

HABIB METROPOLITAN FINANCIAL SERVICES LIMITED

**Condensed Interim Financial
Information (Unaudited)
For the six months ended
30 June 2020**

Habib Metropolitan Financial Services Limited
Statement of Financial Position
As at 30 June 2020

	Note	30 June 2020	31 December 2019
(Rupees)			
ASSETS			
Non-current assets			
Property and equipment	6	5,944,033	6,602,881
Intangible assets	7	49,888	69,419
Long term investment	8	15,869,235	20,004,853
Deferred tax asset - net	9	-	-
		<u>21,863,156</u>	<u>26,677,153</u>
Current assets			
Receivables from customers	10	68,091,441	41,819,575
Loans to employees	11	2,308,338	2,422,201
Deposits and prepayments	12	79,526,533	78,953,763
Short term investments	13	99,289,939	98,444,913
Accrued profit	15	644,320	1,278,170
Other receivables	16	360,797	288,438
Advance taxation - net		30,757,932	31,628,484
Cash and bank balances	17	148,455,742	182,534,977
		<u>429,435,042</u>	<u>437,370,521</u>
Total assets		<u><u>451,298,198</u></u>	<u><u>464,047,674</u></u>
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorised capital			
30,000,000 (31 December 2019: 30,000,000) ordinary shares of Rs. 10 each		<u>300,000,000</u>	<u>300,000,000</u>
Issued, subscribed and paid up share capital			
30,000,000 (31 December 2019: 30,000,000) ordinary shares of Rs. 10 each fully paid in cash	18	300,000,000	300,000,000
Unappropriated profit		24,185,990	16,457,855
Surplus on revaluation of investments - net of tax	14	<u>2,044,860</u>	<u>6,095,254</u>
		<u>326,230,850</u>	<u>322,553,109</u>
Non-current liabilities			
Deferred tax liability - net	9	342,168	214,435
Current liabilities			
Trade and other payables	19	124,725,180	141,280,130
Short term borrowing	20	-	-
Total equity and liabilities		<u><u>451,298,198</u></u>	<u><u>464,047,674</u></u>
CONTINGENCIES AND COMMITMENTS			
	21		

The annexed notes 1 to 33 form an integral part of these financial statements.


Chief Executive Officer



Company Secretary

Habib Metropolitan Financial Services Limited

Statement of Profit or Loss

For the period ended 30 June 2020

		Six months period ended 30 June	
	Note	2020	2019
		(Rupees)	
Brokerage income	22	25,582,997	12,467,689
Income from investments			
- Mark-up on treasury bills		5,435,488	5,251,167
- Dividend income on the shares of Pakistan Stock Exchange Limited		-	-
		5,435,488	5,251,167
Administrative expenses	23	(26,524,501)	(25,581,817)
Finance cost	24	(349,893)	(653,661)
Provision for Workers' Welfare Fund		(238,915)	(162,122)
Provision against financial assets - net	10.2	-	(5,437)
		(27,113,308)	(26,403,037)
Other income	25	7,312,110	6,501,748
Profit before taxation		11,217,286	(2,182,433)
Provision for taxation			
- Current		(3,394,977)	(3,303,998)
- Deferred		(94,174)	(1,033,515)
- Prior year		-	6,647,837
		(3,489,152)	2,310,324
Net profit for the period		7,728,134	127,892
Earning / (loss) per share - basic and diluted	27	0.26	0.004

The annexed notes 1 to 33 form an integral part of these financial statements.


Chief Executive Officer



Company Secretary

Habib Metropolitan Financial Services Limited

Statement of Comprehensive Income

For the period ended 30 June 2020

	Note	Six months period ended 30 June	
		2020	2019
		(Rupees)	
Net profit for the period		7,728,134	127,891
Other comprehensive income:			
Items to be reclassified to profit or loss in subsequent periods			
- Surplus on revaluation of debt investments carried at fair value	14	118,783	6,825
- Related deferred tax	9	(33,558)	(1,024)
		85,224	5,801
- Deficit on revaluation of equity shares investments carried at fair value		-	-
Items not to be reclassified to profit or loss in subsequent periods			
- Deficit on revaluation of equity shares investments carried at fair value	8	(4,135,619)	(913,683)
Total comprehensive income for the period		3,677,740	(779,991)

The annexed notes 1 to 33 form an integral part of these financial statements.

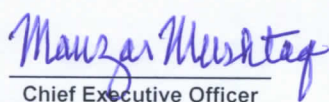

Chief Executive Officer


Company Secretary

Habib Metropolitan Financial Services Limited
Statement of Changes in Equity
For the period ended 30 June 2020

	Issued, subscribed and paid up capital	Unappropriated profit	Surplus on revaluation of investments	Total
	(Rupees)			
Balance as at 1 January 2019	300,000,000	12,499,193	7,839,630	320,338,823
Total comprehensive income for the period				
Net profit for the year ended 31 December 2019	-	3,958,662	-	3,958,662
Other Comprehensive Income - Deficit on revaluation of investments - net of tax	-	-	(1,744,376)	(1,744,376)
	-	3,958,662	(1,744,376)	2,214,286
Balance as at 31 December 2019	300,000,000	16,457,855	6,095,254	322,553,109
Balance as 1 January 2020	300,000,000	16,457,855.02	6,095,254	322,553,109
Net profit for the year ended 30 June 2020	-	7,728,134	-	7,728,134
Other Comprehensive Income - Deficit on revaluation of investments - net of tax	-	-	(4,050,394)	(4,050,394)
	-	7,728,134	(4,050,394)	3,677,740
Balance as at 30 June 2020	300,000,000	24,185,990	2,044,860	326,230,850

The annexed notes 1 to 33 form an integral part of these financial statements.


 Chief Executive Officer


 Company Secretary

Habib Metropolitan Financial Services Limited
Statement of Cash Flow
For the period ended 30 June 2020

Cash flows from operating activities

Profit / (loss) for the year before taxation

Adjustments for:

Mark-up on bank accounts
Mark-up on treasury bills
Mark-up on NCCPL exposure
Mark-up on PSX deposit
Increase in provision against financial assets
Provision for Sindh Workers' Welfare Fund
Finance cost
Depreciation
Amortization
Loss before working capital changes

Decrease / (increase) in current assets

Receivable from customers
Loans and advances
Deposits and prepayments
Accrued profit
Other receivables

(Decrease) / increase in current liabilities

Trade and other payables

Mark-up received on bank account
Mark-up received on NCCPL exposure
Mark-up received on PSX exposure
Finance cost paid
Income tax paid

Net cash flows from operating activities

Cash flows from investing activities

Proceeds from the maturity of investments
Purchase of investments - net
Property and equipment acquired during the period
Net cash flows from investing activities

Cash flows from financing activities

Repayment of lease obligation against right of use assets
Net cash flows from financing activities

Net increase in cash and cash equivalent

Cash and cash equivalent at beginning of the period
Cash and cash equivalent at end of the period

CASH AND CASH EQUIVALENTS

Cash and bank balances
Short term borrowings

Six months period ended

30 June 2020 **30 June 2019**

(Rupees)

11,217,286 **(2,182,433)**

(3,043,429)	(1,173,294)
(5,435,488)	(5,251,167)
(3,316,026)	(5,321,458)
(946,819)	-
-	5,437
238,915	162,122
349,893	653,661
1,099,808	814,353
19,531	25,974
(11,033,613)	(10,084,372)

(26,271,867)	61,051,955
113,863	(240,381)
(572,770)	74,696,048
633,850	(1,026,195)
(72,359)	(94,313)
(26,169,282)	134,387,114

(16,554,950)	(65,013,228)
(42,540,560)	57,107,081

3,043,429	1,050,359
3,316,026	4,418,198
946,819	-
(349,893)	(446,252)
(3,103,763)	(3,087,536)
3,852,618	1,934,769
(38,687,942)	59,041,850

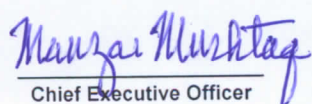
200,000,000	200,000,000
(195,177,900)	(293,289,580)
440,960	(439,000)
5,263,060	(93,728,580)

(654,353)	(600,000)
(654,353)	(600,000)

(34,079,235)	(35,286,730)
182,534,977	129,142,020
148,455,742	93,855,290

148,455,742	93,855,288
148,455,742	93,855,288

The annexed notes 1 to 33 form an integral part of these financial statements.


Chief Executive Officer


Company Secretary

Habib Metropolitan Financial Services Limited

Notes to the Financial Statements

For the period ended 30 June 2020

1 STATUS AND NATURE OF BUSINESS

Habib Metropolitan Financial Services Limited (the Company) was incorporated in Pakistan on 28 September 2007 as a public limited company under the repealed Companies Ordinance, 1984 (Now Companies Act, 2017). The Company is a wholly owned subsidiary of Habib Metropolitan Bank Limited (the Holding Company). Ultimate holding company is Habib Bank AG Zurich, based in Switzerland. The Company is engaged in the business of stock brokerage. The Company holds a Trading Rights Entitlement (TRE) Certificate from Pakistan Stock Exchange Limited (PSX). The registered office of the Company is located at 1st Floor, GPC 2, Block 5, Khekashan Clifton, Karachi. The Company commenced its operations on 06 March 2008.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Wherever the requirements of Companies Act, 2017 or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Companies Act, 2017 and said directives shall prevail.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that investments are carried at fair values.

2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is also the functional currency of the Company and rounded off to the nearest Rupees.

2.4 Use of estimates and judgment

The preparation of the financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates, assumptions and judgment are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revision to accounting estimates are recognised prospectively commencing from the period of revision. Areas where judgements and estimates made by the management that may have a significant effect on the amounts recognised in the financial statements are included in the following notes.

- Useful lives of property and equipments (Note 4.1 & 6)
- Useful lives of intangible assets (Note 4.2 & 7)
- Provision for impairment of receivable from customers and other receivables (Note 4.3.2 & 10)
- Valuation and impairment of investments (Note 4.3.3)
- Provision for compensated absences (Note 4.5)
- Income Tax (Note 4.8)

- Provision for impairment of financial and non-financial assets (Note 4.6)

3 CHANGES IN ACCOUNTING POLICIES

3.1 The company has initially adopted IFRS 15 'Revenue from Contracts with Customers', IFRS 16 'Leases' and IFRS 9 'Financial Assets and Liabilities' from 1 January 2019. The impact of the adoption of these standards and the new accounting policies are disclosed in notes below:

3.2 Adoption of International Financial Reporting Standards (IFRS) 15 'Revenue from Contracts with Customers'

IFRS 15 replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Company has applied the modified retrospective method upon adoption of IFRS 15 allowed under the Standard. This method requires the recognition of the cumulative effect (without practical expedients) of initially applying IFRS 15 to retained earnings. Accordingly, the information presented for 2018 has not been restated i.e. it is presented, as previously under IAS 18 and related interpretations.

The Company is engaged in the business of brokerage and earns brokerage commission on buying and selling of securities on behalf of the customers. Management has concluded that revenue from brokerage is to be recognised at the point in time when control of the asset bought/sold for the customer is transferred to the customer which generally occurs on the trade date, because that is when the underlying financial instrument (for a purchaser or seller) is identified and the pricing is agreed upon (i.e., the Company has identified the counterparty and enters into the contract on behalf of the customer). On the trade date the customer obtains the control of service as it can direct the use of, and obtain substantially all of the remaining benefits from, the asset that comes from the trade execution service.

The above is generally consistent with the timing and amounts of revenue of the Company recognised in accordance with the previous standard, IAS 18. Therefore, the adoption of IFRS 15 did not have an impact on the timing and amounts of revenue recognition of the Company.

Apart from providing more extensive disclosures, the application of IFRS 15 has not had a significant impact on the financial position and / or financial performance of the Company for the reasons described above. Accordingly, there was no adjustment to retained earnings on application of IFRS 15 at 1 January 2019.

3.3 Adoption of International Financial Reporting Standards (IFRS) 16 - 'Leases'

3.3.1 On 1 January 2019, the Company adopted IFRS 16 Leases. This IFRS has introduced a single lease accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right of use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 - Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases differently.

The impact of IFRS 16 on the Company is primarily where the Company is a lessee in property lease contracts. The Company has elected to adopt simplified approach on transition and has not restated comparative information. On 1 January 2019, the Company recognized a lease liability, being the remaining lease payments, including extension options where renewal is reasonably certain, discounted using the Company's incremental borrowing rate at the date of initial application. The corresponding right of use asset recognized is the amount of the lease liability adjusted by prepaid or accrued lease payments related to those leases. The balance sheet increase as a result of the recognition of lease liability and right-to-use assets as of 1 January 2019 was Rs. 6.2 million with no adjustment to retained earnings. The asset is presented in 'Property and Equipment' and the liability is presented in 'Trade and Other Payables'. Also in relation to those leases under IFRS 16, the Company has recognized depreciation and interest costs, instead of operating lease expenses.

Up to 31 December 2018, assets held under property leases, not equivalent to ownership rights, were classified as operating leases and were not recognized as asset in the statement of financial position. Payments or accruals under operating leases were recognised in statement of profit or loss on a straight line basis over term of the lease.

The effect of this change in accounting policy is as follows:

	31 December 2019 (Rupees)
Impact on Statement of Financial Position	
Increase in fixed assets - right of use assets	4,465,582
Increase in other assets - taxation	-
	<u>4,465,582</u>
Increase in other liabilities - lease liability against right of use assets	5,266,086
Decrease in net assets	<u>800,503</u>
Impact on Statement of Profit or Loss	
Increase in mark-up expense - lease liability against right of use assets	704,468
Increase / (decrease) in administrative expenses:	
Depreciation on right of use assets	848,972
Rent expense	<u>(1,308,706)</u>
Decrease in loss before tax	244,734
Effect on income tax	-
Decrease in loss after tax	<u>244,734</u>

3.3.2 In view of the application of above IFRS, the Company's accounting policy for right of use assets and its related lease liability is as follow:

A contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Company mainly leases property for its operations. The Company recognizes a right of use asset and lease liability at the lease commencement date. The right of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The right of use asset is depreciated using the straight line method from the commencement date to the earlier of end of the useful life of right of use asset or end of the lease term. The estimated useful lives of assets are determined on the same basis as that for owned assets. In addition, the right of use asset is periodically reduced by impairment losses, if any.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in assessment of whether extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

4 ACCOUNTING POLICIES

The significant accounting policies have been applied consistently to all periods presented in these financial statements as set out below except for the changes mentioned in note 3 to these financial statements:

4.1 Property and equipment

Owned

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

Depreciation is charged on a straight line basis over the estimated useful life of the asset at the rates specified in note 6. Depreciation on additions is charged from the date of addition. In case of disposals during the year, the depreciation is charged up till the date of disposal.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to statement of Profit or Loss.

An item of Property and Equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of asset is recognised in the statement of Profit or Loss in the year the asset is derecognised. The residual values, useful lives and depreciation methods are reviewed and changes, if any, are treated as change in accounting estimates at each balance sheet date.

Right of Use asset

A contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Company mainly leases property for its operations. The Company recognizes a right of use asset and lease liability at the lease commencement date. The right of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The right of use asset is depreciated using the straight line method from the commencement date to the earlier of end of the useful life of right of use asset or end of the lease term. The estimated useful lives of assets are determined on the same basis as that for owned assets. In addition, the right of use asset is periodically reduced by impairment losses, if any.

4.2 Intangible assets

These represent computer softwares and Trading Rights Entitlement (TRE) Certificate.

Computer softwares are recognised in the financial statements, if and only if, it is probable that the future economic benefits that are attributable to the assets will flow to the Company; and the cost of the intangible asset can be measured reliably. These are carried at cost less accumulated amortization and impairment, if any. Amortization of computer software and website developed is charged to statement of Profit or Loss for the year on a straight line basis at the rates specified in note 7. The amortization period and the amortization method for intangible assets with finite useful life are reviewed, and adjusted if appropriate, at each balance sheet date.

TRE Certificate is carried at nil value.

4.3 Financial Instruments

4.3.1 Non-derivative financial assets

Financial assets are initially recognised at the time when the Company becomes a party to the contractual provision of the instrument.

Financial assets currently comprising of the assets 'measured at ammortised cost', are initially measured at fair value plus, transaction costs that are directly attributable to its acquisition. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest/markup income, foreign exchange gains and losses and impairment are recognized in the statement of profit or loss.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

4.3.2 Cash and cash equivalent

Cash at bank and short term borrowings that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of Cash flows.

4.3.3 Fair Value through Other Comprehensive Income (FVOCI)

Investments that are classified as FVOCI, are initially recorded at the fair value of consideration given (which is its cost).

Equity securities - available for sale

These assets are subsequently measured at fair value (determined with reference to the rate quoted on the stock exchange). Dividends are recognised as income in the statement of profit or loss account. Revaluation gains and losses are recognised in other comprehensive income and are not reclassified to the statement of profit and loss account.

Market Treasury Bills

These assets are subsequently measured at fair value. Interest / markup income calculated using the effective interest method, and impairment are recognised in the statement of profit or loss account. Other net gains and losses are recognised in other comprehensive income. On de-recognition, gains and losses accumulated in other comprehensive income are reclassified to the statement of profit and loss account.

Regular way purchase and sales

Investments are recognised on the trade date, i.e. the date on which commitment to purchase / sale is made by the Company. Regular way purchases or sales of investment require delivery of securities within two days of transaction date as required by stock exchange regulations.

4.4 Non-derivative financial liabilities

Financial liabilities are initially recognised at the time when the Company becomes party to the contractual provisions of the instruments. All financial liabilities are recognised initially at fair value plus directly attributable transactions costs, if any, and subsequently measured at amortised cost using effective interest rate.

4.4.1 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are set off and the net amount is reported in the Statement of Financial Position when and only when there is a legally enforceable right to set off the recognised amount and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

4.5 Compensated Absences

Employees' entitlement to annual leave is recognised when these are due. A provision is made for estimated liability for annual leaves as a result of services rendered by the employees against unavailed leaves, as per terms of service contract, up to the balance sheet date.

4.6 Impairment

Financial assets

The Company recognises loss allowances for Expected Credit Loss (ECLs) in respect of financial assets measured at amortised cost.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the bank balance for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition (although in this case the measurement is at 12 month ECLs).

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than past due for a reasonable period of time. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Loss allowances for financial assets measured at amortised cost are deducted from the Gross carrying amount of the assets.

The Gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for the recovery of amounts due.

Non-financial assets

The carrying amounts of non-financial assets are assessed at each reporting date to ascertain whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated to determine the extent of impairment loss, if any. An impairment loss is recognised, as an expense in the statement of Profit or Loss. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a discount rate that reflects current market assessments of the time value of money and the risk specific to the assets.

An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

4.7 Provisions

Provisions are recognised when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

4.8 Taxation

Provision for taxation expense comprise of current and deferred tax. Current and deferred tax is recognised in Statement of profit or loss except to the extent that it relates to items recognised in equity and other comprehensive income. In making the estimates for income taxes currently payable by the Company, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past.

Current

Provision for current taxation is the expected tax payable on taxable income for the period and is based on the tax

payable under normal tax regime or the taxability of certain income streams of the Company under the final tax regime at the applicable tax rates and remaining income streams chargeable at current rate of taxation under the normal tax regime after considering the effects of minimum taxation, available tax credits and rebates.

Deferred

Deferred taxation is recognised, using the balance sheet liability method, in respect of temporary differences between the carrying amounts of assets and liabilities in the unconsolidated financial statements and their tax base. The amount of deferred tax recognised is based on expected manner of realization or settlement of the carrying amount of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is also recognised in surplus on revaluation of investments by debiting that account (recognised in equity).

4.9 Foreign currency transactions

Foreign currency transactions are translated into functional currency i.e., Pak Rupees at exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date. Exchange differences, if any, are taken to statement of profit or loss.

4.10 Revenue recognition

- Brokerage commission income is recognised on the rendering of services.
- Dividend income is recognised when the Company's right to receive the dividend is established.
- Gains / (losses) on sale of debt investments are included in the Statement of Profit or Loss in the period in which they arise.
- Interest income is recognised as it accrues in the Statement of Profit or Loss, using the effective interest method.

4.11 Dividend and appropriation of reserves

Dividend and appropriation to reserves are recognised in the period in which these are approved.

4.12 Earnings per share (EPS)

EPS is calculated by dividing the profit or loss attributable to share holders of the Company by the weighted average number of ordinary shares outstanding during the period.

4.13 Liability against right of use assets

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in assessment of whether extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

5 NEW ACCOUNTING STANDARDS AND IFRIC INTERPRETATIONS THAT ARE NOT YET EFFECTIVE

- a) Standards, interpretations and amendments to published approved accounting standards that are effective but not relevant.

There are certain new standards, amendments to the approved accounting standards and new interpretations that are mandatory for accounting periods beginning on or after 1 January 2020 (other than those which have been disclosed in note 4 to these financials). However these donot have any significant impact on the company's financial reporting and therefore have not been detailed in these financial statements.

b) The following are the new standards, amendments to existing approved accounting standards and new interpretations that will be effective for the periods beginning on or after 1 January 2020, that may have an impact on the financial statements of the Company:

- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The application of interpretation is not likely to have an impact on Company's financial statements.
- Amendment to IFRS 3 'Business Combinations' – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The application of interpretation is not likely to have an impact on Company's financial statements.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS. In addition, the IASB has also issued guidance on how to make materiality judgments when preparing their general purpose financial statements in accordance with IFRS.
- On 29 March 2018, the International Accounting Standards Board (the IASB) has issued a revised Conceptual Framework for Financial Reporting which is applicable immediately contains changes that will set a new direction for IFRS in the future. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs and any inconsistencies with the revised Framework will be subject to the usual due process – this means that the overall impact on standard setting may take some time to crystallise. The companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs.

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 January 2020:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangement - the amendment aims to clarify the accounting treatment when a company increases its interest in a joint operation that meets the definition of a business. A company remeasures its previously held interest in a joint operation when it obtains control of the business. A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12 Income Taxes - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transaction that generates the distributable profits.
- IAS 23 Borrowing Costs - the amendment clarifies that a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

Above amendments are effective from annual period beginning on or after 1 January 2019 and are not likely to have an impact on Company's financial statements.

6 PROPERTY AND EQUIPMENT

		2020						
Note	Cost			Depreciation		Written down value as at 30 June 2020	Rate	
	At 1 January 2020	Additions / (disposals)	At 30 June 2020	At 1 January 2020	Charge for the period			At 30 June 2020
(Rupees)								
Owned								
Office equipment	983,262	194,400	1,177,662	469,447	74,899	544,346	633,316 15%	
Furniture and fixtures	131,053	-	131,053	88,115	8,560	96,675	34,378 15%	
Computer equipment	1,813,110	246,560	2,059,670	1,089,051	165,330	1,254,381	805,289 25%	
Motor vehicles	34,795	-	34,795	27,280	2,047	29,327	5,468 20%	
Leased								
Right of use asset	3.3.1	6,200,312	-	6,200,312	885,759	1,734,731	4,465,582 14%	
		9,162,532	440,960	9,603,492	2,559,652	3,659,460	5,944,033	
		2019						
	Cost			Depreciation		Written down value as at 31 December 2019	Rate	
	At 1 January 2019	Additions / (disposals)	At 31 December 2019	At 1 January 2019	Charge for the year			At 31 December 2019
(Rupees)								
Owned								
Office equipments	917,492	65,770	983,262	330,560	138,887	469,447	513,815 15%	
Furniture and fixtures	131,053	-	131,053	70,948	17,167	88,115	42,938 15%	
Computer equipments	1,237,220	575,890	1,813,110	784,710	304,341	1,089,051	724,059 25%	
Motor vehicles	34,795	-	34,795	23,175	4,105	27,280	7,515 20%	
Leased								
Right of use asset	3.3.1	-	6,200,312	6,200,312	-	885,759	885,759 5,314,554 14%	
		2,320,560	6,841,972	9,162,532	1,209,393	1,350,259	2,559,652 6,602,881	

6.1 Cost of fully depreciated assets which are still in use as at 30 June 2020 amounts to Rs. 0.60 million (31 December 2019: Rs. 0.37 million).

7 INTANGIBLE ASSETS

INTANGIBLE ASSETS				2020				
Note	Cost			Amortization		Written down value as at 30 June 2020	Rate	
	At 1 January 2020	Additions / (disposals)	At 30 June 2020	At 1 January 2020	Charge for the period			At 30 June 2020
				(Rupees)				
Online trading software	1,070,000	-	1,070,000	1,070,000	-	1,070,000	30%	
PSX gateway application for online trading	551,500	-	551,500	551,500	-	551,500	30%	
TRE Certificate	-	-	-	-	-	-	-	
Computer software	173,147	-	173,147	103,728	19,531	123,259	30%	
	<u>1,794,647</u>	<u>-</u>	<u>1,794,647</u>	<u>1,725,228</u>	<u>19,531</u>	<u>1,744,759</u>	<u>49,888</u>	
2019								
	Cost			Amortization		Written down value as at 31 December 2019	Rate	
	At 1 January 2019	Additions / (disposals)	At 31 December 2019	At 1 January 2019	Charge for the year			At 31 December 2019
				(Rupees)				
Online trading software	1,070,000	-	1,070,000	1,070,000	-	1,070,000	30%	
PSX gateway application for online trading	551,500	-	551,500	551,500	-	551,500	30%	
TRE Certificate	-	-	-	-	-	-	-	
Computer software	173,147	-	173,147	51,780	51,948	103,728	30%	
	<u>1,680,572</u>	<u>-</u>	<u>1,794,647</u>	<u>1,673,280</u>	<u>51,948</u>	<u>1,725,228</u>	<u>69,419</u>	

7.1 The TRE (trading right entitlement) Certificate acquired on surrender of stock exchange membership card is stated at nil value.

According to the Stock Exchanges (Corporatisation, Demutualization and Integration) Act 2012, the TRE Certificate may be transferred once only to a company intending to carry out shares brokerage business.

7.2 Cost of fully amortized assets which are still in use as at 30 June 2020 amounts to Rs. 1.62 million (31 December 2019 Rs. 1.62 million).

8 LONG TERM INVESTMENT - at fair value through other comprehensive income (OCI)

30 June 2020	31 December 2019		Note	Fair value through OCI 30 June 2020	Fair value through OCI 31 December 2019
(Number of shares)				(Rupees)	
1,602,953	1,602,953	Opening balance		20,004,853	21,752,072
-	-	(Deficit) / surplus for the period / year on revaluation of investment		(4,135,619)	(1,747,219)
<u>1,602,953</u>	<u>1,602,953</u>	Closing balance	8.1	<u>15,869,235</u>	<u>20,004,853</u>

- 8.1 This represents ordinary shares of Pakistan Stock Exchange Limited (PSX) having face value of Rs.10 each which were listed from June 2017 and are carried at the market value. These shares are pledged in favour of PSX and are classified as "Freeze" in the Central Depository Company (CDC) report of the Company.
- 8.2 The shares of Pakistan Stock Exchange Limited (PSX) were acquired in pursuance of the corporatization and demutualization of PSX as a public company limited by shares. The paid-up capital of PSX was equally distributed among 200 members (termed as initial shareholders of exchange after corporatization) of PSX by issuance of 4,007,383 shares to each initial shareholders in the following manner:
1. 40% of the total shares allotted (i.e. 1,602,953 shares) were transferred in the House Account of Central Depository Company of Pakistan Limited (CDC) to each initial shareholder.
 2. 60% of the total shares (i.e. 2,404,430 shares) were deposited in a sub-account in the Company's name under PSX's participant ID with CDC which were to remain blocked until they were divested by the Company to strategic investor(s), general public and financial institution (as per the provisions of the Act). These shares were divested during the year ended 31 December 2017.
- 8.3 In compliance with the Chapter 19 of Rule Book of PSX Governing Risk management, Every TREC holder shall maintain Base Minimum Capital (BMC) as per the slabs with the exchange which shall be determined based on the Assets Under Custody (AUC).
- Required BMC amounted to Rs. 26 million. Accordingly, the Company has complied with the said requirement in the following manner:
- i) Transferable TRE Certificate lien marked with irrevocable authority in favour of the exchange;
 - ii) Cash deposited with the exchange amounting to Rs. 16.5 million to fulfil the BMC requirement and
 - iii) Shares of PSX (1,602,953 shares) pledged in favour of the exchange;

9. DEFERRED TAX ASSET/(LIABILITY) - net

Deferred tax asset / (liability) comprises of temporary differences in respect of the following:

	Balance as at 1 January 2019	Recognised in profit and loss	Recognised in equity	Balance as at 31 December 2019 (Rupees)	Recognised in profit and loss	Recognised in equity	Balance as at 30 June 2020
Taxable Temporary difference:							
Property and equipment	(159,069)	(52,209)	-	(211,278)	(94,324)	-	(305,602)
Intangible assets	(1,668)	(599)	-	(2,267)	150	-	(2,117)
(Surplus) / deficit on revaluation of investments - net	2,196	-	(3,085)	(889)	-	(33,558)	(34,448)
	<u>(160,737)</u>	<u>(52,809)</u>	<u>-</u>	<u>(213,546)</u>	<u>(94,174)</u>	<u>(33,558)</u>	<u>(342,168)</u>

10. RECEIVABLES FROM CUSTOMERS

	Note	30 June 2020 (Rupees)	31 December 2019
Trade receivables from the customers	10.1	71,121,259	20,964,019
Less: Provision against receivable from customers	10.2	<u>(3,420,739)</u>	<u>(3,420,739)</u>
		67,700,520	17,543,280
Receivable from NCCPL			
- ready market		-	23,683,180
- future market		390,922	593,114
		<u>68,091,441</u>	<u>41,819,575</u>

10.1 Details of the maximum aggregate amount due from the related parties outstanding at any time during the period (month-end balances) are as under:

Habib Bank AG Zurich Switzerland	-	-
Habib Bank AG Zurich, Deira Dubai	<u>2,025,219</u>	<u>4,096,409</u>
Habib Metropolitan Bank Limited	<u>196,501</u>	<u>349</u>
First Habib Modarba	<u>-</u>	<u>3,471,995</u>

10.2 Provision against the balance receivable from the customers

Balance as on 1 January	3,420,739	678,406
Charge during the year	-	2,742,333
Balance as on 30 June	<u>3,420,739</u>	<u>3,420,739</u>

11.	LOANS TO EMPLOYEES	Note	30 June 2020	31 December 2019
	Unsecured, considered good			
			(Rupees)	
	Loans to Key Management Personnel	11.2	710,367	979,500
	Loans to other employees		1,597,971	1,442,701
			<u>2,308,338</u>	<u>2,422,201</u>
11.1	Above are unsecured interest free balances and are adjustable against the monthly salaries in six monthly			
11.2	Loan to a Key Management Person			
	Opening balance		979,500	715,000
	Loan granted during the period		731,000	1,547,000
	Repayment of loan during the period		(1,000,133)	(1,282,500)
	Closing balance		<u>710,367</u>	<u>979,500</u>
12.	DEPOSITS AND PREPAYMENTS			
	Deposits with:			
	- NCCPL against the exposure	12.1	60,500,000	60,500,000
	- PSX under BMC requirement	12.2	16,500,000	16,500,000
	- NCCPL for deliverable future contracts, ready contracts and initial deposit	12.3	1,400,000	1,400,000
	- NCCPL for provisional trading deposit	12.4	100,000	100,000
	- Central Depository Company of Pakistan Limited	12.5	100,000	100,000
	- K-Electric Company Limited		34,390	34,390
	- Pakistan Beverage Limited		6,000	6,000
			<u>78,640,390</u>	<u>78,640,390</u>
	Prepayments		886,143	313,373
			<u>79,526,533</u>	<u>78,953,763</u>
12.1	This represents margin deposit with NCCPL in accordance with the provisions of the Securities Act, 2015. These deposits carry mark-up at the rate of 6.00% (31 December 2019: 10.18%) per annum.			
12.2	Following is the breakup of Deposit of Cash with PSX under BMC requirement			
	Opening balance as at (1 January)	12.2.1	16,500,000	12,500,000
	Further deposits during the year			
	16 August 2019		-	1,000,000
	29 August 2019		-	3,000,000
	Closing balance as at (30 June)		<u>16,500,000</u>	<u>16,500,000</u>
12.2.1	This represents deposit with PSX to fulfil the base minimum capital requirement. No further deposits were made during the period ended 30 June 2020.			
12.3	This represents amount of Rs. 1 million (31 December 2019: Rs. 1 million) on account of basic deposit for deliverable future contracts market, Rs. 0.2 million (31 December 2019: Rs. 0.2 million) for ready market and Rs. 0.2 million (31 December 2019: Rs. 0.2 million) as initial deposit.			
12.4	This represents amount deposited with NCCPL for trading of Initial Public Offer (IPO).			
12.5	This represent amount of Rs.100,000 (31 December 2019: Rs.100,000) on account of deposit with CDC at the commencement of brokerage business.			
			Fair value through OCI	Fair value through OCI
13.	SHORT TERM INVESTMENTS		30 June 2020	31 December 2019
	At fair value			
	- Market treasury bills		99,171,156	98,438,985
			118,783	5,928
			<u>99,289,939</u>	<u>98,444,913</u>

13.1 Government securities

Name of security	Maturity Date	Yield (IRR) %	As at 01 January 2019	Purchased during the year	Matured during the year	As at 31 December 2019	Carrying value as at 30 June 2020 (before revaluation)	Market value as at 30 June 2020
----- (Units) -----							(Rupees)	
Treasury Bills - 3 months (face value of Rs 5,000)	13-Aug-20	8.12%	20,000	40,000	40,000	20,000	99,171,156	99,289,939

13.2 Market treasury bills are held as collateral with the NCCPL on account of ready market exposure.

13.3 Total face value of the above instruments is Rs.100 million.

14. SURPLUS ON REVALUATION OF INVESTMENTS - net of tax

Note

30 June 2020
31 December 2019
(Rupees)

Short Term Investments

Balance as at 1 January
Surplus / (deficit) arising on revaluation
Balance as at 30 June

(8,710)
(14,638)
118,783
5,928
110,073
(8,710)

Long term investments

Balance as at 1 January
Deficit arising on revaluation
Balance as at 30 June

6,104,853
7,852,072
(4,135,619)
(1,747,219)
1,969,234
6,104,853

Related Deferred Tax:

Balance as at 1 January
On revaluation during the year
Balance as at 30 June

(889)
2,196
(33,558)
(3,085)
(34,447)
(889)

Surplus - net of deferred tax

2,044,860
6,095,254

15. ACCRUED PROFIT

Accrued profit on bank balance
Accrued profit on deposits against NCCPL exposure

140,484
692,079
503,836
586,091
644,320
1,278,170

16. OTHER RECEIVABLES

Receivable from the customers against CDC and NCCPL charges

360,797
288,438

17. CASH AND BANK BALANCES

Profit and loss sharing accounts:

- Habib Metropolitan Bank Limited - The Holding Company
- Meezan Bank Limited

17.1

60,859,678
86,288,757
6,357
6,357
60,866,035
86,295,114

Current accounts:

- Habib Metropolitan Bank Limited - The Holding Company
- MCB Bank Limited

17.2

86,983,339
96,083,625
606,368
156,239
87,589,707
96,239,863

148,455,742
182,534,977

17.1 These represent balances maintained in the profit and loss sharing accounts, carrying mark-up at 6.50% per annum (31 December 2019: 11.25%) per annum.

17.2 This includes Rs. 87.58 million pertaining to client fund balance included in trade payables. Trade liability balance is more than the clients' current account balance as the transactions under T+2 basis were settled subsequent to the period end.

17.3 Details of customer assets held in designated bank accounts and Central Depository Company (CDC) are as follows:

	Note	30 June 2020	31 December 2019
		(Rupees)	
Customer assets held in the designated bank accounts		<u>87,588,492</u>	<u>100,926,976</u>
Customer assets held in the CDC		<u>4,754,119,590</u>	<u>4,248,284,870</u>

18. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

As of the balance sheet date, 29,999,997 (31 December 2019: 29,999,997) shares were held by the Holding company and 3 (31 December 2019: 3) shares were held by directors of the Company, as the nominees of the Holding Company.

19. TRADE AND OTHER PAYABLES

Due to customers in respect of securities transactions		95,664,065	124,880,367
Payable to NCCPL		10,758,811	-
Payable to Workers' Welfare Fund	19.1	2,316,112	2,078,130
Accrued expenses		10,122,053	8,081,876
Sindh Sales Tax payable		598,052	643,681
Liability against right of use assets	3.3.1	5,266,086	5,596,076
		<u>124,725,180</u>	<u>141,280,130</u>

19.1 The Finance Act 2008 introduced amendments to the Workers' Welfare Fund (WWF) Ordinance, 1971 whereby the definition of industrial establishment was extended. The amendments were challenged at various levels and conflicting judgments were rendered by the Lahore High Court, Sindh High Court and Peshawar High Court. The Company is of the view that it is not liable to pay this liability. However, the management has made provision for WWF for the years from 2008 to 2017 amounting to Rs. 1.79 million as a matter of abundant caution.

The Honourable Supreme Court of Pakistan vide its judgment dated 10 November 2016, has upheld the view of Lahore High Court and decided that WWF is not a tax and hence the amendments introduced through Finance Act 2008 are ultra-vires to the Constitution. The Federal Board of Revenue has filed Civil Review Petitions in respect of above judgment with the prayer that the judgment dated 10 November 2016 passed in the Civil Appeal may kindly be reviewed in the interest of justice.

The management, as a matter of abundant caution, has decided to maintain the provision of WWF till the decision of Supreme Court in respect of Civil Review Petition.

Further, as a consequence of the 18th amendment to the Constitution, levy for the WWF was also introduced by the Government of Sindh through the Sindh Workers Welfare Fund (SWWF) Act 2014. SWWF Act 2014, enacted on 21 May 2015, requires every Industrial Establishment located in the province of Sindh and having total income of Rs. 0.5 million or more in any year of account commencing on or after the date of closing of account on or after 31 December 2013, to pay two percent of so much of its total income declared to SWWF. The said Act includes any concern engaged in the Banking or Financial Institution in the definition of "Industrial Undertaking" but does not define Financial Institution. From 2015 Company created provision of SWWF amounting to Rs. 1.411 million out of which Company has paid SWWF of Rs. 1.123 million during the period.

20. SHORT TERM BORROWING

Habib Metropolitan Bank Limited - The Holding Company	20.1	-	-
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20.1 This represents running finance facility obtained from the Holding Company having credit limit up to Rs.350 million (31 December 2019: Rs. 350 million). This carries mark up at the rate of 3 months KIBOR plus 2% per annum (31 December 2019: 3 months KIBOR plus 2% per annum) payable quarterly. This facility will mature on 30 June 2020 and is renewable. It is secured by first hypothecation charge on the receivables of the Company registered with Securities and Exchange Commission of Pakistan duly insured in the Holding Company's favour amounting to Rs. 667 million.

21. CONTINGENCIES AND COMMITMENTS

21.1 The Company has received Orders-in-Original (ONO) from Federal Board of Revenue (FBR), whereby the demand of Federal Excise Duty (FED) of Rs. 6.02 million was raised for the non-payment of FED against which appeal was filed with Commissioner on 22 March 2016, whereby the demand of FED of Rs. 6.02 million was established against the company.

Currently the case is pending with the Tribunal. The Company, based on the legal advice of the tax advisor, anticipates a favourable outcome of the aforesaid appeal hence no provision has been made in the financial statements.

- 21.2 The Company has also received a notice from Sindh Revenue Board (SRB) to the Company alleging Company's failure to withhold and deposit with-holding tax from certain expenses for the years 2012-2017 amounting to Rs. 58.16 million. In response thereto, the Company filed a Constitutional Petition (CP No. 3042 of 2018) in the Honourable High Court of Sindh against the notice and obtained interim stay order against the same.

The Company, based on the opinion of legal advisor, is confident about favourable outcome of the case and therefore no provision is required to be made in the financial statements.

21.3 Commitments

There were no commitments as at 31 December 2019.

22. BROKERAGE INCOME	Note	For the six months ended	
		30 June 2020	30 June 2019
		(Rupees)	
Brokerage income	22.1 & 22.2	<u>25,582,997</u>	<u>12,467,689</u>

22.1 Disaggregation revenue

In the following table, revenue is disaggregated by type of customers:

- Corporate customers	<u>14,677,515</u>	6,845,689
- Individual customers	<u>10,905,482</u>	5,622,000
	<u>25,582,997</u>	<u>12,467,689</u>

- 22.2 This includes brokerage from related parties amounting to Rs. 6.97 million for 2020 (June 2019: Rs. 2.75 million).

- 22.3 Brokerage revenue includes Rs. 7.01 million (June 2019: Rs. 2.62 million) from customers outside the country.

23. ADMINISTRATIVE EXPENSES

Salaries and benefits	23.1	18,512,858	18,578,633
Rent	3.3.1	-	-
Repairs and maintenance		1,193,593	1,041,653
Pakistan Stock Exchange (PSX) clearing house, CDC and NCCPL charges		2,117,023	1,699,055
Communication		1,163,646	1,138,691
Utilities		199,814	234,346
PSX system Audit Fee		159,840	-
Professional tax		56,000	51,800
Direct and indirect tax consultancy fees		360,000	403,200
Printing and stationery		116,195	110,039
Auditors' remuneration	23.2	420,000	573,360
Legal and professional charges		90,000	90,000
Insurance		100,998	91,659
Travelling and conveyance		92,410	95,933
Entertainment and business promotions		112,396	75,297
Fees and subscription		361,744	166,910
Depreciation	6	1,099,808	814,353
Amortization of intangible assets	7	19,531	25,974
Others		348,644	390,914
		<u>26,524,501</u>	<u>25,581,817</u>

23.1 Remunerative of the Chief Executive and Executives:

	Chief Executive (CEO) For the year ended 30 June		Executive For the year ended 30 June	
	2020	2019	2020	2019
	(Rupees)		(Rupees)	
Managerial remuneration	6,791,600	6,762,480	1,408,439	1,419,636
Bonus	-	-	116,120	116,120
Leave encashment	-	-	-	-
	<u>6,791,600</u>	<u>6,762,480</u>	<u>1,524,559</u>	<u>1,535,756</u>
Number of persons	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

In addition to the above, the Chief Executive is entitled to company maintained car in accordance with company's HR policy.

23.2	Auditors' remuneration	Note	For the six months ended	
			30 June 2020	30 June 2019
			(Rupees)	
	Annual audit		100,000	215,000
	Half yearly		150,000	100,000
	Certifications		100,000	150,000
	Out of pocket expenses		70,000	108,360
			<u>420,000</u>	<u>573,360</u>
24.	FINANCE COST			
	Mark-up on finance facility	24.1	17,953	567,176
	Bank charges	24.2	7,574	18,267
	Interest on lease liability	24.3	324,365	68,218
			<u>349,893</u>	<u>653,661</u>
24.1	This represents mark-up charged on running finance facility availed by the Company from the holding company.			
24.2	This represents bank charges from holding company amounting to Rs. 0.075 million.			
24.3	This represents interest on lease liability due to application of International Financial Reporting Standard 16, details of which are given in note 3.3.1 to these financial statements.			
25.	OTHER INCOME			
	Income from financial assets			
	Mark-up on bank balances		3,043,429	1,173,294
	Return on NCCPL exposure margin		3,316,026	5,321,458
	Return on PSX BMC deposit		946,819	-
	Others		5,837	6,996
			<u>7,312,110</u>	<u>6,501,748</u>
26.	TRANSACTIONS AND BALANCES WITH RELATED PARTIES			
	Related parties comprises of the Holding Company including the ultimate holding company, Companies with common directorship, associated Companies, directors of the Company and key management personnel Remuneration of key management personnel are in accordance with their terms of employment. Other transactions with related parties are at agreed terms.			
26.1	Details of transactions during the period are other than those who have been disclosed else where in these financial statements as follows:			
	Habib Metropolitan Bank Limited - the Holding Company			
	- Mark-up on bank balance		3,043,429	1,173,169
	- Equity brokerage commission		164,082	250
	- Rent expense		-	600,000
	- Repayment of lease obligation against right of use assets		600,000	-
	- Finance Cost		25,193	653,104
	Key Management Personnel			
	- Salaries and benefits		8,316,159	8,298,236
	- Equity brokerage commission		178,915	77,911
	Associated Companies			
	Habib Bank AG Zurich (Switzerland) - Equity brokerage commission		490,773	220,756
	Habib Bank AG Zurich (UAE) - Equity brokerage commission		6,259,749	2,401,231
	First Habib Modaraba - Equity brokerage commission		40,412	23,500
	Habib Insurance Company Limited - Equity brokerage commission		-	29,701
	Habib Metropolitan Modaraba management - Equity brokerage commission		1,335	-

26.2 Details of the balances with the related parties are as follows:

Note	30 June 2020	31 December 2019
	(Rupees)	
Habib Metropolitan Bank Limited - The Holding Company		
- Bank balances	17 <u>147,843,016</u>	<u>182,372,383</u>
- Accrued profit on a bank balance	<u>140,484</u>	<u>692,079</u>
Key Management Personnel		
- Advances		<u>979,500</u>
- Receivable/(payable) against sale of securities	<u>866</u>	<u>-</u>
Associated Companies		
Habib Bank AG Zurich (Switzerland)		
- (Payable) / receivable against sale / purchase of securities	<u>-</u>	<u>-</u>
Habib Bank AG Zurich (UAE)		
-Receivable / (Payable) against sale of securities	<u>55,623</u>	<u>(15,386,257)</u>
First Habib Modaraba		
- Payable against sale of securities	<u>-</u>	<u>(1,033)</u>
Habib Metropolitan Modaraba Management		
- Receivable against sale of securities	<u>-</u>	<u>4,196</u>
Others		
Director (Holding Company)		
- Payable against sale of securities	<u>(483,348)</u>	<u>(464,251)</u>

26.3 Number of employees

(Number of employees)

Number of Employees as at the period / year end	<u>22</u>	<u>21</u>
Average Number of Employees as at the period / year end	<u>23</u>	<u>23</u>

27. EARNING / (LOSS) PER SHARE BASIC AND DILUTED

Net Profit / loss for the period	<u>7,728,134</u>	<u>127,892</u>
	(Number)	
Weighted average ordinary shares during the period	<u>30,000,000</u>	<u>30,000,000</u>
	(Rupees)	
Earning / (loss) per share - basic and diluted	<u>0.26</u>	<u>0.00</u>

28. DISCLOSURE OF THE RESEARCH DEPARTMENT

At present the Company employs seven members in its Research Department (including Head of Research, one senior analysts, four junior analyst and one data administrator). All members report to Head of Research who in turn reports to CEO.

Compensation structure of research analysts is flat and is subject to qualification, experience and skill set of the person. However, the compensation of anyone employed in the research department does not in anyway depend on the contents/outcome of research report.

During the year ended 30 June 2020, the personnel employed in the Research Department have drawn an aggregate salary and benefits amounting to Rs. 1.84 million which comprises basic salary, medical allowance and other benefits as per the Company's policy.

29. RECONCILIATION OF MOVEMENT OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

	Liabilities	Equity			Total
	Trade and other payables (includes the lease related liability refer note 19)	Issued, subscribed and paid up capital	Unappropriated profit	Unrealised gain on revaluation of investments	
	------(Rupees)-----				
Balance as at 1 January 2020	141,280,130	300,000,000	16,457,855	6,095,254	463,833,239
Changes from financing cash flows					
Liability-related					
Changes in trade and other payables	(16,554,950)	-	-	-	(16,554,950)
Profit for the year	-	-	7,728,135	-	7,728,135
Deficit on revaluation of investments - net of deferred tax	-	-	-	(4,050,394)	(4,050,394)
	(16,554,950)	-	7,728,135	(4,050,394)	(12,877,210)
Balance as at 30 June 2020	124,725,180	300,000,000	24,185,989	2,044,860	450,956,030

30. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Financial risk management

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Board meet frequently throughout the year for developing and monitoring the Company's risk management policies. The Company's risk management policies are established to identify and analyse the risk faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

30.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly effected by changes in economic, political or other conditions. Concentration of the credit risk indicate the relative sensitivity of the Company's performance to developments effecting a particular industry.

Exposure to credit risk

Credit risk arises when changes in economic or industry factors similarly affect Company's or counter parties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. Credit risk of the Company arises principally from the receivable from customers, long and short term deposits, loans and advances, short term investments, accrued markup, other.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

	30 June 2020	31 December 2019
	(Rupees)	
Receivable from customers	68,091,441	41,819,575
Loans to employees	2,308,338	2,422,201
Deposits - long and short term	78,640,390	78,640,390
Other receivables	360,797	288,438
Accrued Profit	644,320	1,278,170
Bank balances	148,455,742	182,534,977
Financial Instruments exposed to credit risk	<u>298,501,028</u>	<u>306,983,751</u>

Past due balances and impairment losses

The maximum exposure to credit risk for trade debts at the balance sheet date are as follows:

	30 June 2020		31 December 2019	
	Gross	Impairment	Gross	Impairment
	(Rupees)			
Past due 1-14 days	57,475,544	-	37,229,408	-
Past due 15 days -90 days	7,804,592	(33,761)	4,623,928	(33,761)
Past due 91 days -180 days	3,606,251	(1,050,812)	1,050,812	(1,050,812)
Past due 181 days -365 days	2,622,294	(2,336,165)	1,153,280	(1,153,280)
More than 365 days	-	-	1,182,885	(1,182,885)
	<u>71,512,180</u>	<u>(3,420,738)</u>	<u>45,240,313</u>	<u>(3,420,738)</u>

Bank balances

The credit quality of the Company's bank balances can be assessed with reference to external credit ratings as follows:

	Rating		Rating Agency
	Short Term	Long Term	
Habib Metropolitan Bank Limited	A-1+	AA+	PACRA
MCB Bank Limited	A-1+	AAA	PACRA
Meezan Bank Limited	A-1+	AA+	JCR-VIS

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

Details of the industrial sector analysis of the financial assets are as follows:

	30 June 2020		31 December 2019	
	(Rupees)	%	(Rupees)	%
Banks	149,185,994	50.03%	183,227,056	59.69%
Mutual Funds	3,937,792	1.32%	1,424,765	0.46%
Other Financial Institutions	78,640,390	26.37%	78,600,000	25.60%
Individuals	66,449,714	22.28%	43,731,930	14.25%
	<u>298,213,891</u>	<u>100.00%</u>	<u>306,983,751</u>	<u>100.00%</u>

30.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company ensures that it has sufficient cash on demand to meet expected working capital requirements. The following are the contractual maturities of financial liabilities:

	30 June 2020			
	Carrying amount	Contractual cash flows	Six months or less	Above six months
	(Rupees)			
Financial liabilities				
Trade and other payables	121,811,016	121,811,016	121,811,016	-
	<u>121,811,016</u>	<u>121,811,016</u>	<u>121,811,016</u>	<u>-</u>
	31 December 2019			
	Carrying amount	Contractual cash flows	Six months or less	Above six months
	(Rupees)			
Financial liabilities				
Trade and other payables	138,558,319	138,558,319	138,558,319	-
Short term borrowing	-	-	-	-
	<u>138,558,319</u>	<u>138,558,319</u>	<u>138,558,319</u>	<u>-</u>

30.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Company is exposed to interest rate risk and other price risk only.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At the balance sheet date the interest rate profile of the Company's interest-bearing financial instrument was as follows:

	Carrying amount	
	30 June 2020	31 December 2019
	(Rupees)	
Fixed rate investments		
- Short term Deposit with NCCPL	60,500,000	60,500,000
- Investment in treasury bills	99,289,939	98,444,913
- Bank balance in profit and loss sharing account	60,866,035	86,295,114

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial instrument at fair value through profit or loss. Therefore, a change in interest rate at the reporting date would not have effected the after tax profit of the Company.

Cashflow sensitivity analysis for variable rate instruments

The Company is not exposed to variable rate risk.

Interest rate sensitivity analysis

A summary of the Company's interest rate gap position, categorized by the earlier of contractual re-pricing or maturity dates as at the year end was as follows:

30 June 2020						
	Effective rate of mark-up / return (%)	Exposed to interest rate risk			Not exposed to interest rate risk	Total
		Up to three months	More than three months and up to one year	More than one year		
(Rupees)						
Financial assets						
Investment in shares of PSX		-	-	-	15,869,235	15,869,234
Receivable from customers		-	-	-	68,091,441	68,091,441
Loans to employees		-	-	-	2,308,338	2,308,338
Short-term investments	12.58%	99,289,939	-	-	-	99,289,939
Deposits	8.75%	60,500,000	-	-	18,140,390	78,640,390
Accrued profit		-	-	-	644,320	644,320
Other receivables		-	-	-	360,797	360,797
Bank balances	10.25%	60,866,035	-	-	87,589,707	148,455,742
		220,655,974	-	-	193,004,228	413,660,201
Financial liabilities						
Trade and other payables		-	-	-	(111,052,204)	(111,052,205)
On-balance sheet gap		220,655,974	-	-	81,952,023	302,607,996
31 December 2019						
	Effective rate of mark-up / return (%)	Exposed to interest rate risk			Not exposed to interest rate risk	Total
		Up to three months	More than three months and up to one year	More than one year		
(Rupees)						
Financial assets						
Investment in shares of PSX		-	-	-	20,004,853	20,004,853
Receivables from customers		-	-	-	41,819,575	41,819,575
Loans to employees		-	-	-	2,422,201	2,422,201
Short-term investments	12.58%	98,444,913	-	-	-	98,444,913
Deposits	8.75%	60,500,000	-	-	18,140,390	78,640,390
Accrued profit		-	-	-	1,278,170	1,278,170
Other receivables		-	-	-	288,438	288,438
Bank balances	10.25%	86,295,114	-	-	96,239,863	182,534,976
		245,240,027	-	-	180,193,490	425,433,517
Financial liabilities						
Trade and other payables		-	-	-	(138,558,319)	(138,558,319)
Short Term Borrowings		-	-	-	-	-
On-balance sheet gap		245,240,027	-	-	41,635,171	286,875,198

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market.

Presently, the Company holds no equity instruments other than as described in Note 8, details of the valuation of which are also discussed therein.

The table below summarises the Company's equity price risk as of 30 June 2019 and shows the effects of a hypothetical 5% increase and a 5% decrease in market prices as at the year end.

	Fair value	Hypothetical price change	Estimated fair value after hypothetical change in price	Hypothetical increase / (decrease) in OCI	Hypothetical increase / (decrease) in shareholders' equity
	----- (Rupees) -----				
30 June 2020	<u>15,869,235</u>	5% increase	<u>16,662,696</u>	<u>793,462</u>	<u>793,462</u>
		5% decrease	<u>15,075,773</u>	<u>(793,462)</u>	<u>(793,462)</u>
31 December 2019	<u>20,004,853</u>	5% increase	<u>21,005,096</u>	<u>1,000,243</u>	<u>1,000,243</u>
		5% decrease	<u>19,004,611</u>	<u>(1,000,243)</u>	<u>(1,000,243)</u>

The selected hypothetical change does not reflect what could be considered to be the best or worst case scenarios.

30.4 Operational risk

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

The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility encompasses the controls in the following areas:

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

Senior management ensures that the Company's staff have adequate training and experience and fosters effective communication related to operational risk management.

31. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date.

Underlying the definition of fair value is the presumption that the company is going concern without any intention or requirement to curtail materiality the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets i.e. listed equity shares are based on the quoted market prices at the close of trading on the period end date. The quoted market prices used for financial assets held by the Company is. current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily available and regularly available from an exchange, dealer, broker, industry group, pricing services, or regulatory agency, and these prices represent actual and regularly occurring market transactions on an arm's length basis.

IFRS 13, 'Fair Value Measurements' requires in the company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

The different levels (methods) have been

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

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

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

Fair value of the financial assets that are traded in active markets are based on quoted market prices. The following table shows fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. These financial assets and financial liabilities, except investment in PSX, are short term and their fair value approximates their carrying value.

On balance sheet	30 June 2020				
	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
- Short term investments					
- Market treasury bills	99,289,939	-	99,289,939	-	99,289,939
- Long term investments					
- Investment in the shares of Pakistan Stock Exchange Limited	15,869,235	15,869,235	-	-	15,869,235
Financial assets not measured at fair value					
- Receivable from customers	68,091,441	-	-	-	-
- Loan to employees	2,308,338	-	-	-	-
- Deposits	78,640,390	-	-	-	-
- Other receivables	360,797	-	-	-	-
- Accrued Profit	644,320	-	-	-	-
- Bank balances	148,455,742	-	-	-	-
	413,660,202	15,869,235	99,289,939	-	115,159,174
Financial liabilities not measured at fair value					
- Trade and other payables	(121,811,016)	-	-	-	-
	291,849,186	15,869,235	99,289,939	-	115,159,174
On balance sheet financial instruments					
	31 Decemnrber 2019				
	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
- Short term investments					
- Market treasury bills	98,444,913	-	98,444,913	-	98,444,913
- Long term investments					
- Investment in shares of Pakistan Stock Exchange Limited	20,004,853	20,004,853	-	-	20,004,853
Financial assets not measured at fair value					
- Receivable from customers	41,819,575	-	-	-	-
- Loan to employees	2,422,201	-	-	-	-
- Deposits	78,640,390	-	-	-	-
- Other receivables	288,438	-	-	-	-
- Accrued Profit	1,278,170	-	-	-	-
- Bank balances	182,534,976	-	-	-	-
	425,433,517	20,004,853	98,444,913	-	118,449,766
Financial liabilities not measured at fair value					
- Short term borrowing	-	-	-	-	-
- Trade and other payables	(138,558,319)	-	-	-	-
	(138,558,319)	-	-	-	-
	286,875,198	20,004,853	98,444,913	-	118,449,766

The fair value of the 'financial assets and liabilities not measured at fair values' have not been disclosed as these are short term in nature and also repriced with regular frequency (where applicable)

32. CAPITAL RISK MANAGEMENT

The primary objective of the Company's capital management is to maintain healthy capital ratios and optimal capital structure in order to ensure ample availability of finance for its existing operations, for maximizing shareholder's value, for tapping potential investment opportunities and to reduce cost to safeguard the entity's ability to continue as a going concern.

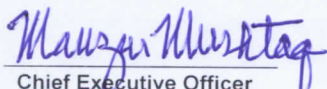
The Company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. Furthermore, the Company finances its operations through equity, borrowing and management of its working capital with a view to maintain an appropriate mix between various sources of finance to minimise risk.

32.1 Base minimum capital

Pursuant to the promulgation of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012 (the Act), all trading right entitlement certificate (TRE) certificate holders of Pakistan Stock Exchange (PSX), in compliance with the Schedule-I of Chapter 19: Risk Management Regulations of the PSX Rule Book, are required to maintain a Base Minimum Capital (BMC). As at 30 June 2020 and as per slabs given under the above mentioned regulations, the Company is required to maintain a BMC of Rs. 26 million with PSX. The Company is in compliance with the aforementioned requirement as at 30 June 2020.

33. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised on 31-August 2020


Chief Executive Officer


Company Secretary