid described as divine arrangements for nourishment, sustenance and directing things towards perfection)
- 'Adl (Justice)
- Ukhuwwah (Brotherhood)
- Tazkiyyah (Purification and development)



Much attention has been focused on the growth of Islamic Finance in the last decade. Islamic Finance Industry is now worth billions of US dollars in assets and has recorded consistent growth over the last few years.

Many factors contribute to the success of Islamic Finance. One of its key strength has been its ability to position itself with ethical values based on the framework of the Shariah.

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 a effective manner. We always emphasis on culture of excellence, good governance, transparency, integrity and accountability. We ensure that best business practices should be followed diligently and all activities carried out in accordance with prevailing regulations.





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. Our belief is that positive contribution not only redresses human suffering but also address human development as well. Sustainability is the goal of maintaining a good quality of life for those who presently experiencing it, while enhancing the quality of life to those who lack it.

Therefore, we conduct our business with a view for long term environmental and social sustainability. When making our business decisions we do consider environmental and social impacts in it for sustainable performance within whole society and at national level as well.

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.

Islamic Finance, Social Responsibility (SR) and Sustainability join each others	
Positive Financial Screening	Negative Financial Screening
<p><b>Strength of Sustainability</b></p> <ul style="list-style-type: none"> <li>• Social Investing Poverty Allevaition.</li> <li>• Energy, Climate, Resources and Health</li> <li>• Consumption, Mobility and Better Living</li> </ul>	<p><b>Finance</b></p> <ul style="list-style-type: none"> <li>• Interest Bearing Instruments.</li> <li>• Stocks Affected Interest</li> <li>• Derivates.</li> </ul>

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

-  Encourage staff members for avoiding of unnecessary wastage of resources such as excessive consumption of energy, less paper printing etc. Besides, offices of FHM is being made no smoking zone in order to make available better atmosphere within the premises and also support pollution free environment.
-  Motivate staff members for participation in activities which are beneficial for better environment at large.
-  Contribution on social community projects by staff members which are indeed a catalyst for any good corporate institution.



FHM believe in customer satisfaction has a prime concern and their association with the FHM for longer term witnesses the quality in itself. In order to keep customer interest safe, FHM, from time to time address their grievances through their feedback and regular visits.



FHM encourage equal opportunity employment without any discrimination whether it is gender or any disability, we believe that every human mind having talent which can be 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. Besides, FHM has also provide best working infrastructure.



Strong internal controls are the one of the main corporate objectives. FHM promote sound ethical practices within the staff members with Risk & Reward concept. FHM implemented sound system of control for appropriate risk and reward with the staff members



FHM being financial institution, extend various types of financial services. While giving such services, we always make sure that business model of such customers should not involved in activity which may harmful for environment or for the society as a whole.

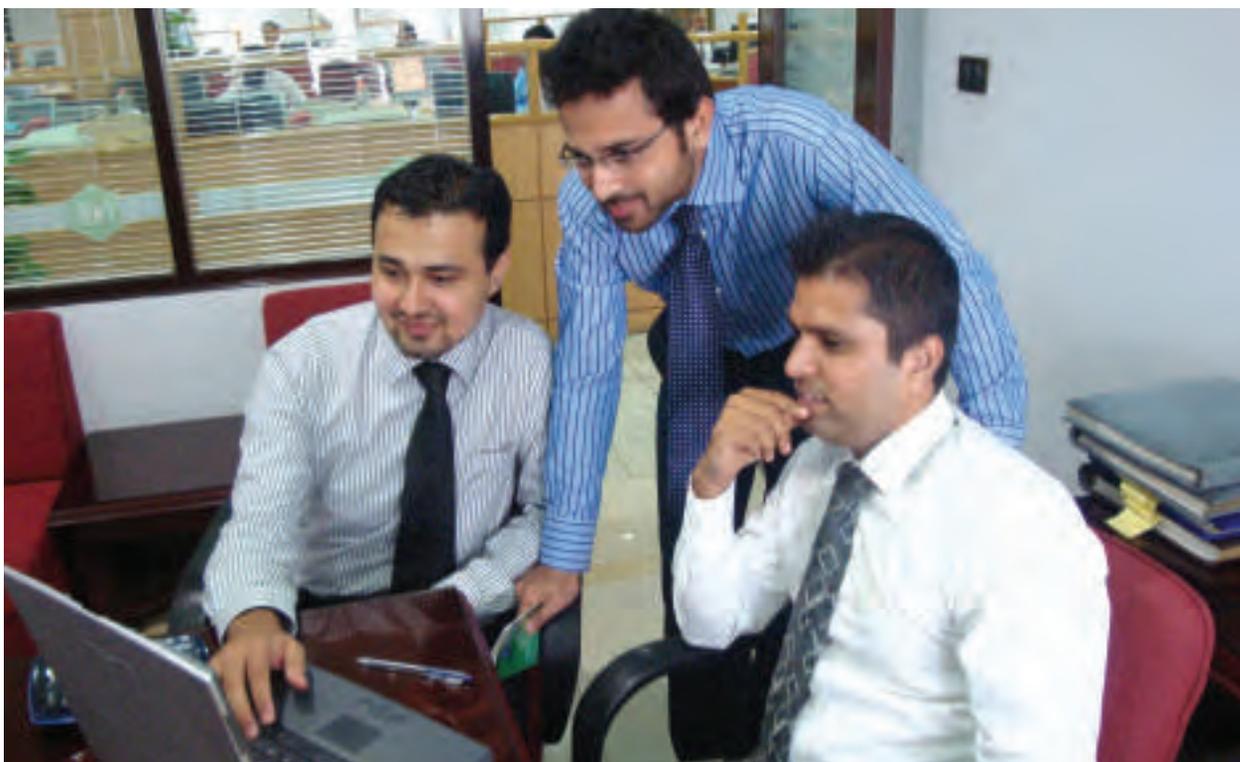
We must say that FHM is continuously striving for better prosperity of people, society and other stakeholders. It is our aim to create more value for prosperity of the society and nation.





# People

Our employees are an important group of stakeholders as well as being key players in our business operations. That's why we regard employee relations that are characterized by fairness and trust as more than just an ethical and legal obligation. Our success depends on the skilled, dedicated and motivated people who work for FHM. Without them, it would be difficult for FHM to successfully manage its business activities. Effective human resources policies contribute to building such employee relations by placing emphasis not only on the rights and needs of the employees, but also on their talents and qualifications.



**At FHM, we always make sure that all people within our organization are able to coordinate themselves effectively and work to a high standard. We have responsibility to provide them with a better, safe and respectful working environment which ultimately supports us for sustainable business.**

### Development and support

Qualified and well trained human resource play a vital part for development and sustainable performance of our organizations. We always focus on development of skills and capabilities of our people through regular in house and outside training. We focus on growth oriented programs and support measures in all the important phases of an individual's training and career path. Key strategic activities are:

- Shariah principles of finance
- Recruiting and development of talented new employees
- Advanced training and lifelong learning
- Manager development and management of potential

The development and design of these key areas of activity with an international scope are currently among our top priorities.

### Health and safety

Good health of the people of any organizations is carrying utmost importance for businesses of today. Demographic trends, the changing world of work, and changing lifestyles are affecting employees' performance potential and posing new challenges for any organization.

As a result, forward-looking, efficient, and sustainable solutions are needed for good health. Internally, we have arranged medical insurance for each and every staff members and for their families

with one of the reputable insurance company. This insurance facility support employees to the great extent keeping in view of day of day rising cost of medicine and health care products.

Safeguarding employee rights and Code of Conduct

In our Principles of Social Responsibility we declare our commitment to strict observance of the rights of employees, in accordance with our corporate objective. We encourage coordination between the departments and effective communications for better and sustainable performance. Code of conduct has also been followed diligently for better discipline and sound working environment amongst the employee.

### Employee Evaluation

We use a performance management system to manage performance reviews for all staff members. This yearly appraisal done every year through their respect head of incharge. The HR committee evaluate and discuss the appraisal with respective heads of department and give their recommendations for annual increments, promotions, other rewards and rotation of job. This evaluation process done initially at branch levels and finalize at HR committee at head office.





### **Developing Leadership**

We are committed to developing leaders and leadership talent within every staff members of FHM. Our practices and processes are designed to ensure performance is measured on fact-based outcomes and to reward people for their achievements. We always encourage strong representations of staff members on their respective jobs through proper training and improvement. Our internal development programs are therefore the key to succession. Our several staff members who has joined FHM at a very junior level now heading full fledge departments with their average span of service with FHM around 12-13 years.

### **Timely reward and fulfillment of need**

Striving to ensure good and fair work conditions is a fundamental ethical obligation for us. We are in direct competition with other banking and non-banking companies today for the best young job-seekers, and we must demonstrate our attractiveness as an employer in this competitive atmosphere. This is why it's more important than ever before to listen carefully to our employees when they express their wishes and needs, and to take into account their feedback concerning working conditions and topics of strategic importance for the company.

### **Support to fulfillment of religious duty - Hajj**

Besides providing an ideal professional environment and fair work conditions, FHM also carry importance for their staff members' spiritual well being. It is one of the biggest desires of any Muslim that he should once in a life time performed Hajj. Every year, FHM do send one staff members from junior category with his/her spouse to perform Hajj.

Within this policy total Hajj cost of staff members along with his/her spouse paid by the FHM. It is also take care that during the leave for Hajj, absence of staff member treats as duty days in order to save their yearly privilege leave.





STAFF MEMBERS AT DINNER OF SILVER JUBILEE





# *Communities*



Community relations refer to the various methods through which an organization uses to establish and maintain a mutually beneficial relationship with the communities in which they operate. The underlying principal of community relations is that when a company accepts its civic responsibility and takes an active interest in the well-being of society at large. Community involvement builds public image and employee morale, and fosters a sense of teamwork that is essential in long-term success and sustainability.



We believe that economic, social and environmental systems make up the community which provides a healthy, productive, meaningful life for all human being within the community. We continue to conserve the environment, enrich the livelihood of the community, care for the development and wellbeing of our employees and contribute to good governance.

We are responsible for providing healthy working conditions and employability. We give back to the community by supporting programs aimed at developing and advancing youth, education, children welfare and healthcare. A small percentage of profits have been contributing by FHM every year through various trusts and societies to provide supports for needy people and for their well being.

FHM support following community development programs, which has a great impact on community wellbeing, social inclusion and business productivity.

The spread of basic general education among poor, rural populations is one of FHM's priorities. FHM support societies who recruit working children from the streets of urban slums across Pakistan and teach them an accelerated curriculum of basic education as well as higher education. This helps the children see a window out of child labor makes them aware of their rights as children, as workers and as citizens; empowers them as responsible and more complete future being a citizen of Pakistan.

In our society a line exists that distinguish one class from the other. As the common knowledge goes, "the rich get richer and the poor get poorer." Helping the poor and trying to uplift them in society is one of the priorities of FHM. Food, shelter, health and sanitation, clothes, and education are a few basic things which the poor lack, apart from money.

FHM try to ensure that basic necessities should be provided to those who are in dire condition. FHM support in the form of cash or based on other needs of the people such as dry ration, cooked food, hand pumps for clean water, clothing/fabric, educational support, medical assistance, etc. FHM cares about and helps those who are in need and require support in serving people for a cause.

As a responsible corporate entity we have an economic and social responsibility to contribute in a positive way to the communities where we operate. By developing partnerships with our communities, we are helping to foster sustainable development, share the socio-economic benefits from our operations and alleviate poverty.





# Assurance

## Scope of Engagement

We have been engaged by the First Habib Modaraba to perform an independent assurance of the Sustainability Report 2011 ("the Report").

The scope of our assurance engagement extends only to this Report as determined by the Modaraba, The content of the Report that is within the scope of our procedures confirms it has been subject to assurance by Maqsood & Company Chartered Accountant. Our scope only includes the content of the Sustainability Report 2011.

## Reporting criteria

We have used the criteria as mentioned in the ISAE 3000

The management's responsibility

First Habib Modaraba management is responsible for providing needed information which consider necessary. It is also responsible for selecting the information, collecting the data for presentation and preparing the Report.

## Our responsibility

Our task is to issue a statement on First Habib Modaraba Sustainability Report 2011.

Assurance standards used and level of assurance

We have performed both assurance engagements in accordance with the ISAE 3000, "Assurance engagements other than audits or reviews of historical financial information". The standard requires that we plan and execute procedures in order to obtain the following assurance levels:

- Reasonable assurance that the information in the section its affairs is, in all material respects,

an accurate and adequate representation of First Habib Modaraba social ,environment and economic performance

- Reasonable assurance of the reliability of the consolidation process for the key performance indicators included in the FHM social ,environment and economic performance
- Assurance that the other information in the Report is, in all material respects, an accurate and adequate representation of the policy with respect to sustainability, business operations and events during 2011.

## Assurance procedures for the FHM social and economic

Our assurance of the FHM social and economics is performed in accordance with the ISAE 3000 (reasonable assurance). The standard requires that we plan and execute procedures in order to obtain reasonable assurance that the FHM social, environmental and economics is free of material misstatement.

Our work on the FHM social, environmental and economics assurance has included:

- Discussions with the management for FHM social, environmental and economics contented aggregation of the FHM policies
- Testing, on a sample basis, to evaluate whether FHM policies are inline with the corporate performance indicators and environmental posters are reported, registered and classified according with the best practice
- Review of whether systems used for registering, adapting, aggregating and reporting are satisfactory, and evaluating

whether the reporting is complete and that the collection of data, adaptation and presentation in accordance with the policies guidelines

- An overall analysis of the figures compared with earlier reporting periods
- Assessment of whether the overall information is presented

**Our objective has been to investigate:**

- The reliability of the historical information presented
- The completeness of the information and the sufficiency of the presentations

We believe that our procedures provide us with an appropriate basis to conclude with a reasonable level of assurance

Assurance procedures for the Sustainability Report

Our assurance of the Report has been planned and performed in accordance with ISAE 3000 (limited assurance). The standard requires that we plan and execute procedures in order to obtain limited assurance on the Report.

**Our review of the Report has involved the following activities:**

- Interview with a representative from FHM's Executive Management, as a representative sample of FHM variety of activities, to gain an understanding of their approach to managing social, ethical and environment issues that are covered in the Report
- Obtaining and considering evidence to support the assertions and claims made in the Report Evaluation of the overall presentation of the Report, including the consistency of the information, based on the above-mentioned criteria In-depth evaluation of two selected content areas of the Report, including data quality and compilation for this year's report

- Evaluation of the overall materiality, balance and consistency of the information in the Report.

**Conclusion**

On the basis of our procedures aimed at obtaining reasonable assurance, we conclude that in our opinion:

- The information in the FHM performance in the social and economics performance in all material respects, an accurate and adequate representation of the policy and management with respect to FHM during 2011, and that the FHM social ,environment and economics matter includes on all matters relating to whole matter which consider necessary
- The FHM performance indicator has seen are in accordance with information submitted by the various entities, and illustrations of trends are in accordance with presented historical data

On the basis of our procedures aimed at obtaining limited assurance, nothing has come to our attention that causes us to believe that the information in the Report does not comply with the above mentioned reporting criteria.

**Maqsood Raza**

Maqsood & Company  
Chartered Accountant

Karachi: June 20, 2012



