



# First Habib Modaraba

(AN ISLAMIC FINANCIAL INSTITUTION)



*Sustainability  
Report 2012*









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# Chief Executive's Vision on Sustainability



It is indeed pleasure in presenting second Corporate Sustainability Report of First Habib Modaraba. The first report presented last year being the first of its kind within the Modaraba as a Shariah-compliant financial institutions. Being one of the leading Modarabas in Pakistan, we firmly believe that delivery of our services recognizes that sustainability is a rout to our future stability and profitability.

Looking back at our sustainability journey and performance in the past year gives us an important view of progress in our long term business journey. The continuing challenge we face is how to turn great ideas into actions on the ground. The building of systems and processes that are well understood provides all of us great confidence on business and also support us to set boundaries within which we operate. This also helps us for effective knowledge management and foster cross learning between the different geographic areas and disciplines. It was a privilege for me to be part of a team that built foundation for systemic changes in the way we do

business and how we consider sustainability across all areas of our business.

Sustainability challenges encourage us to manage required changes and stimulate process of innovation with in our businesses. Within the Islamic Financial Services Industry we have noticed a paradigm shift in Shariah-compliant financing towards customer centric operating model.

**“Accordingly, FHM keeping in view of such development drive through with its well-targeted long term and sustainable corporate objectives consisting on clarity, transparency and accountability.”**

Since publication of our first sustainability report, we sensed a strong feeling of progress. Presently we are continuously reviewing and refreshing our corporate sustainability initiative with keen eye and greater awareness. Our following sustainability pillars continue to be the back bone for our sustainability.

- **Uphold Shariah principles and values within all activities of FHM**
- **Build a high 3performance culture with growth oriented focus and create long term value for all stakeholders which support lasting relationship with them.**
- **Maintain high ethical and professional standard built on trust, integrity and good governance.**

- **Participate in and assist the socio-economic endeavors of local communities as a responsible corporate citizen.**
- **Develop strong compliance culture and sound risk management framework.**

FHM fall under Islamic Financial Services (IFS) sector which drive through Sharia based business model. As per constitution, the 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 within 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 27th year of successful business operation. During the business operation of more than two and half decades, FHM had effectively encountered with several economic & business challenges by ensuring planned growth on sound footing”.**



At present Pakistan's economy continues to face various challenges

without any discrimination of gender or any disability.

Chief Executive Officer

- Health and safety always remain an utmost concern of the management of FHM. Within the HR policy, the staffs of FHM are covered under health and group life insurance policies with renowned insurance companies.
- Strong internal controls are the one of the main corporate objectives. FHM promotes sound ethical practices within the staff members with Risk & Reward concept.
- We always make sure that business model of such customers should not involve in activity which may be harmful for environment or for the society as a whole.

Our aim is to continuously build our organization at sound footing with diversified pool of income streams, enhancing our ability to manage and sustain our existence and progress within tough and unexpected turbulences of the businesses.

As responsible corporate entity 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**



# REPORTING PARAMETERS

<b>Reporting Period</b>	July 1, 2011 to June 30, 2012
<b>Reporting Cycle</b>	Annual
<b>Most Recent Previous Report</b>	Sustainability Report 2011
<b>Contact Person</b>	Mr. Tehsin Abbas Vice President First Habib Modaraba Karachi Phone: 92-21-32635949-51 Email: tehsin@habibmodaraba.com

## Reporting Scope:

This Report covers all significant environmental, economic and social impacts resulting from FHM's activities in the Financial Year i.e. July, 2011 to June, 2012. 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, 2011 to June, 2012. 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.

**Chapter 1**  
**Who we are**

## SPIRIT OF SUSTAINABILITY

### MODARABA MODEL

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

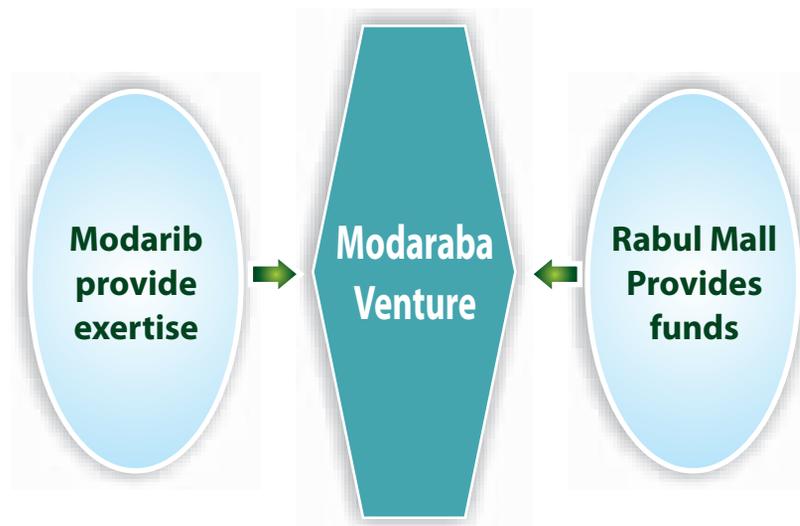
Modaraba is a kind of partnership, wherein one party provides finance to the other for the purpose of carrying on business. The party who provides the finance, is called the “Rabb-ul-Mal”, whereas the other party who puts its management skills for the Modaraba is called the “Modarib” (working partner)

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





## 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.



## PROFILE

FHM commenced its business operation in March, 1985, with initial capital of Rs.25.0 million only. Continuing with solid, dynamic and prudent approach now Allhamdolliah, the FHM has a total equity base of over Rs.2.50 billion and an assets size of approximately of Rs.4.0 billion.

FHM is a multipurpose Modaraba engaged in various Islamic Financial Services like Ijara, Morabaha, Diminishing Musharakah, Salam, Istisna and various other Islamic Financial Products.

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

So far the FHM has achieved considerable growth in size while maintaining sound assets portfolio, strong capital base and handsome return to stakeholders.

FHM draw its success by complying with highest ethical and moral standards and always try to make efforts to enhance superior professional competencies.

Following achievements remained hallmark during the 27 years of operations of FHM.

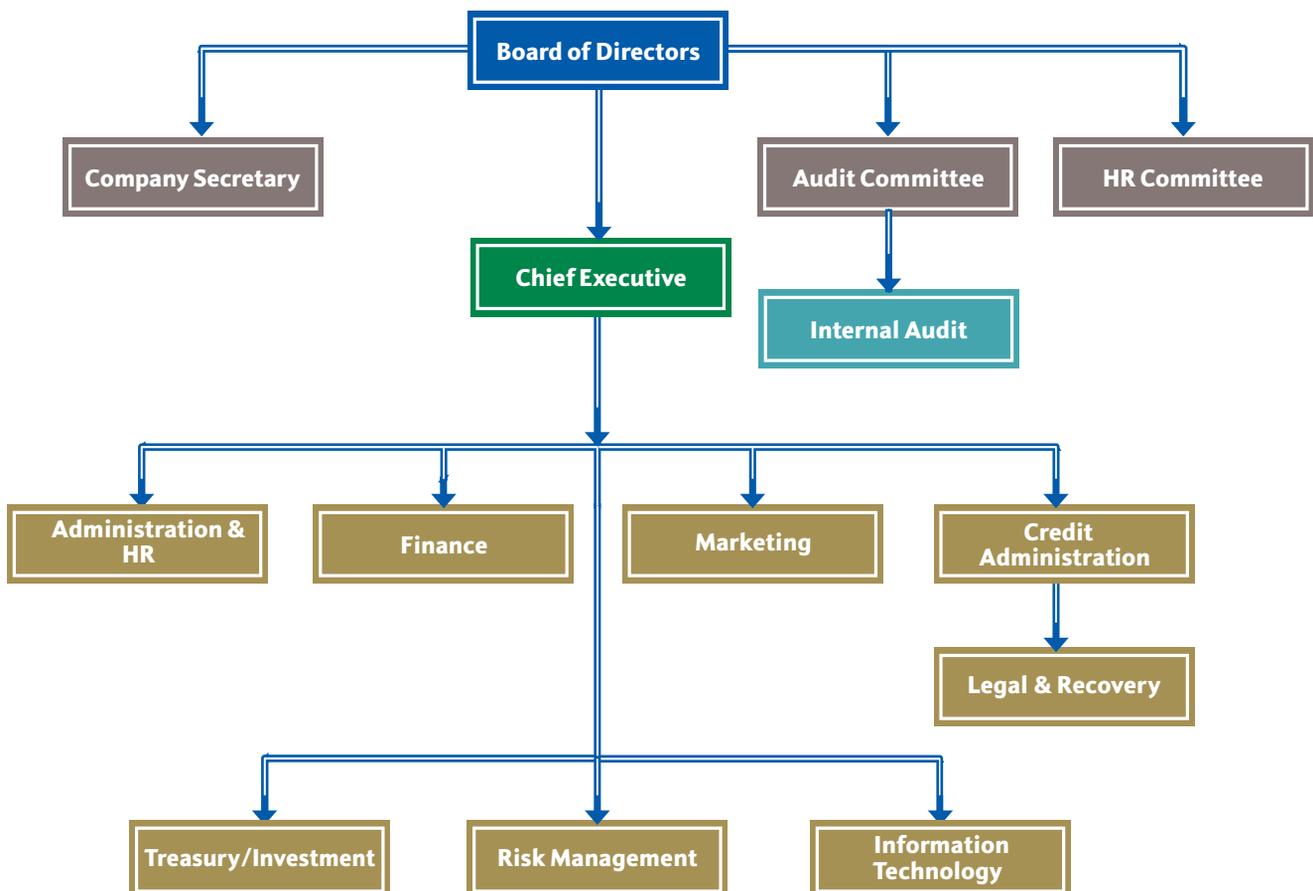
- Unbroken history of payment of dividend to Certificate holders every year.

- Remained a profitable venture throughout the business operations.
- Maintaining "AA+" category credit rating for last several years.
- Leading Modaraba in terms of size of assets, equity and profitability.
- Recipient of "Corporate Excellence Award" from Management Association of Pakistan for last five consecutive years.
- Recipient of best performing Modaraba awards for last several years from Modaraba Association of Pakistan.
- Recipient of Best Corporate Report Award from the Joint Committee o ICAP & ICMAP for last two consecutive years
- Recipient of Certificate of Merit Award from SAFA for Best Presented Accounts and Corporate Governance Disclosures for last two consecutive years
- 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.

In conclusion, we proudly say that at present the FHM is among one of the best Islamic Financial Services Institutions within non-banking financial sector. Alhamdulillah, the sound and satisfactory performance of FHM on year on year basis is outcome of our well planned corporate strategy and business focus which reach us to target market and capture right opportunities in right time.



## ORGANIZATIONAL STRUCTURE



## FHM AT A GLANCE

<b>Registered Name</b>	First Habib Modaraba
<b>Registered Address</b>	5th Floor, HBZ Plaza, I.I.Chundrigar Road, Karachi.
<b>Type of Organization</b>	Modaraba
<b>Ownership</b>	Public Limited Company
<b>Governing Laws</b>	Modarabas Ordinance & Modaraba Rules
<b>Regulatory Authority</b>	Registrar of Modarabas SECP
<b>Branches</b>	5
<b>Human Resources</b>	35
<b>Credit Rating</b>	Long Term AA+ and Short Term A1+

## VISION

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

## MISSION

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





## CORE VALUES

### CUSTOMER FIRST

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

### INTEGRITY

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

### TEAM WORK

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

### CORPORATE GOVERNANCE

Our goal is to respond to a rapidly changing business environment in a timely manner through best business practices by reinforcing our ethical standards and good governance.

### RESPONSIVE

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

### QUALITY SERVICE

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

## STRATEGIC OBJECTIVES

- To be the leading Modaraba within the Modaraba sector as an Islamic Financial Institutions.
- To carry out all business transactions in line with approved mode of Shariah principles of Islamic finance.
- To maintain high ethical and professional standards.
- To build a high performance culture, with growth oriented focus.
- To promote economically productive ethical activities.
- To achieve sustainable growth and profitability in all areas of business of FHM
- To provide state of art services to customer and develop service oriented culture within FHM
- To broaden the area of technology to ensure operational efficiency, enhance delivery capability and high service standard.
- To develop strong compliance culture and sound risk management framework.
- To add Certificate Holders value through better performance and sound return on their investment.
- To remain innovative and explore new avenues for growth and profitability.

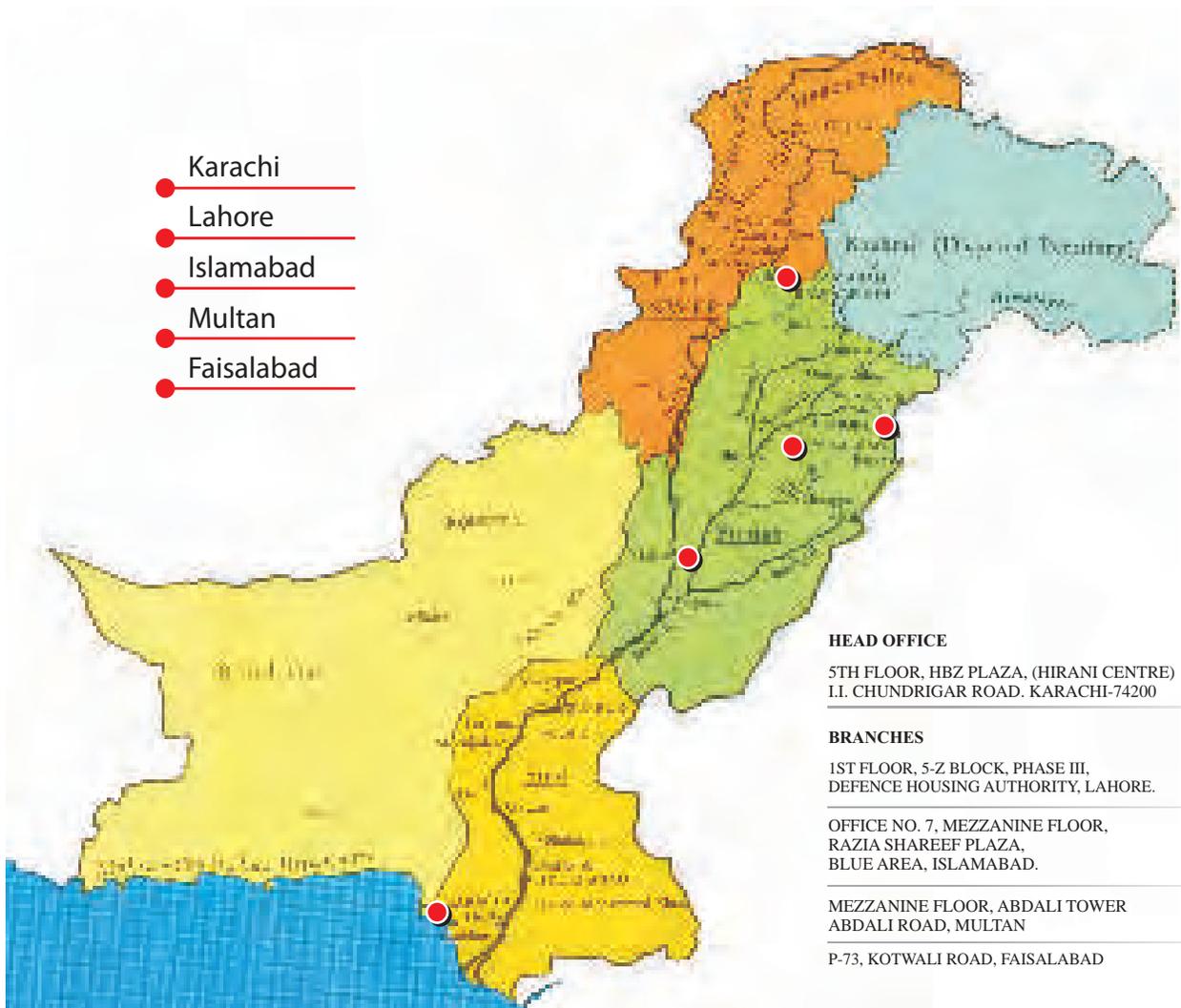


## OUR SHAREHOLDERS

% of Certificate holding



## GEOGRAPHICAL COVERAGE





## COMMITTEES

### Board Committees

- Audit Committee
- Human Resources and Compensation Committee

### Management Committees

- Credit Committee
- Assets and Liabilities Committee
- Investment Committee
- IT Steering Committee



## PRODUCTS

### 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.



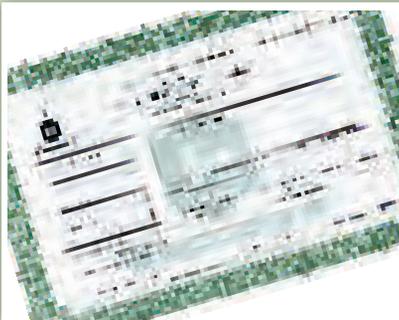
### ISTISNA

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.



### MUSHARAKA

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.



**Chapter 2**

**Shariah Spirit  
a Sustainable  
business approach  
of FHM**



**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.**



# Sustainable Business Approach of FHM

<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.



## 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.

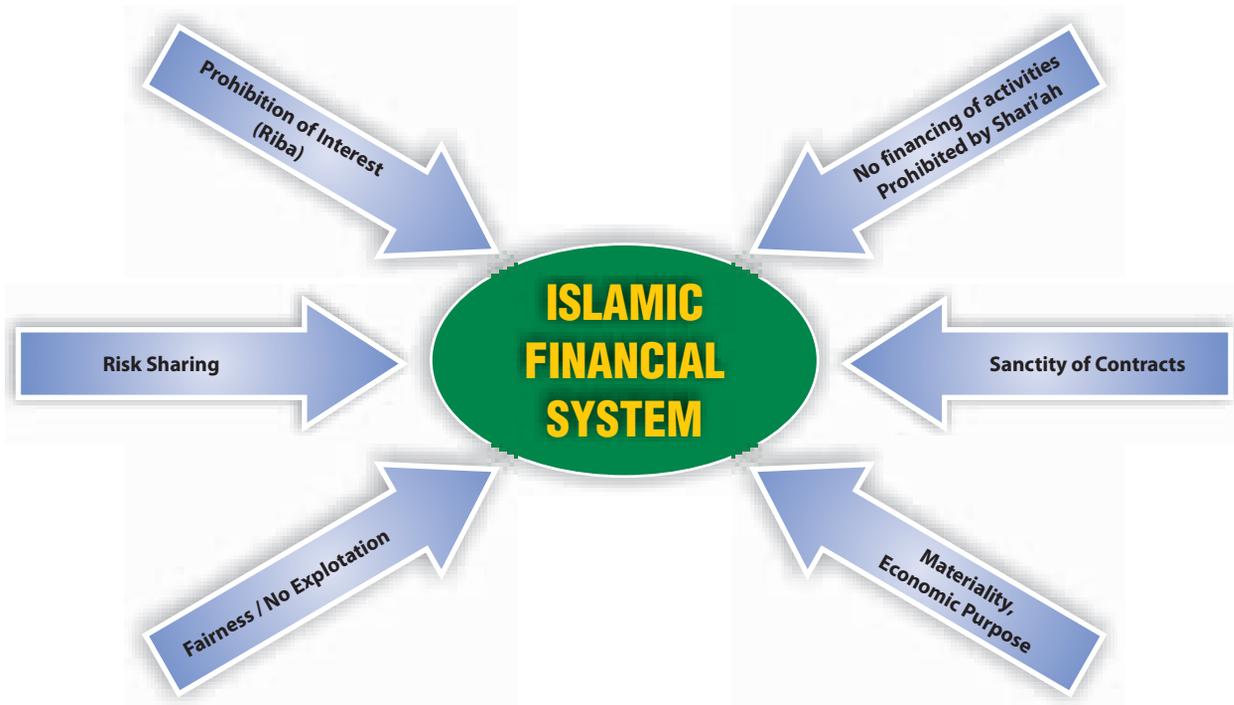
## **different approach**

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)**

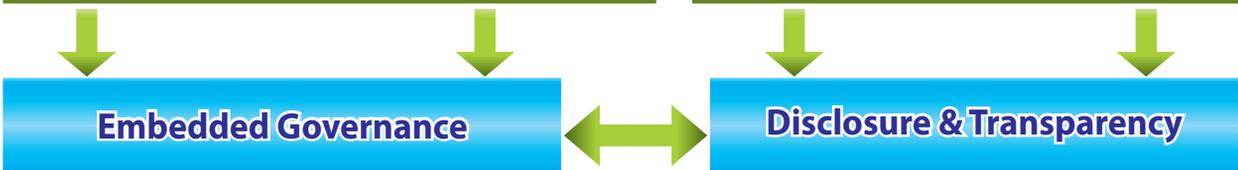
- High ethical values - justice, fairness, trust honesty and integrity
- Protection of religion, life lineage, intellect and wealth
- More equitable distribution of wealth

**Materiality and Validity of Transactions**

- Economically productive underlying activities
- Avoidance of interest-based transactions
- No involvement in illegal and unethical activities
- Genuine trade and business transactions
- Avoidance of speculative transactions

**Mutuality of Risk Sharing**

- Entitlement of profit contingent upon risk taking
- Honoring both substance and form of contract



**Chapter 3**  
**Awards**  
**&**  
**Recognition**

## PERFORMANCE AWARDS



**So far FHM has received  
 11 Best Performing Modaraba awards in 13 years**



## CORPORATE EXCELLENCE AWARD

**28<sup>th</sup>**  
*Corporate Excellence Award*

**map**

Management Association of Pakistan  
has given the  
**Corporate Excellence Certificate**  
TO  
**First Habib Modaraba**

**map**

2012 Corporate Excellence Award  
Management Association of Pakistan  
Certificate of Excellence  
to  
First Habib Modaraba

Award Received in Previous years

2008 2009 2010 2011

**Recipient of "Corporate Excellence Award"  
From Management Association of Pakistan  
for the last 5 Consecutive years**



## BEST PRESENTED ACCOUNTS AWARDS



**Recipient of "Certificate of Merit Award"**  
**From SAFA for "Best Presented Accounts and Corporate Governance Disclosures" for last 3 Consecutive Years**



## BEST CORPORATE REPORT AWARD



**Recipient of "Best Corporate Report Award"  
From Joint Committee of ICAP and ICMAP  
For the Last 3 Consecutive Years**



# BRAND OF THE YEAR AWARD

ONE VOICE  
FOR  
**No. 1**  
CHOICE



In view of quantitative survey, qualitative study  
and the expert panel recommendations,  
The Governing Body of Brands Foundation  
do hereby confer this

**Brands**™  
of the year  
**Award** ©  
**ITS ALL ABOUT CHAMPIONS** **2010**

**TO**



**FIRST HABIB MODARABA**

**IN THE CATEGORY OF**



Shaikh Rashid Alam  
FOUNDER & CEO

Given this 30<sup>th</sup> Day of July 2011

BRANDS FOUNDATION is a public company established as a non-profit organization  
licenced under section 42 of Companies Ordinance 1984

**Recipient of "Brand of the Year Award 2010"**  
**From "The Brand Foundation" Pakistan**



## 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. The IFSB also conducts research and coordinates initiatives on industry related issues, as well as organizes roundtables, seminars and conferences for regulators and industry stakeholders.



البنك الإسلامي  
المالي الدولي  
**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).



**NBFI & Modaraba**  
Association of Pakistan

NBFI & Modaraba Association Of Pakistan was incorporated on 29th July, 2010 by merging Modaraba Association of Pakistan (MAP) and Leasing Association of Pakistan (LAP). The total numbers of members of the Association are 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.



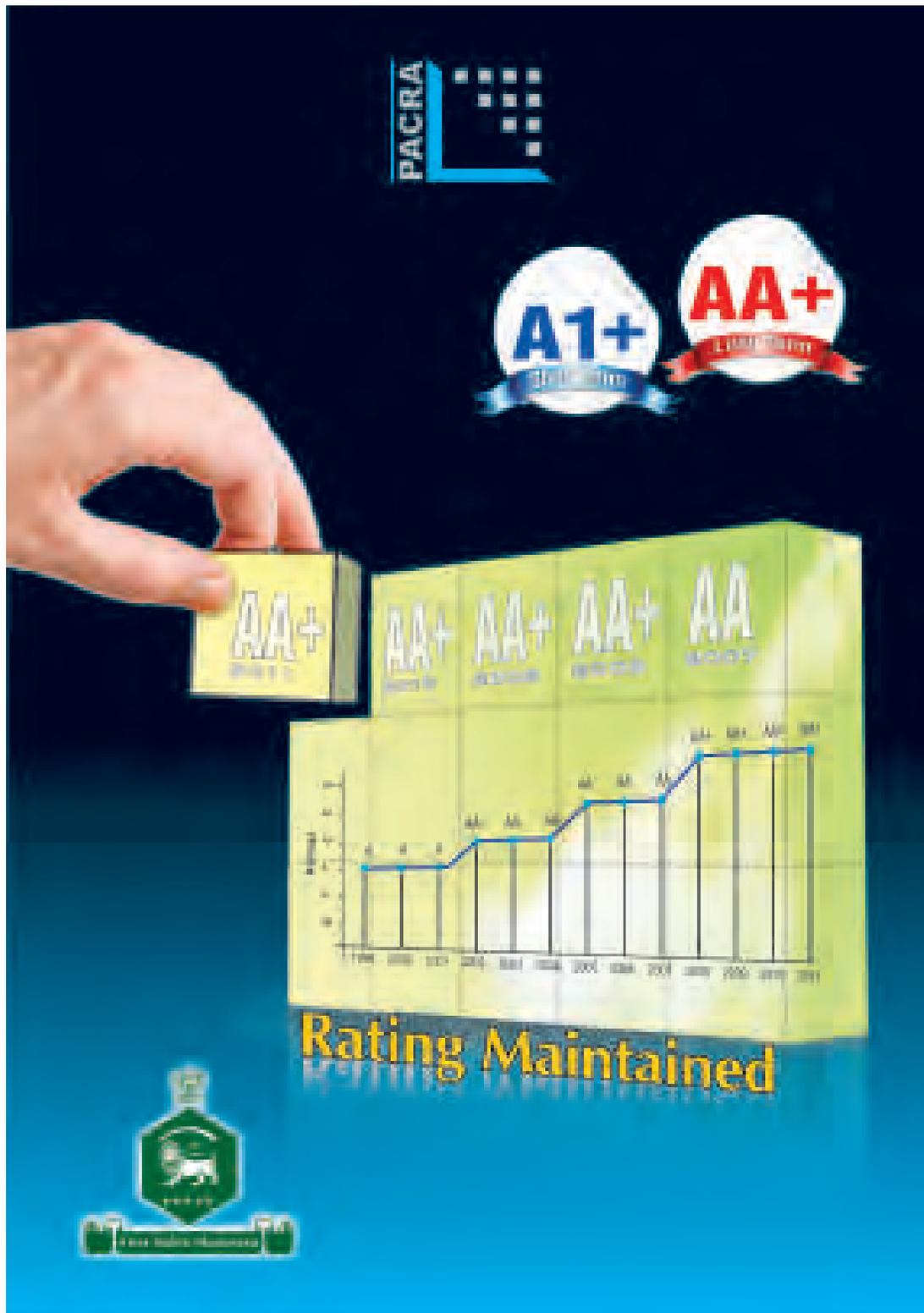
**MARKETING  
ASSOCIATION OF  
PAKISTAN**

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.



## RECOGNITIONS





## Press Release

### PACRA MAINTAINS RATING OF FIRST HABIB MODARABA

Lahore: December 13, 2011

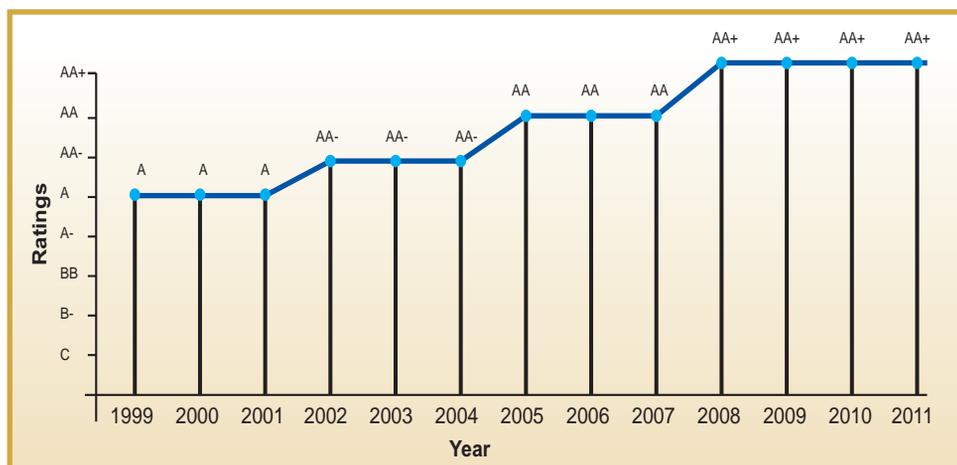
The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term rating of First Habib Modaraba (FHM) at "AA+" (Double A plus) and "A1+" (A One Plus), respectively. These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment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

The ratings denote FHM's sound risk absorption capacity emanating from an equity dominated financial structure and sustained profitability despite continuing volatile economic conditions. Moreover, the Modaraba has a strong liquidity profile, as reflected in its sizable investment book, yielding a stable earning stream. FHM's risk-averse business strategy has enabled the Modaraba to maintain very strong asset quality despite continuing volatile 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 is managed by Habib Modaraba Management Company (Pvt.) Limited (HMCL).

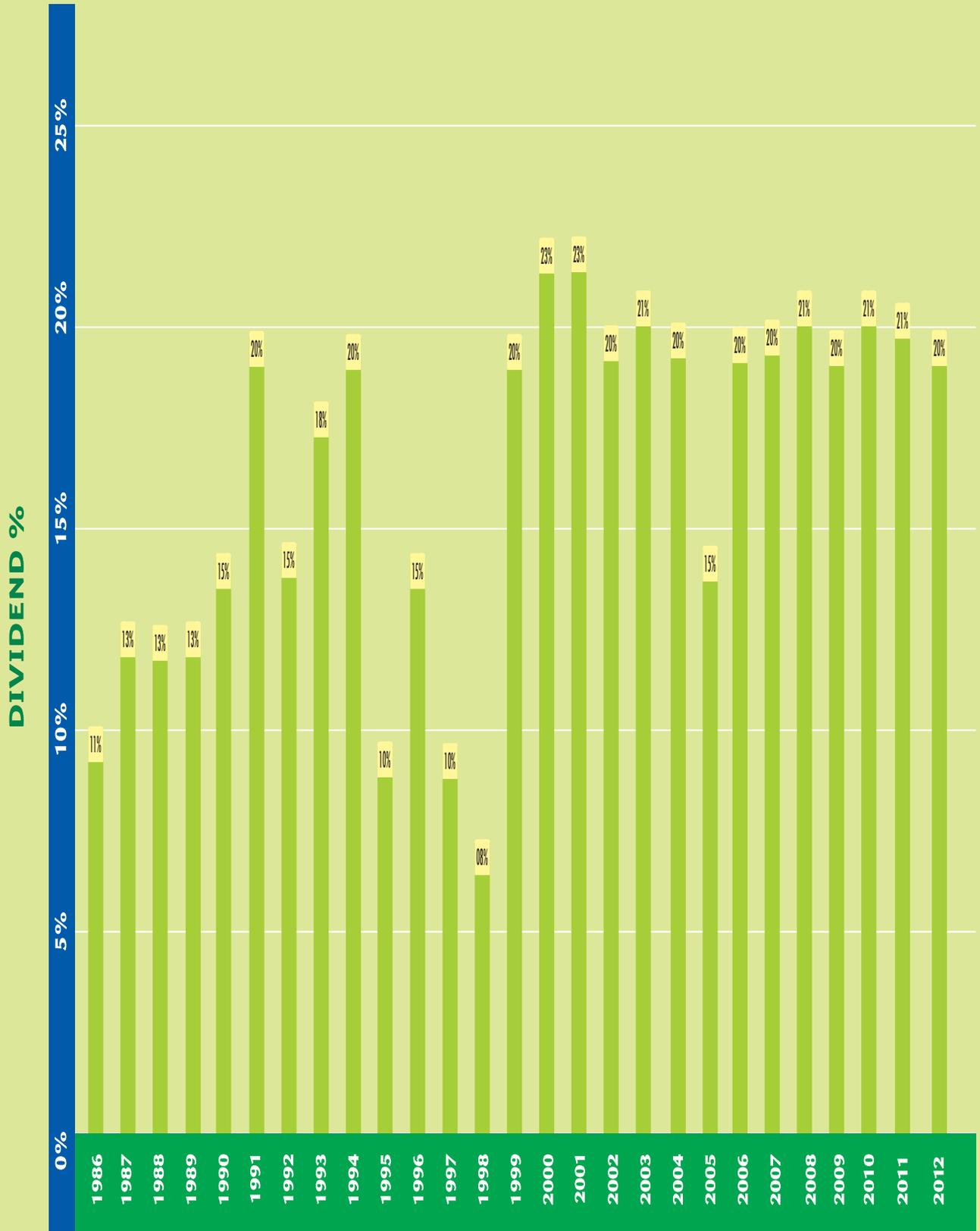
The board of directors of FHM comprises professionals having vast experience of banking and finance. The MD, Mr. Muhammad Shoaib, Ex-Chairman of Modaraba Association of Pakistan, has been associated with the Modaraba since its inception. The management team is composed of seasoned professionals who have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

### Rating growth during last 13 years



**Chapter 4**  
**Contribution  
to Growth**

# A Sustainable Approach - Sharing Profit Every Year





# SIX YEARS AT A GLANCE

(Rupees in million)

## KEY FINANCIAL DATA

	2012	2011	2010	2009	2008	2007
Total Assets	4,565.42	4,075.21	3,777.83	3,281.20	4,025.65	5,000.90
Ijarah Assets	2,501.15	2,372.96	2,435.30	2,096.89	2,716.03	3,185.14
Gross Ijarah Disbursement	1,465.28	1,226.65	1,512.37	1,150.74	1,074.80	1,780.60
Current Assets	1,818.51	1,531.47	1,302.28	1,163.36	1,300.79	1,808.28
Current Liabilities	1,229.15	820.81	728.55	527.70	778.52	1,811.58
Total Liabilities	1,438.22	1,015.59	885.69	663.05	1,178.83	2,503.21
Paid-up Capital	1,008.00	1,008.00	1,008.00	1,008.00	1,008.00	504.00
Reserves	2,119.20	2,051.62	1,884.20	1,610.15	1,838.82	1,993.69
Certificate Holders' Equity	3,127.20	3,059.62	2,892.20	2,618.15	2,846.82	2,497.69
Gross Revenue	378.92	346.28	317.65	355.17	317.30	289.00
Net Profit	345.43	277.95	283.05	294.83	269.20	149.31
Earning Per Certificate - Rs.5/- each	1.71	1.38	1.33	1.21	1.50	1.36
Cash Dividend	20%	21%	21%	20%	21%	20%
Ijarah Rental	333.39	327.34	311.18	351.55	317.30	286.49

## STAKEHOLDER INFORMATION

	2012	2011	2010	2009	2008	2007
<b>Profitability Ratios</b>						
Profit after tax ratio (%)	91.16	80.27	89.11	83.01	84.84	51.66
Gross yield on earning assets (%)	9.50	9.42	9.15	12.15	8.26	5.94
Gross spread ratio (%)	46.37	53.79	59.58	58.27	28.76	19.55
Cost / Income ratio (%)	(30.12)	(29.48)	(27.78)	(38.90)	(39.68)	(56.55)
Return on equity (%)	15.52	13.22	13.90	14.96	13.88	14.71
Return on assets (%)	7.57	6.82	7.49	8.99	6.69	2.99
Return on capital employed (%)	11.63	9.80	10.78	11.82	11.39	8.41
Gross profit ratio (%)	69.07	79.07	77.21	80.17	64.07	75.69
Net profit to sale (%)	91.16	80.27	89.11	83.01	84.84	51.66
EBITDA margin to sale (%)	169.00	145.58	145.53	145.86	205.06	194.84
Operating leverage ratio	283%	0.35				
Income / Expense ratio	(2.29)	(2.68)	(2.78)	(2.06)	(1.61)	(1.34)
<b>Liquidity Ratios</b>						
Advance to deposit ratio	961.20	246.52	4.86	6.07	7.39	2.67
Current ratio	1.48	1.87	1.79	2.20	1.67	1.00
Cash to current liabilities	10%	14%	29%	57%	19%	7%
Cashflow from operations to sale	7%	37%	32%	227%	176%	81%
<b>Turnover ratio</b>						
Total Asset Turnover Ratio (%)	12.02	10.75	10.89	13.50	12.30	7.64
Fixed Asset Turnover Ratio (%)	19.97	17.22	16.62	20.92	18.18	11.96
<b>Investment / Market ratio</b>						
Market Value Per Share	7.70	8.15	6.70	5.77	7.77	13.50
High	8.44	8.19	7.33	7.85	16.35	13.80
Low	6.72	5.66	5.50	4.37	7.39	6.55
EPS (Earning per share)	1.71	1.38	1.33	1.21	1.50	1.36
Price earning ratio	4.50	5.91	5.04	4.77	5.18	9.93
Price to book ratio	0.70	0.78	0.66	0.59	0.81	1.34
Dividend Yield ratio (%)	12.99	12.88	15.67	17.33	13.51	7.41
Dividend Payout ratio (%)	58.36	76.16	74.79	68.38	78.63	67.51
Dividend cover ratio	1.71	1.31	1.27	1.21	1.43	1.36
Cash dividend (%)	20%	21%	21%	20%	21%	20%
Cash dividend per share	1.00	1.05	1.05	1.00	1.05	1.00
Book Value Per Share	11.04	10.43	10.10	9.78	9.62	10.07
Dividend (in million rupees)	202	212	212	202	212	101
Profit Growth Ratio (%) [YoY]	24	(2)	(4)	10	80	(22)
Profit Growth Ratio (%) [base year 2007]	131	86	90	97	80	-
<b>Capital Structure ratio</b>						
Net assets per share	15.51	15.18	14.35	12.99	14.12	24.78
Earning asset to total asset ratio (%)	95.71	95.89				
	93.76	89.88				
	95.43	97.28				

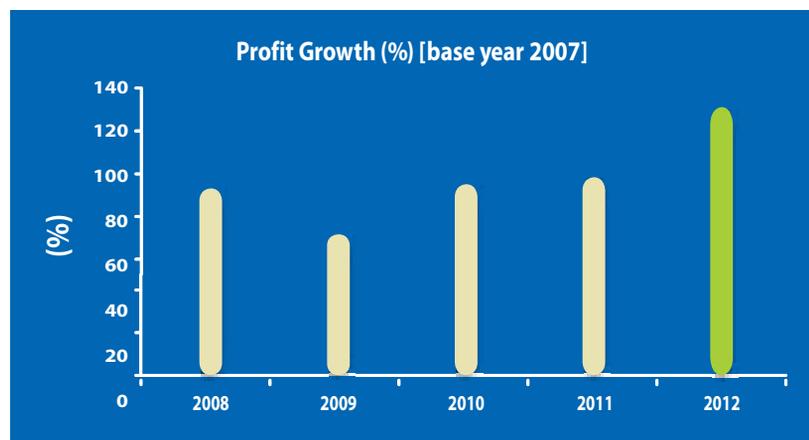
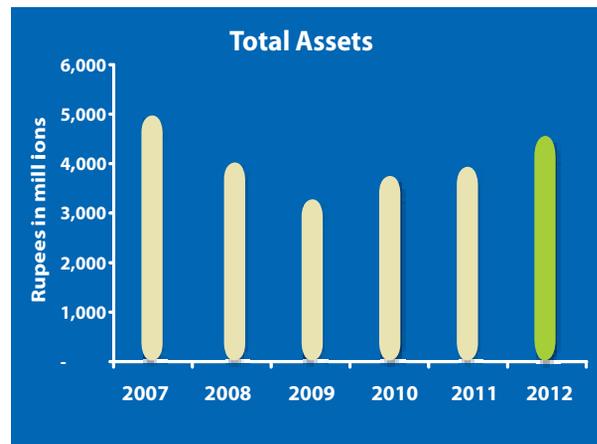
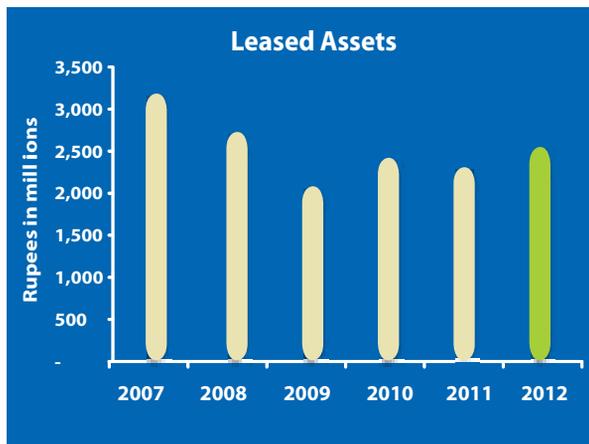
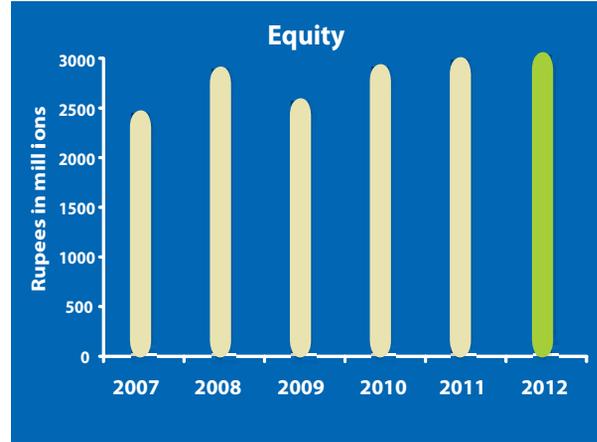
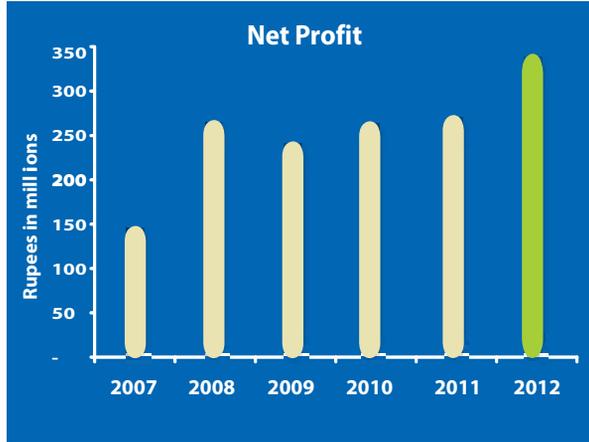
# HORIZONTAL ANALYSIS

BALANCE SHEET (%)	2012	2011	2010	2009	2008	2007
<b>ASSETS</b>						
<b>NON-CURRENT ASSETS</b>						
Fixed Assets - tangible						
Ijarah Assets	5.40	(2.56)	16.14	(22.80)	(14.73)	16.04
Assets in own use	43.47	(11.49)	(7.31)	(9.92)	22.96	(15.85)
Intangible Assets	2,131.66	36.01	451.60	(61.52)	(77.60)	(30.92)
Investment in diminishing musharaka	44.26	402.48	130.15	0.00	0.00	0.00
Long-term advances & deposits	(46.53)	81.85	1,850.00	(93.39)	4.08	(17.29)
<b>CURRENT ASSETS</b>						
Investments	18.75	20.70	25.36	(26.54)	(32.98)	70.18
Current maturity of diminishing musharaka	108.69	88.27	236.42	0.00	0.00	0.00
Short-term Murabaha finance	0.00	0.00	0.00	0.00	0.00	0.00
Ijarah rental receivable - secured, considered good	(20.58)	(9.27)	(58.27)	254.31	362.25	(51.44)
Loan & advances	-	-	-	(100.00)	39.13	(34.88)
Advances & short-term prepayments	3.12	195.36	154.68	(33.11)	232.26	(85.09)
Other receivables	19.07	158.54	(26.62)	(41.51)	1,617.68	(44.70)
Tax refund due from Government	63.08	1,642.05	0.00	0.00	0.00	0.00
Cash & bank balances	(24.23)	(23.93)	(29.72)	101.14	20.02	70.29
<b>TOTAL ASSETS</b>	<b>12.03</b>	<b>7.87</b>	<b>15.14</b>	<b>(18.49)</b>	<b>(19.50)</b>	<b>28.56</b>
<b>EQUITY &amp; LIABILITIES</b>						
<b>CAPITAL &amp; RESERVES</b>						
Authorized Certificate capital	0.00	0.00	0.00	0.00	83.33	0.00
Issued, subscribed & paid-up capital	0.00	0.00	0.00	0.00	100.00	0.00
Reserves	3.29	8.89	17.02	(12.44)	(7.77)	54.39
Certificate holders' equity	<b>2.21</b>	<b>5.79</b>	<b>10.47</b>	<b>(8.03)</b>	<b>13.98</b>	<b>39.12</b>
<b>NON-CURRENT LIABILITIES</b>						
Long-term Murabaha finances	-	-	-	(100.00)	(61.88)	22.91
Certificates of Musharaka - unsecured	(100.00)	347.51	(89.48)	(85.21)	43.82	108.50
Security deposits against Ijarah assets	9.02	22.56	21.31	(31.54)	(13.89)	16.03
Deferred liability - Staff gratuity	0.00	0.00	0.00	0.00	0.00	0.00
<b>CURRENT LIABILITIES</b>						
Deferred Murabaha Income	0.00	0.00	0.00	0.00	0.00	0.00
Murabaha finances - current portion	-	-	-	(100.00)	(13.95)	20.04
Certificates of Musharaka - current portion	(60.38)	(98.53)	49.83	5.92	(72.09)	17.16
Certificate of musharaka	60.32					
Security deposits - current portion	18.86	(44.79)	(4.58)	33.15	15.03	48.86
Short-term Musharaka finances - secured	0.00	0.00	0.00	0.00	(100.00)	(33.33)
Short-term Murabaha finances - secured	0.00	0.00	0.00	0.00	0.00	0.00
Unearned Ijarah rentals	77.03	(36.97)	107.22	264.87	0.00	0.00
Advance Ijarah rentals received	(9.18)	(5.59)	3.74	(9.22)	19.99	0.34
Trade & other payables	36.18	19.39	43.67	(32.61)	9.61	29.88
Profit payable on certificate of musharaka	10.91	#DIV/0!				
Taxation - net	0.00	0.00	653.27	(70.83)	(22.98)	11.19
Unclaimed profit distribution	9.33	7.39	11.67	12.25	11.74	10.34
Proposed profit distribution	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>12.03</b>	<b>7.87</b>	<b>15.14</b>	<b>(18.49)</b>	<b>(19.50)</b>	<b>28.56</b>
<b>PROFIT &amp; LOSS ACCOUNT (%)</b>						
Ijarah rentals	1.85	(75.61)	(19.27)	(0.25)	11.09	24.97
Profit on diminishing musharaka	140.30	192.82	78.48	0.00	0.00	0.00
Profit on Murabaha finance	0.00	0.00	0.00	0.00	0.00	0.00
Administrative expenses	3.90	16.51	3.66	13.11	17.69	(239.04)
Other Income	85.14	(2.24)	6.72	(50.62)	91.72	169.99
Other charges	26.70	2,299.86	(69.49)	14,932.29	0.00	0.00
Financial charges	38.63	(230.13)	(32.21)	(51.73)	(14.27)	59.86
Modaraba company's management fee	22.90	3.93	9.77	(9.39)	80.06	5.84
<b>Profit for the year</b>	<b>24.28</b>	<b>(78.59)</b>	<b>(16.48)</b>	<b>(3.93)</b>	<b>18.71</b>	<b>19.94</b>

## VERTICAL ANALYSIS

BALANCE SHEET (%)	2012	2011	2010	2009	2008	2007
<b>ASSETS</b>						
<b>NON-CURRENT ASSETS</b>						
Fixed Assets - tangible						
Ijarah Assets	54.78	58.23	64.46	63.91	67.47	63.69
Assets in own use	0.18	0.14	0.17	0.21	0.19	0.12
Intangible Assets	0.0466	0.0023	0.0019	0.0004	0.0008	0.0029
Investment in diminishing musharaka	5.13	3.98	0.85	0.43	0.00	0.00
Long-term advances & deposits	0.03	0.07	0.04	0.43	0.00	0.00
<b>CURRENT ASSETS</b>						
Investments	32.55	30.71	27.44	25.20	27.97	33.59
Current maturity of diminishing musharaka	3.25	1.74	1.00	0.34	0.00	0.00
Short-term Murabaha finance	0.00	0.00	0.00	0.00	0.00	0.00
Ijarah rental receivable - secured, considered good	0.07	0.11	0.13	0.35	0.08	0.01
Loan & advances	0.00	0.00	0.00	0.00	0.04	0.03
Advances & short-term prepayments	0.11	0.12	0.04	0.02	0.02	0.01
Other receivables	0.54	0.51	0.21	0.34	0.47	0.02
Tax refund due from Government	0.62	0.43	0.03	0.00	0.00	0.00
Cash & bank balances	2.68	3.96	5.62	9.21	3.73	2.50
<b>TOTAL ASSETS</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>EQUITY &amp; LIABILITIES</b>						
<b>CAPITAL &amp; RESERVES</b>						
Authorized Certificate capital	24.09	26.99	29.12	33.52	27.32	12.00
Issued, subscribed & paid-up capital	22.08	24.73	26.68	30.72	25.04	10.08
Reserves	46.42	50.34	49.87	49.07	45.68	39.87
<b>Certificate holders' equity</b>	<b>68.50</b>	<b>75.08</b>	<b>76.56</b>	<b>79.79</b>	<b>70.72</b>	<b>49.94</b>
<b>NON-CURRENT LIABILITIES</b>						
Long-term Murabaha finances	-	-	-	-	4.19	8.86
Certificates of Musharaka - unsecured	-	0.07	0.02	0.19	1.07	0.60
Security deposits against Ijarah assets	4.58	4.71	4.14	3.93	4.68	4.38
Deferred liability - Staff gratuity	-	-	-	-	-	-
<b>Total Non-Current Liabilities</b>	<b>4.58</b>	<b>4.78</b>	<b>4.16</b>	<b>4.13</b>	<b>9.94</b>	<b>13.83</b>
<b>CURRENT LIABILITIES</b>						
Deferred Murabaha Income	-	-	-	-	-	-
Murabaha finances - current portion	-	-	-	-	6.81	6.37
Certificates of Musharaka - current portion	0.07	0.19	13.62	10.47	8.06	23.23
Certificate of musharaka	21.17	14.79	-	-	-	-
Security deposits - current portion	1.27	1.19	2.33	2.82	1.72	1.21
Short-term Musharaka finances - secured	-	-	-	-	-	2.00
Short-term Murabaha finances - secured	-	-	-	-	-	1.47
Unearned Ijarah rentals	0.38	0.24	0.42	0.23	0.05	-
Advance Ijarah rentals received	0.41	0.51	0.58	0.64	0.58	0.39
Trade & other payables	2.44	2.01	1.81	1.45	1.76	1.29
Profit payable on certificate of musharaka	0.69	0.70	-	-	-	-
Taxation - net	0.061	0.07	0.074	0.01	0.03	0.03
Unclaimed profit distribution	0.43	0.44	0.45	0.46	0.33	0.24
Proposed profit distribution	-	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>26.92</b>	<b>20.14</b>	<b>19.28</b>	<b>16.08</b>	<b>19.34</b>	<b>36.23</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>PROFIT &amp; LOSS ACCOUNT (%)</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Ijarah rentals	87.99	94.53	99.52	99.78	100.00	99.83
Profit on diminishing musharaka	12.01	5.47	0.48	0.22	-	-
Profit on Murabaha finance	-	-	-	-	-	0.17
	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
Administrative expenses	17.36	17.02	(3.56)	(2.77)	(2.45)	(2.31)
Other Income	50.91	28.01	104.04	102.99	102.45	102.48
Other operating charges	4.69	2.21	6.99	5.29	10.68	6.19
Financial charges	27.52	20.22	3.79	4.51	9.32	12.08
Modaraba company's management fee	11.38	9.43	2.21	1.63	1.79	1.11
<b>Profit for the year</b>	<b>103.61</b>	<b>84.91</b>				

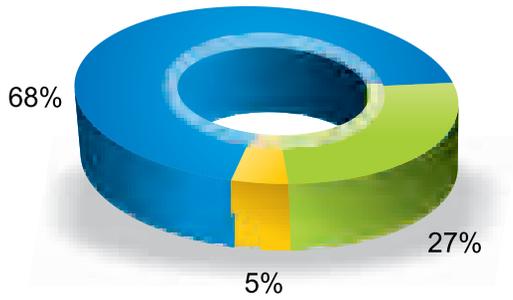
## FINANCIAL SUMMARY AT A GLANCE





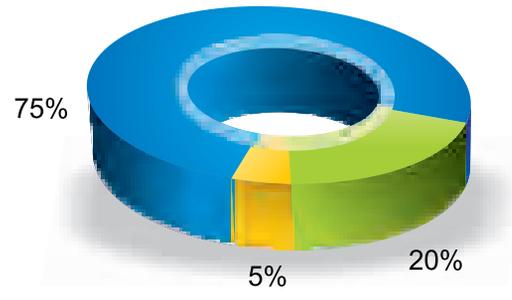
## BALANCE SHEET COMPOSITION

**Equity & Liabilities  
2012**



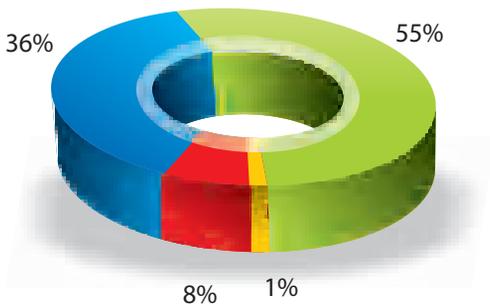
- Current Liabilities
- Non-Current Liabilities
- Certificate Holders' Equity

**Equity & Liabilities  
2011**



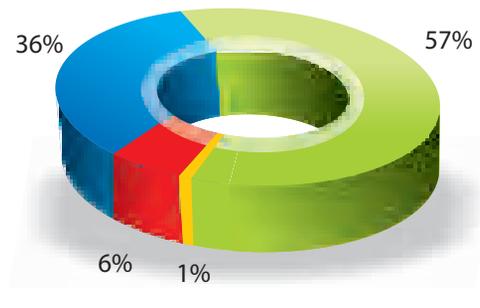
- Current Liabilities
- Non-Current Liabilities
- Certificate Holders' Equity

**Assets  
2012**



- Leased Assets
- Diminishing Musharaka
- Long-term Assets
- Current Assets

**Assets  
2011**



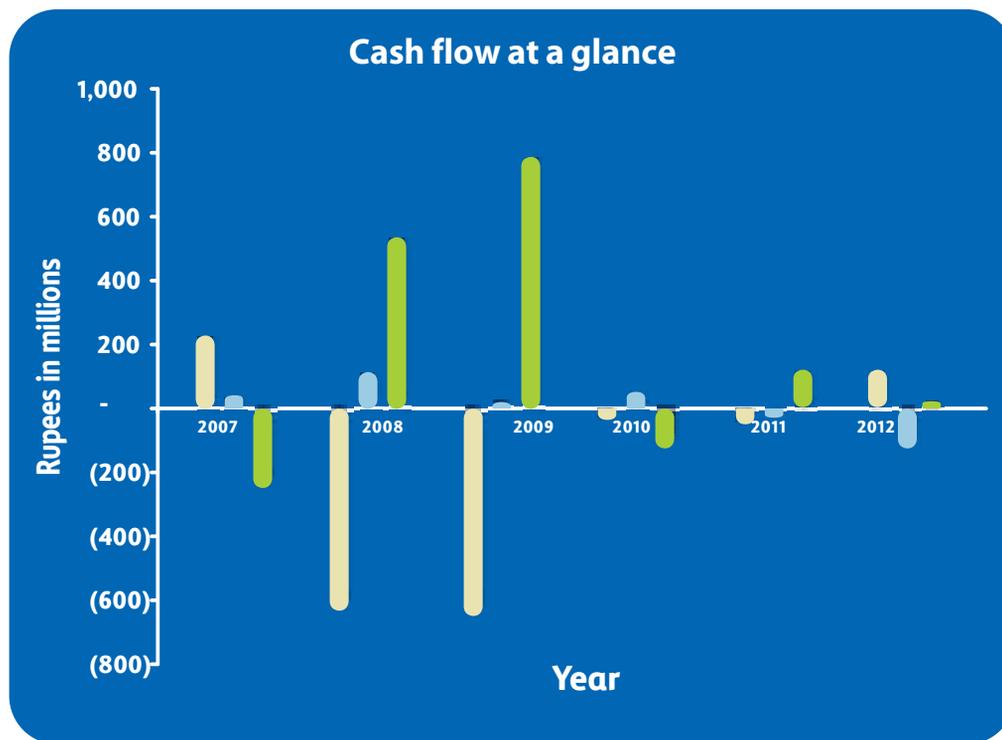
- Leased Assets
- Diminishing Musharaka
- Long-term Assets
- Current Assets



## SUMMARY OF CASH FLOW

(in million rupees)

	2012	2011	2010	2009	2008	2007
Cash & cash equivalents at the beginning of the year	112	212	302	150	125	73
Net Cash flow from operating activities	25	130	(102)	805	560	(233)
Net Cash flow from investing activities	(150)	(118)	47	17	125	39
Net Cash flow from financing activities	136	(112)	(34)	(670)	(660)	245
Net increase/(decrease) in cash & cash equivalent	11	(101)	(90)	152	25	52
Cash & cash equivalents at the end of the year	122	112	212	302	150	125



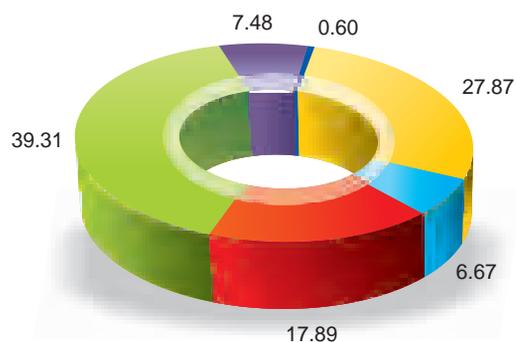
- Net Cash flow from operating activities
- Net Cash flow from investing activities
- Net Cash flow from financing activities



## VALUE ADDED STATEMENT

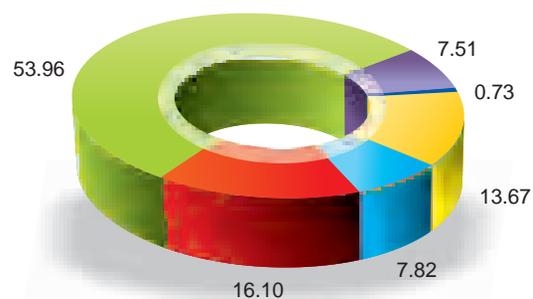
	2012		2011	
	Rs.	(%)	Rs.	(%)
<b>Value Added</b>				
Revenue from operations	378,394,377		346,280,687	
Other income / charges	154,087,841		84,401,871	
Value added by financial services	532,482,218		430,682,558	
Operating expense	19,667,999		19,717,164	
	512,814,219	100.00	410,965,394	100.00
<b>Value Allocated</b>				
To Employees				
Salaries, allowances & other benefits	34,192,045	6.67	32,156,792	7.82
To provider of finance				
As profit on Certificate of Musharaka	91,737,334	17.89	66,172,247	16.10
As financial charges on Murabaha / Musharaka	-	0.00	-	0.00
To Modarib				
As management fee	38,338,298	7.48	30,880,220	7.51
To certificate holders				
Profit on certificates	201,600,000	39.31	221,760,000	53.96
To Society				
Donation	936,000	0.18	840,000	0.20
To expansion & growth				
As Depreciation	3,086,534	0.60	2,997,156	0.73
As Reserve and Retained earning	142,924,008	27.87	56,161,979	13.67
	512,814,219	100.00	410,968,394	100.00

### Value Allocated 2012



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

### Value Allocated 2011

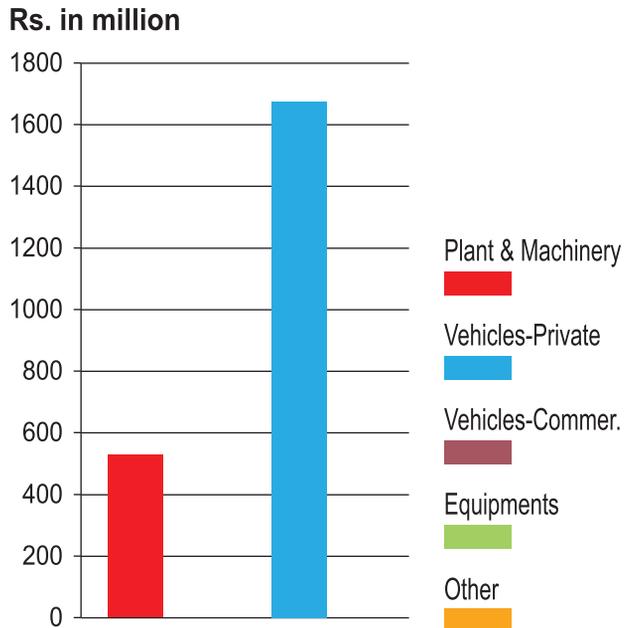


■ Salaries, allowances & other benefits     ■ As Management Fee  
■ To Provider of Finance                     ■ As Depreciation  
■ Profits on Certificates                         ■ As Reserve and Retained Earning

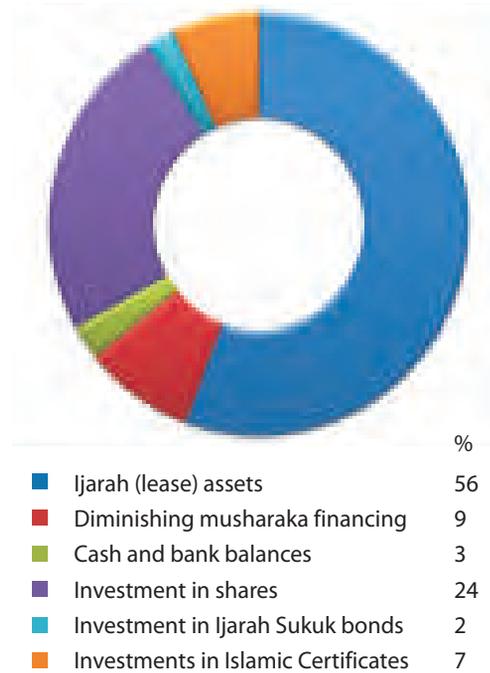


## PORTFOLIO DIVERSIFICATION

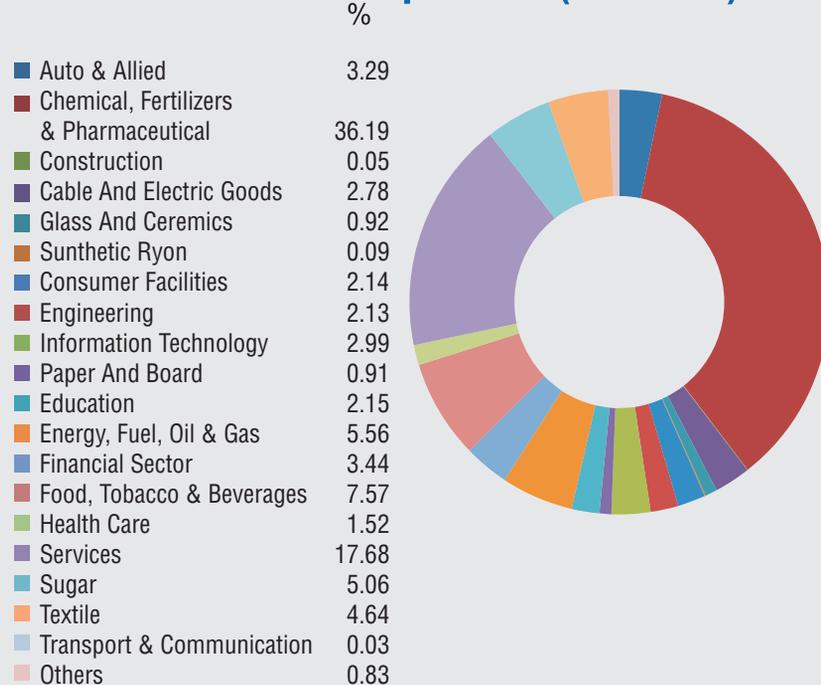
### Investment in Lease



### Portfolio Distribution



### Sector Wise Exposure (2011-12)



## **Chapter 5**

# **How we Operate**

# CORPORATE GOVERNANCE AND STATUTORY COMPLIANCE

Corporate governance is the system by which companies are directed and controlled by the management in the best interest of all the stakeholders, thereby ensuring greater transparency and better and timely financial reporting. Maintaining an effective, dynamic and business-focused Corporate Governance mechanism, along with a culture of openness and accountability, is the key priority of FHM's Board of Directors. FHM strives to excel in the best governance practices through independent and distinct roles for different committees, and continuously reviews and improves Corporate Governance policies and practices to ensure ongoing transparency of the company's operations and delivery of quality information to the stakeholder groups.

Moreover, we also believe that the basic form of corporate responsibility for any organization is to abide by the laws, rules and

regulations of the country in which it operates, and FHM is a standard bearer in terms of statutory compliance in the financial sector of Pakistan.

### 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.

## Corporate Governance





## BOARD OF DIRECTORS

### **Wazir Mumtaz Ahmed - Chairman (Non Executive)**

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 (Executive)**

Muhammad Shoaib is associated with First Habib Modaraba since the inception of Modaraba. His extensive working experience in Non-Banking Islamic Financial institutions for more than two decades makes him senior most person with such rich experience of Islamic Finance in Pakistan. This intense exposure gave him the insight into the financial and technical aspects of fund management in Islamic way. He has done Master's in Business Administration (MBA) in Banking and Finance from Institute of Business Administration (IBA). He has completed Post Graduate Diploma (PGD) in Islamic Banking and Finance from Centre of Islamic Economics (Darul Ulum), Karachi, Pakistan. He is also Certified Islamic banker from Professional's Institute of Excellence who are academic partner of University of Marathon U.S.A. and Pakistan Institute of Banking Studies, Pakistan. On number of occasions he remained as an Executive Member of Modaraba Association of Pakistan and also remained the Chairman of Modaraba Association of Pakistan.

### **Wazir Husain Jafree – Director (Non Executive)**

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 (Non Executive)**

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.

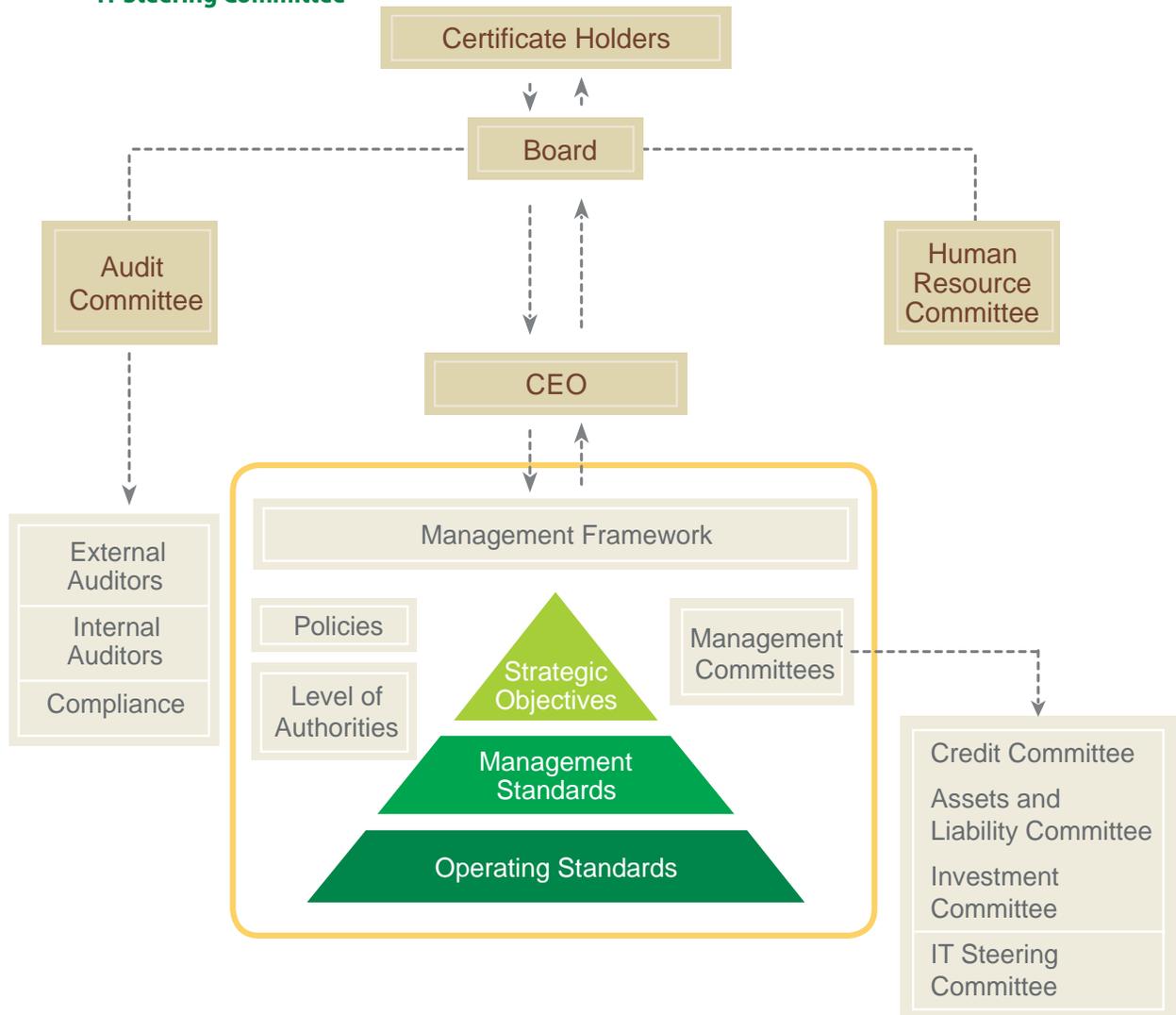


## Board and Management Committees

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.

Besides board committees there are also 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.
- The Board formulate 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

**We comply with laws and regulations**

**We uphold Shariah governance**

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

**We maintain sound atmosphere and clean organization culture**

**We are careful about environment health and safety**

### For comply of laws and regulations

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

### For Shariah Governance

- 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 respect customers' need and design our financial products according 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



## TECHNOLOGY

We strongly believe that role of Information Technology is very important for progress of any institution particularly financial institutions. In order to achieve sophisticated product development, better market infrastructure, implementations of sound techniques for controls of risks and enfacement of market share, the role of IT is very important.

During the year IT department adopted Virtually Private Network (VPN) on all FHM Network for better coordination and working environment within the branches.

FHM IT Department is pursuing the strategy of excellence and sound quality check which support for efficiency and better control.

We have also made our Lahore and Islamabad branches on line with main server. Besides, significant progress was also made towards the implementation of certain other key applications, i.e. human resource management, risk management, enterprise general ledger, and customer relationship management.

We are hopeful that by above developments, the operational capabilities of relevant department of FHM will be further improved and this will support for strengthening of internal controls and effective management information system.



# **Chapter 6**

# **CSR & FHM**

## CORPORATE SOCIAL RESPONSIBILITY





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

**With the growth of our business, we have assumed an even greater responsibility for our society and stakeholders, including employees, their families, our business partners etc.**

**FHM is committed to both sustainable business practices and its responsibilities as a corporate citizen. We believe that Corporate Social Responsibility is primarily about conducting our business in a transparent and ethical way that enhances value for all of our stakeholders but also by giving support to events that enhance the wellbeing of the community.**

**Corporate social responsibility and guidelines for corporate governance are steps in positive directions. Customer relationship management is strategic business philosophy and processes are rooted through ethical practices.**

**FHM continues to encourage events and projects which focus on children, health and education in under privileged members of society. Besides, staff is also encouraged to take part in activities to support the community. During the year FHM has supported various trust and philanthropist institutions who are engaged in various community service projects such as:-**

- **Educational support to needy students and loan for higher studies.**
- **Medical facilities to poor people of the society**
- **Feeding of Poor , clothing aids and monthly ration to poor families**
- **Support to Orphans and Widows, and marriage aid to needy parents of girls.**

**FHM also supports a clean environment and motivate its customers for this cause. FHM also try its level best that business activities of customers must be environmental friendly and should not hazardous to the Society.**



## CSR GUIDELINES

A CSR Guideline was introduced by the Management defining the scope and mode of FHM's CSR activities, as detailed below:

### ETHICAL BUSINESS PRACTICE

- **Corporate Governance, Statutory Compliance and Transparency:** to maintain the highest level of corporate governance, statutory compliance, and transparency at all stages of business decision, operation and communication – for which FHM is highly regarded in the financial sector of Pakistan.
- **Non-discrimination:** to provide equal opportunities to all our employees, irrespective of their age, gender, race, religion, ethnicity, physical attributes etc.
- **Employee Health and Safety:** to secure a healthy and safe work environment for our employees, while offer competitive remuneration packages and benefit schemes, and arrange awareness sessions, training programs etc.
- **Product Responsibility:** to be responsible at all times by avoiding direct or indirect negative impact caused by our

products and services on our stakeholders, environment and the community.

### COMMUNITY DEVELOPMENT

- **Education, Healthcare and Sustainable Livelihood:** to spread the benefits of education, healthcare and sustainable livelihood among the underprivileged section of our community.
- **Disaster Management:** to provide basic necessities and rehabilitation facilities to the victims of natural calamities.
- **Social Issues:** to advocate for various social issues benefiting

certain groups of people and/or the entire nation.

### ENVIRONMENTAL STEWARDSHIP

- **Environmental Risk Management (ERM):** to control and minimize environmental risks in projects financed by FHM.
- **Environment-friendly Technologies:** to adopt environment-friendly technologies and promote companies introducing such technologies in Pakistan.
- **Preservation of Resources:** to trigger responsible behavior among our employees, as well as external stakeholder groups, for efficient and responsible utilization of resources.
- **Waste Management:** to contribute to better waste management, following the three principles of 'Reduce, Reuse and Recycle'.
- **Renewable Energy:** to encourage finance projects introducing or commercializing alternative and/ or renewable energy technologies in Pakistan





## CSR 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)

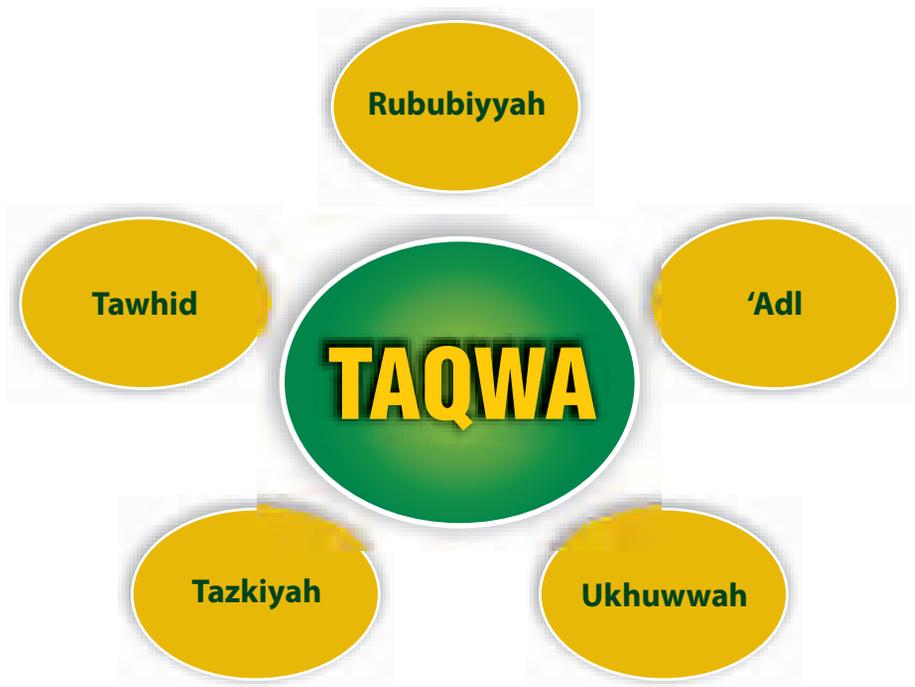
**Rububiyah** (A degree of tawhid described as divine arrangements for nourishment, sustenance and directing things towards perfection)

**'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'S FOCUS ON CSR

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.

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



## INITIATIVES TAKEN BY FHM

### Save Trees

Printing and Stationary  
Consumed

	Rs. in 000'	
	2012	2011
	3,264	5,007

**Saved  
35%**



### Save Energy

- High power bulbs are replaced by Energy Savers in all Offices of First Habib Modaraba
- All dark window Glasses were replaced with colorless glass to use sunlight



### Save Environment

- All Offices of FHM declared Smoke free zones



### Save Water

- All taps and flush tanks were replaced with new technology to save water

**Almost 150,000  
Children die in  
Pakistan due to lack  
of safe water**



**Chapter 7**  
**Our People -**  
**Our Resources**



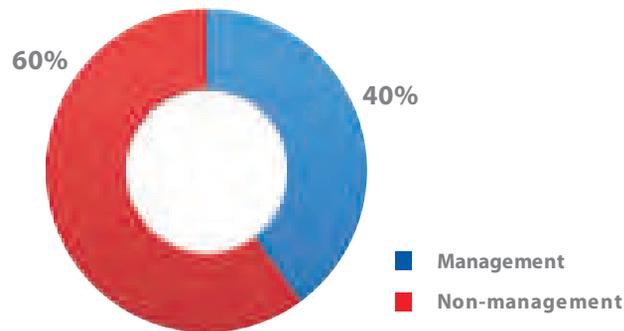
## HR Strength of FHM



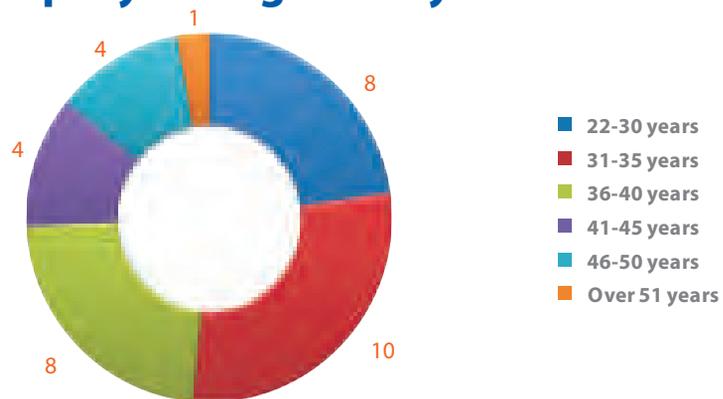
## Segmentation in HR



## HR Strength as per Management Position



## Employees Age Analysis



## Work Environment

FHM offers challenging career options for young and competent professionals. We nurture young talents from the leading business schools, who can bring new ideas and skills on board, and contribute to a dynamic and ever-innovating work environment.

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.



### Non-Discrimination And Diversity

At FHM, we value non-discrimination and diversity as the key to better human resource management.

FHM aims to ensure equal opportunities for all its employees, irrespective of their age, gender, race, religion, ethnicity, physical characteristics or any other attributes. Employees are recruited and assessed solely on the basis of their merit and performance. Moreover, FHM also encourages recruitment of people from different places, cultures and backgrounds, especially at branches located in different areas, to create a more

diversified and dynamic environment across the Group.

Non-discrimination at all levels of human resource management has been integrated in FHM's core values and is a part of employee Code of Conduct. In this regard, FHM's prime focus has been to ensure "Gender Neutrality" across the Group. FHM provides a competitive career prospect for female employees, while offering them a comfortable work environment and opportunity to maintain work-life balance through facilities such as flexible working hours, maternity benefits, discrimination and harassment-free environment etc.



### 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 member and for their families with one of the reputable insurance companies. This insurance facility supports 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 employees.

### 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 fulfilment of need

## Employees Take Care

All permanent employees of the FHM enjoy various facilities and benefit packages.

### HEALTH COVERAGE

- | Health Insurance
- | Group Life Insurance

### COMPANY CONTRIBUTIONS

- | Provident Fund
- | Gratuity

### MATERNITY BENEFITS

- | Extensive maternity benefits to its female employees

### LOAN FACILITIES

- | Housing Loan
- | Personal Loan

### SUPPORT TO PERFORM HAJJ

- | One junior staff along with spouse send on Hajj every year

**Chapter 8**  
**Stakeholders**  
**Engagement**

## 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

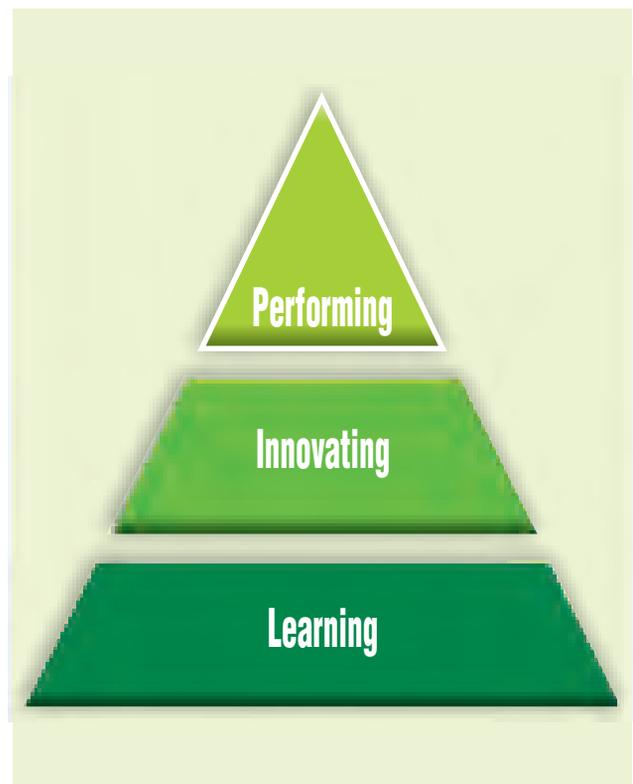
### Innovating

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 indentify and priorities stakeholders concerns.





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:-

- NBF 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 NBF 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.

# **Chapter 9**

# **Community**

## 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.

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.

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.

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.



# **Chapter 10**

# **Assurance**



## ASSURANCE

### Scope of Engagement

We have been engaged by the First Habib Modaraba to perform an independent assurance of the Sustainability Report 2012 ("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 2012.

### 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 2012.

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 2012.

### 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

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

**Chapter 11**  
**Compliance Status - GRI**

## DESIRED DISCLOSURES IN SUSTAINABILITY REPORT - GRI

This document has been prepared following the Global Reporting Initiaves (G3) Indicator Protocols and its Financial Sector Supplement.

✓	=	Full Compliance to the performance Indicator by FHM
Partial	=	Compliance to
Not Reported	=	Performance indicator has not been covered in this report
N/A	=	Performance indicator is not applicable for FHM

	Status	Status	Reference	
			Segment Title	Page
<b>STRATEGY AND ANALYSIS</b>				
1.1	Statement of CEO & Managing Director	✓	Statement of CEO & Managing Director	6
<b>PORFILE REPORT BOUNDARY AND GOVERNANCE</b>				
2	<b>Organizational Profile</b>			
2.1	Name of the organization.	✓	FHM at a Glance	14
2.2	Primary brands, products & services.	✓	Products	18
2.3	Operational structure of the organization (divisions, operating companies, subsidiaries, JVs).	N/A		
2.4	Location of organization's headquarters / head office.	✓	Geographical Coverage	16
2.5	Number and names of countries where the organization operates.	N/A		
2.6	Nature of ownership and legal form.	✓	FHM at a Glance	14
2.7	Markets served by the organization (geographical breakdown, sectors, type of customers / beneficiaries).	✓	Contribution to growth	46
2.8	Scale of the reporting organization (in terms of number of employees, net sales, total capitalization broken down into debt & equity and quantity of products or services provided).	✓	Contribution to growth & HR Strength of FHM	39 & 63
2.9	Significant changes in the organization during the reporting period.		None	
2.10	Awards received in the reporting period.	✓	Awards and recongrinitions	27
3	<b>Report Parameters</b>			
	<b>Report Profile</b>			
3.1	Reporting period for information provided.	✓	Reporting parameters	8
3.2	Date of most recent previous report (if any).	✓	Reporting parameters	8
3.3	Reporting cycle (annual, biennial etc.)	✓	Reporting parameters	8
3.4	Contact point for questions regarding the report and its contents.	✓	Reporting parameters	8
	<b>Report Scope &amp; Boundary</b>			
3.5	Process for defining report content (determining materiality, users of the report etc.)	✓	Reporting parameters	8
3.6	Boundary of the report (countries, divisions etc.)	✓	Reporting parameters	8
3.7	Statement of specific limitations on the scope or boundary of the report.	✓	Reporting parameters	8
3.8	Basis for reporting on JVs , subsidiaries, leased facilities, outsourced operations etc.		None	
3.9	Data measurement techniques, basis for calculation and assumptions.		N/A	
3.10	Explanation of effect of any restatement of information provided in previous report.		None	



3.11	Significant changes from previous reporting periods in the scope, boundary, and measurement methods.		None	
3.12	Table identifying the location of the Standard disclosures in the report (index).	✓	This Table	
3.13	Policy and current practice with regard to seeking external assurance for the report.	✓	Assurance by practicing CA Firm	75
4	<b>Governance, Commitments &amp; Engagement</b>			
4.1	Governance structure of the organization	✓	Organizational Structure	13
4.2	Indicate whether the Chair of highest governing body is also an executive officer.	✓	Board of Directors	49
4.3	State the number of members of the governing body that are independent and/ or non-executive members.	✓	Board of Directors	49
4.4	Mechanism for shareholders & employees to provide recommendations to the highest governing body	✓	Board & Management Committees	50
4.5	Linkage between compensations of those charged with governance and the organization's overall performance.	✓	Driver of compensation is individual performance and overall performance of the company	50
4.6	Processes for determining the qualifications & expertise of those charged with governance.	✓	Board of Directors	49
4.7	Internally developed mission statements, code of conduct etc. and their status of implementation.	✓	FHM at a Glance & Core Values	14 & 15
4.8	Procedures of those charged with governance for overseeing the identification & management of economic, environmental & social procedures	✓	Code of Ethics	52
	<b>Commitments to External Initiatives</b>			
4.9	Explanation of whether and how the precautionary approach is addressed by the organization.	✓	Governance & Compliance Risk Management - CEO Statement	6 & 46
4.10	Subscription of the organization to externally developed economic, environmental & social charters, principles or other initiatives	✓	Corporate Membership	33
4.11	Organization's membership in associations and national or international advocacy organizations.	✓	Corporate Membership	33
<b>MANAGEMENT APPROACH AND DISCLOSURES</b>				
	<b>Economic</b>			
1.1	<i>Economic performance</i>	✓	Six years at a Glance, Horizontal and Vertical Analysis	39,40 & 41
1.2	<i>Market presence</i>	✓	Geographical Coverage	16
1.3	<i>Indirect Economic Impact</i>		Not Reported	
2	<b>Environment</b>			
2.1	<i>Materials</i>		N/A	
2.2	<i>Energy</i>		N/A	
2.3	<i>Water</i>		N/A	
2.4	<i>Biodiversity</i>		N/A	
2.5	<i>Emissions, Effluents and waste</i>		N/A	
2.6	<i>Products and services</i>	✓	Products	18
3	<b>Social</b>			
3.1	<i>Labour practices &amp; decent work</i>	✓	Our People	64
3.2	<i>Human Rights</i>	✓	Our People	64
3.3	<i>Society</i>	✓	Communities	72
3.4	<i>Product Responsibility</i>	✓	Sustainable Business Approach	22
<b>CORE PERFORMANCE INDICATORS</b>				
1	<b>Economic</b>			
	<b>Economic Performance (EC1-EC4)</b>			
1.1	Direct economic value generated & distributed	✓	Value Added Statement	45
1.2	Financial implications/risks/opportunities due to climate change	✓	Risk Management Strategy	51



1.3	Defined benefit plan obligations' coverage	✓	Our people and resources	66
1.4	Significant financial assistance received from government		None	
	<b>Market Presence (EC6,EC7)</b>			
1.5	Policy, practices, proportion of spending on local suppliers at significant locations of operation		N/A	
1.6	Procedures for hiring and proportion of senior management hired from local community at significant locations	✓	Our People	65
	<b>Indirect Economic Impacts (EC8)</b>			
1.7	Development and impact of infrastructure investment and services for public benefit	✓	Communities	72
2	<b>Environment</b>			
	<i>Materials (EN1,EN2)</i>			
2.1	Materials used by weight/volume		N/A	
2.2	Percentage of materials used that are recycled		N/A	
	<b>Energy (EN3,EN4)</b>			
2.3	Direct energy consumption by primary source	✓	Not Reported	
2.4	Indirect energy consumption by primary source		Not Reported	
	<b>Water (EN8)</b>			
2.5	Total water withdrawal by source		Not Reported	
	<b>Biodiversity (EN11,EN12)</b>			
2.6	Location/size of the land owned, leased, managed near protected areas/areas having high bio-diversity value		N/A	
2.7	Impacts on biodiversity		N/A	
	<b>Emissions, Effluents &amp;Waste (EN16,EN17,EN19-EN23)</b>			
2.8	Direct and indirect GHG emissions by weight		Not Reported	
2.9	Other relevant indirect GHG emissions by weight		Not Reported	
2.10	Emissions of ozone depleting substances by weight		Not Reported	
2.11	NO <sub>x</sub> , SO <sub>x</sub> and other air emission by type & weight		Not Reported	
2.12	Total water discharge by quality & destination		Not Reported	
2.13	Total weight of waste by type & disposal method		Not Reported	
2.14	Total number & volume of significant spills		N/A	
	<b>Products &amp; Services (EN26,EN27)</b>			
2.15	Initiatives to mitigate environmental impacts of products & services	✓	Shariah Sprit, Ethical Observant	23-29
2.16	Percentage of products sold and packaging reclaimed (recycled / reused)		N/A	
	<b>Compliance (EN28)</b>			
2.17	Monetary value of significant fines and sanctions due to non-compliance with environmental laws & regulations		None	
3	<b>Social</b>			
	<b>Labour Practices and decent work</b>			
	<i>Employment (LA1,LA2)</i>			
3.1	Total workforce by type, contract & region	✓	HR Strength of FHM	63
3.2	Total number & rate of employee turnover by age group, gender & region	✓	HR Strength of FHM	63
	<b>Labour- management relations (LA4,LA5)</b>			
3.3	Percentage of employees covered by Collective Bargaining Agreements		N/A	
3.4	Minimum notice period regarding significant operational changes		N/A	
	<b>Occupational health &amp; safety (LA7,LA8)</b>			



3.5	Rates of injury , diseases, lost days, absenteeism & number of work-related fatalities by region		N/A	
3.6	Education, training & counselling programs	✓	Our People	65-66
	<b>Training &amp; Education (LA10)</b>			
3.7	Average hours of training per year per employee	✓	Our People	65-66
	<b>Diversity &amp; Equal Opportunity (LA13,LA14)</b>			
3.8	Composition of governance bodies & breakdown of employees in categories	✓	Board & Management Committees & Our People	50 & 63
3.9	Ratio of basic salary of men to women by employee category		Not Reported	
	<b>Compliance</b>			
3.10	Significant fines and sanctions due to non-compliance with Labour Laws		None	
	<b>Human Rights</b>			
	<b>Investment &amp; procurement practices (HR1,HR2)</b>			
3.11	Percentage & number of agreements that include human right clauses		Not Reported	
3.12	Significant suppliers that have undergone screening on human rights		Not Reported	
	<i>Non- discrimination (HR4)</i>			
3.13	Total number of incidents of discrimination & actions taken		None	
	<b>Freedom of association &amp; collective bargaining (HR5)</b>			
3.14	Operations in which freedom of association & collective bargaining may be at risk & necessary remedial actions in THIS REGARD		N/A	
	<i>Abolition of child labour (HR6)</i>			
3.15	Operations in which there is a risk of child labour and remedial actions in this regard		N/A	
	<b>Prevention of forced &amp; compulsory labour (HR7)</b>			
3.16	Operations in which there is a risk of forced & compulsory labour & remedial actions in this regard		N/A	
	<b>Compliance</b>			
3.17	Significant fines and sanctions due to non-compliance with Human Rights Laws		None	
	<b>Society</b>			
	<i>Community (SO1)</i>			
3.18	Programs & practices assessing & managing the impacts of operations on community		Not Reported	
	<i>Corruption (SO2-SO4)</i>			
3.19	Percentage and number business units analyzed for corruption risk		None	
3.20	Percentage of employees trained in anti-corruption policies	✓	Code of Ethics	52
3.21	Actions taken in response to corruption incidents	✓	Code of Ethics	52
	<i>Public Policy (SO5)</i>			
3.22	Public policy positions & participation in policy development		N/A	
	<i>Compliance (SO8)</i>			
3.23	Significant fines and sanctions due to non-compliance		N/A	
	<b>Product Responsibility</b>			
	<i>Customer Health &amp; safety (PR1)</i>			
3.24	Life cycle stages in which health & safety impacts of products are assessed		N/A	



3.25	<i>Product &amp; Service labelling (PR3)</i> Type of product and service information required by procedures & percentage of significant products & services subject to such information requirements		N/A	
3.26	<i>Marketing Communications (PR6)</i> Programs for adherence to laws and standards relating to marketing communication		Not Reported	
3.27	<i>Compliance (PR9)</i> Significant fines and sanctions due to non-compliance, concerning the provision & use of products & services		None	
<b>RELEVANCE OF THE SUSTAINABILITY REPORT TO THE ORGANIZATIONAL SECTOR</b>				
<b>STAKEHOLDER ENGAGEMENT</b>				
<b>1</b>	<b>Reportind Process</b>			
1.1	List of stakeholders group engaged by the organization.	✓	Stakeholder engagement	66 & 70
1.2	Basis of identification and selection of stakeholders with whom to engage	✓	Stakeholder engagement	67 & 70
1.3	Approaches to stakeholders engagement including frequency of engagement by type and stakeholder group	✓	Stakeholder engagement	68 & 70
1.4	Key topics and concerns raised through stakeholder engagement and the organization's response to them 1	✓	Stakeholder engagement	69 & 70
<b>2</b>	<b>Reporting on Responses</b>			
2.1	Actions taken or activities planned in response to stakeholder engagement process	✓	Stakeholder engagement	69-70
2.2	Risk management based on stakeholder consideration and feedback	✓	Stakeholder engagement	69-70
<b>ASSURANCE BY INDEPENDENT ASSURER</b>		✓	Assurance	75