

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



A Successive Partnership

Based on True Sharing and Equality

Our long term success is built on a firm foundation of commitment, good governance, performance and prudent risk management. Effective corporate governance is an important foundation for success of our Modaraba.

At FHM we believe that to be successful in the long term we must continually reassess our competencies, business strategies and risk management approaches in order to cope up with day to day business challenges.

The Relationships that exceed beyond normal business this is how we have acquired the standing we possess today as most progressive and leading Modaraba within the Modaraba sector of Pakistan.

Our achievements are evidence to the solid business fundamentals and consistent financial management policies practiced across the Modaraba. Our focused business strategy keeps us firmly on path of sustainable growth and profitability.

Islamic finance is a financial system operates in accordance with Islamic principle of finance. This system encourages economic activities and proper distribution of wealth which ultimately lead to promote social justice which is the key theory of Islamic economic financial system.

Consistency in distribution of dividends among the certificate holders along with increase in certificate holders' equity has made FHM a sound and well performing Modaraba within the sector. By the grace of Allah (SWT), FHM has been maintaining its history of continuous payment of profits to its Certificate Holders and never skipped the same in any single year.

Modaraba concept is based on Shirkat. It is a kind of partnership wherein one party provides financing to other for the purpose of carrying business and sharing profits earned through mixture of investment and expertise which is truly based on sharing and equality.

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CREDIT RATINGS - BY PACRA



FHM has been maintaining AA+ category rating since last 14 years

CORPORATE INFORMATION

MODARABA MANAGEMENT COMPANY

Habib Metropolitan Modaraba Management Company (Private) Limited

BOARD OF DIRECTORS

Syed Rasheed Akhtar	- Chairman (Non-Executive Independent Director)
Mr. Muhammad Shoaib Ibrahim	- Chief Executive Officer
Mr. Usman Nurul Abedin	- Non-Executive Director
Mr. Saeed Uddin Khan	- Non-Executive Independent Director
Mr. Mohammad Shams Izhar	- Non-Executive Director
Dr. Irum Saba	- Non-Executive Director

LEGAL ADVISOR

Mohsin Tayebaly & Company
Ahmed & Qazi Advocates & Legal Consultants

AUDIT COMMITTEE

Mr. Saeed Uddin Khan	- Chairman
Syed Rasheed Akhtar	- Member
Mr. Mohammad Shams Izhar	- Member
Mr. Muhammad Babar	- Secretary

HUMAN RESOURCE COMMITTEE

Mr. Saeed Uddin Khan	- Chairman
Syed Rasheed Akhtar	- Member
Mr. Mohammad Shams Izhar	- Member
Mr. Muhammad Jehanzeb	- Secretary

SHARES REGISTRAR

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

AUDITORS

EY Ford Rhodes
Chartered Accountants

COMPANY SECRETARY

Mr. Tehsin Abbas

SHARIAH ADVISOR

Mufti Faisal Ahmed

BANKERS

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

REGISTERED OFFICE

6th Floor, HBZ Plaza (Hirani Centre)
I.I. Chundrigar Road, Karachi.
Tel : 021-32635949-51
UAN : 111-346-346
Web : www.habibmodaraba.com
Email: fhm@habibmodaraba.com

GEOGRAPHICAL PRESENCE - BRANCH OFFICES

Karachi Branch:

3rd Floor, Al-Manzoor Building,
Dr. Ziauddin Ahmed Road. Karachi.
Tel : 021-32635949-51

Lahore Branch:

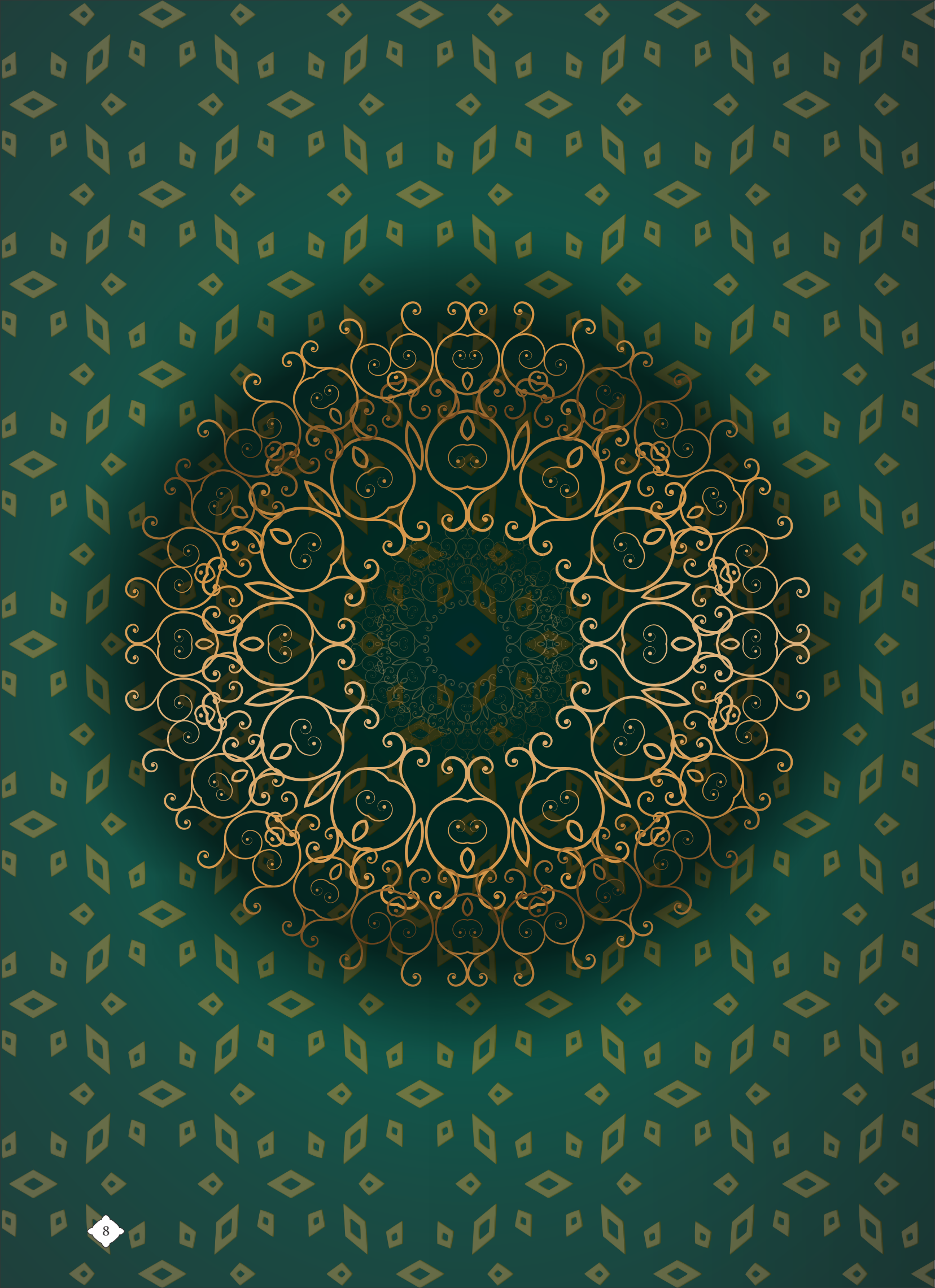
1st Floor, 5-Z Block, Phase III, Defence Housing
Authority, Lahore.
Tel : 042-35693074-76

Islamabad Branch:

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

Multan Branch:

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



ABOUT FIRST HABIB MODARABA

First Habib Modaraba (FHM) was established in 1985 as Non-Bank Islamic Financial Institution as one of the pioneers within Modaraba sector. FHM completed 37 years of successful business operations within the Modaraba sector of Pakistan. Modaraba sector of Pakistan is playing significant role for promotion of Islamic finance within Islamic Financial Services Industry of Pakistan. The concept of Modaraba was introduced in early 80s as the first Islamic Shariah business model with statutory framework and proper regulations.

Over the years FHM has been continuously recognizing for its satisfactory results, good corporate governance, best report culture and sound and stable credit rating. With a thrust to achieve operational excellence, FHM continue to improve operational processes, infrastructure and professional grooming of human resource in order to provide quality and reliable customer services including compliance of all regulatory and Shariah requirements.

Our commitment to enhance value for our stakeholders, driven through resilience of our business model and determination of our team members made us sound and leading Modaraba within the Modaraba sector. The Relationships that exceed beyond normal business this is how we have acquired the standing we possess today as most progressive Modaraba holding the loyalty and trust of thousands of stakeholders across the country. Our achievements are evidence to the solid business fundamentals and consistent financial management policies practiced across the Modaraba. Our focused business strategy keeps us firmly on path of sustainable growth and profitability.

We take great pride in the resilience and commitment that we have shown during the last two years of turmoil. By adopting cautious practices in our lending business, we were not only able to hold on to a trend of steady financial numbers but also achieved exceptional performance in 2021-22. This was made possible due to blessing Allah (SWT) and unmatched support of our investors and our customers along with hard and dedicated efforts of entire of FHM.

Our constant commitment for corporate excellence have not only kept us as leading Modaraba within the sector but also earned us recognition at national and international level. So far, FHM has secured several awards/accolades on best performance, best corporate report, best corporate disclosure and corporate excellence from reputable bodies, such as NBFI and Modaraba Association, ICAP and ICMAP, Management Association of Pakistan, and SAFA an apex body of SAARC. Furthermore, since last 13 years FHM has been securing AA+ rating as long term rating from Pakistan Credit Rating Agency Ltd., (PACRA) which depict soundness of the entity and also matter of great satisfaction for our investors.

As one of leading non-banking Islamic financial institutions, our core corporate objective always drive to create value for the society at large. Our financial strength, risk management protocols, governance framework and aspirations for sustainable growth are directly attributable to a discipline that regularly brings prosperity to our all stakeholders particularly our worthy investors and customers. Ambition, discipline and corporate excellence always motivate us for even better results. It is the combination of these key elements that frame our optimistic outlook for the future as well.

We sincerely believe that above all success and achievements are due to Blessing of Allah (SWT) and hard dedicate work of entire staff members through excellent team work across all levels of the organization. We thank Almighty Allah and bow our head for His blessing and bestowing upon us of journey of continuous success.

Ownership and Operating Structure

First Habib Modaraba (FHM) is managed by Habib Metropolitan Modaraba Management Company (Private) Limited which is the fully owned subsidiary of Habib Metropolitan Bank Limited. The bank is having high reputation within the banking sector of Pakistan, with asset size of more than Rs.1,224 billion with branch network of 459 as at December 31, 2021 throughout the country.

OUR STRENGTH

We believe that our strength is surrounded with our core values with solid foundation of the institution. This strength has been tested from time to time in extreme challenging business scenarios. In the recent example of Pandemic in which how relentlessly our team members stood up and discharge their responsibilities.

FHM completed 37 years of successful business operations within the Modaraba sector of Pakistan. Modaraba sector of Pakistan are playing significant role for promotion of Islamic finance within Islamic Financial Services Industry of Pakistan. Over the years FHM has been continuously recognizing for its satisfactory results, good corporate governance, best report culture and sound and stable credit rating. With a thrust to achieve operational excellence, FHM continue to improve operational processes, infrastructure and professional grooming of human resource in order to provide quality and reliable customer services including compliance of all regulatory and Shariah requirements.

Our strengths and key differentiating factors will continue to drive us forward in our journey of continuous success and maintaining position of leading Modaraba within the sector. Sound financial position with high standards of Corporate Governance and better return to our investors every year are the key strengths of our successful business journey of more than 3 decades.

We take great pride in the resilience and commitment that we have shown during the last two years of turmoil. By adopting cautious practices in our lending business, we were not only able to hold on to a trend of steady financial numbers but also achieved exceptional performance in 2021-22.

Our core corporate objective always drives to create value for the society at large. Our financial strength, risk management protocols, governance framework and aspirations for sustainable growth are directly attributable to a discipline that regularly brings prosperity to our all stakeholders particularly our worthy investors and customers. Ambition, discipline and corporate excellence always motivate us for even better results. It is the combination of these key elements that frame our strength optimistic outlook for the future as well.



UPDATED POSITION OF AWARDS & ACHIEVEMENTS



AWARDS & RECOGNITION

“Optimism is the faith that leads to achievement. Nothing can be done without hope and confidence”

Hellen Keller

The most effective and successful teamwork happens when every individual of the institution work hard to achieve a common goal. Good team always develops through dedication, commitment and hard work. All the awards and recognition we have achieved is because of good team efforts. With the blessing of Allah (SWT) and with good team work, presently First Habib Modaraba (FHM) has become the most awarded Modaraba within the Modaraba sector of Pakistan.

“THE HIGHEST AWARD WINNING MODARABA WITHIN THE MODARABA SECTOR OF PAKISTAN”

So far, FHM has secured several awards/accolades on best performance, best corporate report, best corporate disclosure and corporate excellence from reputable bodies, such as NBF and Modaraba Association, FPCCI, ICAP and ICMAP, Management Association of Pakistan, and SAFA an apex body of SAARC.

Recognition through award and accolades are not only a great standing or a mark of distinction but it also support to encourage and motivate all team member to make further efforts and drive higher for even bigger accomplishments as individual or as an organization.

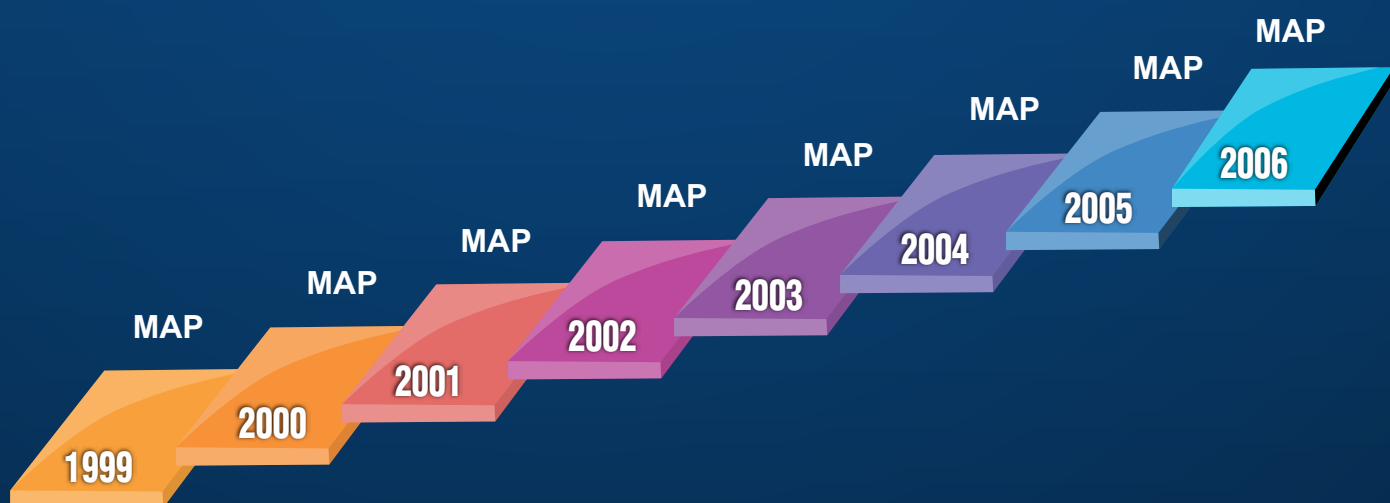


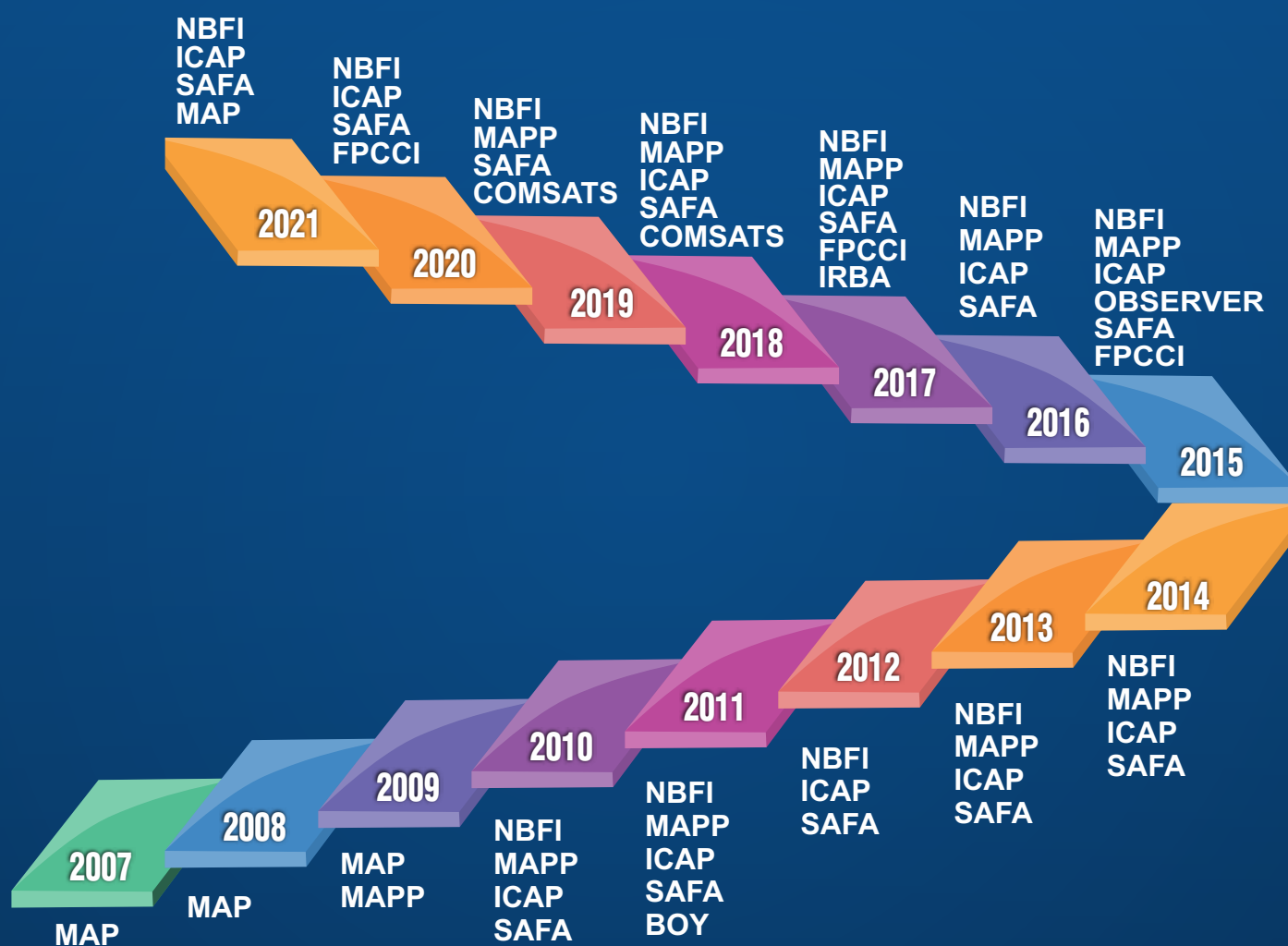
AWARD RECEIVED DURING THE YEAR 2021-22



ICAP and ICMAP	FHM has been awarded 1st Position "Best Corporate Report (BCR) 2020 under the category of NBFIs and Modaraba
The Management Association of Pakistan (MAP)	Corporate Excellence awarded to First Habib Modaraba (FHM) under the "Financial Category".
South Asian Federation of Accountants (SAFA)	FHM received joint 2nd Runner up "Best Presented Annual Report Award" from South Asian Federation of Accountants (SAFA) for overall category of Financial Services Sector.
NBFI & Modaraba Association of Pakistan	Received Best Performing Award (2nd Position) from NBFI & Modaraba Association of Pakistan

FHM AWARDS CALENDAR





MAP Modaraba Association Of Pakistan
NBFI NBFI & Modaraba Association of Pakistan
MAPP Management Association of Pakistan
ICAP Joint Committee of ICAP and ICMAP
SAFA South Asian Federation of Accounts
BOY Brand of the Year
FPCCI Federation of Pakistan Chamber of Commerce and Industry
OBSERVER The Pakistan Observer
IRBA IRBA Cambridge

FINANCIAL HIGHLIGHTS FOR THE YEAR 2021-22

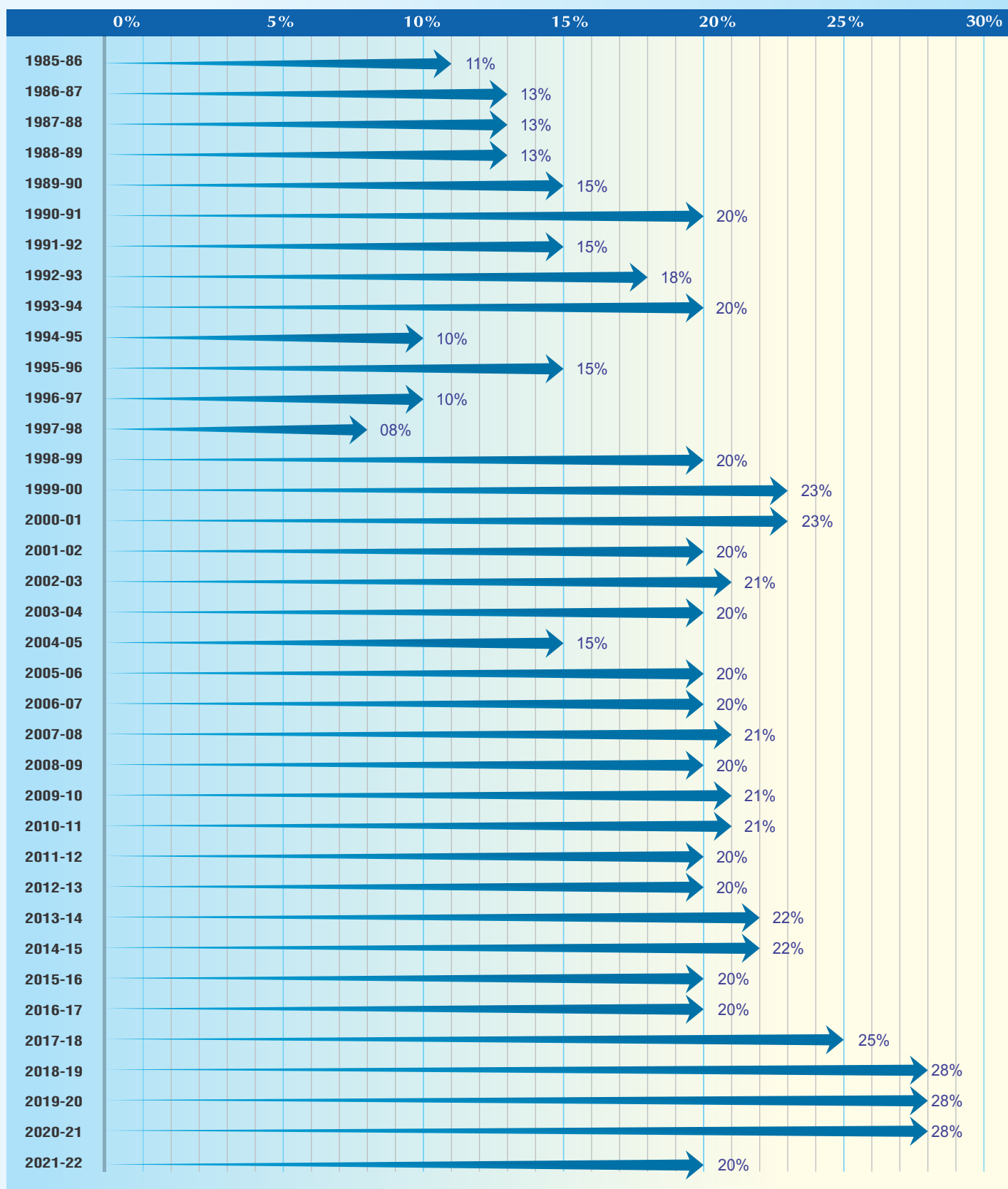


- All time high disbursement of Rs.11.0 billion in any single year since business operations.
- First time Balance Sheet footing reached to Rs.17.0 billion mark
- Financing assets portfolio touched Rs.16.0 billion plus.
- Deposits reached to Rs.11.0 billion, again highest in any year since business operations.
- Total car units financed during the year 3,569. Total outstanding units are 8,723

DELIVERING 37 YEARS OF UNBROKEN DIVIDEND PAYOUT HISTORY

AVERAGE DIVIDEND PAYMENT 18.89% PER ANNUM

DIVIDEND %



FIRST HABIB MODARABA NEVER SKIPPED DIVIDEND SINCE INCEPTION

We regard the creation and sharing of holistic value with all our stakeholders as the key to our definition of real success

Focused Strategy

Over the years FHM has been continuously recognizing for its satisfactory results, good corporate governance, best report culture and sound and stable credit rating. With a thrust to achieve operational excellence, FHM continue to improve operational processes, infrastructure and professional grooming of human resource in order to provide quality and reliable customer services including compliance of all regulatory and Shariah requirements.

At FHM, while remaining within our corporate objective, we continuously raise our bar for quality growth and best performance through following focused business strategies for current year.

- To carry out all business transactions in line with approved mode of Shariah principles of Islamic finance.
- To promote good corporate governance and follow best business practices
- Carefully move forward with our existing and new business engagements for assets booking and financing.
- Enhancing of outreach and penetration towards quality assets building within sound and stable customer base.
- Strengthen tools of risk management, appraisals & evaluation of credit proposals.
- Further strengthen risk assessment and internal control parameters.
- Further strengthen compliance culture particularly regulatory and AML/CFT related compliances.
- Enhance capacity building and improve professional grooming of our team members.
- Leveraging the tool of technology for operational efficiency and delivering of quality service.



ORGANIZATIONAL OVERVIEW



PRODUCT DETAIL

Principle Business activities of the Modaraba

The principle business activities of the First Habib Modaraba is to provide shariah compliant mode of financing and to make investment in shariah compliant instruments



Diminishing Musharaka

Shirkat ul Milk is a type of Shirkah where , a financier and his client participate either in the joint ownership of a property or an equipment. The share of the financier is further divided into a number of units and it is understood that the client will purchase the units till all the units of the financier are purchased by him. This arrangement allows the financier to claim the payment according to his proportion of ownership in the property and at the same time allows him periodical return of a part of his principal through purchases of the units of his share.



Auto Consumer

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 financing scheme for corporate employees and self-employed persons who fulfill required criteria of FHM.



Murabaha

Murabaha refers to sale where the seller discloses the cost of commodity and the amount of profit charged. Thus it is not a loan given on interest rather it is a sale of commodity at profit. In this transaction, seller i.e. Modaraba disclose the cost and profit thereon.

PRODUCT DETAIL

Salam is a contract of Sale where the Seller undertakes to supply some specific commodity to the Buyer at a future date in exchange for a price fully paid in advance. Amount given, as Salam cannot be called back, unlike Qard.

Salam



Istisna' means asking someone to construct, build or manufacture an asset. In Islamic finance, istisna' is contract whereby a party undertakes to manufacture, build or construct assets, with an obligation from the manufacturer or producer to deliver them to the customer upon completion. In contrast to istisna', for salam contract the payment has to be made in full, in advance.

Istisna



Musharaka is a joint enterprise or partnership structure with profit/loss sharing implications that is used in Islamic finance instead of interest-bearing loans. Musharakah allows each party involved in a business to share in the profits and risks.

Musharaka



Certificate of Investment (Musharaka) Scheme has been formulated under the parameters laid down by the Securities and Exchange Commission of Pakistan in its "Guidelines for issuance of above certificate"

FHM's COIs has combination of reliance, security, shariah compliant income accompanying with a rewarding ROI to its COM holders.

Certificate of Investment (Musharaka)



CORE VALUES



GEOGRAPHICAL PRESENCE



Head Office

6th Floor, HBZ Plaza (Hirani Centre)
I.I. Chundrigar Road, Karachi.
Tel : 021-32635949-51
UAN :111-346-346



Karachi Branch:

3rd Floor, Al-Manzoor Building,
Dr. Ziauddin Ahmed Road. Karachi.
Tel: 021-32635949-51



Lahore Branch:

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



Islamabad Branch:

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



Multan Branch:

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



VISION

TO BE THE LEADING ISLAMIC
FINANCIAL INSTITUTION WITHIN
MODARABA SECTOR BY PROVIDING
THE BEST INNOVATIVE SHARIA'H
COMPLIANT FINANCIAL
SOLUTIONS AT MAXIMUM
SATISFACTION OF CUSTOMERS.

MISSION

AN INSTITUTION BUILT ON
TRUST, INTEGRITY, GOOD
GOVERNANCE WITH
COMMITMENT TO ADD VALUE
TO ALL STAKEHOLDERS
THROUGH AN EFFECTIVE
HUMAN RESOURCE
MANAGEMENT IN A MODERN
AND PROGRESSIVE
ORGANIZATIONAL CULTURE,
MAINTAINING HIGH ETHICAL
AND PROFESSIONAL STANDARDS.



CODE OF BUSINESS CONDUCT AND ETHICS

The Modaraba's Code of Conduct provides guidelines on ethical standards. It covers issues such as bribery and corruption, fraud, insider trading, legal compliance, conflicts of interests, human rights and discrimination. The Code of Conduct and business ethics are essential for every organization. It spells out the behavior expected from employees, reflecting fairness, transparency and accountability. It guides staff members to conduct themselves with honesty and integrity in all actions representing the organization.

We are committed to conduct our business in accordance with applicable laws, rules and regulations as defined by our regulators. It always abides by ethical standards and considers it to be a key business priority. Our Code of Ethics requires that it is necessary to ensure that the appropriate standards of behavior are followed to the letter and spirit in accordance with the approved and agreed Code of Conduct by the employees of FHM. Adherence of Code of Conduct is mandatory for all employees of FHM.

Following are the key areas of our code of conduct and business ethics.

- Deliver professional services in accordance with the institution's policies and relevant technical and professional standards.
- Do not engaged with any political party or take membership of such parties.
- Act with integrity, honesty, dignity and in an ethical manner when dealing with customers, regulators and other stakeholders.
- Uphold Shariah governance culture and atmosphere in line with Islamic principles.
- Not engage in any unprofessional conduct involving dishonesty, fraud, deceit or misrepresentation or commit any act that reflects adversely on honesty, trustworthiness or professional competency.
- Not make hindrances or restrain others from performing their professional obligations.
- Maintain update knowledge and comply with all applicable laws, rules and regulations.
- Maintain strong compliance culture.
- Respect confidentiality and privacy of customers, investors and others with whom they deal.
- Use reasonable care and exercise independent professional judgment.
- Should uphold fair view while choosing right and wrong.
- Abide with requirement of data security. Only access or update the system and data according to authority given by FHM.
- Speak up and inform the management any wrong doings/malpractices at any level. It is the obligations to report under whistle blowing policy.
- Hold and maintain the core values of Modaraba in day to day operational affairs.

STRATEGIC CORPORATE OBJECTIVES

- To carry out all business transactions in line with approved mode of Shariah principles of Islamic finance.
- To promote good corporate governance and follow best business practices
- To be the leading Modaraba within the Modaraba sector as an Islamic Financial Institution.
- 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.
- To provide state of art services to customers and develop service oriented culture.
- To broaden the area of technology to ensure operational efficiency, enhance delivering capability and high service standard.
- To develop strong compliance culture and sound risk management framework.
- To add Certificate Holders value through better performance and sound return on their investment.
- To remain innovative and explore new avenues for growth and profitability.
- To become an employer of choice
- To foster a culture to boost the reputation of organization

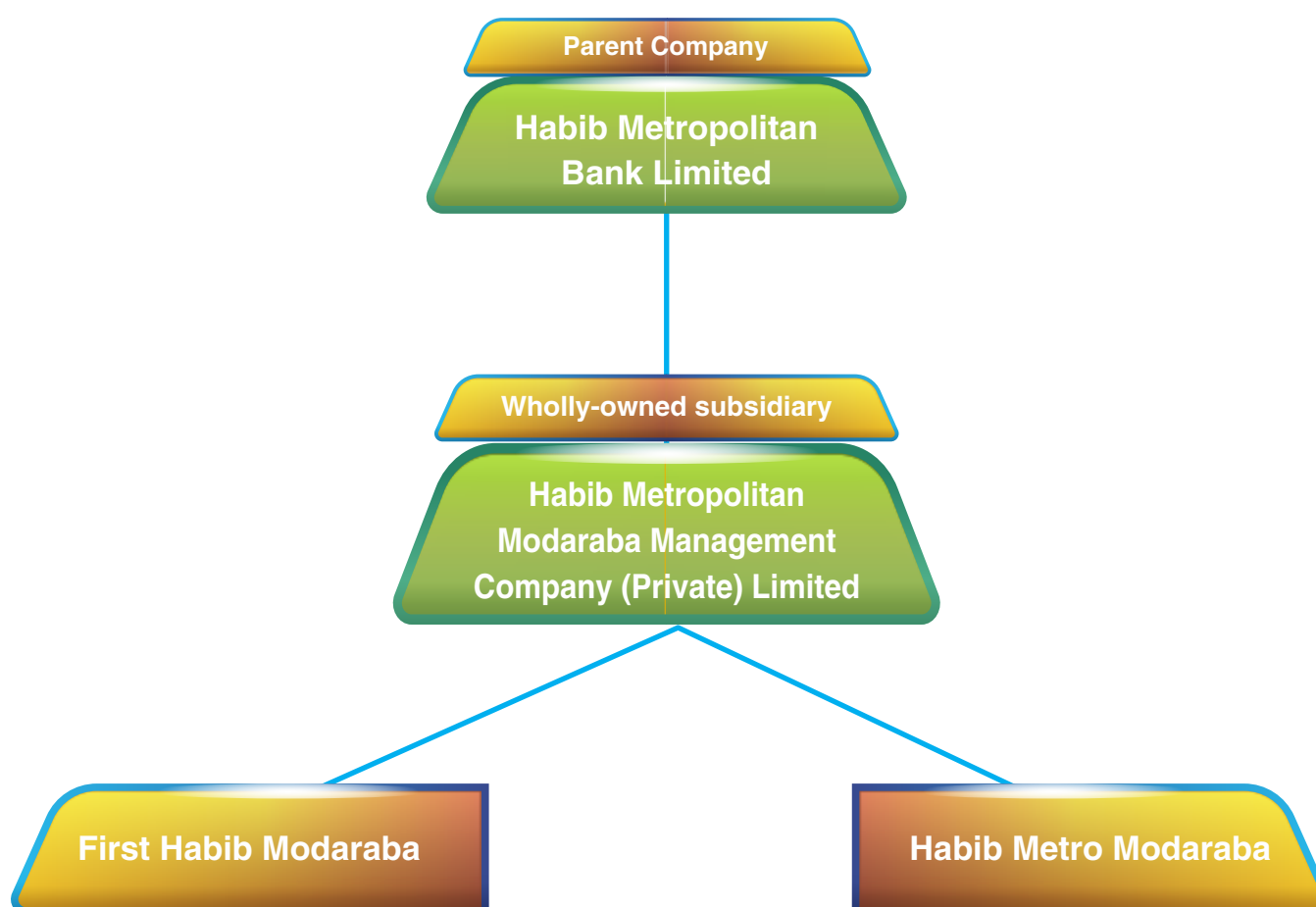


CORPORATE CULTURE

- To maintain ethical culture based on Islamic principles.
- To uphold a well-founded ethical environment for our valued customers, regulators and other stakeholders.
- To build a strong organizational culture that is shaped by empowered employees who through collective wisdom
- To act with integrity, honesty, dignity and in an ethical manner when dealing with customers, regulators and other stakeholders

GROUP STRUCTURE

First Habib Modaraba is a perpetual, multi-purpose modaraba having its registered office at 6th Floor, HBZ Plaza, I.I. Chundrigar Road, Karachi. It is listed on the Pakistan Stock Exchange and engaged in Shariah compliant mode of financing and investment. The group comprises of Habib Metropolitan Bank Limited (The parent bank), Habib Metropolitan Modaraba Management Company (Private) Limited (wholly owned subsidiary company of HMB), First Habib Modaraba and Habib Metro Modaraba which are managed by Habib Metropolitan Modaraba Management Company (Pvt) Limited.

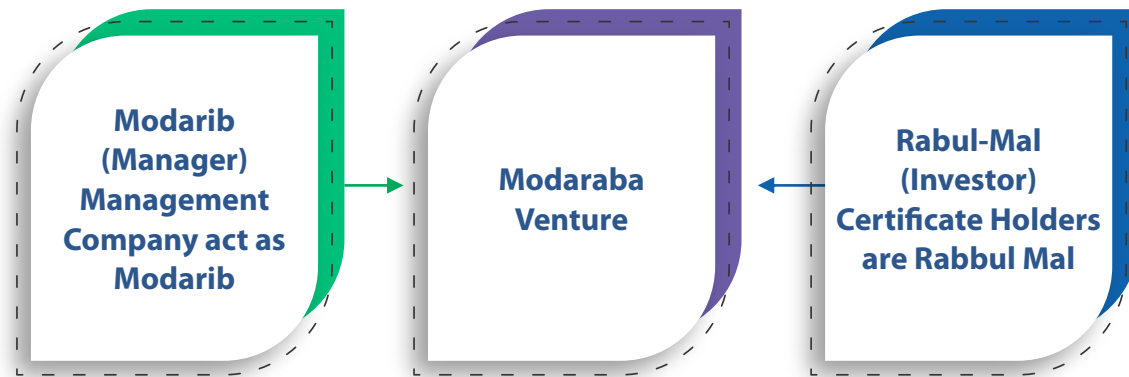


ORGANIZATIONAL STRUCTURE



KEY ELEMENTS OF BUSINESS MODEL

In Islamic Jurisprudence Modaraba is a kind of partnership, wherein one partner provides finance to the other partner for the purpose of carrying on business. The partner 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)



Key Inputs:

- Rich background of Group
- More than 100 years Legacy of Group in financial as well as in industry
- Experienced management
- Robust control mechanism
- Sound risk management abilities
- Strong credit appraisal protocols
- Business Activities:
- Shariah compliant financial services and equity investment

Output:

- Return on Investment i.e. Dividend and Capital Gain
- Healthy equity size built-up
- Good market reputation
- Maintain good credit rating
- Leading position within Modaraba sector
- Consistent profitability since inception
- Consistent dividend payment since inception

Outcomes:

- **Short Term:**
 - Best return to Investors
 - Satisfactory results every year
- **Medium Term:**
 - Consistency in growth
- **Long term:**
 - Sustainable venture
 - Value addition for all Stakeholders

SIGNIFICANT FACTORS AFFECTING EXTERNAL ENVIRONMENT AND THE MANAGEMENT'S RESPONSE

External Factors	Description	Management's Response
Political	Political instability may have adverse impact on economy and businesses.	The management is well focus on any political changes and realigned their business strategies according need and economic environment.
Economic	<ul style="list-style-type: none"> • High Inflation • Upward in discount rate • Depreciation of Pak Rupees 	For lending rates fluctuation, the entire financing portfolio is on floating rates basis and review on quarterly basis. Closely monitored Pak rupees movement and its impact on import and raw materials. Avoid financing to such vulnerable sector which may expose to high cost of imported raw materials.
Taxation	Withdrawal of tax exemption for Modaraba sector	Last year, the Central Board of Revenue has withdrawn income tax exemption on Modaraba sector of Pakistan. Through this abrupt move by FBR, the dividend distribution capacities of Modaraba entities have been diluted. However, FHM has maintained after tax earnings through increasing business volumes.
Technological	Technical obsolescence in financial ERP models. Continuous development and update of Information Technology infrastructures for better service to customers	The management is always pay special emphasis on the adoption of latest technology to improve its processes and operations. Meetings with IT team have been arranged on regular basis for further improvement and remain in line with latest technological advancement. In addition, the management continuously invests in the modern hardware and software for system up-gradation and MIS.
Legal	Various laws and regulations applicable on the Modaraba i.e., statutory, corporate, legal, taxation, and listing regulation.	The Modaraba is adhered with all the regulations and statutory obligations. A separate compliance department is established to make sure sound and robust compliance culture within the organization at all levels. Corporate and Legal advisors are on retainer ship basis for legal supports
Environmental	Laws and regulations regarding environmental stability and sustainable development. Requirements regarding treatment of waste water and carbon emissions.	The Company adheres to all applicable laws and regulations and voluntarily takes initiatives to create long-term value for community and environment. It is our corporate objective to consume minimum natural resources and create low emission and waste. We also discourage those customers whose businesses are not environment friendly. FHM conscious on negative effect of waste and initiated following measures to minimize use of paper.

THE LEGITIMATE NEEDS, INTERESTS OF KEY STAKEHOLDERS AND INDUSTRY TRENDS

The stakeholder's interest and engagement provide insight into the nature and quality of organization's relationship with its key Stakeholders. The said relationship also shows how and to what extent the organization understands, takes into account and responds to their legitimate needs and interest.

FHM always respect and values the cordial and mutually beneficial relationships with each and every Stakeholder. We firmly believe that these relationships are very important and can significantly affect our organization's business activities, outputs or outcomes and core values in case in any unpleasant situations.

The approach of FHM towards said relationships can be viewed in details at Stakeholder Engagement page No.140 and Strategy & Resource Allocation at page No. 40

Industry trends also shows focus attention towards understanding of legitimate needs of Stakeholders. Modaraba is listed entity in Pakistan market, is abide by all rules and regulation and also engage in best business practices as responsible corporate entity within the financial market.



SWOT Analysis

Strong financial position and profitability

Sound capital base and high Capital Adequacy Ratio

Subsidiary of one the well reputed and sound institution of Pakistan i.e., Habib Metropolitan Bank

Established brand name and customer loyalty

Leading Modaraba within the Modaraba sector

Professional and Committed Human Capital

Highest credit rating within Modaraba sector

Existence in major cities of the country

Prudent and Sustainable Business Policies

High cost of funds

Concentration on few big cities

Limited products of resource mobilization

Reduced profit distribution to Modaraba Certificate holders due to withdrawal of Tax exemption

Growing Islamic finance market within the country

Huge potential in Shariah based financing within the SME sector

Support of entire network of Habib Metro Bank for assets financing on long term basis

Increasing auto financing market particularly in consumer segment

High Inflation

Increasing trend in policy rate

Loosing value of Pak rupees with USD

Political instability

Growing competition with other financial institution

Growing cost of doing business

S

STRENGTH

W

WEAKNESS

O

OPPORTUNITY

T

THREAT

COMPETITIVE LANDSCAPE AND MARKET POSITIONING

First Habib Modaraba (FHM) is a multi-purpose modaraba floated and managed by Habib Metropolitan Modaraba Management Company (Private) Limited (the Modaraba Management Company). The Modaraba is engaged in the business of providing Islamic Financial Services and other related business. The registered office of the Modaraba is at 6th Floor HBZ Plaza, I.I. Chundrigar Road, Karachi. FHM is the largest & leading Modaraba within sector and enjoying distinct position such as:

- Highest credit rating i.e., AA+ for long term and A1+ for Short Term and maintaining it since last 14 years.
- Secured large number of awards from various national and international bodies.
- Highest in assets size in financial category modarabas.
- Highest in auto financing numbers within the modaraba sector.
- Continuous payment of dividend to certificate holders every year since 1985.

FHM has a wide branch/ liaison office network serving clients throughout the Country. We are present in almost all major cities of the country such as: Karachi, Lahore, Islamabad, Multan and Hyderabad. This vast network of FHM is providing Islamic Financial Services to prospective corporate and consumer clients.

Competition in the Industry

Landscape of Pakistan's Islamic Financial sector comprises of 27 modarabas offering various Islamic Financial products. Our competition within the Modaraba industry particularly with the financial category Modarabas.



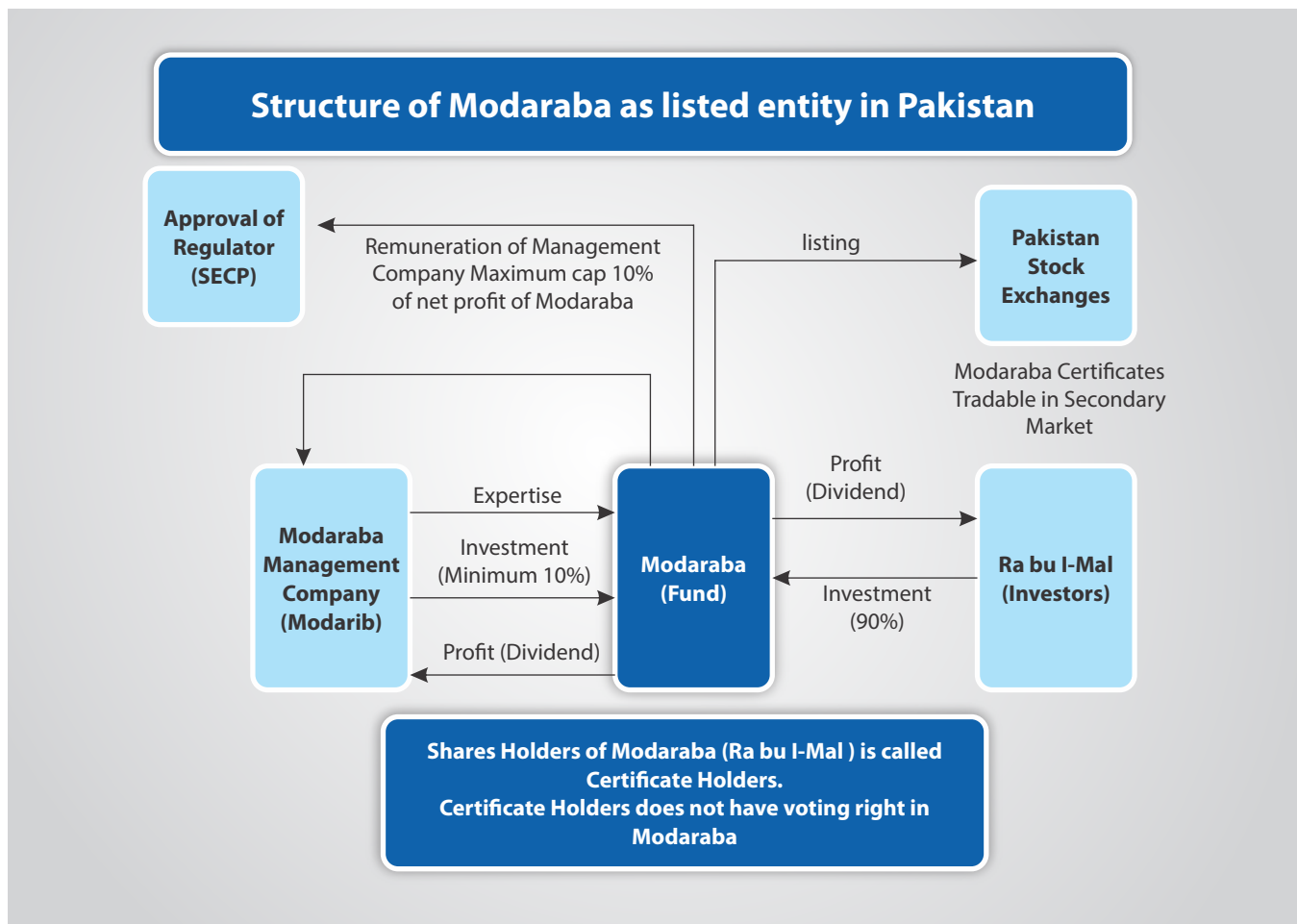
LEGISLATIVE AND REGULATORY ENVIRONMENT IN WHICH THE ORGANIZATION OPERATES

First Habib Modaraba is operating under the supervision of Securities & Exchange Commission of Pakistan, as Non-Bank Islamic Financial Institution.

In Pakistan, the process of Islamization of the economy was initiated in late 70s. On the recommendations made by the Council of Islamic Ideology; the Government of Pakistan introduced certain changes in the Banking Companies Ordinance. Besides, the Modaraba Law was also promulgated to provide a legal framework for Islamic financial system.

Modarabas in Pakistan has played a key role to give ignition and momentum to the movement of Islamization of financial system of the country. These Modarabas were not only trend setters of Islamic modes of financing in a predominant conventional financial system in Pakistan but also built confidence among the general public regarding practice of Islamic modes of financing.

At present, around 27 Modarabas are operating in Pakistan market. According to its statutory requirements, these Modarabas are listed on Pakistan Stock Exchange. Modarabas are governed under several laws and regulations such as Modaraba Ordinance, Modaraba Rules, Modaraba Regulation and Listing Regulations etc.,



THE POLITICAL ENVIRONMENT WHERE THE ORGANIZATION OPERATES AND MAY AFFECT THE ABILITY OF THE ORGANIZATION TO IMPLEMENT ITS STRATEGY

Political stability and controlled law & order situation is a pre-requisite for any economic development and enhance for investors' confidence and encourage business activities. In contrary, the political instability negatively impacts the economy, dilutes business activities and significantly impact overall country's growth.

In the case of Pakistan, the economy performed well in FY2021-22 and attained GDP growth of 5.97%. However, this high growth created issues of external issues of high trade and current account deficit. The external outlook continues to remain uncertain and largely dependent on the positive outcome. On other hand few more critical changes made at external and internal front such as change in government, war between Russia and Ukraine and hefty rise in global petroleum prices. These developments had completely changed economic scenario which created unexpected distress and challenges within economy and businesses. Rising commodity prices in last few months and high current account deficit due to inflated the import bill, putting the country on the verge of a balance of payments crisis.

In present business circumstances we will cautiously move forward and will be more careful in our existing and new business engagements for new assets financing. Simultaneously, we will also undertake the necessary technological innovation and process improvements required to stay ahead in changing market dynamics.

Keeping in view of present economic scenario we have devise following business and operational strategy for current year.

- To make sector wise analysis comprising on its product demand and its cost of doing business.
- Careful watch leveraging position of customer and cash flow generation capacity in present difficult environment.
- Concentrate on small and medium size customer for horizontal growth.
- Enhance size of auto consumer financing
- Explore new avenues of low cost resource mobilization through COIs and other Islamic instruments.
- Reduce cost of doing business through support of technology

Enhance technological advancement and broaden digital space for enhancement of operational efficiencies through virtual engagements of staff members.

Besides the growth targets and additional market penetration for financing book, we intend to focus more on long term sustainability in business and profitability. We believe that our well-founded management principles, focus approach and our commitment to strong governance are key segments to achieve our goal.

Major Event During the Year

July 2021 - June 2022

QUARTER 01

- The Joint Evaluation Committee of the Institute of Chartered Accountants of Pakistan (ICAP) and the Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan) has awarded 1st Position "Best Corporate and Sustainability Report (BCSR) 2020 award" to FHM under the category of NBFIs and Modaraba on August 27, 2021.
- PACRA Maintains Entity Rating AA+ for long term of First Habib Modaraba on September 27, 2021.
- Board of Directors meeting for the year ended June 30, 2021 was held on September 30, 2021.

QUARTER 02

- Board of Directors meeting for the Quarter ended September 30, 2021 was held on October 26, 2021.
- Annual Review Meeting of the Modaraba for the year ended June 30, 2020 was held on October 27, 2021.
- The Management Association of Pakistan has awarded Corporate Excellence award to First Habib Modaraba (FHM) in their ceremony held on October 28, 2021 at Karachi. This award was given within the "Financial Category". The said category consisting of Modarabas, Leasing Companies, Commercial Banks & Insurance.
- Credit of Final Cash Dividend for the year ended June 30, 2021 on November 06, 2021.


QUARTER 03

- FHM received joint 2nd Runner up "Best Presented Annual Report Award" from South Asian Federation of Accountants (SAFA) for overall category of Financial Services Sector. The award ceremony held on February 09, 2022.
- Board of Directors meeting for the Half Year ended December 31, 2021 was held on February 23, 2022.

QUARTER 04

- Board of Directors meeting for the Quarter ended March 31, 2022 was held on April 21, 2022.
- Received Best Performing Award (2nd Position) from NBFIs & Modaraba Association of Pakistan



A high-angle photograph of a business meeting around a dark grey table. Several people are visible, mostly from the chest down, wearing professional attire like light blue and dark navy shirts. Their hands are positioned around puzzle pieces on the table. On the left, there is a cluster of green puzzle pieces. In the center, a single white puzzle piece is being held by two hands. The text 'STRATEGY AND RESOURCE ALLOCATION' is overlaid in white, serif, all-caps font on the right side of the image.

STRATEGY AND RESOURCE ALLOCATION

STRATEGY & RESOURCE ALLOCATION

Strategy is a plan of action to achieve short, middle and long term desired goals. It is a powerful tool in helping us to reach your goals in line with vision and mission of our entity. A strategy is all about integrating organizational activities, utilizing, and earmarking the limited resources within the organizational environment so as to desire goal.

Strategic Objectives:

Short, medium and long term objectives of FHM to meet the business goals and long term sustainable progress and development are as follows:

Short Term

- Carefully watch present changing economic environment and market dynamics.
- Improve market surveillance and sector update where FHM engaged in financing
- Repeated revisit operational processes
- Make sure uninterrupted operational processes
- Enhance efficiency, reduce cost and improve customer service.
- Testing business continuity plan on regular basis

Medium Term

- Technological advancement
- New product development
- Capacity building and professional grooming of staff members.
- To add quality customer and enhance market out reach.
- Develop good quality financing assets portfolio for sound and sustainable return.

Long Term

- Maintain status of leading Modaraba within the Modaraba sector as an Islamic Financial Institution
- Carry out all business transactions in line with approved mode of Shariah principles of Islamic finance.
- Make sure of strong Shariah compliance culture.
- Constantly promote good corporate governance and follow best business practices

- Maintain high ethical and professional standards and promote economically productive ethical activities
- Build a high performance culture on equality, trust and integrity with growth oriented focus.
- Enhance market outreach through FinTech support.

STRATEGIES IN PLACE

In spite of the difficult operating environment and challenges in 2021-22, we have not only maintained our leading positions within the sector but also made exceptions in key areas of business. When we began 2021, we were determined to be optimistic for a better year ahead. Since beginning of the year, the team of First Habib Modaraba (FHM) remained vigilant and agile to grape the post COVID-19 opportunities within the businesses.

With the high level of team spirit, Alhamdulillah, performance of financial year 2021-22 remained excellent and all our key targets have not only achieved but also increased with good margins. We must say that above year proved to be one of the best years in the operational history of FHM in terms of performance, disbursement, profitability and overall business growth. This shows that we always remain within our core objective and continuously raise our bar for growth and best performance through well-defined and focused corporate & business strategies.

It is our corporate motto to build a long term sustainable value that will meet the needs of the present without compromising the future. Our growth strategy is based on creating value for our stakeholders where we continue to create an environment that will develop, withstand and induce sustained growth among all stakeholders.

Besides the growth targets and additional market penetration for financing book, we intend to focus more on long term sustainability in business and profitability. We believe that our well-founded management principles, focus approach and our commitment to strong governance are key segments to achieve our goal.

RESOURCE ALLOCATION PLAN

The management of the Modaraba allocates the resources of the Modaraba in line with the core objective and approved policies and procedures. The management is committed towards achieving the strategic objectives of the Modaraba and has accordingly allocates the resources towards sound assets building under approved Islamic mode of financing for sustainable growth and profitability. The key resource allocation plans are as under:



Financial Resources

All the financial resources of the FHM are utilized effectively and efficiently under Shariah guidelines and policies and procedures framed by the Board of Directors. These resources are greatly support for smooth business operations of the entity. The management always keeps on adding value on said resources as per changing environment.

Intellectual Resources

Through capacity building, develop intellectual capital for best corporate culture, good governance and to follow best business practices.

Human Resources

In prevailing situation, the most important tasks of HR department to make sure the health safety of staff members of FHM during pandemic. FHM has team of professional in their related respective fields for smooth business operations. Our HR department takes utmost care to ensure that our induction strategies, training and development methodologies, compensation strategies and performance appraisal systems remain robust and in line with best practices. It is our responsibility to ensure that our people are motivated, inspired & committed to delivering a consistently outstanding performance.

Natural Capital

FHM will try to decrease its carbon footprint by maintaining its movement towards systemization of back-end services, centralization of processes in certain key areas, as well as digitizing processes to place minimal burden on the environment. Reduced use of paper will be complemented with greater investment in green power for various physical locations spread throughout the country.

Information Resources

FHM has large number of customers at country level. Our customers entrust us with large amounts of information, stemming from a wide range of industries including healthcare, financial services, technology and others. All the information and data available within the FHM is utilized for business purpose only to achieve the strategic objectives of the Company.

KEY RESOURCES AND CAPABILITIES OF THE COMPANY WHICH PROVIDE SUSTAINABLE COMPETITIVE ADVANTAGE.

First Habib Modaraba (FHM) has completed 37 years of successful business operations within the Modaraba sector of Pakistan. Over the years FHM has been continuously recognizing for its satisfactory results, good corporate governance, best report culture and sound and stable credit rating. With a thrust to achieve operational excellence, FHM continue to improve operational processes, infrastructure and professional grooming of human resource in order to provide quality and reliable customer services including compliance of all regulatory and Shariah requirements. These all are due to best use of available resources and capabilities of the FHM which provide sustainable competitive advantage.

Our key resources and capabilities are:-

Resources

- Strong financial resources with sound financial footing with strong equity structure
- Professional and Committed Human Capital
- Support of branch network of Habib Metropolitan Bank, being a parent body.
- Trained human resource for quality service to customer

Capabilities

- Established brand name across the country
- Subsidiary of one the well reputed and sound institution of Pakistan i.e., Habib Metropolitan Bank
- Robust customer confidence and loyalty
- Leading Modaraba within the Modaraba sector
- Highest credit rating within Modaraba sector
- Quality assets financing portfolio
- Always promote good corporate governance and follow best business practices
- Follow high ethical and professional standards.

VALUE CREATED BY THE BUSINESS, AND FOR WHOM, USING THESE RESOURCES AND CAPABILITIES

We are continuously making efforts on enhancing our capability to anticipate key trends through various stakeholder engagement programs, combined with constant reviewing of our marketing approach and operational processes to help us utilize and transform our capitals for value creation.

Our ability to meet and exceed customer expectations with the state of art services, execution of business strategies and ensuring fast processing of credit proposals. Our focus always remains to undertake decisions with the view of long-term value creation for our Certificate Holders and Investors.

Our input for value creation process

- Financial Capital
- Human Capital
- Intellectual Capital
- Social & Relationships Capital

Our various processes to create Values

- To carry out all business transactions in line with approved mode of Shariah principles of Islamic finance.
- To promote good corporate governance and follow best business practices
- To maintain high ethical and professional standards.
- To build a high performance culture, with growth oriented focus.
- To provide state of art services to customers and develop service oriented culture.
- To broaden the area of technology to ensure operational efficiency, enhance delivering capability and high service standards.
- To develop strong compliance culture and sound risk management framework.

Resources and Capabilities will be supported and add value as follows:-

- To add value for Certificate Holders
- Creation of sound financing and investment portfolio
- Handsome and constant profit distribution to Certificate holders and investors.
- Handsome remuneration and other facilities to staff members of FHM
- Long and sustainable value creation for other stakeholders
- Better remunerations on capital of sponsors
- Shariah compliant profit distributions to Certificate holders and investors

STRATEGY TO MAINTAIN AND MONITOR THE CULTURE OF ORGANIZATION

Strategic decision-making is a process to evaluate the current and expected future situation and way to achieve the goals of the organization with long term sustainability. In FHM for any strategic decision the management do engage the senior and middle management staff members for feedback and get suggestion about upcoming new developments including how to address the expected future challenges and course of action to counter the said challenges.

Key Steps for Addressing Integrity and Ethical Issues

- Ensuring that all members of the organization understand that they have a responsibility to promote integrity.
- Conducting systemic integrity risk assessments on an ongoing basis.
- Facilitating open communication about integrity-related issues; recognizing and rewarding ethical conduct.
- Providing a mechanism for members to consult about integrity related issues.
- Ensuring that performance management systems are in alignment with the organization's ethical goals.
- Providing ongoing training for integrity-related practices.

KEY PERFORMANCE INDICATORS

After passing through with difficult periods of pandemic, undoubtedly we have learnt of new challenges and quickly adopted the required changes with forward thinking to continue with routine engagements. In spite of the difficult operating environment and challenges, we have not only maintained our leading positions within the sector but also made exceptions in key areas of business.

With the high level of team spirit, Alhamdulillah, performance of financial year 2021-22 remained excellent and all our key targets have not only achieved but also increased with good margins. We must say that above year proved to be one of the best years in the operational history of FHM terms of performance, disbursement, profitability and overall business growth.

The team of FHM deserves great appreciation that they have shown their resilience and commitment during the last two years of turmoil. By adopting cautious practices in our lending business, we were not only able to hold on to a trend of steady financial numbers but also achieved exceptional performance in 2021-22.

The key performance indicators during year 2021-22 were as follows:

- 42% growth in Balance Sheet size
- 49% growth in total financing assets
- 68% growth in financing disbursement
- 54% growth in Certificate of Investment (Musharaka)
- 36% growth in profit before tax

Strategic Objectives	Strategies to Meet Objectives	KPIs	Future Relevance
To make sure of strong Shariah governance	Continuous training for staff members and through other relevant training centers	Sound Shariah Compliance Culture	The KPI shall remain relevant in future
To attain sizeable growth in financing assets	Increase market outreach, expand business promotion sales force and quality customers within the financing portfolio	Balance sheet growth	The KPI shall remain relevant in future
Good quality financing assets portfolio	Add quality financing assets through strong credit appraisal and robust proposals evolution criterial	Low infected financing assets portfolio	The KPI shall remain relevant in future
To maintain strong equity base	Healthy profits and good retentions support for strong equity base	Strong equity base	The KPI shall remain relevant in future
Operational efficiencies, Business Continuity Plan (BCP) through technological advancements	Upgrade existing application. Procure latest equipment for state of art IT infrastructures. Strengthen remote working capabilities.	Technological advancement	The KPI shall remain relevant in future
To maintain strong Capital Adequacy Ratio (CAR)	Through better profits and reserve building	Strong equity base	The KPI shall remain relevant in future
To make FHM a profitable venture	Channelize resources in profitable segments for better and long term earnings.	Sound profits every year	The KPI shall remain relevant in future

Strategic Objectives	Strategies to Meet Objectives	KPIs	Future Relevance
To make sure sound and robust compliance culture	Strengthen the capacity of relevant departments through job trainings and develop better coordination within the departments	Sound compliance culture	The KPI shall remain relevant in future
Strengthening of Risk Management segment.	Revisit policies and processes of risk management functions and procedures	Better controlled environment	The KPI shall remain relevant in future
Sound credit ratings	Follow good governance and best business practices, built sound assets quality, better profitability, strong internal control and compliance culture	Maintaining rating scales of AA+ for long term and A1+ for short term since last 14 years.	The KPI shall remain relevant in future
To give best return to investors.	Sound profitability to best return in shapes dividends to Modaraba Certificate Holders	Declared cash dividend of 20%	The KPI shall remain relevant in future

Strategies to be followed to further strengthen key performance indicators in 2022-23

- To make sector wise analysis comprising on its product demand and its cost of doing business.
- Careful watch leveraging position of customer and cash flow generation capacity in present difficult environment.
- Concentrate on small and medium size customer for horizontal growth.
- Explore the possibilities of introducing new Shariah compliant products such Morabaha, Istisna and mortgage financing.
- Enhance size of auto consumer financing
- Focus on financing of assets other motor car for sound customers.
- Explore new avenues of low cost resource mobilization.
- Reduce cost of doing business through support of technology
- Enhance technological advancement and broaden digital space for enhancement of operational efficiencies through virtual engagements of staff members.
- To enhance operational capacity of staff members through different segments of training programs.
- Engage in various CSR related activities for community support.

Changes in performance indicators

Performance indicators and measures can be changed in coming years due to certain force majeure impacts which has already discussed in forward looking statement.

BOARD'S STATEMENT

1. Significant plans and decisions such as corporate restructuring, business expansion, or discontinuance of operations:-

Merger of Habib Metro Modaraba with First Habib Modaraba

In the month of March, 2022, the Board of Directors, in principle proposed the merger of Habib Metro Modaraba with First Habib Modaraba subject approval from SECP and other relevant authorities. The Board view that the said merger will support for cost saving, improve economies of scale and bring competitive edge in auto financing market. The initial work for propose merger has been initiated and expected that it will take 5 to 6 months to complete the merger process.

The following benefits will achieved with said merger

A. Larger Asset Base

The Amalgamation would lead to an increase in the asset base and the size of the surviving entity i.e. FHM. This would in turn assist the management to have access to more external funds at competitive rates. The larger size of the fund capital and asset base would provide greater comfort to existing and potential creditors of the surviving / merged entity. Moreover, access to larger resources would in turn improve growth prospects and the ability to undertake large assignments.

B. Synergies

Both the Modarabas are multi-purpose Modarabas, involved in similar lines of business / activities. Accordingly, the Amalgamation would provide an opportunity to operate the business / operations of FHM and HMM through a consolidated operations department, a single accounts department and one set of employees, thus resulting in economies of scales. The same would also be beneficial as the entity would benefit from increased market presence.

C. Increase in Risk Absorption Capacity

The larger size of FHM (as the merged / amalgamated modaraba) would increase its risk absorption capacity thus enhancing the capacity to manage the potential risks arising out of the adverse and uncertain operating environment. In the long run, this factor would provide greater stability as well as sustainability in operations.

D. Single Corporate and Tax Reporting

The Amalgamation will make single corporate and tax reporting possible for the merged entity. The same will entail elimination of maintenance of separate records for business operations, selling, purchasing, marketing, legal, administrative, and secretarial and other records under the various laws resulting in duplication of work and higher costs.

2. Business rationale of major capital expenditure or projects started during the year and those planned for next year etc.,

No major capital expenditure or project was started last year and not planned for current year except routine business related planning and strategies.

MANAGEMENT OBJECTIVES, STRATEGIES AND SIGNIFICANT CHANGES

Management Objectives	Strategies to meet the objectives	Relationship between FHM Results and objectives
Financially sound institution	Strong equity structure	Net assets value is 3 times of face value of Modaraba Certificate. Well capitalized having Capital Adequacy Ratio of 24% as on 30th June, 2022
Prudent growth	Adding sound customers in nancing portfolio	Alhamdulillah, performance of nancial year 2021-22 remained excellent and all key targets have not only achieved but also increased with good margins. The said year proved to be one of the best years in the operational history of FHM in terms of performance, disbursement, protability and overall business growth.
Sound credit rating	Quality assets growth, follow good governance and best business practices.	Secured AA+ rating for long term and A1+ for short term from PACRA which the highest rating within Modaraba sector of Pakistan. FHM is maintaining the AA+ rating since last consecutive 14 years.
To give best return to investors	Business volume was enhanced with the prudent and cautious lending strategy.	Handsome profit distribute every year to Modaraba Certificate Holders
Sharia governance	Established separate Shariah compliance department to oversee day to day operations.	Continuous improvement in Shariah governance and Shariah compliance culture.
Sustained protability	In order to maintain the protability the volume of business and good number of customer were targeted and successfully achieved.	In a very competitive business environment, FHM has made excellent profit. The prot before tax increase to 36.3% as compared to last year.
Quality assets growth	Tapped good corporate clients for nancing in order to add good quality assets.	Despite of high volume of disbursement the assets quality were maintained with satisfactory recovery performance.
Strengthening of risk management segment.	Revisit and refresh all the risk management and internal control mechanism and processes for eective controls.	Due to effective Risk Management and control mechanism the entity did not encounter with any major adverse operational flaws and also maintained business growth.
Technological advancement	Data centers environments revamped and networking equipment upgraded at all branches.	Customer's service delivery was improved and high volume of business was also efficiently managed with the support of technological advancement.
Proper corporate disclosures	At nalization of annual nancial report maximum information was made available for all stakeholders.	Due to proper disclosures the annual report of FHM is being selected since last twelve consecutive years for best report award by ICAP and ICMAP.

Significant changes in objectives and strategies

There is no major departure from our core objectives and business strategies.

However, there is slight change in our business strategies as compare to previous year. This change has been made keeping in view of prevailing business opportunities and expected economic growth.

Keeping in view of present economic scenario we have devised following business and operational strategy for FY2022-23.

- To make sector wise analysis comprising on its product demand and its cost of doing business.
- Careful watch leveraging position of customer and cash flow generation capacity in present difficult environment.
- Concentrate on small and medium size customer for horizontal growth.
- Explore the possibilities of introducing new Shariah compliant products such as Morabaha, Istisna and mortgage financing.
- Enhance size of auto consumer financing
- Focus on financing of quality assets including motor vehicles within sound customer segments.
- Explore new avenues of low cost resource mobilization through COIs and other Islamic instruments.
- Reduce cost of doing business through support of technology
- Enhance technological advancement and broaden digital space for enhancement of operational efficiencies through virtual engagements of staff members.
- To enhance operational capacity of staff members through different segments of training programs.
- Engage in various CSR related activities for community support.

Besides the growth targets and additional market penetration for financing book, we intend to focus more on long term sustainability in business and profitability. We believe that our well-founded management principles, focus approach and our commitment to strong governance are key segments to achieve our goal.





RISKS &
OPPORTUNITIES

KEY RISK AND OPPORTUNITY REPORT

Type of Risk	Explanation	Strategies to Mitigate the Risk	Likelihood	Magnitude of risk
Operational Risk	Occurrence of any event which create hindrances to continue the business operation i.e. System failure, employee error and fraud, inadequate process and procedures etc.	To mitigate the operational risk FHM has independent control function of systematic monitoring the operational lapses and ensure the company policies and procedure. Internal control department regularly assess the operational risk suggest any improvement to mitigate the operational risk.	Likely	Very low
Credit Risk	The potential that a borrower/counterparty may fail to honor its financial obligations in accordance with terms of agreement.	Modaraba has strong credit assessment system and procedure for credit appraisal using the credit risk rating system to manage the credit portfolio.	Likely	Very low
Liquidity Risk	Liquidity risk is the risk the FHM may be unable to meet its financial obligations on its due dates.	FHM Assets Liability Committee (ALCO) regularly meet to manage the liquidity position and ensure the availability of matching funds to meet its financial obligation when it falls due.	Likely	Very low
Market Risk	The risk arises due to change in any market variable i.e. price, volatility etc.	The Deposit & Financing portfolios are tied to floating rate, and revised on regular intervals.	Likely	High
Regulatory & Compliance Risk	It's the risk FHM may face due to regulatory non-compliance which attracts the penal action from regulator.	A strong compliance and internal control system is designed for monitoring of compliance in line with regulatory requirements, changes in rules and regulations, particularly, AML CFT regulations.	Likely	High
Reputational Risk	Reputational risk is a risk to damage the image of the organization which leads to financial loss, destruction of shareholder value.	To prevent and mitigate reputation risk, we practice sound customer experience management, better governance structure, social as well as staff satisfaction and sound compliance culture.	Rare	Very low
Shariah non-compliance Risk	The risk of non-compliance of shariah rules & regulations in business operations may lead to charity of income	Strong observance of shariah rules & regulations and continuous training of all staff	Not likely	Very low
Legal Risk	Legal risk is the risk of losses sustained by the FHM due to imperfect transaction documentation or any other events arises due to lack of knowledge or operational errors.	Execution of Documentation in line with legal vetted documents and executed through pre-defined system and internal controls.	Not likely	Very low
Technology Risk	Technological Risk is a risk arises due to technological failure which disrupt the business operation.	Ensure security of systems, servers & networks through automatic updates of effective firewalls and regularly updating of software to the latest versions.	Likely	Low

Opportunity Statement

Based on internal and external environment Modaraba always be proactive to counter the prevailing risk and try to identify the opportunities inherent in prevailing risk and take early advantage. Modaraba control mechanism reduce the risk through its mitigating tools and formulate the strategy to capture opportunities embedded in the circumstances.

Opportunity	Strategy To Materialize	Internal/External
Strong Equity Base and very high Capital Adequacy ratio	Explore the new avenues for further investment	Internal
Enhance focus on Auto Car Financing Business	Explore the possibility of associates/corporate customers assistance	Internal/External
Introduce new financing products	Facilitating exiting Blue chip customers' needs	Internal
Highest credit rating within Modaraba sector	Explore the potential of institutional funds raising	External
Potential in Shariah based financing within the SME sector	Explore the Market using various business networks i.e. Chambers, institutions etc.	External

Key Source of Uncertainty

There are various sources of uncertainties which consisting on internal and external factors.

Following are the key sources of uncertainties:

- Unstable political situation.
- Abrupt change in policy rate on upward side
- Higher than expected inflation.
- Adverse changes in regulatory and taxation laws.
- High prices of commodities in global markets.
- Continues depreciation of Pak rupees

Materiality Approach

Materiality always put significant effect on operations, reputation and performance of the institution. A careful watch always given on said segments and focus to be made on materiality process to help and support to address critical issues, stakeholders expectation, sustainability and assessment of risks and opportunity segments on regular basis.

RISK MANAGEMENT FRAMEWORK

The Risk Management Framework (RMF) is a set of criteria that command how the entity process architected, secured, and monitored its risk management process. FHM believes a strong risk management strategy that stems from sound corporate governance in order to solidify the enterprise risk management framework. This allows the company to smoothly and pro-actively adapt to changes in the business environment. The governance of risk management starts with the board and mingled around a strong management structure, information system, risk-rating system and robust policies.

BOD of FHM believes on independence and empowerment, which are the basic principle for better risk management which independently assessing, analyzing, treating and controlling by the front desk risk takers. In principle FHM constantly improving its risk management framework on the basis of market best practices and regulatory guidelines and accordingly amend and update its policies and procedure under the guidance of BOD.

The risk management process developed by the FHM management in line with current and expected future irregular circumstances to mitigate its credit and operational risk. This frame work includes evaluation of its current process identification of risk category which includes threats and vulnerability, its measurement & assessment to find out its impact, and defined the mitigation tools and reporting framework. The BOD and management guidance, strong interdepartmental coordination and sound information system is the key for good results.

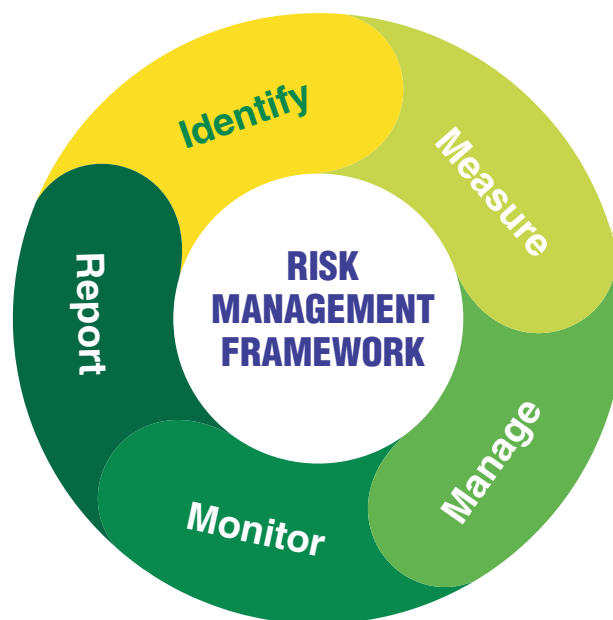
FHM assumed various risk which includes, Credit Risk, Market Risk, Liquidity Risk, Reputational Risk & Operational Risk.

Credit Risk Management

In any financial institution Credit granting to any borrower are very critical and important segment.. FHM management always be cautious while granting any financing facility to its customers. For this purpose, we have developed various credit appraisals and assessment tools to minimize the credit risk. Our credit granting model is very effective and has ability to support and sustain in any adverse situation.

Market Risk Management

The abrupt changes in policy rate create instability increase the cost of doing business. The Asset Liability Management Committee (ALCO) always be alert for any changes in the market scenario and has close watch over the current economic circumstances and regional changes to address any economic syndrome. Our entire portfolio is based on floating rate which is reviewed on quarterly/half yearly basis which reduces the risk of any abrupt changes in policy rate.



Liquidity Risk Management

In the recent economic downfall scenario, the liquidity management is one of the difficult task. The liquidity risk management is based on following critical elements:

1. Mix of diversified existing and potential sources of funding.
2. Policies and procedure in line with business model.
3. Monitoring and timely reporting of current status of liquidity.
4. A very comprehensive contingency plan for availability of funds.
5. Strong internal control.

FHM management closely monitor the liquidity position through current, political and economic circumstances and other socio economic factors in order to ensure the effective decision making on timely manner. FHM have strong equity base and good long term association with depositors which provides FHM strength and support to maintain the strong liquidity position.

THE INITIATIVES TAKEN BY THE COMPANY IN PROMOTING AND ENABLING INNOVATION

Our long term success is built on a firm foundation of commitment, good governance, performance and prudent risk management. Effective corporate governance is an important foundation for success of our Modaraba.

With the passage of time FHM has developed and executed comprehensive plan particularly in the area of branding, system based working environment on real time basis, in house proprietary software, and improved processes and policies. The resilient and reliable FHM brand image among the stakeholders, peer group and masses at large sets our position as the leading Modaraba. It will give us competitive advantage and adds value towards our performance.

In our Mission Statement it is stated that to add value to all stakeholders through an effective human resource management in a modern and progressive organizational culture. Our core values is to lay down the foundation for a corporate culture that fosters and encourages organizational growth through promoting, enabling and driving innovation across all levels.

It is necessary that technological innovation and process improvements required staying ahead in changing market dynamics. At FHM we believe that to be successful in the long term we must continually reassess our competencies, business strategies and risk management approaches in order to cope with day to day business challenges.



BOARD'S EFFORTS FOR DETERMINING THE MODARABA'S LEVEL OF RISK TOLERANCE BY ESTABLISHING RISK MANAGEMENT POLICIES.

FHM Board ensures the assessment of principle risk faced by FHM by providing guidance to the management in the following manner:

- **Risk Acceptance Criteria** – Clearly defined risk assessment criteria with appropriate thresholds.
- **Risk Identification and Assessment** – Identification of principal risks faced by the FHM, their probability of occurrence and potential impact on the FHM business by developing appropriate risk mitigation strategy.
- **Risk Monitoring** – Timely monitoring of principal risks identified through established controls and evaluation of those controls to check whether they are effective and operative.
- **Residual Risk** - Understanding the nature and quantum of residual risks which remains after efforts have made to identify and mitigate all key risks.

A STATEMENT FROM THE BOARD OF DIRECTORS THAT THEY HAVE CARRIED OUT A ROBUST ASSESSMENT OF THE PRINCIPAL RISKS FACING BY THE MODARABA

The BOD regularly make assessment of Modaraba risk factor based on management reports which may affect the FHM business model, its liquidity position and future performance. There are various internal and external factors that may affect the performance of the Modaraba.

Challenges in modern technological advancement are main focus for future competitive environment. On the other hand, political and economic challenges to counter such innovation, and rapidly evolving technologies are also required to be continuously monitored and assessed by the management and placed before the Board of Directors along with their impact to FHM strategic short term and long term plans to sustain in competitive environment for their review & guidance.

FHM risk strategy, policies and procedures are continuously updated on proactive basis. BOD review financing facilities above certain threshold, recovery position, cases under litigation, sources of liquidity and market risk in quarterly board meeting. Further, BOD also confirm and ensure that the management have taken necessary steps to develop organization wide risk management culture through appropriate risk awareness programs and its mitigation tools at all levels of the organization.

The following various Internal and External principle risk identified by the Modaraba:

Economic factors:

Risk	Source	Impact
Credit Risk	External	Medium to High
Market Risk	External	High
Liquidity Risk	Internal/External	Low to Medium
Capital Adequacy Risk	External	Low

Other Factors:

Risk	Source	Impact
Reputational Risk	Internal/External	Low to Medium
Shariah Non-Compliance Risk	Internal	Low
Technological	Internal/External	Low
Operational	Internal/External	Low to Medium

STRATEGY TO OVERCOME LIQUIDITY PROBLEM

Alhamdulillah, now balance sheet size of FHM has reached to Rs.17.0 billion and our deposit and borrowing has also increased to around Rs.11.0 billion. Assets Liability Management Committee (ALCO) of FHM is responsible for formulation and management of overall liquidity position within FHM. FHM's liquidity risk governance structure is planned in such a way to ensure continued support for business requirements and backup for funds withdrawal in order to avoid any abrupt liquidity issue and reputational loss.

Due to sound credit rating and good reputation of FHM in financial and non-financial markets, FHM normally does not face any issue of liquidity management. However, we always try to reasonably liquidity within the system and same was demonstrated well in high COVID period of FY2020-21.

The Asset and Liability Committee (ALCO) of the Modaraba was continuously monitoring the liquidity position and is taking due precautionary measures and maintaining sufficient liquidity to cater any adverse in cash flow maturity profile.

Our treasury department has successfully managed the liquidity issue within our system and kept sufficient liquidity available within our network for any abrupt and unscheduled withdrawals.

ALCO committee regularly meet and review assets liability matching profile including future funding needs, withdrawals of placements in COIs and any other adverse change in money and liquidity markets through Central and Commercial banks. The core functions of ALCO committee to generate low cost funds for liability book and placements of funds in sound earning assets.

Recently our treasury department inducted sound corporate entities within portfolio for continuity of funds flow from different counters. The department has also arranged credit lines under Shariah compliant mode finance from different Islamic commercial banks/windows for diversity in resource mobilization segments.

INADEQUACY IN THE CAPITAL STRUCTURE AND PLANS TO ADDRESS SUCH INADEQUACY.

The Capital Adequacy ratio of FHM was satisfactory. As per regulatory requirement CAR requirement is at 10%, while FHM CAR was 24%.







SUSTAINABILITY & CORPORATE SOCIAL RESPONSIBILITY

STATEMENT ON SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

Sustainability

After showing good recovery in last year, Pakistan economy performed well in FY2021-22 and attained GDP growth of 5.97%. Growth in Pakistan's economy remained strong due to the sound monetary and fiscal stimulus measures initiated by the SBP & Government in the preceding year which has ended with a better growth in FY22.

However, in the 4th quarter few unexpected changes made such as political instability, war between Russia and Ukraine and hefty rise in global petroleum prices. These developments had completely changed economic scenario which created unforeseen distress and challenges within economy and businesses. Rising commodity prices in last few months and high current account due to inflated the import bill, putting the country on the verge of a balance of payments crisis.

Besides the growth targets and additional market penetration for financing book, we intend to focus more on long term sustainability in business and profitability. We believe that our well-founded management principles, focus approach and our commitment to strong governance are key segments to achieve our goal.

Our approach to sustainability

We constantly strive to make institutions more sustainable and equitable for the coming generations. It is our belief that sustainable development strengthens brand image, drives business growth and ensures long-term and sustainable success. By committing to a culture of excellence, good governance, best business practices, transparency and integrity, it ensures that all activities are conducted in a manner that is ethically responsible and beneficial for all stakeholders.

Energy conservation and energy saving measures

We feel that energy conservation and its saving are our national obligation. The management is geared towards to promote to use energy smartly and economically. With a vision to encourage market transformation towards sustainable business practice, we will continue our efforts to deliver environment friendly procedures and policies within our organization. Encourage staff members for avoiding of unnecessary wastage of resources such as excessive

consumption of energy etc. Customers are also encouraged for installation of solar power system for their energy use and different financial products for solar power are also under consideration at FHM.

Customer protection measures

Our relationships with our customers depend upon trust. To retain this trust we must set our customers' interest first while ensuring that all our customers are treated fairly according to the highest standards of service, transparency and responsible practices. We conduct our business in an ethical way guided by our core values of mutual respect, professionalism and commitment. Customer protection is an essential element of any financial system. It is not only important to protect existing customers but it also helps to boost confidence within the financial system for potential customer of future as well.

FHM is always committed to give best and secured services to its customers. Confidentiality and non-disclosure of the customer data is one of the strict guideline given by the management to the staff. The IT department has secured the data by using following techniques:

- Only allow authorize staff access to the information required by them in order to discharge their day to day job responsibilities.
- Encrypt any personal information held electronically that would cause damage or distress if it were lost or stolen.
- Securely remove all personal information before disposing of old computers (by using technology or destroying the hard disk).

Environment protection measures

It is our corporate objective to consume minimum natural resources and create low emission and waste. We also discourage those customers whose businesses are not environment friendly. FHM conscious on negative effect of waste and initiated following measures to minimize use of paper.

- Electronic documents managements system introduced to minimize printing of papers.
- Customers' correspondences being sent via e mails.

- Web based communication system has been started to communicate with customers and other stakeholders.
- Constantly raise staff awareness for paperless office concept and discourage unnecessary printing of documents.

Mitigating the adverse impact of industrial effluents

Our country is passing through with risk of shortage of water. This is an alarming situation within the country. FHM seeks to reduce the direct impact of its operations on the environment by creating awareness on the issues of water pollution and water preservation so as to deliver benefits to the community. We encourage our clients to avoid the release of effluent and industrial waste for the preservations of water resources and reduction of water pollution.

Complaint Management & Handling

All the complaints and feedback of customers and Modaraba Certificate holders have been managed through web portal of FHM. Designated staff members have access to this system so as to ensure that all complaints are immediately retrieved and addressed in proper manner. Our share registrar i.e., Central Depository Company (CDC) has also advised for quick and speed resolution of complaints and grievances of Certificate Holders of FHM.

Business ethics and anti-corruption measures

We believe that in financial institutions the ethics of employees play a very vital part for institutional reputation and sustainable development. Similarly the ethical boundaries are also utmost important for our other stakeholders such as supplier, customer, investors and certificate holders.

FHM's Code of Ethics spells out the expected standards of behavior and sets the operating principles to be followed. Our Code of Ethics requires that it is necessary to ensure that the standards of behavior expected from Management and employees are followed to the letter and spirit. In this connection, FHM's Code of Ethics clearly stipulates the expected standard of behavior and the "Do's" and "Don'ts" the employees must observe. Further, the Code provides guidance on identification, follow up action and reporting of malpractices, if any.

At FHM we are fully committed to comply with local laws and regulations as well as applying a strict code of conduct to all employees. FHM convinced that ethical management is not only a support for effective responding to the rapid change to overall business environment but also a strong channel for building trust with its various segments of society.

For sustainable development and performance, we have developed following professional Code of Ethics which adhered and implemented at all levels. These principles have been guiding through our own practices

- Comply with all applicable laws and regulations.
- Comply with Shariah governance.
- Be fair with investor and customer.
- Give transparent and timely information to our investors.
- Maintain confidentiality of customers' information.
- Do not encourage anti-environmental activities.
- Do not engage in speculative activities.
- Equal Opportunity Employer

FHM is an equal opportunity employer and does not discriminate on the basis of race, gender, age or disability. The responsibility of the HR department is to ensure equal opportunity and transparency in terms of suitable recruitment, compensation on the basis of merit and qualification. The management of FHM ensures that through its approved Code of Conduct the rights of all staff members are well defined and understood by each and every staff members.

Occupational Safety and Health

At FHM the health and well-being of our employees is one of our top priorities. The management has always tried its best to provide a congenial working environment to its employees, which includes Health & Safety aspects of its personnel. Creating a positive, healthy and a safe workplace environment is fundamental to ensure the wellbeing of our employees. This also supports us to curtail job absenteeism, lower staff turnover and secure higher productivity levels in our operations.

We always encourage staff members for better life style and also adopt safety and preventive measures to minimize occupational injuries and illnesses. We believe that healthy employees will remain quality and productive assets of the institution. All staff members of FHM are covered under comprehensive insurance policies for life and medical.

Contribution to National Exchequer

Modaraba do contribute to national exchequer through withholding tax on dividend and profit payment, including huge purchase of financing assets such as motor vehicles, machineries and equipment.

CORPORATE SOCIAL RESPONSIBILITY

As leading Modaraba within the sector, our business strategies are based on strong ethical foundation and concept of sustainable business to create maximum value for our stakeholders. Translating this believe our sustainability model is surrounding within our People, Organization and Planet.

Accordingly we have aligned our Corporate Social Responsibility (CSR) initiatives to deliver on this commitment, and enhance community empowerment and responsible environmental management in a sustainable manner.

FHM, being a socially responsible corporate entity, has been a regular contributor to the society and communities. It has been our primary concern to ensure that contributing to community development should be continuously carried out.

Since last several years FHM has been donating non-profit organization working for improvement educations, healthcare etc. FHM continues to encourage events and projects which focus on children, health and education in under privileged members of society.

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



COMPLIANCE OF THE CORPORATE SOCIAL RESPONSIBILITY (VOLUNTARY) GUIDELINES, 2013

CSR includes bringing value to the community and generating a positive impact

Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental.

To engage in CSR means that, in the ordinary course of business, a company is operating in ways that enhance society and the environment instead of contributing negatively to them.

Businesses can no longer operate with the sole aim of making profits at the expense of the environment, society, economy, consumers and employees. Companies need to consider how they can give back to society, and this can help you attract customers and keep your best employees. Customer satisfaction and employee retention are the keys to any successful business, after all.

*We live in a world where social responsibility is a critical

factor in how employees choose where to work and where consumers decide to spend their money. Understanding the impact, they have on the world around them has never been more important for large corporates.

But more than that, in order to stand out in a positive light, they need to implement and commit to a program of social responsibility activities.

The nature of CSR has evolved, it is now more than simply giving to charity; it has become an integral part of how organizations run their business and focus on consumers' perceptions of company governance, the company's positive influence on society, and how it treats its employees as per the guild lines of SECP First Habib Modaraba, implements all the requirements for CSR Activities

We visited "Help International Welfare Trust" who are engaged in diverse fields in the social welfare and health sectors of Pakistan but its most significant work pertains to the field of Thalassemia treatment and care. Our Executive Vice President Mr. Intisar Muhammad Usmani along with the HR Team visited HIWT & appreciated the work being done at centre with quality medical care.



CERTIFICATIONS ACQUIRED AND INTERNATIONAL STANDARDS ADOPTED FOR BEST SUSTAINABILITY AND CSR PRACTICES

FHM views corporate social responsibility as a business approach that contributes towards sustainable development through inspiring economic, social and environmental benefits for the community. Being a good corporate citizen is part of the Modaraba's core values.

Despite of not acquiring any certification related to CSR, FHM is always keen to adopt best CSR for maintaining in Health, Safety and Environment within its own operations. In addition, supporting causes that focus on social upliftment remain a focus area for the Modaraba through which it supports various communities in Pakistan.

Our key areas of interests in this connection include but are not limited to environment protection education, health and social development of the society through charity & the charity amount is increasing year by year. Key initiatives supported by the Modaraba included:

WHISTLE BLOWER MECHANISM:

The Board has developed the Whistle Blower Mechanism in line with the requirements of the Code of Corporate Governance. There may sometimes be conditions in which people feel uncomfortable raising issues directly with their managers. Hence we plan to provide a confidential "whistle blowing" mechanism throughout the Modaraba which the employees will be able to use.

The policy encourages open discussion of these issues and no one will be disadvantaged as a result of informing in good faith any concerns about compliance with the

Modaraba's Code of Conduct. Under the policy, all disclosures are kept confidential and the identity of the individual making the allegation may be kept confidential so long as it does not hinder or aggravate any investigation.

However, the investigation process may reveal the source of the information and the individual making the disclosure may need to provide a statement as part of the evidence required.

EMPLOYEE HEALTH FACILITIES:

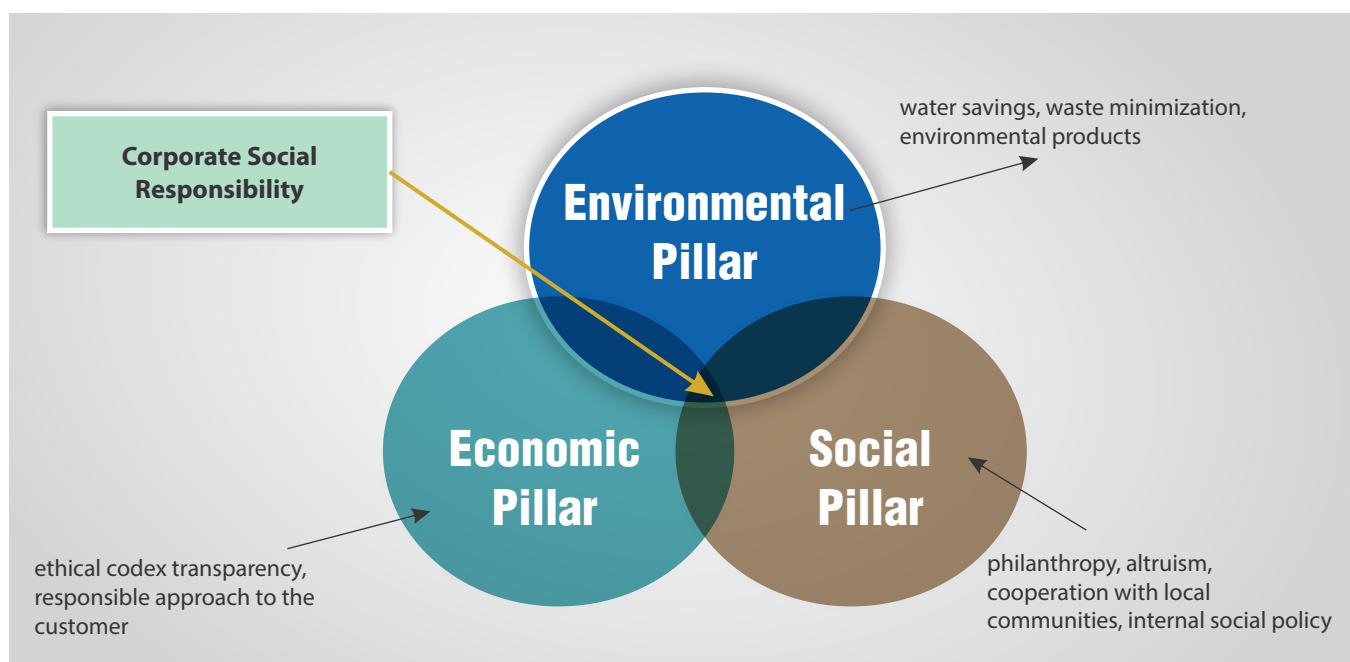
FHM provided some health facility in alliance with a well-known Insurance company where better cost of medical tests and advices from physician were offered to the employees at all levels.

OPPORTUNITY FOR YOUNG TALENT HUNTING:

As a responsible corporate citizen, Modaraba continued to provide MTO Programs and internships experience to students from various academic institutions. This year, the number of interns increased from the previous years which in addition to willingness of the Modaraba to provide opportunity to young talent to help them learn in a professional environment.

ONBOARDING MORE CHARITABLE INSTITUTIONS:

FHM has really concerned about the situation of increase in inflation & poverty in the society. Therefore, we have introduced more charitable institutions than last year to facilitate through monetary benefits to the society.



GOVERNANCE



CHAIRMAN MESSAGE

Dear Modaraba Certificate Holders,

I am pleased to present report to our valued Certificate Holders on the affairs of First Habib Modaraba (FHM) for the year ended 30th June, 2022, on the overall performance of the Board of Directors and effectiveness of the role played by the Board in achieving Modaraba's strategic objectives.

Our purpose as an organization is to promote quality and sustainable growth while ensuring good governance and best business practices. In 2021-22, we were focused on strengthening our balance sheet through prudent businesses and sound return to our investors and Certificate Holders.

It is indeed heartening to note that Alhamdulillah, performance of financial year 2021-22 remained excellent and all our key targets have not only achieved but also increased with good margins. I am glade to note that above year proved to be one of the best years in the operational history of FHM in terms of performance, disbursement, profitability and overall business growth.

Allhamdulillah, team of FHM did exceptionally well in key business segments. Total disbursement during the year touched to Rs.11.461 billion which is increased to around 68%. The size of balance sheet has also reached to Rs.17.172 billion as compared to last of Rs.12.120 billion which reflect growth of around 42%. Handsome increase in profitability was also made. Profit before management fee increased by 36% i.e., from 363.0 million to Rs.495.0 million for the period ended 30th June, 2022. Simultaneously, significant growth also made in deposit under Certificate of Musharaka scheme of around 59% i.e., from Rs.7.921 billion to Rs.11.621 billion.

It is also great source of satisfaction that constant commitment by team of FHM for corporate excellence have not only kept FHM as leading Modaraba within the sector but also earned recognition at national and international level such as best performance award, corporate excellence award, best corporate report award and SAFA award including credit rating of AA+ for long term which has been maintaining by the FHM since last 14 years.

I sincerely believe that above all success and achievements are due to Blessing Allah (SWT) and hard and dedicate efforts of entire staff members through excellent team work across all levels of the organization. Each and every staff member of FHM deserve great appreciations on such marvelous achievements.

Presently, our economy and businesses are passing through difficult time due to high inflation, exorbitant lending rates, currency devaluation, increasing energy prices and high cost of doing businesses. I foresee that current year i.e., 2022-23 will be a challenging year for overall trade and businesses due to stress in economy at local and global level. However, I am confident that team of FHM will come up with their best of abilities and capabilities for steady and prudent business growth of institutions and will continue to add value for Modaraba Certificate Holders like in past years of business turmoil. To ensure that we survive the upcoming challenges, the Board will continue to guide management in maintaining the balance and business growth.

In conclusion, I would like to acknowledge continued support, strategic guidance and prudent and invaluable contributions of Board of Directors on regular basis. I would also like to thank each and every member of the Board for their guidance, valuable input and giving their precious time for Board meetings.

I also wish to commend our Chief Executive Officer, Senior Executives and all other staff members of FHM for their hard work, dedication and focused efforts for exceptional performance and producing excellent results of FY2021-22. I also place my sincere appreciation to our Certificate Holders, business partners and all other valued stakeholders for their belief and the confidence place in our organization. I take this opportunity to thank Registrar of Modaraba, Securities & Exchange Commission of Pakistan, State Bank of Pakistan, Pakistan Stock Exchange, and other relevant regulatory bodies for their continued guidance and support extended to us.

Syed Rasheed Akhter

Chairman

Dated: September 06, 2022

چیئر مین کا پیغام

چیئر مین کا پیغام / پیغام چیئر مین

محترم مضاربہ سرٹیفکیٹ ہولڈرز،

مجھے بورڈ آف ڈائریکٹرز کی مجموعی کارکردگی اور مضاربہ کے اسٹریٹجک مقاصد کے حصول میں بورڈ کے کردار کے بارے میں ۳۰ جون ۲۰۲۲ کو ختم ہونے والے سال کے لئے فرسٹ حبیب مضاربہ (ایف ایچ ایم) کے معاملات پر اپنے قابل قدر سرٹیفکیٹ ہولڈرز کو رپورٹ پیش کرتے ہوئے خوشی ہو رہی ہے۔

بطور ایک تنظیم کے طور پر ہمارا مقصد اچھی گورننس اور بہترین کاروباری طریقوں کو یقینی بناتے ہوئے معیار اور پائیدار ترقی کو فروغ دینا ہے۔ ۲۰۲۱-۲۲ میں، ہم نے محتاط کاروبار کے ذریعے اپنی بیلنس شیٹ کو مضبوط بنانے اور اپنے سرمایہ کاروں اور سرٹیفکیٹ ہولڈرز کو اچھی واپسی پر توجہ مرکوز کی۔

یہ بات واقعی خوش آئند ہے کہ الحمد للہ، مالی سال ۲۰۲۱-۲۲ کی کارکردگی شاندار رہی اور ہم نے ناصرف ہمارے تمام اہم اہداف حاصل کیے گئے ہیں بلکہ اچھے مارجن کے ساتھ ان میں اضافہ بھی ہوا ہے۔ مجھے یہ جان کر خوشی ہوئی کہ مذکورہ سال FHM کی آپریشنل تاریخ میں کارکردگی، تقسیم، منافع اور مجموعی کاروباری ترقی کے لحاظ سے بہترین سالوں میں سے ایک ثابت ہوا۔

الحمد للہ، FHM کی ٹیم نے اہم کاروباری شعبوں میں غیر معمولی کارکردگی کا مظاہرہ کیا۔ سال کے دوران مجموعی تقسیم ۱۱،۴۶۱ ملین روپے تک پہنچ گئی جو بڑھ کر تقریباً ۶۸ فیصد ہو گئی۔ بیلنس شیٹ کا حجم بھی ۱۲،۱۲۰ ملین روپے کے آخری کے مقابلے میں ۱۷،۷۲۱ ملین روپے تک پہنچ گیا ہے جو تقریباً ۴۲ فیصد کی نمو کو ظاہر کرتا ہے۔ منافع میں بھی زبردست اضافہ ہوا۔ منیجمنٹ فیس سے پہلے کا منافع ۳۶ فیصد بڑھ گیا یعنی ۳۰ جون ۲۰۲۲ کو ختم ہونے والی مدت کے لیے ۳،۶۳۰ ملین سے ۴،۹۵۰ ملین روپے تک۔ اس کے ساتھ ہی، تقریباً ۵۹ فیصد کے سرٹیفکیٹ آف مشارقہ سکیم کے تحت ڈپازٹس میں بھی نمایاں اضافہ ہوا، یعنی ۷،۹۲۱ ملین سے ۱۱،۶۲۱ ملین روپے۔

یہ بھی اطمینان کا ایک بڑا ذریعہ ہے کہ کارپوریٹ ایکسی لینس کے لیے FHM کی ٹیم کی مسلسل وابستہ محنت نے FHM کو نہ صرف اس شعبے میں ایک سرکردہ مضاربہ کے طور پر برقرار رکھا ہے بلکہ بہترین کارکردگی کا ایوارڈ، کارپوریٹ ایکسی لینس ایوارڈ جیسی قومی اور بین الاقوامی سطح پر بھی پہچان حاصل کی ہے۔ بہترین کارپوریٹ رپورٹ ایوارڈ اور SAFA ایوارڈ سمیت طویل مدت کے لیے AA+ کی کریڈٹ ریٹنگ جسے FHM نے گزشتہ ۱۳ سالوں سے برقرار رکھا ہوا ہے۔

میں خلوص دل سے یقین رکھتا ہوں کہ سب سے کامیابیاں اللہ (SWT) کی برکت اور تنظیم کے تمام شعبوں پر بہترین ٹیم ورک کے ذریعے عملے کے تمام ارکان کی محنت اور لگن کی وجہ سے ہیں۔ FHM کا ہر عملہ اس طرح کی شاندار کامیابیوں کے لیے زبردست تعریف اور حوصلہ افزائی کا مستحق ہے۔

اس وقت ہماری معیشت اور کاروبار بلند افراط زر، قرضے کی حد سے زیادہ شرح، کرنسی کی قدر میں کمی، توانائی کی بڑھتی ہوئی قیمتوں اور کاروبار کرنے کی زیادہ قیمت کی وجہ سے مشکل دور سے گزر رہی ہے۔ مجھے اندازہ ہے کہ موجودہ سال یعنی ۲۰۲۲-۲۳ مقامی اور عالمی سطح پر معیشت میں تناؤ کی وجہ سے مجموعی تجارت اور کاروبار کے لیے ایک چیلنجنگ سال ہو گا۔ تاہم، مجھے یقین ہے کہ FHM کی ٹیم اداروں کی مستحکم اور دانشمندانہ کاروباری ترقی کے لیے اپنی بہترین صلاحیتوں اور کارکردگی کے ساتھ سامنے آئے گی اور مضاربہ سرٹیفکیٹ ہولڈرز کے لیے قدر میں اضافہ کرنا جاری رکھے گی جیسا کہ ہنگامی کاروباری کے پچھلے سالوں میں تھا۔ اس بات کو یقینی بنانے کے لیے کہ ہم آنے والے چیلنجوں سے بچ جائیں، بورڈ توازن برقرار رکھنے اور کاروبار کی ترقی میں انتظامیہ کی رہنمائی کرتا رہے گا۔

آخر میں، میں اس مشکل وقت میں بورڈ آف ڈائریکٹرز کی مسلسل سپورٹ، اسٹریٹجک رہنمائی اور دانشمندانہ اور بے مثال تعاون کا اعتراف کرنا چاہوں گا۔ میں بورڈ کے ہر رکن کا ان کی رہنمائی، قابل قدر ان پٹ اور بورڈ میٹنگز کے لئے ان کا قیمتی وقت دینے پر شکریہ ادا کرنا چاہوں گا۔

میں اپنے چیف ایگزیکٹو آفیسر، سینئر ایگزیکٹوز اور ایف ایچ ایم کے دیگر تمام سٹاف ممبران کی بحرانوں کی اثرات کو موثر طریقے سے سنبھالنے اور ایف ایچ ایم کے مالی سال ۲۰۲۲-۲۳ کے اطمینان بخش نتائج پیدا کرنے کے لئے ان کی محنت، لگن اور توجہ مرکوز کوششوں کی ستائش و شکریہ ادا کرنا چاہتا ہوں۔ میں اپنے سرٹیفکیٹ ہولڈرز، کاروباری شراکت داروں اور دیگر تمام قابل قدر اسٹیک ہولڈرز کو ان کے یقین اور ہماری تنظیم میں اعتماد کی جگہ کے لئے دلی ستائش کرتا ہوں۔ میں اس موقع پر رجسٹرار آف مضاربہ، سکیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان، اسٹاک ایکسچینج اور دیگر متعلقہ ریگولیٹری اداروں کا شکریہ ادا کرتا ہوں کہ انہوں نے ہماری مسلسل رہنمائی اور معاونت کی۔

سید رشید اختر

چیئر مین

تاریخ: ۲۶ ستمبر ۲۰۲۲

DIRECTORS' REPORT



On behalf of the Board of Directors, we are pleased to present the audited accounts of the Modaraba for the year ended June 30, 2022.

	(Rupees)
Profit before management fee	569,771,006
Modaraba Management Company's remuneration	(56,977,101)
Services Sales Tax on Management Company's remuneration	(7,407,023)
Workers Welfare Fund	(10,107,738)
Profit before taxation	495,279,114
Taxation	(113,155,397)
Profit for the year	382,123,747
Unappropriated Profit b/f	110,889,923
Surplus transferred to unappropriated profit during the year	242,899,374
Other comprehensive income	(2,331,483)

Earning per Certificate of Rs. 5/- each 1.90

APPROPRIATIONS

Cash Dividend @ 20% (Re. 1/- per certificate of Rs.5/- each)	201,600,000
Transfer to statutory reserve @ 20% of profit	76,424,749
Transfer to general reserve	100,000,000
Unappropriated profit c/f	355,556,812

DIVIDEND

The board of directors has pleased to declare cash dividend of 20% i.e. Re.1/- per certificate of Rs.5/- each for the year ended 30th June, 2022.

ECONOMIC REVIEW

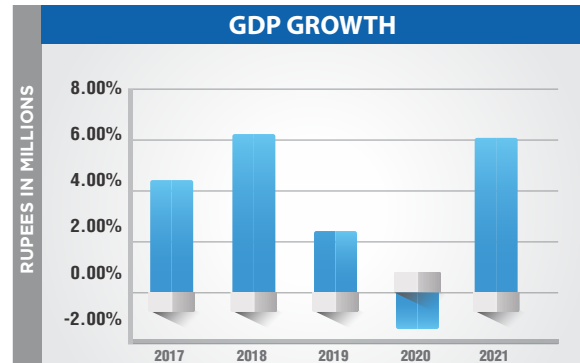
After showing good recovery in last year, Pakistan economy performed well in FY2021-22 and attained GDP growth of 5.97%. Growth in Pakistan's economy remained strong due to the sound monetary and fiscal stimulus measures initiated by the SBP & Government in the preceding year which has ended with a better growth in FY22. However, this high growth created issues of high trade and current account deficit due to high import bill. Till the 3rd quarter of FY22, the economy performed well and surpassed its targets for GDP, agriculture, services and industrial sector.

Few prominent changes made in last quarter such as political instability, war between Russia and Ukrain and hefty rise in global petroleum prices. These developments had completely changed economic scenario which created unexpected distress and challenges within economy and businesses. Rising commodity prices in last few months and high current account deficit due to inflated the import bill, putting the country on the verge of a balance of payments crisis.

Continues adverse balance of payment, weakening of Pak rupees, high inflation and high lending rates, have led towards macroeconomic imbalances issues within the country. Furthermore, the ongoing political disturbances have also increased economic uncertainty, which has depreciated value of local currency tremendously and pushed cost of production. All these factors are making the economic outlook uncertain. Moody's Investors Service had also downgraded Pakistan's credit rating outlook to negative from stable on fears the global commodity prices which will continue to keep the current account deficit widened and impact the foreign exchange reserves in the current and next fiscal years.

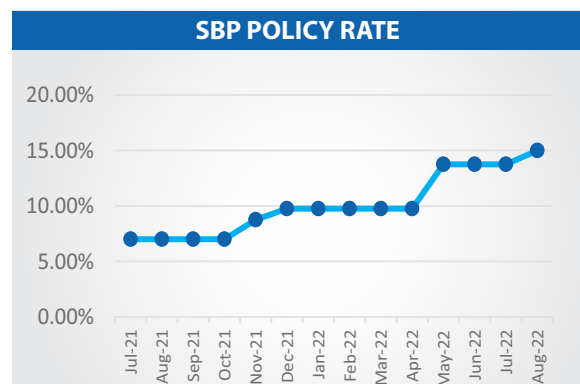
Recently, the SBP's Monetary Policy Committee (MPC) raised the policy rate by 125 basis points. In a very short period of time the policy rate has been increased significantly. In the last quarter of the calendar year 2021, the policy rate was 7.25% and within nine months, this reached a level of 15%. This unprecedented pace of increase has made the business environment extremely challenging. Pakistan has a long history of boom-and-bust cycles where the economy some time does not sustain after short period of growth. Economic growth mainly supported by import based inputs which create issues of adverse balance payment issues in current account and trade deficit. In FY2021-22 the current account deficit reached to \$17.4 billion as against a deficit of \$2.80 in the preceding year. Current account deficit increased due to constantly growing import volume of energy and non-energy commodities, along with high prices petroleum products, food and metals.

The high inflation which has reached to 14 years high level of around 24% in the month of July, 2022, shaken the cost structure of businesses and tremendously increase cost of doing business. Globally, inflation is at multi-decade highs in most of the countries. As a result,



strong monetary tightening has occurred despite concerns about a slowdown in global growth and even recession risks. Pakistan's macroeconomic imbalances have significantly disturbed and economic recovery which is yet to be materialized.

The high international prices were still adversely affecting external positions even in the new fiscal year. Government is taking steps to slow down economic activities and suppress demand to reduce pressure on foreign reserves and inflation at the domestic level. Current fiscal year 2022-23, will be a year of consolidation for Pakistan's economy. The government's measures to cool down the overheated economy would slow down activities in the industrial sector, particularly in the large-scale manufacturing (LSM) sector, and also impact on reducing of services sector as well. The political noise ahead of the general elections may continue to disrupt the economic momentum during the new fiscal year. Slowing economic activities are expected to hit the bottom and then may be bounced back during the year since government has started taking corrective measures. The revival of IMF loan program soon would increase foreign financing flows into Pakistan and will also support for confidence building from other multilateral and bilateral lenders.



BUSINESS REVIEW OF FHM

After passing through difficult periods of the pandemic, undoubtedly we have learned of new challenges and quickly adopted the required changes with forward-thinking to continue with routine engagements. In spite of the difficult operating environment and challenges, we have not only maintained our leading positions within the sector but also made exceptions in key areas of business. When we began 2021, we were determined to be optimistic for a better year ahead. Since the beginning of the year, the team of First Habib Modaraba (FHM) remained vigilant and agile to grape the post COVID-19 opportunities within the businesses.

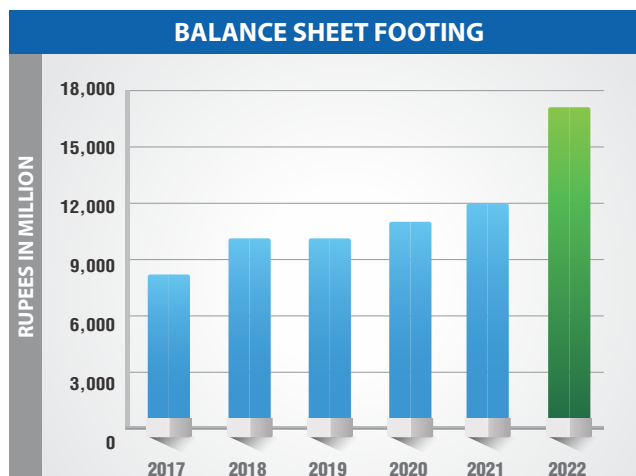
With the high level of team spirit, Alhamdulillah, the performance the of financial year 2021-22 remained excellent and all our key targets have not only achieved but also increased with good margins. We must say that above year proved to be one of the best years in the operational history of FHM in terms of performance, disbursement, profitability and overall business growth.

I take great pride in the resilience and commitment that we have shown during the last two years of turmoil. By adopting cautious practices in our lending business, we were not only able to hold on to a trend of steady financial numbers but also achieved exceptional performance in 2021-22. This was made possible due the to blessing Allah (SWT) and unmatched support of our investors and our customers along with hard and dedicated efforts of the entire of FHM.

Our total disbursement during the year touched to Rs.11.461 billion which is increased to around 68%. The size of the balance sheet has also reached to Rs.17.163 billion as compared to last of Rs.12.120 billion which reflect growth of around 42%. Handsome increase in profitability was also made. Profit before management fee increased by 36% i.e., from 363.0 million to Rs.495.0 million for the period ended 30th June, 2022. Our deposit under Certificate of Musharaka scheme also reached to Rs.11.621 billion as compared to Rs.7.921 billion last year with growth of around 59%.

Majority of financing was made through financing product of Diminishing Musharkah. Around 94% financing was made in private and commercial vehicles. All our 4 branches i.e., Karachi, Lahore, Islamabad and Multan did well, particularly our Karachi branch which has contributed almost half of the total disbursement.

Our consumer auto finance portfolio has also made impressive growth i.e., around 101%. The size of said portfolio has reached to Rs. 1,406 million as compared to Rs.698 million of the same



period of last year. During the year, total car financing units of 3,569 were financed, mainly in the corporate sector. Our car financing units reached 8,723 which is the again highest numbers in the operational history of FHM.

Since beginning of last year, the economy of Pakistan remained in positive zone and business sentiment and investors' confidence remained high and encouraging. However, in last quarter of FY 2021-22 few unexpected changes made in last quarter such as political instability, the war between Russia & Ukraine, and hefty rise in global petroleum prices. These developments had completely changed the economic scenario which created unanticipated distress and challenges within the economy and businesses. Rising commodity prices in the last few months and high current account due to inflated import bill, put the country on the verge of a balance of payments crisis.

In the current depressed economic environment, the overall trade and industry are passing through with difficult time due to high lending rates, exorbitant utility costs, unprecedented rupee depreciation and rising commodity prices. Presently, we are experiencing the impact business slow down since our auto financing affected a lot due to rising cost of motor vehicles with high lending rates and long queue in delivery.

In the month of March, 2022, the Board of Directors, in principle proposed the merger of Habib Metro Modaraba with First Habib Modaraba subject to approval from SECP and other relevant authorities. The Board view that the said merger will support for cost saving, improve economies of scale and bring competitive edge in auto financing market. The merger process has further progressed and we have secured the No Objection Certificate from the Registrar of Modaraba, SECP. Now our consultant is planning to file a petition for said merger with the

Honorable Court for necessary approval. It is expected that we will be able to complete the merger process in the next 2-3 months.

Going forward, we foresee that the said economic unrest may be further aggravated due to continuous depressed business sentiments. This situation is also impacting timely repayment of borrowed facilities by the businesses. The financial sector outlook remains challenging. Re-pricing risks under rising lending rate scenario and high cost of doing business would be major issues of current financial year. Keeping in view of present business circumstances we will cautiously move forward and will be more careful in our existing and new business engagements for new assets financing. Simultaneously, we will also undertake the necessary technological innovation and process improvements required to stay ahead in changing market dynamics. Continuous focus will be made on strengthening of risk management tools, optimizing operating efficiencies and maintain highest level of corporate governance and compliance culture for sustainable growth and building long-term value for our valued Modaraba Certificate Holders.

BUSINESS OUTLOOK & FUTURE STRATEGY

After showing good recovery in last year, Pakistan economy performed well in FY2021-22 and attained GDP growth of 5.97%. Growth in Pakistan's economy remained strong due to the sound monetary and fiscal stimulus measures initiated by the SBP & Government in the preceding year which has ended with a better growth in 2021-22.

The high growth of last year created issues of high trade and current account deficit due to unusual import bill and servicing on foreign debt. Till the 3rd quarter of FY22, the economy performed well and surpassed its targets for GDP, agriculture, services and industrial sector.

However, in the 4th quarter few unexpected changes made such as political instability, war between Russia and Ukrain and hefty rise in global petroleum prices. These developments had completely changed economic scenario which created unforeseen distress and challenges within economy and businesses. Rising commodity prices in last few months and high current account due to inflated the import bill, putting the country on the verge of a balance of payments crisis.

For current year, we foresee that the said economic unrest may be further aggravated due to continuous depressed

business sentiments. The financial sector outlook remains challenging. Re-pricing risks under rising lending rate scenario and high cost of doing business would be major issues of current financial year.

As we look forward, we also believe that there is massive opportunity for small and medium credit facilities under Shariah compliant mode of financing. Addressing these opportunities, we plan to develop our operational processes further to support high volume businesses with greater efficiency, increase our geographic presence across the country for assets financing.

Keeping in view of present business circumstances we will cautiously move forward and will be more careful in our existing and new business engagements for new assets financing. Simultaneously, we will also undertake the necessary technological innovation and process improvements required to stay ahead in changing market dynamics. Continuous focus will be made on strengthening of risk management tools, optimizing operating efficiencies and maintain highest level of corporate governance and compliance culture for sustainable growth and building long-term value for our valued Modaraba Certificate Holders.

Keeping in view of present economic scenario we have devise following business and operational strategy for FY2022-23.

- To make sector wise analysis comprising on its product demand and its cost of doing business.
- Careful watch leveraging position of customer and cash flow generation capacity in present difficult environment.
- Concentrate on small and medium size customer for horizontal growth.
- Explore the possibilities of introducing new Shariah



compliant products such as Morabaha, Istisna and mortgage financing.

- Enhance size of auto consumer financing
- Focus on financing of assets other than motor car for sound customers.
- Explore new avenues of low cost resource mobilization through COIs and other Islamic instruments.
- Reduce cost of doing business through support of technology
- Enhance technological advancement and broaden digital space for enhancement of operational efficiencies through virtual engagements of staff members.
- To enhance operational capacity of staff members through different segments of training programs.
- Engage in various CSR related activities for community support.

Besides the growth targets and additional market penetration for financing book, we intend to focus more on long term sustainability in business and profitability. We believe that our well-founded management principles, focus approach and our commitment to strong governance are key segments to achieve our goal.

Shariah Compliance and Audit Mechanism

A fundamental requirement of an Islamic financial institution is that its whole business practices and operations are based on Shariah rules and principles. Islamic finance derives its value proposition from the application of Shariah principle in financial transactions that provide for different risks and return profile.

Adhering to the Shariah principles, Islamic financial system encourages risk - sharing, promotes entrepreneurship, discourages speculative behavior and emphasizes the sanctity of contracts.

Adherence to Shariah principles under such distinct contract preserves the validity and sanctity of any Islamic financial transactions. As such, FHM is committed to upholding these principles via strict observance of the Shariah Governance Framework.

Alhamdulillah, the management of First Habib Modaraba continuously focuses on Shariah governance and compliance culture under guidance and supervision of our worthy Shariah advisor. However, continuous efforts have been made for its further improvement.

We feel that Shariah governance is our utmost responsibility and our team is fully committed as their prime objective for its perfection and flawless processes.

A complete Shariah Audit report of the Shariah Advisor for the year ended June 30, 2022 is also attached with the annual report.

Corporate Social Responsibility

Accordingly, we have aligned our Corporate Social Responsibility (CSR) initiatives to deliver on this commitment, and enhance community empowerment and responsible environmental management in a sustainable manner.

Our business strategies are based on strong ethical foundation and concept of sustainable business to create maximum value for our stakeholders. Translating this belief, our sustainability model is surrounding within our People, Organization and Planet.

FHM, being a socially responsible corporate entity, has been a regular contributor to the society and communities. It has been our primary concern to ensure that contributing to community development should be continuously carried out.

Since last several years FHM has been donating non-profit organization working for improvement in education, healthcare etc. FHM continues to encourage events and projects which focus on children, health and education in under privileged members of society.

Directors Training & Orientation

All the directors, except one director, are compliant with necessary requirements of Directors Training Certificate at The Institute of Chartered Accountants of Pakistan (ICAP), The Institute of Cost and Management Accountants of Pakistan (ICMAP) and Institute of Business Administration (IBA).

Mr. Usman Nurul Abedin has subsequently been enrolled in the training session and obtained necessary certification from The Institute of Cost and Management Accountants of Pakistan (ICMAP). Therefore, all the directors are compliant with necessary requirements subsequent to the year end.

Performance Evaluation

The Modaraba has engaged the Pakistan Institute of Corporate Governance (PICG) as an Independent External Evaluator, who is in process to conduct the performance evaluation of the Board.

Fee to Attend the Directors' Meeting

Chairman, Non-Executive Directors and independent director are entitled only for the fee for attending the meetings from the Modaraba Management Company. The levels of remuneration are appropriate and commensurate with the level of responsibility and expertise to govern the company successfully and with value addition. Further, the Executive director of the Modaraba Management Company does not earn any retention fee against the services provided by him in the capacity of Non-Executive Director from any other entity.

Board Meeting Outside Pakistan

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

Policy for Security Clearance of Foreign Directors

FHM has no foreign Directors on its Board. However, as we remain committed to the well-being of our Board, the modaraba has in place various protocols and procedures to ensure the safety and security of all Directors, including any foreign Directors should there be any in the future.

Foreign Directors

No Foreign directors exist on the Board of Modaraba Management Company.

Pattern of Certificate Holders

A Statement showing pattern of Certificate Holding of the Modaraba and additional information as at June 30, 2022 is included in this report.

Corporate and Financial Reporting Framework

The Directors are pleased to confirm compliance with Corporate and Financial Reporting Framework of the Securities & Exchange Commission Pakistan (SECP) and the Code of Corporate Governance for the following:

- The financial statements, prepared by the management of the modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- International Financial Reporting Standards (IFRS), as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements and any departures there from have been adequately disclosed.

Further, the management of the Modaraba appreciates the unreserved compliance of IFRS to the possible extent in order to promote the fair financial reporting.

- Proper books of accounts of the modaraba have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates used are based on reasonable and prudent judgment.
- The system of internal control is in place and has been effectively implemented. It is being continuously reviewed by internal audit and other such procedures.
- Board is satisfied with the Modaraba's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the Listed Companies (Code of Corporate Governance) Regulations, 2019.
- Key operating and financial data for the last six years in summarized form is included in this annual report.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as on June 30, 2022 except for those disclosed in the financial statements.

Provident Fund and Gratuity

The value of investments of provident fund and gratuity based as at December 31, 2021 are Rs. 64,162 million and Rs.29,598 million respectively.

Composition of the Board

The composition of the Board of Directors of the Company as on June 30, 2022 is as follows:

1. The total number of Directors are Six as per the following:
 - Male: 5
 - Female: 1
2. The number of Directors under respective categories are as follows:
 - Independent Directors: 2
 - Non-Executive Directors: 2
 - Executive Director: 1
 - Female Director: 1

Directors' attendance

During the year, Six Board meetings, Four Audit Committee meetings and One Human Resource Committee meetings were held. Attendance by each Director was as follows:

Name of Directors	Board of Directors	Audit Committee	HR Committee
Syed Rasheed Akhtar	6	4	1
Mr. Muhammad Shoaib Ibrahim	6	NA	NA
Mr. Mohammad Shams Izhar	6	4	1
Mr. Saeed uddin Khan	6	4	1
Mr. Usman Nurul Abedin	6	NA	NA
Dr. Irum Saba	5	NA	NA

Auditors

Present auditor M/s. EY Ford Rhodes, Chartered Accountants, has completed their 5 years' term of engagement as auditors of First Habib Modaraba. As per Regulation 33 "Rotation of Auditor" of the Code of Corporate Governance, 2019 (COCG); "It is mandatory that all listed companies in the financial sector shall change their external auditors every five years." However, our management has applied to Registrar Modaraba to allow relaxation in the requirement of above COCG regulation no. 33 in order to re-appoint M/s. EY Ford Rhodes, Chartered Accountants, as the external auditor of First Habib Modaraba for the next 5 years with effect from 1st July, 2022, with the rotation of engagement partner.

Acknowledgement

The Board would like to express its sincere thanks and gratitude for the continued support and guidance provided by Securities & Exchange Commission of Pakistan, Registrar Modaraba Companies, Financial Institutions and State Bank of Pakistan from time to time, customers of the Modaraba for their patronage and business, Certificate holders who have remained committed to First Habib Modaraba.

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

Muhammad Shoaib Ibrahim
Chief Executive Officer

Syed Rasheed Akhtar
Director

Karachi:

Dated: September 06, 2022

ڈائریکٹرز رپورٹ

ڈائریکٹرز کی حاضری

سال کے دوران بورڈ کے پانچ اجلاس، آڈٹ کمیٹی کے چار اجلاس اور انسانی وسائل کمیٹی کے ایک اجلاس منعقد ہوئے۔ ہر ڈائریکٹر کی حاضری درج ذیل تھی:

ڈائریکٹر کا نام	بورڈ آف ڈائریکٹرز	آڈٹ کمیٹی	ایچ آر کمیٹی
سید رشید اختر	۴	۱	
جناب محمد شعیب ابراہیم	۶	NA	NA
جناب محمد شمس ازہر	۶	۴	۱
جناب سعید الدین خان	۶	۴	۱
جناب عثمان نور الہ آبادین	۶	NA	NA
محترمہ ارم صبا	۵	NA	NA

آڈیٹرز

موجودہ آڈیٹرز میسرز ای وائی فورڈ روڈز، چارٹرڈ اکاؤنٹنٹس، نے فرسٹ حبیب مضاربہ میں بطور ایکسٹرنل آڈیٹر اپنے پانچ سال مکمل کر لئے ہیں۔ کوڈ آف کارپوریٹ گورننس ۲۰۱۹ کے مطابق وہ خود کو ۳۰ جون ۲۰۲۳ کو ختم ہونے والے سال کے لیے آڈیٹر کے طور پر دوبارہ تقرری کے لیے پیش کرنے کے اہل نہیں ہیں۔ اس لیے، جیسا کہ آڈٹ کمیٹی نے تجویز کیا، M/s. A.F.Ferguson & Co. Chartered Accountants کو ۳۰ جون ۲۰۲۳ کو ختم ہونے والے سال کے لیے مضاربہ کے بیرونی آڈیٹر کے طور پر خود کو پیش کرنا ہو گا۔ ان کی تقرری رجسٹرڈ مضاربہ آفس سے منظوری سے مشروط ہوگی۔

اظہار تشکر

بورڈ شکر گزار ہے کہ جو تعاون اور مدد اسے سکیورٹیز اینڈ ایکسچینج کمیشن پاکستان (SECP)، رجسٹرڈ مضاربہ کمپنیز، مالیاتی اداروں اور اسٹیٹ بینک آف پاکستان کا جنہوں نے گاہے بگاہے کی، اس کے علاوہ مضاربہ کے کسٹمرز کی جنہوں نے اپنے کاروبار اور دیگر معاملات میں ہماری رہنمائی کی، سرٹیفکیٹ کنندگان کی جنہوں نے فرسٹ حبیب مضاربہ کے ساتھ مسلسل اپنا تعاون جاری رکھا۔

آخر میں، بورڈ مضاربہ کے ملازمین کے بہترین پروفیشنلزم، سخت محنت اور انتھک جذبے کو سراہتا ہے جن کی وجہ سے ہمیں یہ بہترین نتائج حاصل ہوئے ہیں۔

سید رشید اختر
ڈائریکٹر

محمد شعیب ابراہیم
چیف ایگزیکٹو آفیسر
کراچی: ۶ ستمبر ۲۰۲۲

ڈائریکٹرز رپورٹ

- بورڈ مضاربہ کی موجودہ جاری پیشرفت سے مطمئن ہے۔
- کارپوریٹ گورننس کے بہترین طریقہ کار سے کسی قسم کا میٹرل باہر نہیں ہوا ہے جس کی تفصیل فہرست شدہ کمپنیز (کوڈ آف کارپوریٹ گورننس) ریگولیشن ۲۰۱۹ کے مطابق، سوائے اُس کے جو کہ اسٹیٹمنٹ برائے کارپوریٹ گورننس میں بتائے گئے ہیں۔
- اہم آپریٹنگ اور ۶ سال کے مالی اعداد و شمار اس سالانہ رپورٹ میں خلاصہ کی شکل میں پیش کئے گئے ہیں۔
- ۳۰ جون ۲۰۲۱ تک کسی بھی قسم کے حکومتی ٹیکسز، ڈیوٹیز، لیویز اور دیگر چارجز وغیرہ قابل ادا نہیں ہیں سوائے جو کہ رپورٹ میں فراہم کئے گئے ہیں۔

پروویڈنٹ فنڈ اور گریجویٹی

آڈٹ شدہ اکاؤنٹس کی بنیاد پر پروویڈنٹ فنڈ اور گریجویٹی کی سرمایہ کاری کی مالیت ۳۱ ستمبر ۲۰۲۱ تک بالترتیب ۵۴،۵۰۹ ملین روپے اور ۲۹،۶۱۰ ملین روپے ہے۔

بورڈ کی تشکیل

۳۰ جون ۲۰۲۲ء تک کمپنی کے بورڈ آف ڈائریکٹرز کی تشکیل درج ذیل ہے:

۱. ڈائریکٹرز کی کل تعداد درج ذیل کے مطابق چھ ہے:

• مرد: ۵

• عورت: ۱

۲. متعلقہ زمروں / کیٹیگریز کے تحت ڈائریکٹرز کی تعداد درج ذیل ہے:

• آزاد ڈائریکٹرز: ۲

• نان ایگزیکٹو ڈائریکٹرز: ۲

• ایگزیکٹو ڈائریکٹرز: ۱

• خاتون ڈائریکٹر: ۱

ڈائریکٹرز رپورٹ

ڈائریکٹرز کے اجلاس میں شرکت کے لئے فیس

چیئرمین، نان ایگزیکٹو ڈائریکٹرز اور آزاد ڈائریکٹر صرف مضاربہ مینجمنٹ کمپنی سے اجلاسوں میں شرکت کی فیس کے حقدار ہیں۔ معاوضے کمپنی کو کامیابی سے اور ویلیو ایڈیشن کے ساتھ چلانے کی ذمہ داری اور مہارت کے مطابق مناسب اور مطابقت رکھنے کے درجہ کے مطابق ہیں۔ مزید برآں، مضاربہ مینجمنٹ کمپنی کے ایگزیکٹو ڈائریکٹر کسی بھی دوسرے ادارے سے نان ایگزیکٹو ڈائریکٹر کی حیثیت سے ان کی فراہم کردہ خدمات کے مقابلے میں کوئی برقراری فیس حاصل نہیں کرتے ہیں۔

پاکستان سے باہر بورڈ میٹنگ

اس سال کے دوران، بورڈ میں تمام بورڈ میٹنگز کا انتظام کراچی میں مینجمنٹ کمپنی کے دفتر میں کیا گیا ہے اور بیرونی اجلاس کے اضافی اخراجات سے بچنے کے لئے کسی بھی اجلاس کا پاکستان سے باہر انعقاد نہیں کیا گیا۔

فارن ڈائریکٹرز کی سکیورٹی کلیئرنس کی پالیسی

ایف ایچ ایم کے بورڈ میں کوئی غیر ملکی ڈائریکٹر نہیں ہے۔ تاہم، جیسا کہ ہم اپنے بورڈ کی فلاح و بہبود کے لئے پر عزم ہیں، مضاربہ نے تمام ڈائریکٹرز بشمول کسی بھی غیر ملکی ڈائریکٹرز کی حفاظت اور تحفظ کو یقینی بنانے کے لئے مختلف پروٹوکول اور طریقہ کار وضع کیے ہیں۔

غیر ملکی ڈائریکٹرز

مضاربہ مینجمنٹ کمپنی کے بورڈ میں کوئی غیر ملکی ڈائریکٹر موجود نہیں ہے۔

سرٹیفکیٹ ہولڈرز کا نمونہ / پیٹرن

۳۰ جون ۲۰۲۲ کو مضاربہ کے سرٹیفکیٹ ہولڈنگ کا پیٹرن اور اضافی معلومات کا اسٹیٹمنٹ اس رپورٹ میں شامل ہے۔

کارپوریٹ اور مالیاتی رپورٹنگ فریم ورک

ڈائریکٹرز مسرت کے ساتھ تصدیق کرتے ہیں کہ درج ذیل نکتوں پر سکیورٹیز اینڈ ایکسچینج کمیشن پاکستان (SECP) اور کوڈ برائے کارپوریٹ گورننس پر کارپوریٹ اور مالیاتی رپورٹنگ کا فریم ورک مشتمل ہے:

- مالیاتی اسٹیٹمنٹ جو کہ مضاربہ مینجمنٹ کی طرف سے تیار کی جائے گی، وہ مکمل طور پر اپنی چیزوں شفافیت رکھے گی، جو کہ آپریشن کے نتائج، کیش فلو اور ایکویٹی میں تبدیلی پر ہو۔
- بین الاقوامی مالیاتی رپورٹنگ معیار، پاکستان میں مضاربہ پر لاگو ہوگا، مالیاتی اسٹیٹمنٹ کی تیاری میں کسی بھی چیز کو حذف کرنے کی مناسب وجہ بیان کی جائے گی۔ مزید برآں یہ کہ، مضاربہ کی مینجمنٹ کی یہ کوشش رہے گی کہ وہ بچ جانے والی مالیاتی رپورٹنگ کو IFRS کے معیار کے مطابق کرے تاکہ صاف شفاف مالیاتی رپورٹنگ کو ترویج دی جاسکے۔
- مضاربہ کے کھاتوں کا صحیح طور پر حساب کتاب رکھا گیا ہے۔
- مالیاتی اسٹیٹمنٹ کی تیاری میں مناسب اکاؤنٹنگ پالیسیوں کو لاگو کیا جائے گا۔ کھاتوں کا تخمینہ بہتر تجربے اور صحیح وجہ کی بنیاد پر لگایا جائے گا۔
- اندرونی انتظام کو موثر طریقے سے نافذ العمل کیا جائے گا۔ اس نظام کو اندرونی احتساب / آڈٹ و دیگر ذرائع کے تحت مسلسل جائزہ لیا جائے گا۔

ڈائریکٹر رپورٹ

شرعی اصولوں کی پابندی کرتے ہوئے، اسلامی مالیاتی نظام رسک شیئرنگ کی حوصلہ افزائی کرتا ہے، کاروبار کو فروغ دیتا ہے، قیاس آرائیوں کی حوصلہ شکنی کرتا ہے، اور معاہدوں کے تقدس پر زور دیتا ہے۔

اس طرح کے الگ معاہدے کے تحت شرعی اصولوں کی پابندی کسی بھی اسلامی مالیاتی لین دین کی درستگی اور تقدس کو محفوظ رکھتی ہے۔ اس طرح، FHM شریعہ گورننس فریم ورک کی سختی سے پابندی کرتے ہوئے ان اصولوں کو برقرار رکھنے کے لیے پرعزم ہے۔

الحمد للہ، فرسٹ حبیب مضاربہ کی انتظامیہ ہمارے قابل شرعی مشیر کی رہنمائی اور نگرانی میں شرعی حکمرانی اور تعمیل کلچر پر مسلسل توجہ مرکوز کر رہی ہے۔ تاہم اس کی مزید بہتری کے لیے مسلسل کوششیں جاری ہیں۔

ہم محسوس کرتے ہیں کہ شرعی حکمرانی ہماری انتہائی ذمہ داری ہے اور ہماری ٹیم اس کے کمال اور بے عیب عمل کے لیے اپنے بنیادی مقصد کے طور پر پوری طرح پرعزم ہے۔

۳۰ جون ۲۰۲۲ کو ختم ہونے والے سال کے لیے شریعہ ایڈوائزر کی مکمل شریعہ آڈٹ رپورٹ بھی سالانہ رپورٹ کے ساتھ منسلک ہے۔

کارپوریٹ سماجی ذمہ داری

اسی مناسبت سے ہم نے اس عزم کو پورا کرنے اور کمیونٹی کو باختیار بنانے اور ذمہ دارانہ ماحولیاتی انتظام کو پائیدار طریقے سے بڑھانے کے لئے اپنے کارپوریٹ سماجی ذمہ داری (سی ایس آر) اقدامات کو ہم آہنگ کیا ہے۔

ہماری کاروباری حکمت عملی مضبوط اخلاقی بنیاد اور پائیدار کاروبار کے تصور پر مبنی ہے تاکہ ہمارے اسٹیک ہولڈرز کے لئے زیادہ سے زیادہ قدر پیدا کی جاسکے۔ اس ہی یقین کو ہمارا پائیدار ماڈل ہمارے لوگوں، تنظیم اور دنیا میں منوائے گا۔

ایف ایچ ایم سماجی طور پر ذمہ دار کارپوریٹ ادارہ ہونے کی وجہ سے معاشرے اور برادریوں / کمیونٹیز میں باقاعدہ حصہ دار رہا ہے۔ یہ یقینی بنانا ہماری بنیادی سوچ رہی ہے کہ کمیونٹی کی ترقی میں مسلسل تعاون کیا جانا چاہئے۔

گزشتہ کئی سالوں سے ایف ایچ ایم بہتری کی تعلیم، صحت کی دیکھ بھال وغیرہ کے لئے کام کرنے والی غیر منافع بخش تنظیم کو عطیہ دے رہا ہے۔ ایف ایچ ایم ایسے کاموں اور منصوبوں کی حوصلہ افزائی جاری رکھے ہوئے ہے جو معاشرے کے پسماندہ افراد، بچوں، صحت اور تعلیم پر توجہ مرکوز کرتے ہیں۔

ڈائریکٹر کی ٹریننگ اور رجحانات

تمام ڈائریکٹرز، سوائے ایک ڈائریکٹر کے، دی انسٹی ٹیوٹ آف چارٹرڈ اکاؤنٹنٹس آف پاکستان (ICAP)، دی انسٹی ٹیوٹ آف کاسٹ اینڈ مینجمنٹ اکاؤنٹنٹس آف پاکستان (ICMAP) اور انسٹی ٹیوٹ آف بزنس ایڈمنسٹریشن (IBA) میں ڈائریکٹر ٹریننگ سرٹیفکیٹ کی ضروری ضروریات کے مطابق ہیں۔

جناب عثمان نور العابدین نے بعد ازاں تربیتی سیشن میں داخلہ لیا اور دی انسٹی ٹیوٹ آف کاسٹ اینڈ مینجمنٹ اکاؤنٹنٹس آف پاکستان (ICMAP) سے ضروری سرٹیفیکیشن حاصل کیا۔ لہذا، تمام ڈائریکٹر سال کے اختتام کے بعد ضروری تقاضوں کے مطابق ہم آہنگ ہو گئے۔

کارکردگی کی تشخیص

مضاربہ نے پاکستان انسٹی ٹیوٹ آف کارپوریٹ گورننس (PICG) کو ایک آزاد دیر و فی جائزہ کار کے طور پر شامل کیا ہے، جو بورڈ کی کارکردگی کا جائزہ لے رہا ہے۔

ڈائریکٹر رپورٹ

تاہم، چوتھی سہ ماہی میں، چند غیر متوقع تبدیلیاں رونما ہوئیں جیسے کہ سیاسی عدم استحکام، روس اور یوکرین کے درمیان جنگ، اور عالمی سطح پر پیٹرولیم کی قیمتوں میں بے پناہ اضافہ۔ ان پیش رفتوں نے معاشی منظر نامے کو مکمل طور پر تبدیل کر دیا جس نے معیشت اور کاروبار کے اندر غیر متوقع پریشانی اور چیلنجز کو جنم دیا۔ گزشتہ چند مہینوں میں اشیاء کی قیمتوں میں اضافہ اور درآمدی بل میں اضافے کی وجہ سے زیادہ کرنٹ اکاؤنٹ نے ملک کو ادائیگیوں کے توازن کے بحران کے دہانے پر کھڑا کر دیا ہے۔

موجودہ سال کے لیے، ہم پیش گوئی کر رہے ہیں کہ کاروبار کے مسلسل مایوس کن ماحول کی وجہ سے مذکورہ اقتصادی گراؤ مزید بڑھ سکتی ہے۔ مالیاتی شعبے کا نقطہ نظر اب بھی چیلنجنگ ہے۔ قرضے کی شرح کے بڑھتے ہوئے منظر نامے کے تحت دوبارہ قیمتوں کے تعین کے خطرات اور کاروبار کرنے کی زیادہ لاگت موجودہ مالی سال میں اہم مسائل ہوں گے۔

جیسا کہ ہم آگے دیکھتے ہیں، ہم یہ بھی مانتے ہیں کہ شریعہ کے مطابق فنانشنگ موڈ کے تحت چھوٹے اور درمیانے درجے کے قرضوں کی سہولیات کے لیے وسیع مواقع موجود ہیں۔ ان مواقع کو حل کرتے ہوئے، ہم اپنے آپریشنل عمل کو مزید ترقی دینے کا ارادہ رکھتے ہیں تاکہ بڑے حجم کے کاروباروں کو زیادہ کارکردگی کے ساتھ سپورٹ کیا جاسکے اور اثاثوں کی مالی اعانت کے لیے ملک بھر میں اپنی جغرافیائی موجودگی کو بڑھایا جاسکے۔

موجودہ کاروباری حالات کو مد نظر رکھتے ہوئے ہم احتیاط سے آگے بڑھیں گے اور نئے اثاثوں کی مالی اعانت کے لیے اپنی موجودہ اور نئی کاروباری سرگرمیوں میں زیادہ محتاط رہیں گے۔ اس کے ساتھ ساتھ، ہم ضروری تکنیکی ایجاڈوں اور ان کے عمل میں بہتری کا کام بھی کریں گے تاکہ مارکیٹ کی حرکت کو بدلنے میں آگے رہیں۔ رسک مینجمنٹ ٹولز کو مضبوط بنانے، آپریٹنگ افادیت کو بہتر بنانے اور پائیدار ترقی کے لیے کارپوریٹ گورننس اور کمپلائنس کلچر کی بہترین ترین سطح کو برقرار رکھنے اور ہمارے قابل قدر مضاربہ سرٹیفکیٹ ہولڈرز کے لیے طویل مدتی قدر کی تعمیر پر مسلسل توجہ مرکوز کی جائے گی۔

موجودہ معاشی صورتحال کو مد نظر رکھتے ہوئے ہم نے مالی سال ۲۰۲۲-۲۳ کے لیے درج ذیل کاروباری اور آپریشنل حکمت عملی وضع کی ہے۔

- اس کی مصنوعات کی طلب اور کاروبار کرنے کی لاگت پر مشتمل سیکٹر وار تجزیہ کرنا۔
- موجودہ کھٹن ماحول میں گاہک اور کیش فلو پیدا کرنے کی صلاحیت کا احتیاط سے فائدہ اٹھانے والی کا وقت دیکھنا۔
- افقی ترقی کے لیے چھوٹے اور درمیانے سائز کے صارفین پر توجہ دیں۔
- شریعت کے مطابق نئی مصنوعات متعارف کرانے کے امکانات تلاش کریں جیسے مراہمہ، استثنائ اور رہن کی مالی اعانت۔
- آڈیو کنزیومر فنانشنگ کے سائز کو بڑھانا۔
- اچھے صارفین کے لیے اثاثوں اور دیگر موثر کاروں کی فنانشنگ پر توجہ دینا۔
- COIs اور دیگر اسلامی آلات کے ذریعے کم لاگت کے وسائل کو متحرک کرنے کی نئی راہیں تلاش کرنا۔
- ٹیکنالوجی کی مدد سے کاروبار کرنے کی لاگت کو کم کرنا۔
- تکنیکی ترقی کو بڑھانا اور عملے کے اراکین کی ورچوئل مصروفیات کے ذریعے آپریشنل افادیت کو بڑھانے کے لیے ڈیجیٹل اسپیس کو وسیع کرنا۔
- تربیتی پروگراموں کے مختلف حصوں کے ذریعے عملے کے ارکان کی آپریشنل صلاحیت کو بڑھانا۔
- کمیونٹی سپورٹ کے لیے CSR سے متعلق مختلف سرگرمیوں میں مشغول ہونا۔

ان سب کے علاوہ ہم مالیاتی کتاب کے لیے ترقی کے اہداف اور مارکیٹ میں اضافی رسائی کے لئے ہم کاروبار اور منافع میں طویل مدتی پائیداری پر زیادہ توجہ مرکوز کرنے کا ارادہ رکھتے ہیں۔ ہمیں یقین ہے کہ ہمارے قائم کردہ انتظامی اصول، توجہ کا نقطہ نظر، اور مضبوط حکمرانی کے لیے عزم ہمارے مقصد کو حاصل کرنے کے لیے کلیدی حصے ہیں۔

شرعی تعمیل اور آڈٹ کا طریقہ کار

ایک اسلامی مالیاتی ادارے کا ایک بنیادی ضرورت ہوتی ہے جس پر اس کا کاروباری معاملات اور امور انجام دیئے جاتے ہیں اور وہ ہیں شرعی اصول و ضوابط۔ اسلامک فنانس شرعی معاہدوں کے تحت اس کی قیمت حاصل کرتی ہے جو کہ فنانشل ٹرانزیکشن کی رسک اور ریرن پروفائل کی صورت میں آتی ہے۔

ڈائریکٹر رپورٹ

سال کے دوران ہماری مجموعی تقسیم ۱۱،۴۶۱ بلین روپے تک پہنچ گئی جو بڑھ کر تقریباً ۶۸ فیصد ہو گئی۔ بیلنس شیٹ کا حجم بھی ۱۲،۱۲۰ بلین روپے کے آخری کے مقابلے میں ۱۷،۱۶۳ بلین روپے تک پہنچ گیا ہے جو کہ تقریباً ۴۲ فیصد کی نمو کو ظاہر کرتا ہے۔ منافع میں بھی زبردست اضافہ ہوا۔ منیجمنٹ فیس سے پہلے کا منافع ۳۶ فیصد بڑھ گیا یعنی ۳۰ جون ۲۰۲۲ کو ختم ہونے والی مدت کے لیے ۳،۶۳۰ بلین روپے سے ۴،۹۵۰ بلین روپے تک۔ مشارق سرٹیفکیٹ اسکیم کے تحت ہمارے ڈپازٹ بھی پچھلے سال کے ۹۲۱ بلین روپے کے مقابلے میں ۱۱،۶۲۱ بلین روپے تک پہنچ گئے جو کہ تقریباً ۵۹ فیصد کی ترقی ہے۔

زیادہ تر فنانسنگ مشارقہ کی مالی اعانت کے ذریعے کی گئی۔ تقریباً ۹۴ فیصد فنانسنگ نجی اور کمرشل گاڑیوں میں کی گئی۔ ہماری تمام ۴ برانچوں یعنی کراچی، لاہور، اسلام آباد، اور ملتان نے اچھی کارکردگی کا مظاہرہ کیا، خاص طور پر ہماری کراچی برانچ جس نے کل ادائیگیوں کا تقریباً نصف حصہ ڈالا ہے۔

ہمارے کنزیومر آؤٹانس پورٹ فلیو نے بھی متاثر کن ترقی کی ہے یعنی تقریباً ۱۰۱ فیصد۔ مذکورہ پورٹ فلیو کا حجم ۴،۰۶۱ بلین روپے تک پہنچ گیا ہے جبکہ پچھلے سال کے مقابلے میں اسی مدت میں ۶۹۸ بلین روپے تھا۔ سال کے دوران، ۵،۶۹۹ کے کل کار فنانسنگ یونٹس کو فنانس کیا گیا، خاص طور پر کارپوریٹ سیکٹر میں۔ ہمارے کار فنانسنگ یونٹس ۲۳،۷۸۱ تک پہنچ گئے جو FHM کی آپریشنل تاریخ میں ایک بار پھر سب سے زیادہ تعداد ہے۔

گزشتہ سال کے آغاز سے پاکستان کی معیشت مثبت زون میں رہی اور کاروباری سرگرمیاں اور سرمایہ کاروں کا اعتماد بلند اور حوصلہ افزا رہا۔ تاہم، مالی سال ۲۰۲۱-۲۲ کی آخری سہ ماہی میں سیاسی عدم استحکام، روس اور یوکرین کے درمیان جنگ، اور عالمی سطح پر پیٹرولیم کی قیمتوں میں بے پناہ اضافہ جیسی چند غیر متوقع تبدیلیاں کی گئیں۔ ان پیش رفت نے معاشی منظر نامے کو مکمل طور پر تبدیل کر دیا تھا جس نے معیشت اور کاروبار کے اندر غیر متوقع پریشانی اور چیلنجز پیدا کر دیے تھے۔ گزشتہ چند مہینوں میں اشیاء کی قیمتوں میں اضافہ اور بڑھے ہوئے درآمدی بلوں کی وجہ سے بلند کرنٹ اکاؤنٹس نے ملک کو ادائیگیوں کے توازن کے بحران کے دہانے پر کھڑا کر دیا ہے۔

موجودہ مایوس کن معاشی ماحول میں، قرضے کی بلند شرحوں، یوٹیلیٹی کے بے تحاشہ اخراجات، روپے کی بے مثال گراوٹ، اور اشیاء کی بڑھتی ہوئی قیمتوں کی وجہ سے مجموعی تجارت اور صنعت مشکل وقت سے گزر رہی ہے۔ فی الحال، ہم کاروباری سست روی کے اثرات کا سامنا کر رہے ہیں کیونکہ ہماری آؤٹ فنانسنگ بہت زیادہ قرضے کی شرح کے ساتھ موثر گاڑیوں کی بڑھتی ہوئی قیمتوں اور ڈیلیوری میں لمبی قطاروں / انتظار کی وجہ سے بہت زیادہ متاثر ہوئی ہے۔

مارچ ۲۰۲۲ کے مہینے میں، بورڈ آف ڈائریکٹرز نے اصولی طور پر حبیب میٹرو مضاربہ کو فرسٹ حبیب مضاربہ کے ساتھ ضم کرنے کی تجویز پیش کی تھی جو ایس ای سی پی SECP اور دیگر متعلقہ حکام کی منظوری سے مشروط تھی۔ بورڈ کا خیال ہے کہ مذکورہ انضمام سے لاگت کی بچت میں مدد ملے گی، معاشی پیمانے میں بہتری آئے گی اور آؤٹ فنانسنگ مارکیٹ میں مسابقتی برتری حاصل ہوگی۔ انضمام کا عمل مزید آگے بڑھ گیا ہے اور ہم نے مضاربہ کے رجسٹر، SECP سے No Objection سرٹیفکیٹ حاصل کر لیا ہے۔ اب ہمارا کنسلٹنٹ ضروری منظوری کے لیے معزز عدالت میں مذکورہ انضمام کے لیے درخواست دائر کرنے کا منصوبہ بنا رہا ہے۔ امید ہے کہ ہم اگلے ۲-۳ ماہ میں انضمام کا عمل مکمل کر لیں گے۔

آگے بڑھتے ہوئے، ہم پیش گوئی کر رہے ہیں کہ مذکورہ معاشی بد امنی مسلسل مایوس کن کاروباری سرگرمیوں کی وجہ سے مزید بڑھ سکتی ہے۔ یہ صورتحال کاروباری اداروں کے ذریعے ادھار لی گئی سہولیات کی بروقت ادائیگی پر بھی اثر انداز ہو رہی ہے۔ مالیاتی شعبے کا نقطہ نظر اب بھی چیلنجنگ ہے۔ قرضے کی شرح کے بڑھتے ہوئے منظر نامے کے تحت دوبارہ قیمتوں کے تعین کے خطرات اور کاروبار کرنے کی زیادہ لاگت موجودہ مالی سال میں اہم مسائل ہوں گے۔ موجودہ کاروباری حالات کو مد نظر رکھتے ہوئے ہم احتیاط سے آگے بڑھیں گے اور نئے اثاثوں کی مالی اعانت کے لیے اپنی موجودہ اور نئی کاروباری مصروفیات میں زیادہ محتاط رہیں گے۔ اس کے ساتھ ساتھ، ہم مارکیٹ کی حرکات و سکنات کو بدلنے میں آگے رہنے کے لیے ضروری تکنیکی اختراعات اور عمل میں بہتری بھی لائیں گے۔ رسک مینجمنٹ ٹولز کو مضبوط بنانے، آپریٹنگ افادیت کو بہتر بنانے اور پائیدار ترقی کے لیے کارپوریٹ گورننس اور کمپلائنس کلچر کی اعلیٰ ترین سطح کو برقرار رکھنے اور ہمارے قابل قدر مضاربہ سرٹیفکیٹ ہولڈرز کے لیے طویل مدتی قدر کی تعمیر پر مسلسل توجہ مرکوز کی جائے گی۔

کاروباری نقطہ نظر اور مستقبل کی حکمت عملی

گزشتہ سال اچھی بحالی کے بعد، پاکستان کی معیشت نے مالی سال ۲۰۲۱-۲۲ میں اچھی کارکردگی کا مظاہرہ کیا اور جی ڈی پی کی شرح نمو ۵.۹ فیصد حاصل کی۔ ایس بی پی اور حکومت کی طرف سے پچھلے سال میں شروع کیے گئے ٹھوس مالیاتی اور مالیاتی محرک اقدامات کی وجہ ۲۰۲۱-۲۲ میں بہتر نمو کے ساتھ ختم ہونے والے سال میں پاکستان کی معیشت میں نمو مضبوط رہی۔

پچھلے سال کی زیادہ ترقی نے غیر معمولی درآمدی بلوں اور غیر ملکی قرضوں پر سروسنگ کی وجہ سے اعلیٰ تجارتی اور کرنٹ اکاؤنٹ خسارے کے مسائل پیدا کر دیے۔ مالی سال ۲۲ کی تیسری سہ ماہی تک، معیشت نے اچھی کارکردگی کا مظاہرہ کیا اور جی ڈی پی، زراعت، خدمات اور صنعتی شعبے کے اپنے اہداف کو عبور کیا۔

ڈائریکٹر رپورٹ

نامے کو مکمل طور پر تبدیل کر دیا تھا جس سے معیشت اور کاروبار کے اندر غیر متوقع پریشانی اور چیلنجز پیدا ہو گئے تھے۔ گزشتہ چند مہینوں میں اشیاء کی قیمتوں میں اضافہ اور درآمدی بل میں اضافے کی وجہ سے کرنٹ اکاؤنٹ بلند ہونے کے باعث ملک کو ادا نیگیوں کے توازن کے بحران کے دہانے پر کھڑا کر دیا ہے۔

ادائیگیوں کے منفی توازن کا جاری رہنا، پاکستانی روپے کا کمزور ہونا، مہنگائی اور قرضے کی بلند شرح نے ملک کے اندر شدید معاشی عدم توازن کے مسائل کو جنم دیا ہے۔ مزید برآں، جاری سیاسی خلفشار نے بھی معاشی بے یقینی میں اضافہ کیا ہے، جس نے مقامی کرنسی کی قدر میں زبردست کمی کی ہے اور پیداواری لاگت کو بڑھا دیا ہے۔ یہ تمام عوامل معاشی نقطہ نظر کو غیر یقینی بنا رہے ہیں۔ موڈیز انویسٹر سروس نے بھی پاکستان کی کریڈٹ ریٹنگ آؤٹ لک کو گھٹا کر مستحکم سے منفی کر دیا تھا اس خدشے پر کہ اجناس کی عالمی قیمتیں جاری رہیں گی جس سے جاری کھاتے کا خسارہ بڑھے گا اور رواں اور اگلے مالی سالوں میں زرمبادلہ کے ذخائر پر اثر پڑے گا۔

حال ہی میں، اسٹیٹ بینک آف پاکستان کی مانیٹری پالیسی کمیٹی (MPC) نے پالیسی ریٹ میں ۱۲۵ بیس پوائنٹس کا اضافہ کیا۔ بہت کم وقت میں پالیسی ریٹ میں نمایاں اضافہ کیا گیا ہے۔ کیلنڈر سال ۲۰۲۱ کی آخری سہ ماہی میں، پالیسی کی شرح ۲۵٪ فیصد تھی اور نومبر کے اندر، یہ ۱۵ فیصد کی سطح پر پہنچ گئی۔ اضافے کی اس بے مثال رفتار نے کاروباری ماحول کو انتہائی ٹھنڈا اور مشکل بنا دیا ہے۔ پاکستان میں بوم اینڈ بسٹ دور کی ایک طویل تاریخ ہے جہاں معیشت ترقی کے مختصر عرصے کے بعد کچھ وقت تک برقرار نہیں رہتی ہے۔ اقتصادی ترقی کو بنیادی طور پر درآمد پر مبنی ان پٹ سے مدد ملتی ہے جس سے کرنٹ اکاؤنٹ اور تجارتی خسارے میں توازن کی ادائیگی کے منفی مسائل پیدا ہوتے ہیں۔ مالی سال ۲۰۲۱-۲۲ میں کرنٹ اکاؤنٹ خسارہ ۸۷.۴ بلین ڈالر تک پہنچ گیا جبکہ پچھلے سال میں ۸۰.۲ ڈالر کا خسارہ تھا۔ کرنٹ اکاؤنٹ خسارے میں پٹرولیم مصنوعات، خوراک اور دھاتوں کی بلند قیمتوں کے ساتھ توانائی اور نان انرجی اشیاء کی مسلسل بڑھتی ہوئی درآمدی حجم کی وجہ سے اضافہ ہوا۔

شرح مہنگائی / افراط زر جولائی ۲۰۲۲ کے مہینے میں ۱۴ سال کی بلند ترین سطح ۲۴ فیصد تک پہنچنے والی ہے جس نے کاروبار کرنے کے لاگت اور کاروباری ڈھانچے کو بری طرح سے ہلا کر رکھ دیا اور کاروبار کرنے کی لاگت میں زبردست اضافہ ہوا۔ عالمی سطح پر، زیادہ تر ممالک میں افراط زر کئی دہائیوں کی بلند ترین سطح پر ہے۔ نتیجتاً مضبوط مانیٹری پالیسی اپنائی گئی باوجود یہ کہ عالمی نمونے سست روی اور یہاں تک کہ کساد بازاری کے خطرات موجود ہیں۔ پاکستان کے میکرو اکنامک عدم توازن نے معاشی بحالی کو نمایاں طور پر متاثر کیا ہے جس پر عمل درآمد ہو نا باقی ہے۔

عالمی بڑھتی قیمتیں جو ابھی بھی خارجی طور پر ہماری معیشت پر بہت منفی طرح اثر انداز ہو رہی تھیں۔ نئے مالی سال میں گورنمنٹ ایسے اقدامات لینے پر غور کر رہی ہے تاکہ معاشی سرگرمیاں سست ہوں اور ڈیمانڈ کم ہو، تاکہ فارن ریزرو پر دباؤ کم ہو سکے اور ڈیسٹک سطح پر افراط زر پر قابو پایا جاسکے۔ رواں مالی سال ۲۰۲۲-۲۳ پاکستان کی معیشت کے استحکام کا سال ہو گا۔ آگے بگولہ ہوتی معیشت کو ٹھنڈا کرنے کے لیے حکومت کے اقدامات صنعتی شعبے میں سرگرمیوں کو سست کر دیں گے، خاص طور پر بڑے پیمانے پر مینوفیکچرنگ (LSM) کے شعبے میں، اور خدمات کے شعبے کی کمی پر بھی اثر پڑے گا۔ عام انتخابات سے قبل سیاسی شور شرابہ نے مالی سال کے دوران بھی معاشی رفتار کو متاثر کر سکتا ہے۔ توقع کی جاتی ہے کہ سست معاشی سرگرمیاں نیچے تک پہنچ جائیں گی اور پھر شاید سال کے دوران واپس اچھا لیا ہو جب حکومت نے اصلاحی اقدامات کرنا شروع کرے۔ آئی ایم ایف کے قرضہ پروگرام کی جلد بحالی سے پاکستان میں غیر ملکی فنانشنگ کے بہاؤ میں اضافہ ہو گا اور دیگر کثیر جہتی اور دو طرفہ قرض دہندگان سے اعتماد سازی میں بھی مدد ملے گی۔

فرسٹ حبیب مضاربہ کا معاشی جائزہ

وبائی امراض کے مشکل ادوار سے گزرنے کے بعد، بلاشبہ ہم نے نئے چیلنجز کے بارے میں جان لیا ہے اور معمول کی مصروفیات کو جاری رکھنے کے لیے آگے کی سوچ کے ساتھ مطلوبہ تبدیلیوں کو تیزی سے اپنایا ہے۔ مشکل آپریٹنگ ماحول اور چیلنجوں کے باوجود، ہم نے نہ صرف اس شعبے میں اپنی اہم پوزیشنیں برقرار رکھی ہیں بلکہ کاروبار کے اہم شعبوں میں بھی مستحکم رہے۔ جب ہم نے ۲۰۲۱ کا آغاز کیا، تو ہم ایک بہتر سال کے لیے پر امید رہنے کے لیے پر عزم تھے۔ سال کے آغاز سے، فرسٹ حبیب مضاربہ (FHM) کی ٹیم کاروباری اداروں میں COVID-19 کے بعد کے مواقع کو حاصل کرنے کے لیے چوکس اور چست رہی۔

الحمد للہ، بہترین ٹیم اسپرٹ کے ساتھ، مالی سال ۲۰۲۱-۲۲ کی کارکردگی شاندار رہی اور ہمارے تمام اہداف نہ صرف حاصل کیے گئے ہیں بلکہ اچھے مارجن کے ساتھ ان میں اضافہ بھی ہوا ہے۔ ہمیں یہ کہنا ضروری ہے کہ مذکورہ سال FHM کی آپریشنل تاریخ میں کارکردگی، تقسیم، منافع اور مجموعی کاروباری ترقی کے لحاظ سے بہترین سالوں میں سے ایک ثابت ہوا۔

مجھے اس استقامت اور عزم پر بہت فخر ہے جو ہم نے پچھلے دو سالوں کے بحران کے دوران دکھا ہے۔ اپنے قرض دینے کے کاروبار میں محتاط طرز عمل اپنانے سے، ہم نہ صرف مستحکم مالیاتی نمبروں کے رجحان کو برقرار رکھنے میں کامیاب رہے بلکہ ۲۰۲۱-۲۲ میں غیر معمولی کارکردگی بھی حاصل کی۔ یہ اللہ سبحانہ تعالیٰ کی برکت اور ہمارے سرمایہ کاروں اور صارفین کی بے مثال حمایت کے ساتھ ساتھ پورے FHM کی محنت اور لگن کی وجہ سے ممکن ہوا۔

ڈائریکٹر رپورٹ

مجھے بورڈ آف ڈائریکٹر کی جانب سے ۳۰ جون ۲۰۲۲ کو ختم ہونے والے سال کے لئے مضاربہ کے آڈٹ شدہ اکاؤنٹس پیش کرتے ہوئے خوشی ہو رہی ہے۔

(پاکستانی روپے)

۵۶۹،۷۷۱،۰۰۶	میںجمنٹ فیس سے قبل منافع
(۵۶،۹۷۷،۱۰۱)	مضاربہ میںجمنٹ کمپنی کی فیس
(۷،۴۰۷،۰۲۳)	میںجمنٹ کمپنی کے معاوضے پر سروسز سیلز ٹیکس
(۱۰،۱۰۷،۷۳۸)	ورکرز ویلفیئر فنڈ
۴۹۵،۲۷۹،۱۱۴	منافع قبل از ٹیکس
(۱۱۳،۱۵۵،۳۹۷)	ٹیکس
۳۸۲،۱۲۳،۷۱۷	سال کا منافع
۱۱۰،۸۸۹،۹۲۳	غیر منقسم منافع
۲۴۲،۸۹۹،۳۷۴	سال کے دوران سرپلس کی غیر منقسم منافع میں منتقلی
(۲،۳۳۱،۴۸۳)	دیگر جامع آمدنی
۱.۹۰	۵ روپے فی سرٹیفکیٹ / شیئر پر منافع

قابل تقسیم منافع

۲۰۱،۶۰۰،۰۰۰	۲۰ فیصد کے حساب سے نقد منافع برائے تقسیم (۵ روپے کے سرٹیفکیٹ پر ۵ روپے)
۷۶،۴۲۴،۷۴۹	۲۰ فیصد کے حساب سے منافع کی قانونی ریزرو میں منتقلی
۱۰۰،۰۰۰،۰۰۰	جزل ریزرو میں منتقلی
۳۵۵،۵۵۶،۸۱۲	غیر منقسم منافع

منافع کی ادائیگی

بورڈ آف ڈائریکٹر انتہائی مسرت کے ساتھ ۳۰ جون، ۲۰۲۲ پر ختم ہونے والے سال کیلئے ۲۰ فیصد (۵ روپے کے سرٹیفکیٹ پر ۵ روپے کے حساب سے) نقد منافع دینے کا اعلان کرتا ہے۔

معاشی جائزہ

گزشتہ سال کی اچھی پیشرفت کے بعد، پاکستان کی معیشت نے مالی سال ۲۰۲۱-۲۲ میں اچھی کارکردگی کا مظاہرہ کیا اور جی ڈی پی کی شرح نمو ۵.۹ فیصد حاصل کی۔ ایس بی پی اور حکومت کی جانب سے پچھلے سال شروع کیے گئے ٹھوس مالیاتی اور مالیاتی محرک اقدامات کی وجہ سے پاکستان کی معیشت میں ترقی مستحکم رہی جس کا اختتام مالی سال ۲۲ میں بہتر گروتھ کے ساتھ ہوا۔ تاہم، اس زیادہ گروتھ نے زیادہ تجارتی اور کرنٹ اکاؤنٹ خسارے کے مسائل پیدا کیے جس کی وجہ سے مدی بل زیادہ ہے۔ مالی سال ۲۲ کی تیسری سہ ماہی تک، معیشت نے اچھی کارکردگی کا مظاہرہ کیا اور جی ڈی پی، زراعت، خدمات اور صنعتی شعبے کے اپنے اہداف کو عبور کیا۔

پچھلی سہ ماہی رونما ہونے والی چند نمایاں تبدیلیاں جیسے کہ سیاسی عدم استحکام، روس اور یوکرین کے درمیان جنگ اور پٹرولیم کی عالمی قیمتوں میں بے پناہ اضافہ۔ ان پیش رفتوں نے معاشی منظر

INDEPENDENT DIRECTOR

All the independent directors on the Board are selected in accordance with the compliance of The Companies Act, 2017 in Section 166 which directs that an independent director to be appointed shall be selected from a data bank maintained by Pakistan Institute of Corporate Governance - an institute notified by the Commission.

The names of independent directors on the Board are as follows:

- Syed Rasheed Akhter
- Mr. Saeed uddin Khan

PERFORMANCE EVALUATION OF THE BOARD

The key purpose of board of directors is to ensure the organization's prosperity by collectively formulating strategies and policies on the affairs of the organization in the best interest of its shareholders and stakeholders. The Board sets the institution's strategic aims and providing the leadership for effective functioning and operational working of the organization. An effective Board needs to monitor and improve its performance. It can only be achieved through its evaluation which can be judged through implementation of strategic objectives, satisfactory function and performance of the institutions.

The Board of Directors evaluates its performance by looking at the overall performance of the Modaraba and sets the following criteria.

- How Board effectively fulfilled their responsibilities during the trouble period of Pandemic.
- How Board supported and guided well to the management of FHM in difficult time of business.
- Is the composition of the Board appropriate, having the right mix of knowledge, expertise and skills to maximize performance?
- How well the Board exercises its role ensuring that the organization supports and upholds the vision and mission, core values etc.?
- Is the policy framework of the Modaraba developed appropriately?
- What has been the Board's contribution towards developing strategies / review of strategies presented by the Executive Management and satisfying themselves of its appropriateness to the strategic objectives & the laid down goals & sub goals?
- Is the board able to make timely strategic decisions ensuring operations are in line with strategies?
- Is the information provided to the Board appropriate, accurate, timely and unbiased?
- Has the Board ensured timely and accurate disclosure on all material information?
- What has been the Board's contribution in ensuring robust and effective risk management?
- Is the Board effective in adherence to the code of conduct?

- Is the information provided to the Board appropriate, accurate, timely and unbiased?
- Is the Board as a whole, up-to-date with latest developments in the regulatory environment?
- Has the Board ensured that internal control is robust with automated internal control as far feasible and the audit function is conducted in an effective manner?
- Is the Board effective in adherence to the code of conduct?
- Does the Board have a Chairman, who plays his role in ensuring adequate and constructive discourse and debate on important matters, conflict resolution, leadership qualities etc.?
- Are the Board procedures conducive to effective performance and flexible enough to deal with all eventualities?
- Has the attendance of Directors, quality of contribution and preparedness for agendas been adequate?
- Does the Board ensure that Board Committees Chairmen update the Board appropriately of the discussion & decisions taken?

PERFORMANCE EVALUATION OF THE CHIEF EXECUTIVE OFFICER

The Chief Executive Officer (CEO) is the officer who has ultimate management responsibility for an organization. He is responsible for leading the development and execution of the company's short term and long term strategies with a view to creating shareholder value. The CEO manages the day to day affairs of the organization through his designated team and report directly to the Board of Directors.

On the performance evaluation of the CEO, the Board has considered the following:

Does he ensure that FHM's resources and budgets are aligned with the implementation of the Modaraba's strategic plan;

Does he possess leadership qualities i.e. correct anticipation of business trends, opportunities and priorities affecting the Company's prosperity and operations;

Does he establish an effective organization structure to ensure management's focus on key functions;

Were the financial/business targets set by the board achieved;

does he timely and effectively execute strategies set by the board; and

Has he served as an effective representative while communicating with all the stakeholders?

Has he developed clear mission statement, policies, and strategic plans that harmoniously balance the needs of all the stakeholders;

ASSESSMENT OF BOARD OF DIRECTORS FOR CEO FOR FY 2021-22

After passing through with difficult periods of pandemic, undoubtedly team of FHM have learnt of new challenges and quickly adopted the required changes with forward thinking to continue with routine engagements. In spite of the difficult operating environment and challenges, FHM has not only maintained leading positions within the sector but also made exceptions in key areas of business.

With the high level of team spirit, Alhamdulillah, performance of financial year 2021-22 remained excellent and all our key targets have not only achieved but also increased with good margins. The above year proved to be one of the best years in the operational history of FHM terms of performance, disbursement, profitability and overall business growth.

Total disbursement during the year touched to Rs.11.461 billion which is increased to around 68%. The size of balance sheet has also reached to Rs.17.172 billion as compared to last of Rs.12.120 billion which reflect growth of around 42%. Handsome increase in profitability was also made. Profit before management fee increased by 36% i.e., from 363.0 million to Rs.495.0 million for the period ended 30th June, 2022. Our deposit under Certificate of Musharaka scheme also reached to Rs.11.621 billion as compared to Rs.7.921 billion last year with growth of around 59%. All above key indicators of the business reflects exceptional growth in the operational history of FHM.

The key performance indicators during year 2021-22 were as follows:

- 42% growth in Balance Sheet size
- 49% growth in total financing assets
- 68% growth in financing disbursement
- 54% growth in Certificate of Investment (Musharaka)
- 36% growth in profit before tax

Board has shown their satisfaction on performance evaluation of the CEO which covers quantitative as well as qualitative aspects conducted on said parameters. The remarkable achievement of FHM was due to hard and dedicated efforts of entire team members under the dynamic and progressive leadership of CEO. Under his effective supervision, FHM has not only surpass budgeted targets but also set some milestone i.e., highest disbursement in any single year since inception including highest balance sheet size, profits and deposits generation.

BOARD'S POLICY ON DIVERSITY

We embrace and encourage our employees' differences in age, color, ethnicity, family or marital status, gender identity or expression, language, national origin, religion, socio-economic status, other characteristics that make our employees unique. The Modaraba believes that a diverse workforce plays a very significant role in enhancing efficiency at all levels of the organization. FHM has a firm belief that diversity is an important factor in contributing to the Modaraba's success as people with unique characteristics in terms of gender, knowledge, expertise and skills set add value and help the organization to achieve its goals. Diversity and inclusion are the foundation for the Modaraba's code of conduct and culture.

DIRECTORS' PROFILE

Syed Rasheed Akhtar – Chairman Non-Executive Independent Director

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

Muhammad Shoaib Ibrahim – Chief Executive Officer

Muhammad Shoaib, is associated with FHM since the inception of modaraba. His extensive working experience in Non-Banking Islamic Financial institutions makes him senior most person with such rich experience of Islamic Finance in Pakistan. This intense exposure gave him the insight into the financial and technical aspects of fund management in Islamic way. He has done Master's in Business Administration (MBA) in Banking and Finance from Institute of Business Administration (IBA). He has completed Post Graduate Diploma (PGD) in Islamic Banking and Finance from Centre of Islamic Economics (Darul Ulum), Karachi, Pakistan. He has also completed Certification of Director Training Program conducted by Institute of Chartered Accountants of Pakistan. On number of occasions he remained as an Executive Member of Modaraba Association of Pakistan.

Mohammad Shams Izhar - Non Executive Director

Mr. Mohammad Shams Izhar is an MBA from Institute of Business Administration (IBA), Karachi backed with a degree in Industrial Technology. He has over 36 years' experience in banking with specialization in Corporate Governance and Risk Management overseeing credit risk, operation risk, market & liquidity risk, information security, business continuity and internal control. He also contributed towards improvement of the country's banking industry's standard as a member of Pakistan Banks Association's sub-committee and SBP working group. He is also a Fellow Institute of Bankers Pakistan and Certified Director by Pakistan Institute of Corporate Governance (PICG).

Saeed Uddin Khan- Non Executive Independent Director

Mr. Saeed Uddin Khan has extensive 33 years banking experience in Conventional as well as Islamic. He did his MBA from IBA, Karachi. He also holds Diploma in Banking (DAIBP) and PGD as well as NIBAF, SBP Certification in Islamic banking, besides short as well as extensive training within and outside Pakistan. He has a rich knowledge of retail banking, product and brand development, corporate financing, risk management, asset recovery, budgeting, MIS etc. He served HBL in different areas and at senior positions including inter alia CEO of HBL Mudaraba, Head, Islamic Banking, Head, Budgeting & MIS, Head, SME Business etc. Lastly he set up Islamic banking business and launched a new brand by the name of Sa'adat in Sindh Bank, which he left in early 2018. Currently he is the CEO of a Microfinance Institution recently granted banking license by the State Bank of Pakistan.

Usman Nurul Abedin – Non Executive Director

Mr. Usman Nurul Abedin has graduated from University of Karachi he possesses about of 44 years of diversified experience in the field of banking and finance. He has a vast experience in banking particularly in treasury operations international branch banking. He served Habib Metropolitan Bank for about 32 years at senior management positions and also well versed with risk of credit management policy making and administration. Before joining Habib Metropolitan Bank he was associated with Bank of Credit & commerce international (BCCI) for about 12 years and served as Manager international Operations / Overseas Banking / Credit and Marketing.

Dr. Irum Saba – Non Executive Director

Dr. Saba has more than 17 years of progressive regulatory, research, training, and teaching experience with organizations of international repute. She trained more than 6000 employees in Pakistan's financial sector and taught more than 3000 students in Pakistan. She has extensive regulatory experience with specific focus to promote women empowerment, organisational development and Islamic banking and Finance while working in the Islamic Banking Department of SBP. She is a Shari'ah-registered financial planner (Shari'ah RFP). She holds the Chartered Islamic Finance Professional (CIFP) credential from INCEIF with distinction and PhD in Islamic Finance from INCEIF. She holds M.Com with distinction and PGD in Islamic Banking and Insurance from Institute of Islamic Banking and Insurance (IIBI), London. Her areas of interest are Political Economy, Management, Shari'ah, Wealth planning and Management, Islamic microfinance, corporate governance, and Islamic finance.

HOW THE BOARD OPERATES

The Board meetings of the Company held quarterly to decide the matters requiring Directors' approvals. Further, if a decision on any matter is required on an urgent basis and is not practicable to arrange a meeting, such matters are decided based on resolution by circular duly signed by each Director, then presented in the next Board meeting for ratification.

The Board members ensure that they fulfill all responsibilities assigned to them as required under applicable laws and regulations. Moreover, the Board places more attention on investments, business expansion, internal control & risk management, shariah governance, review, and approval of policies.

DECISIONS TAKEN BY THE MANAGEMENT

All day to day operations are handled by the management team under the supervision of the CEO with a focus on the business plan and guidelines given by the Board. Management team performs duties within the powers delegated to them.

The management team sometimes comes across situation where they need guidance of superior authority the CEO refers these matters to the Board of Directors who suggests the way to resolve.

BOARD'S PERFORMANCE EVALUATION BY EXTERNAL CONSULTANT

The Modaraba has engaged the Pakistan Institute of Corporate Governance (PICG) as an Independent External Evaluator, who are in process to conduct the performance evaluation of the Board.

DESCRIPTION OF EXTERNAL OVERSIGHT OF VARIOUS FUNCTIONS TAKEN TO ENHANCE CREDIBILITY OF INTERNAL CONTROLS AND SYSTEMS

The FHM Management has always been keen to strive for the betterment of internal control function and key operational areas. In order to stay abreast with modern work practices and to keep an external oversight on these critical areas, we time to time engage the Parent Bank to analyze and evaluate our key operational functions and deliver the potential areas of improvement.

The Modaraba is subject to a review of internal controls in its Information Technology (IT) systems by external specialist's i.e., the IT team of external auditors and review of compliances by M/s. EY Ford Rhodes.

RELATED PARTIES POLICY

All related party transactions or arrangement to require BOD Approval irrespective of its nature (i.e. specified in section 208 of companies act 2017 or otherwise) or on Arm length basis / other- wise and irrespective of amount must be referred to the Board Audit committee for review / consideration in accordance with this Policy and for recommendation to the board for their consideration / approval.

All related party transactions and information have been appropriately disclosed in note no. 4.17 & 35 of the Financial Statements, including the name, basis of the relationship, percentage holding, nature, and amount.

All transactions with related parties that arise in the normal course of business are conducted on an unbiased, arm's length basis. All related party transactions are placed before the Audit Committee for review and recommendation to the Board of Directors for approval, as per the policy.

There is no interest of any director in any related party transactions

There is no case of conflict which requires specific disclosure

INTERNAL CONTROL

The Modaraba has developed a sound mechanism for identification of risks and assigning appropriate criticality level and devising appropriate mitigation measures which are regularly monitored and implemented by the management across all major functions of the Company. Internal control consider backbone for any institution, the effective control ensure management polices implemented as desired by the management, with the increase in governance structure throughout financial sector now it consider pivotal to have strong and effective internal control mechanism in place. The effectiveness of internal control embedded in the design of the system itself for which deep thought process is needed encompasses with all the necessary vulnerability in order to detect any such risk. The management of FHM is always very keen in establishing a system of control in order to safeguard the interest of the entire stakeholders whether they are regulator, Certificate Holders or investors.

The FHM management always keen and strive for the betterment of Internal control function and it demonstrate through inducting qualified resource and updating standing operating procedure to tackle against any risk and threat, further with the evolution of IT and its unique threat, management having more focus on IT governance so that any IT breach can be handle proactively. The core objectives of internal control are as follows:

- Financial policies reviewed and updated .
- Effective reporting throughout organization.
- Effectiveness and efficiency of operations ensure adherence to its policies, plans and procedures.
- Board receives regular financial reports.
- Board focuses on goals and results.
- Reliability of financial reporting with accuracy.
- Safeguard its assets and resources of modaraba.
- Assessment to ensure compliance with code of ethics and corporate governance.

FHM having the vision to establish and maintain compliance culture throughout the modaraba, compliance department fully equipped with desire resource for effective implementation of compliance function. The role of compliance function is aligned with FHM strategic core objective, the proactive mechanism inbuilt for smooth functioning of compliance function he department also ensures compliances of all regulatory and other statutory requirement. FHM's internal policies and procedures with specific emphasis on KYC, FATCA, CRS, AML & CFT and Shariah audit mechanism. The scope of internal audit is independent appraisal function which review and assess the adequacy and effectiveness of the control activities across the FHM as well as to ensure implementation of and compliance with all the prescribed policies and procedures.

All significant and material findings of the internal audit reviews are reported to the Board Audit Committee. The Audit Committee as per the directions actively monitors



implementation to ensure that identified risks are mitigated to safeguard the interest of the institution and all stakeholders.

During the year following control mechanism further strengthen:

- Setup branch control mechanism & introduced SOP's to further strengthen control processes
- The Board considers the quality and appropriateness of financial accounting and reporting and the transparency of disclosures.
- Credit Risk Management functions/processes have been improved with more internal control features.
- To further strengthening the IT control and safe the IT resource against any known and unknown risk BCP. DRP frequency increase and internal auditor personally attend these session to witness and suggested improvement for betterment through updated standing operation procedures The system of internal control, viewed, evaluated and updated on an ongoing basis by Audit Committee which is supreme authority. The Internal Control department conducts periodic review to provide reasonable assurance that the established policies and procedures of the FHM were consistently followed.
- Updation of branch audit risk metrics with respect to counter any new threats and vulnerability.
- More emphasis on IT infrastructure and governance and increase audit resource in order to identify and tackle new IT related issues and suggested SOP for further strengthening the IT control environment.
- Added tools applied for sound credit assessment appraisals and its implementation on entire modaraba.
- Processes and procedures further reviewed in line with requirements of parent bank for better control environment.
- Shariah governance framework further strengthens with added tool to safeguard against any risk related shariah transactions

HUMAN RESOURCE MANAGEMENT

First Habib Modaraba keeps on conveying on its promise to build up an organization that isn't just prepared to address the difficulties of constantly evolving business sector, but on the other hand is prepared to take on difficulties of things to come also.

Human Resources at FHM is endeavoring its best to prepare our people to build and develop a mindset that not only responds, but also leads in the disruptive environment as a cutting edge and future-prepared association.

Through concentrated efforts, management has made sure that all the systems and processes are aligned with the vision of FHM, assured that it is well communicated at all levels across the organization. Our people assure to deliver the best to the stake holders which is reflected in the accomplishment of targets year-on-year. The team is working hard with a high degree of commitment so that we deliver at the optimum.

Organization Development

We focus on improving through the alignment of strategy, structure, people, rewards, metrics, and management processes. It is a science-backed, interdisciplinary field rooted in psychology, culture, innovation, social sciences, adult education, human resource management, change management. Simultaneously, robust career paths and succession pipelines were developed for high performing and high potential talents with particular focus on critical roles. All the activities were done through robust, well defined criteria and processes ensuring transparency which in turn enhanced the level of trust of employees in your management. These efforts, contributed significantly towards improved performance in a healthy and competitive environment. These recognitions are a strong reflection on the focus and efforts that your management is putting in making First Habib Modaraba the number one company in Pakistan.

Communication & Cultural Diversity

FHM focuses on maintaining an open communication culture across the organization, as it has a direct impact on employees' motivation and commitment.

We at FHM ensure that there should be cordial working environment between employees which ultimately leads to success of organization. FHM always value and promote employee involvement & interaction. The importance of cultural diversity can be interpreted on the basis of these related actions:

- Recognizing that there is a large amount of cultures that exist
- Respecting each other's differences
- Acknowledging that all cultural expressions are valid
- Valuing what cultures have to bring to the table
- Empowering diverse groups to contribute

Equal Opportunity Employer

FHM is committed to providing equal opportunity to all employees without any discrimination on the basis of religion, race, gender, age, disability etc. Our goal is to have a pluralistic

culture that welcomes induction of people with diverse backgrounds at all levels. We always value and promote employee involvement and interaction. Since last many years, our only motive is to promote merit culture & onboarding only deserving candidates so that the staff and us can grow together.

Talent Management & Succession Planning:

Succession Planning continues to be a key priority for the HR department to ensure staff development and to maintain leadership continuity. With a strong belief in developing a proactive approach.

At FHM we continue to invest in the development of people at all levels. We have developed several programs from senior management to junior levels for employees to add value to their existing role, simultaneously to prepare for challenges of higher roles & responsibilities.

People from junior levels are provided with a continuous development & career progression opportunity for growth and better personnel development, because we believe employees at FHM are assets and are the brand ambassadors of FHM in the market. Also, Employee retention approach goes parallel with the succession planning

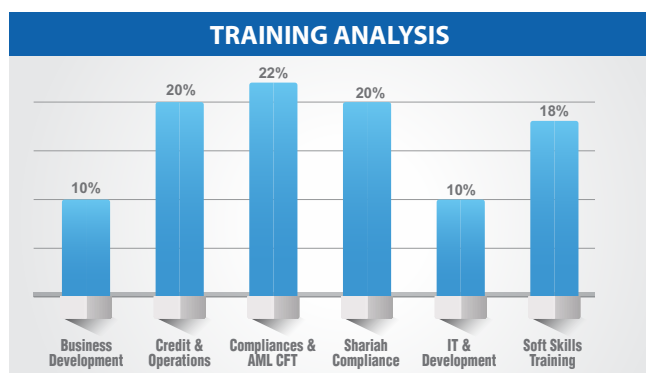
Training & Development:

FHM believes in nurturing and investing in its employees with the ultimate objective of ensuring high employee morale and productivity. We work towards understanding and adding employee objectives with corporate goals, as rapid change requires a skilled, knowledgeable workforce with employees who are adaptive, flexible, and focused on the future.

During the year FHM employees were provided training opportunities in the areas of Islamic Finance, Credit, AML/CFT Regulations Risk Management and Personal Effectiveness in collaboration with different training institutes.

From the last two years, we have made numerous renowned institutions onboard which are eventually become the core indicators for employee's development.

The Company has a demonstrated track record of employing talented human resources across all its functions, which ensures availability of competent personnel for each department, in terms of an individual's potential, qualification, period of service and professional attitude amongst other factors



SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

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

FHM, being a socially responsible corporate entity, has been a regular contributor to the society and communities. It has been our primary concern to ensure that contributing to community development should be continuously carried out.

Since last several years FHM has been donating non-profit organization working for improvement educations, healthcare etc. FHM continues to encourage events and projects which focus on children, health and education in under privileged members of society.

- Strong internal controls are one of the main corporate objectives. FHM promote sound ethical practices within
- The staff members with Risk & Reward concept.
- Contribution on social community projects by staff members which are indeed a catalyst for any good Corporate institution.
- Encourage staff members for avoiding of unnecessary wastage of resources such as excessive consumption of energy and paper printing etc.
- Motivate staff members for participation in activities which are beneficial for better environment at large.
- In order to keep customers' interest safe, FHM, from time to time address their grievances through 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 benefitted to the institutions.
- Health and safety always remain an utmost concern of the management of FHM.
- Within the HR policy, the staffs of FHM are covered under health and group life insurance/takaful policies with renowned insurance/takaful companies.



WHISTLE BLOWING POLICY

An important aspect of accountability and transparency is a mechanism to facilitate all individuals to raise their concerns internally in a responsible and effective manner when they discover information which they believe that such practices are not good or damaging for institution.

A whistleblower as defined by this policy is an employee of FHM who reports an activity that he/she considers to be illegal or dishonest and can harm to the institution. The whistleblower is not responsible for investigating the activity or for determining fault or corrective measures rather appropriate management officials are charged with these responsibilities.

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

Key elements of our Whistle Blower Policy are highlighted below:

All disclosures are required to be made in writing.

All disclosures are kept confidential and the identity of the individual making the allegation may be kept confidential so long as it does not hinder or aggravate any investigation.

All staff are protected from victimization, harassment or disciplinary action as a result of any disclosure, where the disclosure is made in good faith and is not made maliciously or for personal gain.



Disciplinary action may be taken against the wrongdoer dependent on the results of the investigation.

All whistle blowers' disclosures made are treated as confidential and the identity of the whistle blower is protected at all stages in any internal matter or investigation.

There are no adverse consequences for anyone who reports a whistle blowing concern in good faith. However, any individual found responsible for making allegations maliciously or in bad faith may be subject to disciplinary action.

FHM is committed to continually operate at the highest standards of conduct as the trustees of investors' funds and it is our core value to serve our community with integrity and honesty. We endeavor to earn and uphold the trust of all our stakeholders by serving and dealing with them ethically and professionally by adhering all applicable laws and best business practices.

POLICY FOR SAFETY RECORDS OF THE COMPANY

IT BASED RECORD

First Habib Modaraba (FHM) prioritizes customer trust. We know that customer data is important to our customers' values and operations. That is why we keep it private and safe. FHM has large number of customers at country level. Our customers entrust us with large amounts of information, stemming from a wide range of industries including healthcare, financial services, technology and others. FHM maintain control of their privacy and data security in a myriad of ways.

FHM has developed security protections and control processes to help to ensure a secure environment for their information. Independent third-party experts have confirmed FHM's adherence to industry standards.

Access Management:

FHM provides an advanced set of access and encryption functions for effective information protection. We do not access customer content or use it for any purpose other than to provide, maintain and improve FHM services and as required by law.

Data Security:

With FHM's online backup service help us recover irreplaceable data and avoid the errors associated with traditional tape backups. FHM has daily, weekly and monthly data backup policy, FHM has two data backup locations in Karachi and Lahore.

The company has installed a state-of-the-art fire detection and extinguishing system to protect its data center. In addition, we have strengthened our disaster recovery plan with the use of Data Guard and online data transmission to the disaster recovery site using fiber optic technology.



PAPER BASED RECORD

Effective record keeping practices are vital for FHM to support the delivery of high-quality services, operational efficiency, accountability and transparency. They are also essential for demonstrating compliance with regulators i.e. SECP, FBR, SRB & SBP. The purpose of these paper-based record policy is to outline the procedures and practices for all FHM staff to ensure consistent, effective and appropriate company record and information management across the Directorate. The above objective is achieved through following measures;

- Records should be stored and carried in a secure bag/case or file. Records should not be carried 'loosely' as this increases the risk of dropping them and losing something. Records must be kept in strong room secured by digitally locked and burglar and fire alarm system.
- The person responsible for sending or taking records must log.
- Information taken away from premises only permitted in dire need for example complaints, legal action, serious incidents.
- Staff must not carry around more information than is necessary. This guideline is followed to reduce the risk of the records being accessed by an unauthorized person, lost or stolen.

INVESTORS' GRIEVANCE POLICY

First Habib Modaraba is strongly committed to equitable treatment of every shareholder, whether they are major or minority shareholders, Institutional investors, or foreign shareholders. We treat all customer complaints as opportunities to better understand what is important to our customers and to drive service improvement priorities. Complaint redressal is supported by a review mechanism, to minimize the recurrence of similar issues in future.

FHM is well focused on redressing investor grievances and ensure that appropriate mechanism exists for receiving and addressing complaints from our customer/investors in good manner and in shortest possible time. We believe that Investor service is an important segment for sustained business growth and it is our corporate motto that our investors must receive exemplary service across different areas of operations. Prompt and efficient service is essential to retaining existing relationships and investor's satisfaction.

Under the policy, FHM ensure that;

- Investors must be treated fairly at all times.
- Complaints raised by investors must be dealt with courtesy and in a timely manner.
- Grievance, if any, shall be resolved in a proper and time bound manner with detailed communication to relevant complainer.
- In case the resolution needs time, an interim response acknowledgment shall be issued.
- All the staff member of FHM work in good faith and without prejudice towards the interests of the investors.
- To timely address any untoward incident, FHM has a well-functioning grievance mechanism that proves a transparent and credible process resulting in outcomes that are seen as impartial, effective and durable. Through this initiative FHM is able to reduce
- investment risks, provide an effective avenue to express and resolve concerns, thereby substantiating positive relationship



Grievance Redress Handling Mechanism

- Handling of all the investor grievances for the Company is a centralized function and is being handled by the Compliance department at Head office.
- FHM has made arrangement of compliant box in each branch for any kind of complaint regarding Modaraba's activity.
- Compliance Department assists internal and external customers in resolving long standing complaints and issues and ensures that customer service standards are maintained and upgraded.
- A designated email id has been allocated where the investors can make complain and same is monitored by the compliance department on regular basis.
- Any serious complaint must be bring into the knowledge of senior management & CEO of FHM as well.



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

Business Continuity Plan (BCP)

Business Continuity Management (BCM) is a framework to avoid and manage risks associated with disruption of mission critical activities so as to ensure resilience of FHM business. But most prescient BCP planners could not have predicted COVID-19 and its impact on the business. In this crisis FHM is also offered to work from home opportunity to their staff. FHM has a comprehensive and up to date business continuity plan. It is a far reaching approach intended to ensure. Systematically restore their operational infrastructures in the event of temporary business interruptions or catastrophic disasters. The point of FHM is to ensure the client and organization resources and to limit the budgetary, administrative, reputational and key effect of such episodes. FHM is expected to guarantee the continuation or fast recuperation of basic business exercises in emergency circumstances.

Disaster Recovery Plan (DRP)

The FHM has adequately kept an eye on the Disaster Recuperation (DR) challenge of unconventionality, uptime and availability of each and every unified systems and infrastructure.

Disaster recovery plan is integrated to a large extent with BCP and designated key members are familiar with the specific actions they will need to take in case of any disaster. At FHM, our DR plan is adaptable and regularly update with the backup. Our relevant department also does the mock exercise at allocated DR sites to make sure Business Continuity Tests/ Simulation Drills are conducted in a timely & effective manner. FHM has policies and procedures designed to ensure the business continuity, and to deal with major incidents including business continuity and disaster recovery. Business continuity for both our organization and client, is a top priority at FHM. The simplified process has achieved reduced turnaround time, aversion of manual intervention and accessibility of complete reports and logs for review. FHM's Disaster Recovery Plan and Philosophy, is one of its sort and known for its robustness and manageability.

We help our staff for an emergency or unexpected event that may impact FHM operations so as to get ready for any unexpected event that may influence business as usual. Disaster Recovery (DR) exercise also conduct for critical business applications from the DR site on regular basis. These exercises are perform by FHM professional with the

IT expert to proactively prepare for disasters, expedite the resumption of FHM operations, and minimize customer impact and inconvenience. Contingency plans for core services, key systems and priority business processes revisit as part of existing management processes to ensure that continuity plans remain relevant. These plans provide each business unit with the necessary guidelines and procedures in case of an emergency. Continuous updates of these plans are performed annually, to ensure that they are kept up to date with changes in systems and business units. Business heads are accountable for their divisional recovery strategies, the validation of recovery capabilities and the provision of appropriate training and awareness and its importance in the organization.

Our relevant department has taken following measures to ensure the quick and smooth availability of BCP/DRP.

FHM has already arranged third Party BCP/DR solution from M/s. Cube XS Weatherly (Pvt) Ltd and maintaining DR side since last several years which also cover Tier 4 Data Centre and Disaster Recovery site.

IT performs BCP mock exercise to ensure.

- IT Recovery - test restore of technology, (i.e. data, network)
- Going offsite to a backup location tests recovery site preparedness, communications and utilities
- Trained and informed personnel are typically performing recovery steps
- Transaction testing verifies restore connectivity and access using a person that knows the business process
- Educate the responsible persons on the workings of the plan

FHM has also developed environment that provides a ready-to-go computer system in a prepared location with a minimizing network downtime and minimizes customer inconvenience and promotes loyalty.

Take update on latest process and tools on BCP.

As expect in a time of crises, things change in unpredictable ways. COVID-19 is not only infecting people, it is decimating entire industries. In this period FHM offer the opportunity and flexibility to work from home that creates sustainability to effective working environment for it staff.

DISCLOSURE OF BENEFICIAL (INCLUDING INDIRECT) OWNERSHIP AND FLOW CHART OF GROUP SHAREHOLDING AND RELATIONSHIP AS HOLDING COMPANY, SUBSIDIARY COMPANY OR ASSOCIATED UNDERTAKING.

Name of Associated Entity	Nature of Relationship	Basis of Relationship	Aggregate Percentage of Certificate Holding
Habib Metropolitan Modaraba Management Company (Private) Limited	Associate	Management Company of the Modaraba	10.0%
Habib Metropolitan Financial Services Limited	Associate	Common Management and Control	-
First Habib Modaraba Employee Contributory Provident Fund	Associate	Common Management	-
First Habib Modaraba Staff Gratuity Fund	Associate	Common Management	-
Habib Metro Modaraba	Associate	Common Management	-

*This associated company is incorporated outside Pakistan.

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE – YEAR ENDED JUNE 30, 2022

The Modaraba Management Company (hereafter referred to as the Company) has complied with the requirements of the Regulations in the following manner:

- The total number of directors are six as per the following:

Male	5
Female	1

- The composition of board is as follows:

Executive Director	Mr. Muhammad Shoaib Ibrahim
Chairman - Non-Executive Independent Director	Syed Rasheed Akhtar
Non-Executive Director	Mr. Mohammad Shams Izhar
Non-Executive Independent Director	Mr. Saeed Uddin Khan
Non-Executive Director	Mr. Usman Nurul Abedin
Female Director	Dr. Irum Saba

- The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this company.
- The company has prepared a Code of Conduct and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
- The board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. The Board has ensured that complete record of particulars of the significant policies along with their date of approval or updating is maintained by the company;
- All the powers of the board have been duly exercised and decisions on relevant matters have been taken by board/ shareholders as empowered by the relevant provisions of the Act and these Regulations.
- The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose. The board has complied with the requirements of Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of board.
- The board of directors have a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations.
- All the directors, are compliant with necessary requirements of Directors Training Certificate at The Institute of Chartered Accountants of Pakistan (ICAP), The Institute of Cost and Management Accountants of Pakistan (ICMAP) and Institute of Business Administration (IBA) except one, who has subsequently acquired the necessary certification from ICMAP.

Directors status of compliance with necessary requirements of Directors Training program are as follows:

Mr. Muhammad Shoaib Ibrahim	Certified from ICAP
Mr. Mohammad Shams Izhar	Certified from PICG
Syed Rasheed Akhtar	Certified from ICAP
Mr. Saeed ud din Khan	Certified from ICMAP
Dr. Irum Saba	Certified from IBA
Mr. Usman Nurul Abedin	Certification from ICMAP in progress

- The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment and complied with relevant requirements of the Regulations.

11. Chief financial officer and chief executive officer duly endorsed the financial statements before approval of the board.
12. The board has formed committees comprising of members given below:

Audit Committee

Chairman	Mr. Saeed Uddin Khan
Member	Syed Rasheed Akhtar
Member	Mr. Mohammad Shams Izhar
Secretary	Mr. Muhammad Babar

HR and Remuneration Committee

Chairman	Mr. Saeed Uddin Khan
Member	Syed Rasheed Akhtar
Member	Mr. Mohammad Shams Izhar
Secretary	Mr. Muhammad Jehanzeb

13. The terms of reference of the aforesaid committees have been formed, documented and advised to the committee for compliance.
14. The frequency of meetings (quarterly/half yearly/ yearly) of the committee were as per following:

Audit Committee	Four quarterly meetings
HR and Remuneration Committee	One annual meeting
15. The Board has set up an effective internal audit function to who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the company;
16. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan, that they and all their partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan and that they and the partners of the firm involved in the audit are not a close relative (spouse, parent, dependent and non-dependent children) of the chief executive officer, chief financial officer, head of internal audit, company secretary or director of the company;
17. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, these Regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard;
18. We confirm that all requirements of the Regulations 3, 6, 7, 8, 27, 32, 33 and 36 of the Regulation have been complied with.

Muhammad Shoaib Ibrahim
 Chief Executive Officer
 Karachi; September 06, 2022

Syed Rasheed Akhtar
 Chairman



Building a better
working world

EY Ford Rhodes
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O.Box 15541, Karachi 75530
Pakistan

UAN: +9221 111 11 39 37 (EYFR)
Tel: +9221 3565 0007-11
Fax: +9221 3568 1965
ey.khi@pk.ey.com
ey.com/pk

To the Certificate Holders of First Habib Modaraba

Review Report on the Statement of Compliance contained in Listed Companies (Code of Corporate Governance) Regulations, 2019

We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019 (the Regulations) prepared by the Board of Directors (the Board) of Habib Metropolitan Modaraba Management Company (Private) Limited, the Modaraba Company of **First Habib Modaraba** (the Modaraba) for the year ended 30 June 2022 in accordance with the requirements of regulation 36 of the Regulations.

The responsibility for compliance with the Regulations is that of the Board of the Modaraba Company of the Modaraba. Our responsibility is to review whether the Statement of Compliance reflects the status of the Modaraba compliance with the provisions of the Regulations in respect of the Modaraba and report if it does not and to highlight any non-compliance with the requirements of the Regulations. A review is limited primarily to inquiries of the Modaraba personnel and review of various documents prepared by the Modaraba Company to comply with the Regulations.

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

The Regulations require the Modaraba to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba compliance, in all material respects, with the requirements contained in the Regulations as applicable to the Modaraba for the year ended 30 June 2022.

EY Ford Rhodes

Chartered Accountants

Place: Karachi

Date: 19 September 2022

UDIN Number: CR202210076nj4gwRAZC

ROLE OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Role of the Chairman

The Chairman is responsible for the leadership of the Board and act as a liaison between the management and the Board. The Chairman of the Board has a responsibility to lead the Board and ensure its effective functioning and continuous development. Besides, he has responsibility of effective performance of the Board and maintenance of cordial and conducive relationship between the directors.

The concept of separation of the role of the Chairman from the role of CEO implies that the Chairman should be independent from management and free from any interest or other relationship which could interfere with the Chairman's independent judgment.

Chairman

Syed Rasheed Akhtar is Chairman of Board of Directors of Habib Metropolitan Modaraba Management (Private) Ltd. He is very seasoned banker and carrying diversified banking experience of local and international banking of around 36 years. Being a Chairman of Board he is responsible for:

- Leads the Board and also act as a liaison between management and the Board.
- Ensure effective and efficient manner of the Board proceedings in conformity with best Practices of the Code of Corporate Governance.
- Ensure that the Board is properly working and all matters relevant to the effective functioning of the institution are placed.
- Ensure effective operations of the Board and its committees.
- Make sure that the board focuses on its key tasks.
- To promote the highest standards of corporate governance.
- He coordinates with Committees to ensure that appropriate policies and procedures are in place for the effective management of the affairs of the Management Company and FHM.
- To make sure better communication between Modaraba Certificate holders, investors with the management of FHM.

Chief Executive Officer

Mr. Muhammad Shoaib Ibrahim is the Chief Executive Officer of the Modaraba. He has an extensive experience of Islamic banking and finance.

Being CEO he is responsible to manage the business of Modaraba within the authorities delegated by the Board. His responsibilities are set out as follows:

- To manage day to day affairs of Business.
- To implement long term strategic plan, goal and objective.
- To make Shariah governance within the operation.
- To take care of health safety issues of staff members.
- To Enable Board of Directors to fulfill its governance functions.
- Recommend corporate strategy to the Board and after its approval ensure its implementation accordingly.
- Lead the management committees in an efficient manner.
- Maintain market presence and profitability.
- Evaluate asset utilization and for redeployment in prudent manner.
- To make sure of best utilization of FHM's resources.
- To make sure strong compliance culture and internal control within the organization.
- To make available proper working environment for all staff members.
- To manage human resource for smooth working of organization.
- Effective coordination with regulator for implementation of proper regulatory framework within organization.

CATEGORIES OF CERTIFICATE HOLDERS

As at 30th June, 2022

Categories of Certificate Holders	Certificate Holders	Certificate Held	Percentage
Directors, Chief Executive Officer and their spouse(s) and minor children			
NIL	-	-	-
Associated Companies, undertakings and related parties			
HABIB METROPOLITAN MODARABA MANAGEMENT COMPANY (PVT.) LTD	1	20,160,000	10.00
NIT and ICP	1	5,460	0.00
Banks Development Financial Institutions, Non-Banking Financial Institutions	2	8,184	0.00
Insurance Companies	4	5,843,020	2.90
Mutual Funds	4	1,313,630	0.65
General Public			
a. Local	3752	52,569,695	26.08
b. Foreign	796	2,523,592	1.25
Foreign Companies	9	1,727,536	0.86
Others	51	117,448,883	58.26
Totals	4620	201,600,000	100.00

Certificate holders holding 10% or more	Certificate Held	Percentage
HABIB MANAGEMENT (PRIVATE) LIMITED	111,384,172	55.25
HABIB METROPOLITAN MODARABA MANAGEMENT COMPANY (PVT.) LTD	20,160,000	10.00

PATTERN OF CERTIFICATE HOLDING

As at 30th June, 2022

Number of Certificate Holders	Certificate Holdings		Total Certificate Held
693	1	To 100	33,083
993	101	To 500	315,397
635	501	To 1000	489,909
1321	1001	To 5000	3,122,867
336	5001	To 10000	2,526,350
133	10001	To 15000	1,627,319
78	15001	To 20000	1,414,616
61	20001	To 25000	1,400,802
44	25001	To 30000	1,236,425
24	30001	To 35000	775,697
32	35001	To 40000	1,243,956
24	40001	To 45000	1,014,550
26	45001	To 50000	1,272,092
15	50001	To 55000	789,813
9	55001	To 60000	519,176
9	60001	To 65000	573,152
6	65001	To 70000	406,960
8	70001	To 75000	579,516
6	75001	To 80000	471,646
8	80001	To 85000	651,376
3	85001	To 90000	260,216
8	90001	To 95000	734,447
17	95001	To 100000	1,683,899
6	100001	To 105000	614,902
5	105001	To 110000	546,000
1	110001	To 115000	113,000
4	115001	To 120000	472,420
5	120001	To 125000	606,960
4	125001	To 130000	510,176
6	130001	To 135000	791,088
3	135001	To 140000	413,088
6	140001	To 145000	856,657
5	145001	To 150000	745,152
2	150001	To 155000	306,200
1	155001	To 160000	160,000
5	160001	To 165000	809,960
1	165001	To 170000	167,292
5	170001	To 175000	866,360
2	180001	To 185000	370,000
1	185001	To 190000	190,000
2	190001	To 195000	383,000
1	195001	To 200000	200,000
4	200001	To 205000	812,100
2	210001	To 215000	426,560
3	215001	To 220000	648,498
1	225001	To 230000	226,800
1	235001	To 240000	237,891
1	240001	To 245000	241,320
2	245001	To 250000	500,000
2	255001	To 260000	514,880
3	260001	To 265000	784,296
2	265001	To 270000	538,000
1	270001	To 275000	273,175
2	275001	To 280000	553,984
1	280001	To 285000	282,240
2	295001	To 300000	600,000
2	320001	To 325000	647,481
2	345001	To 350000	700,000
1	380001	To 385000	382,880
1	390001	To 395000	390,500
1	395001	To 400000	400,000
2	400001	To 405000	800,800
2	415001	To 420000	835,500
1	425001	To 430000	425,344
2	455001	To 460000	919,328
1	485001	To 490000	486,000
2	495001	To 500000	1,000,000
2	500001	To 505000	1,004,938
1	795001	To 800000	800,000
3	820001	To 825000	2,472,832
1	845001	To 850000	849,000
1	850001	To 855000	853,000
1	855001	To 860000	858,500
1	950001	To 955000	952,500
1	1030001	To 1035000	1,034,200
1	1265001	To 1270000	1,269,570
1	1285001	To 1290000	1,290,000
1	1300001	To 1305000	1,300,192
1	1495001	To 1500000	1,500,000
1	1825001	To 1830000	1,828,000
2	1995001	To 2000000	4,000,000
1	2010001	To 2015000	2,015,000
1	2125001	To 2130000	2,130,000
1	20155001	To 20160000	20,160,000
1	111385001	To 111390000	111,389,172
4620			201,600,000

NOTICE OF ANNUAL REVIEW MEETING

Notice is hereby given that the Annual Review Meeting of certificate-holders of First Habib Modaraba will be held on October 25, 2022 at 3.00 p.m. at Institute of Cost and Management Accountants of Pakistan (ICMAP) Building, ST-18/C Block-6, Gulshan-e-Iqbal, Karachi, to review the performance of the Modaraba for the year ended June 30, 2022.

The certificate holders whose names appear in the register of certificate holders of FHM as on October 17, 2022 will be eligible to attend the Annual Review Meeting.

By order of the Board

Tehsin Abbas
Company Secretary
Karachi: October 03, 2022

REQUEST TO CERTIFICATE HOLDERS

- The individual certificate holders who have not yet submitted photocopy of their valid Computerized National Identity Card (CHIC) to the Modaraba / Share Registrar, are one again reminded to send the same at the earliest directly to Company's Share Registrar, M/s CDC Share Registrar Services Limited. In case of non-receipt of the copy of a valid CNIC, the Modaraba would be constrained under section 243 (3) of the Companies Act, 2017 to withhold dividend of such certificate holders.
- In accordance with the provisions of section 242 of the Companies Act, 2017 and Companies (Distribution of Dividend) Regulations, 2017, it is mandatory for a listed company to pay cash dividend to its certificate holder only through electronic mode directly into the bank account designated by the entitled certificate holder. Therefore, certificate holders are requested to fill in "Electronic Credit Mandate Form" as reproduced below and send it duly signed along with a copy of valid CNIC/NTN to their respective CDC participant / CDC Investor account services.

(i) Certificate holder's details	
Name of the certificate holder (s)	
Folio # / CDS Account No.(s)	
CNIC NO. (copy attached)	
Mobile/Landline no.	

(ii) Certificate holder's Bank detail	
Title of Bank Account	
International Bank Account number (IBAN)	
Bank's Name	
Branch's name and address	

It is stated that the above-mentioned information is correct and in case of any change herein I will immediately intimate the Share Registrar accordingly.

CERTIFICATE HOLDERS INFORMATION

Registered Office:

6th Floor, HBZ Plaza
 I.I. Chundrigar Road, Karachi
 U.A.N: 111-346-346
 Tel No: 021-32635949-51
 Web: www.habibmodaraba.com
 Email: fhm@habibmodaraba.com

Share Registrar Office:

CDC Share Registrar Services Limited
 Share Registrar Department
 CDC House, 99-B, Block "B", S.M.C.H.S
 Main Shahrah-e-Faisal, Karachi
 Ph: 021-111-111-500

Listing on Stock Exchange

Modaraba Certificates of First Habib Modaraba (FHM) is listed on Pakistan Stock Exchange (PSX).

Investor Service Centre

FHM share department is operated by CDC Share Registrar Services Limited. It also functions as an Investor Service Centre and has been servicing nearly 4,620 Certificate holders. The Investor Service Centre is managed by a well-experienced team of professionals and is equipped with the necessary infrastructure in terms of computer facilities and comprehensive set of systems and procedures for conducting the Registration function. The team is headed by Mr. Mohsin Rajab Ali at registered office, Central Depository Company of Pakistan Limited - Share registrar department and Mr. Tehsin Abbas, Company Secretary at FHM.

FHM share department has online connectivity with Central Depository Company of Pakistan Limited - Operation department. The share department undertakes activities Certificate Transfer and Transmission, issue of duplicate / revalidated dividend warrant, issue of duplicate / replaced share Certificates, change of address and other related matters.

For assistance, Certificate holders may contact either the Registered Office or Share Registrar Office:

Contact Person:
 Registrar Office:
 Mr. Mohsin Rajab Ali
 Manager Share Registrar
 CDC Share Registrar Services Limited

Contact Person:
 Mr. Tehsin Abbas
 Company Secretary
 First Habib Modaraba

Dividend Announcement

The Board of Directors of the Management Company has approved cash dividend of 20% (Re. 1.00 per Modaraba Certificate of Rs. 5/- each) for the financial year ended 30th June, 2022.

Book Closure Dates

The Certificate Transfer Book of the Modaraba will remain close from 18-10-2022 to 28-10-2022 (both days are inclusive).

Payment of Dividend Electronically (E-mandate)

Pursuant to the provisions of section 242 of the Companies Act, 2017 and Companies (Distribution of Dividend) Regulations, 2017, the dividend will be paid, to those certificate holders whose name appear in the Register of Member of the Modaraba after entertaining all requests for transfer of certificate lodge with the Modaraba before the book closure date, through electronic mode directly into the bank account designated by the entitled certificate holder.

Withholding of Tax & Zakat on Dividend

Currently Section 150 of the income Tax Ordinance, 2001 prescribed following tax rates for deduction of withholding tax on the amount of dividend paid by the modarabas, unless the Certificate Holder's income is tax-exempted:

- | | |
|---|-----|
| 1. whose name appearing in the Active Tax Payers List | 15% |
| 2. whose name not appearing in the Active Tax Payers List | 30% |

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

Further, in the light of clarification from Federal Board of Revenue, all the shareholders who intend to seek exemption from withholding of taxes on payment of dividend under clause 47B of Part – IV of the Second Schedule of the Income Tax Ordinance,

2001, are requested to provide the valid Exemption Certificate under section 159(1) of the Income Tax Ordinance, 2001 duly issued by the concerned Commissioner of Inland Revenue in order to claim the said exemption.

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

Conversion of Physical Modaraba Certificates into Book-Entry Form:

Conversion of Physical Modaraba Certificates into Book-Entry Form: As per requirement of Companies Act, 2017, all listed companies are required to replace the Certificates held in physical form with the Certificates to be issued in Book-Entry, all Certificate holders holding Certificates in physical form are requested to convert their shares in Book-Entry Form in order to comply with the provisions of the Companies Act, 2017. Certificate holders may contact the Modaraba's Certificate Registrar to understand the process of conversion of Certificates held in physical form, into the Book-Entry Form.

AUDIT COMMITTEE TERMS OF REFERENCE

- 1) Determination of appropriate measures to safeguard the Modaraba's assets;
- 2) Review of annual and interim financial statements of the Modaraba, prior to their approval by the Board of Directors, focusing on:
 - a) Major judgmental areas;
 - b) Significant adjustments resulting from the audit;
 - c) Going concern assumption;
 - d) Any changes in accounting policies and practices;
 - e) Compliance with applicable accounting standards;
 - f) Compliance with these regulations and other statutory and regulatory requirements; and
 - g) All related party transactions.
- 3) Review of preliminary announcements of results prior to external communication and publication;
- 4) Facilitating the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary);
- 5) Review of management letter issued by external auditors and management's response thereto;
- 6) Ensuring coordination between the internal and external auditors of the company;
- 7) Review of the scope and extent of internal audit, audit plan, reporting framework and procedures and ensuring that the internal audit function has adequate resources and is appropriately placed within the company;
- 8) Consideration of major findings of internal investigations of activities characterized by fraud, corruption and abuse of power and management's response thereto;
- 9) Ascertaining that the internal control systems including financial and operational controls, accounting systems for timely and appropriate recording of purchases and sales, receipts and payments, assets and liabilities and the reporting structure are adequate and effective;
- 10) Review of the company's statement on internal control systems prior to endorsement by the board of directors and internal audit reports;
- 11) Recommend to the board of directors the appointment of external auditors, their removal, audit fees, the provision of any service permissible to be rendered to the company by the external auditors in addition to audit of its financial statements. The board of directors shall give due consideration to the recommendations of the audit committee and where it acts otherwise it shall record the reasons thereof.
- 12) Facilitating the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary);
- 13) Instituting special projects, value for money studies or other investigations on any matter specified by the board of directors, in consultation with the chief executive officer and to consider remittance of any matter to the external auditors or to any other external body;
- 14) Determination of compliance with relevant statutory requirements;
- 15) Monitoring compliance with the these regulations and identification of significant violations thereof;

- 16) Review of arrangement for staff and management to report to audit committee in confidence, concerns, if any, about actual or potential improprieties in financial and other matters and recommend instituting remedial and mitigating measures;
- 17) Consideration of any other issue or matter as may be assigned by the board of directors

During the year, four meetings of audit committee were held, attendance by each member is appended below:

Members	No. of Meeting Attended
Mr. Saeed ud din Khan Non Executive Independent (Chairman)	4
Syed Rasheed Akhtar Non Executive Independent	4
Mr. Mohammad Shams Izhar Non Executive (Member)	4
Mr. Anas Majid Secretary to Audit Committee	1
Mr. Intisar Usmani Secretary to Audit Committee	1
Mr. Hammad Shahab Secretary to Audit Committee	1
Mr. Muhammad Babar Secretary to Audit Committee	1

HR COMMITTEE TERMS OF REFERENCE

The terms of reference of committee shall be determined by the Board which may include the following:

- The main Terms of Reference of the Committee shall be to ensure that:
- The existing policies are reviewed periodically and as necessary, revised and recommended to the Board, in order to attract and retain potential employees.
- The existing training facilities for the new entrants as well as for up-gradation of skill level of all employees are reviewed and revised, if required.
- Proper classification & reclassification of employees' pay scales, job description and methods of their periodical review are put in place.
- An objective criterion for work appraisal/performance is developed and linked with the annual merit increase.
- Consideration and approval on recommendations of chief executive officer on such matters for key management positions who report directly to chief executive officer;
- Review and recommend changes to the Committee's terms of reference, as and when required.
- The Modaraba strategy related to Human Capital Management and Planning, including:
 - i. Recruitment and Selection strategy is aligned to Business objectives and philosophy.
 - ii. Training and Developmental needs of Human Resources are identified, adequately met and aligned to business objectives; and
 - iii. Performance Evaluation and Management System is objective, transparent and unbiased.

During the year, one meeting of human resource committee was held; attendance by each member is appended below:

Members	No. of Meeting Attended
Mr. Saeed Uddin Khan Non Executive Independent (Chairman)	1
Syed Rasheed Akhter Non Executive Independent	1
Mr. Muhammad Shams Izhar Non Executive (Member)	1
Mr. Muhammad Jehanzeb Secretary Human Resource Committee	1

REPORT OF THE AUDIT COMMITTEE

Composition of the Committee

The Audit Committee comprises of three directors, all of them are non-executive including two independent directors. One of them is the Chairman of Audit Committee and all directors are financially literate and possess enriched experience in banking and non-banking sector.

Role of Audit Committee

The role of Audit Committee is determined by its Terms of Reference (TOR) which are shaped in line with all applicable regulations and directives from relevant regulators and Board of Directors (BOD). The Audit Committee primarily deals with questions of risk management, which includes credit, operational risk and governance structure particularly IT governance and financial reporting in line with the applicable laws, and regulations.

All significant findings are reported to audit committee by Head of Internal Auditor. The audit committee actively monitors the implementation of internal controls in line with directives of the Board.

The Audit Committee deals with the effectiveness and functional capabilities of the risk management system and internal control environment of the First Habib Modaraba (FHM) and provides utmost support and guidance in framing the control environment to prevent the Modaraba from any unforeseen events.

The Audit Committee actively engaged in reviewing the Annual/Half yearly/Quarterly financial statements and internal audit activities in accordance with code of corporate governance and committee TOR.

The Audit Committee through internal auditor facilitate the staff and management to share any information in confidence on account of any impropriety in financial and other matters and develop process in addressing these issue with mitigating and remedial measures.

The Audit Committee concentrate on the effectiveness of internal control, risk management, compliance, internal audit functions, IT governance and other responsibilities given by the Board of Directors.

Audit Committee performed detail reviewed and satisfied that Annual report was fair, balanced and understandable and also provides necessary information for shareholders on account of assessment of company position, performance and business model.

Audit committee self-evaluated their performance and satisfied with the overall quality of work done.

Role of Internal Audit Function

The internal audit function role in FHM is in line with IIA guidelines to provide independent objective assurance to the management and guide to improve system of internal control, risk management and governance process to accomplish FHM objectives as defined by BOD.

Conduct of meeting by Audit Committee

- Four meetings of Audit Committee were held during the year 2021-2022.

- The Audit Committee reviewed quarterly, half yearly and annual financial statements of the FHM prior to their approval by the Board of Directors.
- The Audit Committee has reviewed and approved all related party transactions.
- The Head of Internal Audit has direct access to the Chairman of the Audit Committee and having the full liberty to discuss issues having significant concern over the organization's control, governance and risk.
- The internal audit function has carried out its duties under the audit charter defined by the Committee so that smooth functioning of the operation is possible.
- The Committee reviewed and deliberated upon the relevant control and suggest further insight over the control mechanism which consider necessary for effective control mechanism.
- Significant internal audit findings forward to audit committee for prompt decision making.
- Update on evaluation of ICF system by internal audit, as well as compliance thereon by the management on account of how internal control and compliance function effectively operated.
- Review of Shariah Advisor reports and its compliance status to ascertain all the transaction are in line with Shariah rules and regulations.

Internal Control Framework (ICF)

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

- Effectiveness and efficiency of operations across the entire Modaraba.
- Reliability of financial reporting with respect to accuracy & reliability of information.
- Compliance with applicable laws, regulations and procedures to encompass all important areas.
- Improved reporting framework throughout the organization by technology.
- Improve compliance culture by inducting quality resource and updating standing operational procedures.
- Ensure adherence to its policies and plans so that organization strategic objective could be achieved.

The FHM's internal control function ensures compliance with regulatory requirement, which is the prerequisite for any financial institution and also ensure the adherence of policies and procedures with specific emphasis on KYC/FATCA/AML&CFT/CRS and Shariah audit mechanism. The Audit Committee actively monitors the implementation of policies and procedures through internal control function.

Following control mechanism were further strengthening during the year:

- A revised risk based audit methodology was developed keeping in view with the rapid changes the world is going through.
- Additional tools applied for sound credit assessment appraisals so that credit risk threat is timely identified and mitigated.
- Credit Risk Management functions/processes have been further improved through capacity building of staff and ERP system.
- Branch empowerment will improve the turnaround time of operation which need strong monitoring and control mechanism through effective dashboard.
- Information technology is the back bone of any organization which improve the efficiency and effectiveness of the employee's vis a vis risk. Strong system control and firewalls need to be address. ICF is responsible for close monitoring of transactions and processes.
- Processes and procedures reviewed further in line with requirements of parent bank so that alignment of Holding company policies and procedure to be addressed.
- Shariah Governance Framework further strengthens through Shariah training to staff and process.
- Frequency of BCP/DRP drills increased to so that more control over business continuity process can be achieved.
- Strong emphasis was also laid on AML/CFT control framework and adherence to latest laws & regulations.

External Auditors

The Audit Committee regularly assesses the performance of external auditors taking into consideration a number of important factors including satisfactory rating under ICAP's quality control review program, the length of time the firm has been engaged, the quality of the Audit Committee's ongoing discussions with the external auditors, assessment of their past performance, etc.

The statutory auditors of the company, M/s. EY Ford Rhodes, Chartered Accountants, have completed their audit of the Company's financial statements and the Statement of Compliance with the Code of Corporate Governance for the year ended 30th June, 2022.

The Audit Committee approves the audited accounts of FHM for the period year ended 30th June, 2022 audited by M/s. EY Ford Rhodes, Chartered Accountant and confirms that there is no material non-compliance found within the audited accounts as narrated by auditors.

Present auditor M/s. EY Ford Rhodes, Chartered Accountants, has completed their 5 years' term of engagement as auditors of First Habib Modaraba. As per Regulation 33 "Rotation of Auditor" of the Code of Corporate Governance, 2019 (COCG); "It is mandatory that all listed companies in the financial sector shall change their external auditors every five years." However, our management has applied to Registrar Modaraba to allow relaxation in the requirement of above COCG regulation no. 33 in order to re-appoint M/s. EY Ford Rhodes, Chartered Accountants, as the external auditor of First Habib Modaraba for the next 5 years with effect from 1st July, 2022, with the rotation of engagement partner.

Saeed Uddin Khan
Chairman Audit Committee

ACTUAL AND PERCEIVED CONFLICTS OF INTEREST

In terms of the Code of Business Conduct of the Company, each member of the Board has a responsibility to determine whether he has potential or actual conflict of interests arising from personal relationships, external associations and interest in material matters which may have a bearing on his independent judgment. The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest between their responsibilities and their other interests. The Board has taken steps to ensure that conflicts and potential conflicts of interest of Directors are disclosed to the Board.

The governance structure of the FHM ensures that Directors take all necessary steps to avoid conflicts of interest and any Director with a material personal interest in a matter being considered by the Board must be declared. Directors abstain from voting on any Board resolution in which they or their close relations have interests such as credit facility or purchase of any assets etc. Their votes are also not counted in establishing the quorum for the relevant agenda item.

In pursuance of the requirements of Code of Corporate Governance and Company Act, Directors are required to disclose any financial accommodation from and/or deposits made with the FHM by entities where they function as Chairman or a Director. Furthermore, as per listing regulation of Stock Exchange it is also required to mention "Related Party Disclosure" in annual balance sheet. Every director of the Management Company, if in any way, interested in any contract or arrangement to be entered by the Company, is required to disclose the nature of his concern or interest to the Board and bound not to take part in the discussion or in any decision making.

PROCEEDINGS OF ANNUAL REVIEW MEETING



In compliance with Registrar of Modaraba, Securities & Exchange Commission of Pakistan (SECP), First Habib Modaraba (FHM) conducted Annual Review Meeting (ARM) of Certificate Holders of FHM on October 27, 2021 in order to review performance of FHM for the year ended June 30, 2021.

The following were present from FHM:

Mr. Muhammad Shoaib	-	Chief Executive Officer
Mr. Saeed ud din Khan	-	Director
Mr. Tehsin Abbas	-	Chief Financial Officer
Mr. Intisar M. Usmani	-	Head of Credit
Mr. Amir Kaleem	-	Head of Marketing

CEO of FHM has presented the overall performance of FHM and shared salient features on account of growth, profitability and challenges faced during the year 2020-21 reported in directors' report attached with annual financial report. He also commented in detail on key financial figures reported in financial statements of FHM.

Business Strategy and its Implementation Status

The Certificate Holders acknowledged the hard and dedicated efforts of FHM particularly on financial performance and declaration on cash dividend of 28% for the year ended 30th June, 2021.

Certificate Holders were raised following questions during the meeting.

- What measures adopted for the penetration of FHM product country wide?
- What strategies will be adopted to combat challenges faced by Modaraba?
- What will be the future prospects of Modaraba with respect to profitability and growth potential?

- Is Modaraba has any plans regarding diversification of products in future?
- How the overall operational effectiveness maintained by the Modaraba?

CEO and CFO have addressed all the questions/reservations quaries at the entire satisfaction of Certificate Holders. Other points and suggestion have also been noted for future compliance.

Presence of Chairman Audit Committee at ARM

The chairman of the audit committee had also attended the questions raised by Certificate Holders during the meeting about activities and matters within the scope of the audit committees' responsibilities.

In pursuant to the requirement of S.R.O 470(I)/2016 dated May 31, 2016, Company Secretary sought the approval of the Certificate Holders regarding dispatch of the Annual Audited Accounts of the financial year ended June 30, 2021 through CD along with the notice of Annual Review Meeting.

ENTERPRISE RESOURCE PLANNING (ERP)

Core business processes integrate and Management.

Enterprise Resource Planning (ERP) is developed in-house fully customized to the needs of the FHM business needs and handles each of the core business functions such as Finance, HR and core applications with analytical dashboards and reports.

Effective implementation and continuous Improvement.

Enterprise Resource Planning (ERP) is considered the “backbone” of FHM and fully supports of the management available for resource and use of ERP. The Change Management System is deployed in FHM for continuous updation and efficient implementation of the process.



User education and training of ERP software.

Proper user training is one of the most important determining factors of successful ERP. Therefore, the HR & system support department has devised training programs on a regular basis and on need basis. .

Risk Management in ERP Projects.

ERP development and implementation is a complex process as it involves both technical and functional aspects. To meet these challenges, SSD has developed a change management system to monitor and record every step of an ERP project and control risk factors.

Evaluate system security, user access reviews, and segregation of duties.

Role-based segregation of duties is assigned to each user based on authority's approval. User access rights review process is performed annually, and system and user logs are also appropriately audited.

USE OF EXTERNAL SEARCH CONSULTANCY IN APPOINTMENT OF CHAIRMAN OR NON-EXECUTIVE DIRECTOR

During the year no Chairman or Non-executive director was appointed on the Board. Therefore, no external search consultancy was required in this regard.

GOVERNANCE PRACTICES BEYOND STATUTORY OBLIGATIONS

Our commitment towards adherence to highest moral and ethical standards is evident from voluntary adoption and implementation of governance practices exceeding statutory requirements, some of which include:

- Best Corporate reporting practices recommended by ICAP / ICMAP and SAFA
- Disclosure of various financial analysis in the Annual Report, such as ratios, reviews etc.
- Adoption of Sustainability Reporting on a voluntary basis
- Implementation of Health, Safety and Environment Policy for better and safe work place environment for employees and surroundings

ANALYSIS OF THE FINANCIAL AND NON-FINANCIAL PERFORMANCE

FINANCIAL MEASURES

Past and current performance

After passing through with difficult periods of pandemic, undoubtedly we have learnt of new challenges and quickly adopted the required changes with forward thinking to continue with routine engagements. In spite of the difficult operating environment and challenges, we have not only maintained our leading positions within the sector but also made exceptions in key areas of business.

With the high level of team spirit, Alhamdulillah, performance of financial year 2021-22 remained excellent and all our key targets have not only achieved but also increased with good margins. We must say that above year proved to be one of the best years in the operational history of FHM terms of performance, disbursement, profitability and overall business growth.

The key performance indicators during year 2021-22 were as follows:

- 42% growth in Balance Sheet size
- 49% growth in total financing assets
- 68% growth in financing disbursement
- 54% growth in Certificate of Investment (Musharaka)
- 36% growth in profit before tax

	2022	2021
Balance sheet Size	17,162,817,848	12,122,533,710
Income from Financing Assets	1,458,980,063	1,545,153,376
Disbursements	11,146,544,222	6,629,020,710
Net Profit	382,123,744	363,148,152
Earning per Certificate	1.90	1.80

KPIs to assess and measure the financial performance in 2022 are disclosed in "Key Performance Indicators" section of Annual report.

Performance against Targets

In spite of the difficult operating environment and challenges, FHM has not only maintained its leading positions within the sector but also made exceptions in key areas of business. When we began 2021, we were determined to be optimistic for a better year ahead. Since beginning of the year, the team of First Habib Modaraba (FHM) remained vigilant and agile to grapple the post COVID-19 opportunities within the businesses.

With the high level of team spirit, Alhamdulillah, performance of financial year 2021-22 remained excellent and all our key targets have not only achieved but also increased with good margins. We must say that above year proved to be one of the best years in the operational history of FHM terms of performance, disbursement, profitability and overall business growth.

Objectives to Assess Stewardship of Management

The Modaraba endeavors to increase certificate holder value through providing excellent returns and maintaining sustainable performance that matched with market and shareholder expectations. Short, medium and long term objectives along with corresponding strategies and overall Key Performance Indicators (KPIs) to measure Modaraba's performance including for Human Capital, Natural Capital, Intellectual Capital have been disclosed in the "Key Performance Indicators, Strategy and Resource Allocation and Resource Allocation Plan" section of the Annual Report.

Future prospects of profit

Going forward, we foresee that the said economic unrest may be further aggravated due to continuous depressed business sentiments. This situation is also impacting timely repayment of borrowed facilities by the businesses. The financial sector outlook remains challenging. Re-pricing risks under rising lending rate scenario and high cost of doing business would be major issues of current financial year. Keeping in view of present business circumstances we will cautiously move forward and will be more careful in our existing and new business engagements for new assets financing.

NON-FINANCIAL MEASURES

Non-financial measures are difficult to quantify as compared to financial measures but they are equally important. Following are the non-financial measures to determine the healthy prospectus of modaraba.

a) Improvement of Service delivery of customer through technological advancement.

- Upgrade technology infrastructure and deploy new technology solutions:
- Capacity enhancement in core application
- Upgrade system's hardware
- Relevant training to IT staff
- Customer's feedback

b) Strengthening of operational risk management tools

Following are broader area of approaches which go through with the process during the year.

- Staff training and capacity building
- Strengthen security wall on application
- Improve Shariah audit mechanism to minimize risk of Shariah non-compliance.
- Strengthen of credit risk of financing portfolio which includes customer appraisals
- Assets valuations and inspections, analysis of sector and products.
- Regular testing of disaster recovery sites through mock exercises

c) Staff grooming

- Appropriate training through workshops and seminars
- Reward culture
- On job training
- Job rotation

d) Environment sustainability measures

It is our corporate objective to consume minimum natural resources and create low emission and waste. We also discourage those customers whose business is not environment friendly. FHM is fully aware on negative effect on environment and initiated following measure to minimize paper use by various departments.

- Minimize printing and physical movements of papers.
- Encourage soft storage culture of documents, files and papers.
- Customer communication encouraged through latest technological tool.

CUSTOMER SATISFACTION

Providing high quality customer services is a vital part of FHM's values. It is our true objective to provide greater services with wider accessibility. Our customers are the center of the importance of quality. Attracting and satisfying customers with good financial products and providing them their desired services in time is the key of success of FHM. As the competition in the financial sector is continuing rise, it is becoming increasingly difficult to achieve growth and it is only possible with customer satisfaction which eventually results in customer retention. Our corporate slogan is "Customer First". We always emphasis on to provide best quality services to our customers. We continuously develop and improve customer oriented culture within FHM. Knowing our customer and their needs is the key factor to our business success. Our managers are well equipped and well trained to provide the most efficient and personalized services to our customers. We understand that our commitment to satisfy customer's needs must be fulfilled within a professional and ethical framework, thereby creating ongoing relationships of trust and confidence in all their dealings with FHM. We shall look forward to maintain high-level customer satisfaction through improvement of strength and values, based on Shari'ah principles.



PERFORMANCE & POSITION



KEY FINANCIAL DATA FOR SIX YEARS

	Rupees in Million					
	2022	2021	2020	2019	2018	2017
KEY FINANCIAL & OPERATING DATA						
Total Assets	17,162.82	12,122.53	9,913.06	11,124.02	10,279.25	8,366.65
Lease Financing Assets	185.06	861.52	1,719.65	2,739.37	2,902.83	2,440.98
Diminishing Musharaka Financing Asset	15,895.34	9,913.81	7,002.50	6,939.90	5,595.93	4,291.64
Lease Financing Asset Disbursement	57.98	97.98	610.00	1,218.43	1,689.22	1,052.48
Diminishing Musharaka Asset Disbursement	11,088.56	6,531.04	3,042.89	4,010.66	3,342.90	2,860.15
Current Assets	5,719.60	4,987.87	3,839.71	3,849.50	3,994.81	3,259.09
Current Liabilities	13,151.20	8,153.14	6,025.45	7,185.90	6,303.08	4,652.94
Total Liabilities	13,185.80	8,294.19	6,279.50	7,487.67	6,719.11	4,894.71
Paid-up Capital	1,008.00	1,008.00	1,008.00	1,008.00	1,008.00	1,008.00
Reserves	2,959.52	2,619.07	2,538.68	2,503.72	2,434.26	2,346.27
Certificate Holders' Equity	3,967.52	3,627.07	3,546.68	3,511.72	3,442.26	3,354.27
Gross Revenue	1,747.09	1,545.15	2,201.31	2,023.99	1,572.55	1,571.72
Net Profit	382.39	363.15	316.68	319.69	290.32	304.60
Earning Per Certificate - Rs.5/- each	1.90	1.80	1.57	1.59	1.44	1.46
Cash Dividend	20%	28%	28%	28%	25%	20%
Income from Lease Financing	138.13	129.76	191.55	179.31	193.00	218.09
Income from Diminishing Musharaka Financing	1,424.75	796.47	1,017.66	734.36	393.55	321.75
STAKEHOLDER INFORMATION						
	2022	2021	2020	2019	2018	2017
Profitability Ratios						
Profit before tax ratio (%)	28.36	23.50	14.39	15.79	18.46	19.38
Gross yield on earning assets (%)	31.00	28.45	42.27	32.09	24.54	29.23
Gross spread ratio (%)	16.25	16.80	6.68	9.30	11.25	12.83
Cost / Income ratio (%)	56.20	34.61	38.47	31.06	21.71	17.46
Return on equity (%)	9.64	10.01	8.93	9.10	8.43	9.08
Return on assets (%)	2.23	3.00	3.19	2.87	2.82	3.64
Return on capital employed (%)	14.67	11.04	9.57	9.59	8.92	9.58
Gross profit ratio (%)	74.50	53.67	46.68	42.03	34.79	32.24
Net profit to sale (%)	21.89	23.50	14.39	15.79	18.46	19.38
EBITDA margin to sale (%)	42.14	36.59	23.22	24.40	27.70	27.98
Income / Expense ratio	1.26	1.26	1.10	1.13	1.16	1.19
Turnover ratio						
Total Asset Turnover Ratio (%)	11.41	13.60	23.92	19.38	16.40	20.02
Fixed Asset Turnover Ratio (%)	17.12	23.11	39.04	29.63	26.83	32.79

KEY FINANCIAL DATA FOR SIX YEARS

	Rupees in Million					
	2022	2021	2020	2019	2018	2017
Liquidity Ratios						
Advance to deposit ratio	1.43	1.48	1.65	1.57	1.52	1.72
Current ratio	0.43	0.61	0.64	0.54	0.63	0.70
Quick / Acid test ratio	0.43	0.61	0.64	0.54	0.63	0.70
Cash to current liabilities	1%	3%	3%	1%	5%	4%
Cost of funds	N/A	N/A	N/A	N/A	N/A	N/A
Cashflow from operations to sale	-267%	-302%	-55%	-46%	-80%	-40%
Cashflow coverage ratio	-499%	-417%	158%	-171%	-473%	-299%
Net interest income as a percentage of working funds						
/ Operating cost - Efficiency ratio	N/A	N/A	N/A	N/A	N/A	N/A
Cash reserve ratio / Liquid asset ratio	N/A	N/A	N/A	N/A	N/A	N/A
Gross Non-Performing assets to gross advances	1.58%	1.40%	1.26%	0.08%	N/A	N/A
Non-Performing loans to Total Loans	N/A	N/A	N/A	N/A	N/A	N/A
Investment / Market ratio						
Market Value Per Share	9.36	9.80	9.95	9.41	10.75	10.95
High	10.32	9.80	10.89	11.46	11.69	11.85
Low	8.81	9.70	9.31	9.31	9.25	9.71
EPS (Earning per Modaraba Certificate of Rs.5/ each)	1.90	1.80	1.57	1.59	1.44	1.46
Price earning ratio	4.93	5.44	6.34	5.92	7.47	7.50
Price to book ratio	0.48	0.54	0.57	0.54	0.63	0.66
Dividend Yield ratio (%)	10.68	14.29	14.07	14.88	11.63	9.13
Dividend Payout ratio (%)	52.72	77.72	89.12	88.29	86.80	66.18
Dividend cover ratio	1.90	1.29	1.12	1.14	1.15	1.46
Cash dividend (%)	20.0%	28.0%	28.0%	28.0%	25.0%	20.0%
Cash dividend per certificate	1.00	1.40	1.40	1.40	1.25	1.00
Book value per certificate	19.68	17.99	17.59	17.42	17.07	16.64
Dividend (in million rupees)	202	282	282	282	252	202
Profit Growth Ratio (%) [YoY]	5	15	(1)	10	(5)	2
Profit Growth Ratio (%)	26	20	4	5	2	7
DuPont Analysis	Covered in detail at page no. 127					
Free Cash Flow	Covered in detail at page no. 117					
Economic Value Added (EVA)	Covered in detail at page no. 142					
Capital Structure ratio						
Net assets per Modaraba Certificate of Rs.5/ each	19.73	18.99	18.02	18.04	17.66	17.22
Capital adequacy ratio	24%	33%	N/A	N/A	N/A	N/A
Earning asset to total asset ratio (%)	97.94	96.08	95.74	97.06	94.93	95.99
Weighted Average cost of deposit	14.30%	7.22%	8.18%	11.08%	6.26%	5.77%
Statutory Liquidity Reserve (Ratio)	N/A	N/A	N/A	N/A	N/A	N/A
Debt to Equity ratio (Book value and Market value)	3.32	2.29	1.77	2.13	1.95	1.46
Non-Financial Ratios						
a) Staff turnover ratio	18.3 %					
b) Customer Satisfaction Index	97 %					
c) Employee Productivity Rate	88%					

HORIZONTAL ANALYSIS

BALANCE SHEET (%)	2022	2021	2020	2019	2018	2017
ASSETS						
NON-CURRENT ASSETS						
Lease financing assets	(78.52)	(49.90)	(37.22)	(5.63)	18.92	(20.55)
Fixed assets in own use	(7.49)	(21.79)	57.98	45.83	145.16	42.32
Intangible assets	0.51	(28.92)	12.02	(42.30)	765.60	(94.63)
Diminishing musharaka financing	79.69	45.17	(4.61)	34.03	26.25	157.68
Long term advances and deposits	2.18	(5.83)	0.99	(0.74)	32.76	33.22
CURRENT ASSETS						
Investments	(16.52)	13.54	(31.23)	(11.24)	(3.07)	31.82
Current portion of diminishing musharaka financing	27.78	35.91	11.00	9.09	37.09	134.24
Lease financing installments receivables	(100.00)	(61.57)	(92.01)	487.31	99.06	(70.16)
Diminishing Musharaka financing installments receivables	1,400.63	(94.41)	(93.76)	1,065.07	876.87	(53.19)
Advances and prepayments	40.17	121.02	13.70	(15.03)	(40.44)	116.09
Other receivables	(0.06)	21.38	(36.55)	(25.86)	41.69	(24.53)
Income tax refundable	(46.45)	8.70	12.17	20.54	27.73	50.39
Cash and bank balances	(36.58)	28.17	233.06	(84.22)	66.89	(60.56)
TOTAL ASSETS	41.58	22.29	(10.89)	8.22	22.86	30.87
EQUITY & LIABILITIES						
CAPITAL & RESERVES						
Reserves	13.00	3.17	1.40	2.85	3.75	7.74
Certificate holders' equity	9.39	2.27	1.00	2.02	2.62	5.29
SURPLUS ON REVALUATION OF INVESTMENTS	(95.28)	131.70	(30.44)	5.94	0.21	65.21
NON-CURRENT LIABILITIES						
Security deposits against lease financing assets	(79.89)	(43.64)	(23.03)	(27.46)	72.08	(29.58)
CURRENT LIABILITIES						
Certificates of investment (musharaka)	54.48	38.09	(14.14)	9.94	42.91	65.83
Security deposits - current portion	(52.52)	(42.90)	(15.51)	144.33	(41.05)	35.67
Unearned lease financing and diminishing musharaka installments	347.97	147.76	(58.98)	(72.33)	158.94	88.58
Advance lease financing and diminishing musharaka installments	11.02	(34.13)	(52.52)	22.31	15.84	36.71
Trade and other payables	47.50	17.88	(1.68)	12.58	16.51	43.48
Unclaimed profit distributions	5.69	7.00	13.75	11.97	6.33	24.30
TOTAL EQUITY & LIABILITIES	41.58	22.02	(10.89)	8.22	22.86	30.87
PROFIT & LOSS ACCOUNT (%)	2022	2021	2020	2019	2018	2017
Lease financing income	6.45	(32.26)	(0.36)	(11.85)	(12.98)	(12.39)
Profit on diminishing musharaka	74.94	(17.50)	132.57	22.31	43.07	45.79
Administrative expenses	12.66	0.59	45.37	13.02	9.74	8.06
Other Income	104.26	(38.94)	49.50	10.15	(1.72)	(17.73)
Financial charges	120.88	(44.73)	189.57	30.14	30.73	11.78
Modaraba company's management fee	36.38	14.67	9.37	(4.94)	2.00	(2.78)
Profit for the year	36.41	14.67	9.37	(4.94)	2.11	(2.67)

VERTICAL ANALYSIS

BALANCE SHEET (%)	2022	2021	2020	2019	2018	2017
ASSETS						
NON-CURRENT ASSETS						
Lease financing assets	1.08	7.11	17.35	24.63	28.24	29.18
Fixed assets in own use	0.29	0.45	0.70	0.40	0.29	0.15
Intangible assets	0.0008	0.0012	0.0020	0.0016	0.0030	0.0004
Diminishing musharaka financing	65.10	51.29	43.20	40.36	32.59	31.71
Long term advances and deposits	0.01	0.01	0.01	0.01	0.01	0.01
Deferred tax	0.20	-	-	-	-	-
CURRENT ASSETS						
Investments	4.24	7.20	7.75	10.04	12.25	15.52
Current portion of diminishing musharaka financing	27.52	30.49	27.44	22.03	21.85	19.58
Lease financing installments receivables	0.00	0.00	0.01	0.11	0.02	0.01
Diminishing Musharaka financing installments receivables	0.01	0.00	0.03	0.40	0.04	0.00
Advances and prepayments	0.08	0.08	0.04	0.04	0.04	0.09
Other receivables	0.15	0.21	0.21	0.30	0.44	0.38
Income tax refundable	0.52	1.38	1.55	1.23	1.11	1.06
Cash and bank balances	0.80	1.78	1.70	0.46	3.12	2.30
TOTAL ASSETS	100.00	100.00	100.00	100.00	100.00	100.00
EQUITY & LIABILITIES						
CAPITAL & RESERVES						
Authorized Certificate capital	6.41	9.07	11.12	9.89	10.70	13.15
Issued, subscribed & paid-up capital	5.87	8.32	10.19	9.06	9.81	12.05
Reserves	17.24	21.60	25.67	22.51	23.68	28.06
Certificate holders' equity	23.12	29.92	35.86	31.57	33.49	40.11
SURPLUS ON REVALUATION OF INVESTMENTS	0.06	1.66	0.88	1.12	1.15	1.41
NON-CURRENT LIABILITIES						
Security deposits against lease financing assets	0.15	1.08	2.35	2.71	4.05	2.89
CURRENT LIABILITIES						
Certificates of investment (musharaka)	65.62	60.14	53.38	55.28	54.41	46.80
Running Musharaka	4.36	0.41	-	-	-	-
Security deposits - current portion	0.20	0.58	1.26	1.32	0.59	1.22
Unearned lease financing and diminishing musharaka installments	0.47	0.15	0.07	0.16	0.62	0.29
Advance lease financing and diminishing musharaka installments	0.06	0.08	0.15	0.29	0.25	0.27
Trade and other payables	5.62	5.40	5.61	5.07	4.88	5.14
Unclaimed profit distributions	0.63	0.38	0.44	0.34	0.33	0.38
Advance against murabaha	-	-	-	2.13	0.24	1.48
Total Current Liabilities	76.83	68.42	63.27	64.59	65.37	58.48
TOTAL EQUITY & LIABILITIES	100.00	100.00	100.00	97.29	100.00	100.00
PROFIT & LOSS ACCOUNT (%)	2022	2021	2020	2019	2018	2017
Income from lease financing	8.27	13.13	15.01	27.49	33.93	43.19
Income on diminishing musharaka financing	79.07	76.40	71.71	56.28	50.05	38.75
Other Income	12.66	10.47	13.28	16.22	16.02	18.05
100.00	100.00	100.00	100.00	100.00	100.00	100.00
Administrative expenses	9.95	14.93	11.50	14.44	13.89	14.02
Other charges	-	-	-	0.12	-	-
Financial charges	55.93	42.80	59.96	37.80	31.59	26.77
Modaraba Management Company's remuneration	3.41	4.23	2.85	4.76	5.45	5.92
Sales tax on Modaraba Management Company's remuneration	0.44	0.55	0.37	0.62	0.71	0.83
Provision for Sindh Workers' Welfare Fund	0.61	0.75	0.51	0.85	0.97	1.05
Profit for the year	22.89	36.74	24.81	41.41	47.39	51.41
Taxation	6.76	-	-	-	-	-
Total	100.00	100.00	100.00	100.00	100.00	100.00

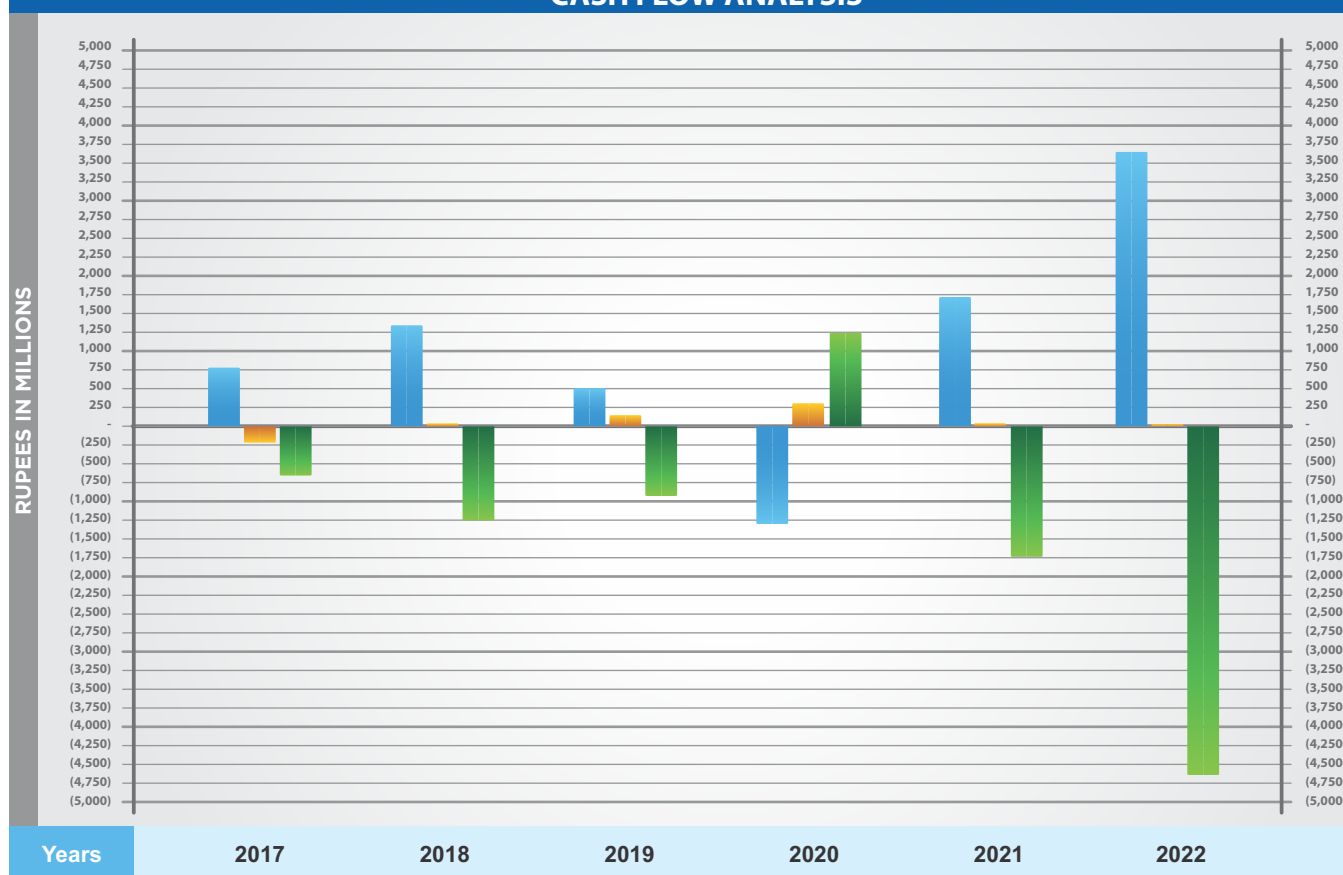
FREE CASH FLOWS TO EQUITY

	Rupees			
	30-Jun-22 Annual	31-Mar-22 Nine monthly	31-Dec-21 Half yearly	30-Sep-21 Quarterly
Net cash used in operating activities	(4,664,170,261)	(3,513,194,841)	(2,167,334,243)	(825,985,422)
Net cash (used in)/generated from investing activities	2,829,544	(288,523,842)	(288,046,955)	9,752,666
Net cash inflow from financing activities	3,676,223,368	2,752,743,428	1,394,736,686	846,628,293
	(985,117,349)	(1,048,975,255)	(1,060,644,512)	30,395,537

SUMMARY OF CASH FLOWS

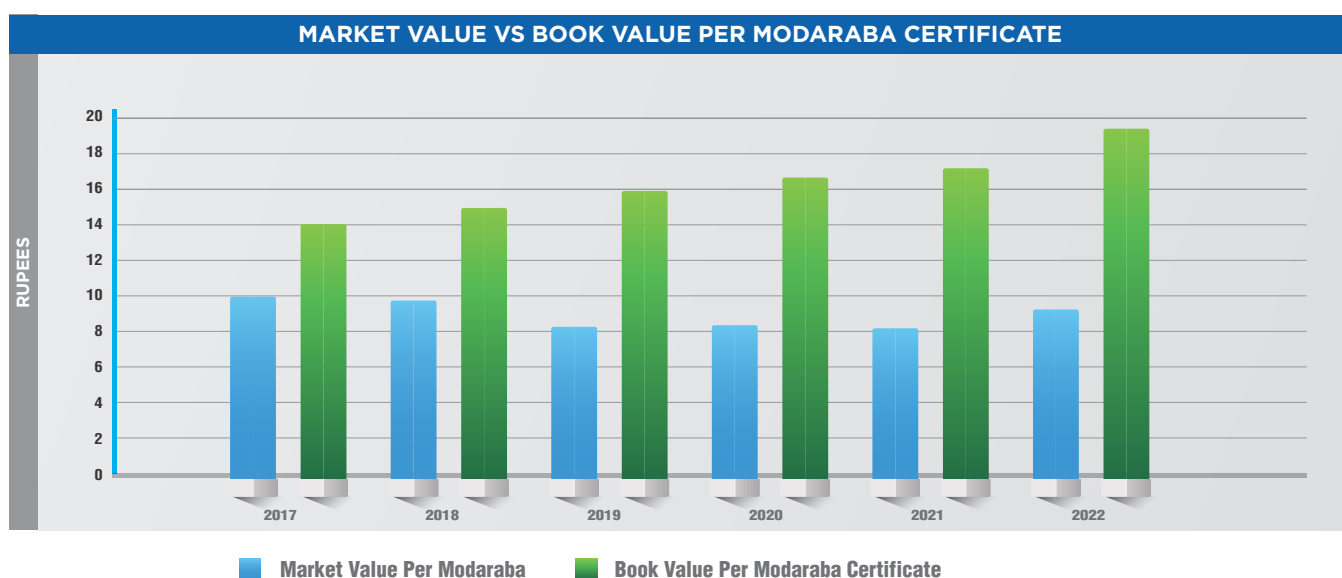
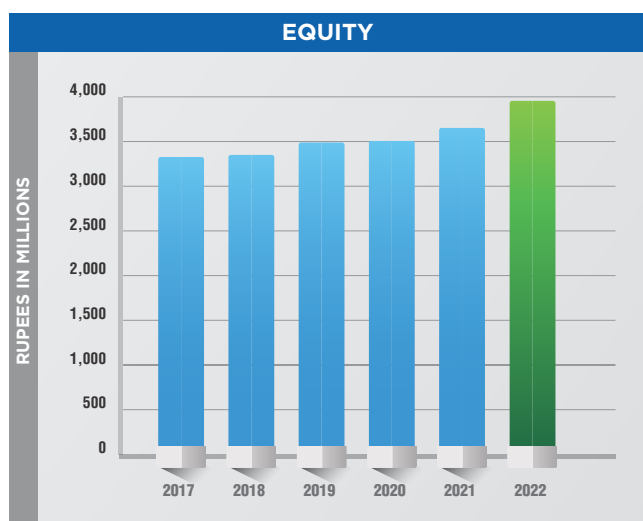
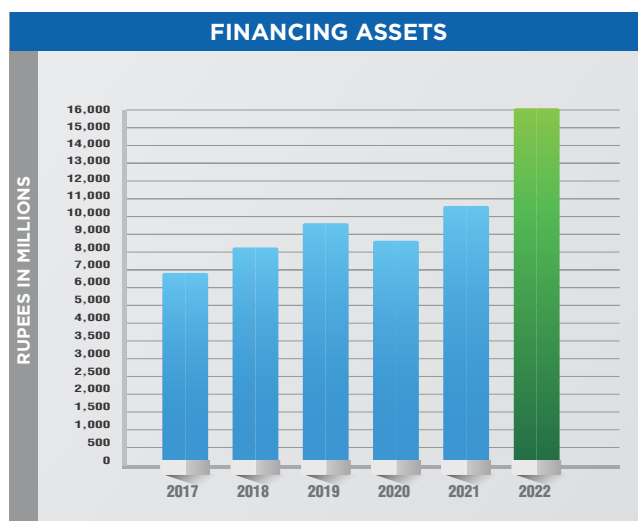
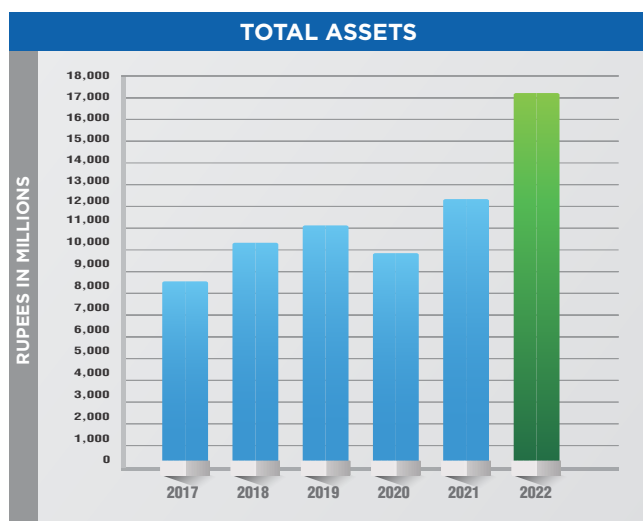
	Rupees in Million					
	2022	2021	2020	2019	2018	2017
Cash & cash equivalents at the beginning of the year	655	668	51	321	192	248
Net Cash flow from operating activities	(4,664)	(1,762)	1,212	(930)	(1,260)	(629)
Net Cash flow from investing activities	3	20	303	152	14	(216)
Net Cash flow from financing activities	3,676	1,729	(1,398)	507	1,375	789
Net increase/decrease in cash & cash equivalent	(985)	(13)	117	(271)	129	(56)
Cash & cash equivalents at the end of the year	(330)	655	168	50	321	192

CASH FLOW ANALYSIS



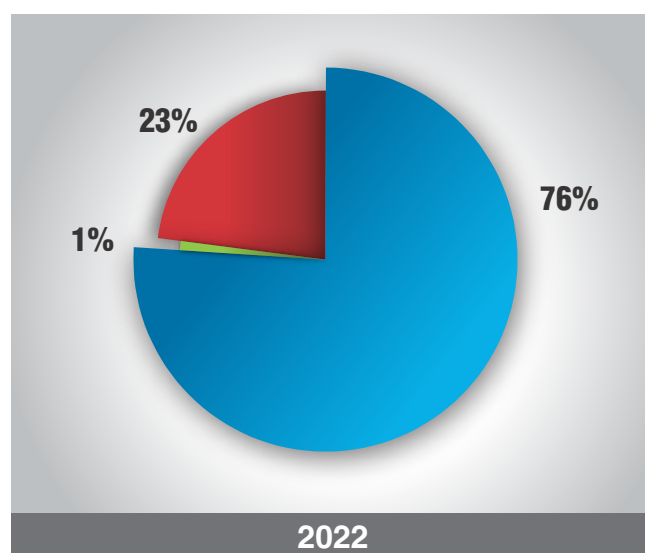
■ Net Cash flow from operating activities
 ■ Net Cash flow from investing activities
 ■ Net Cash flow from financing activities

GRAPHICAL PRESENTATION OF FINANCIAL SUMMARY

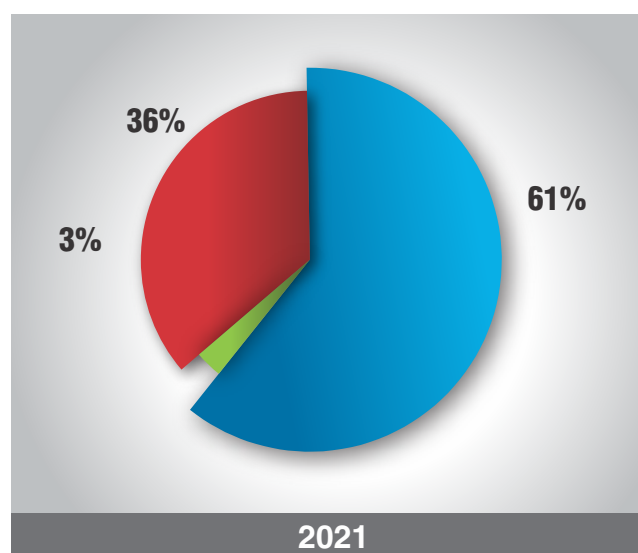


BALANCE SHEET COMPOSITION

EQUITY & LIABILITIES

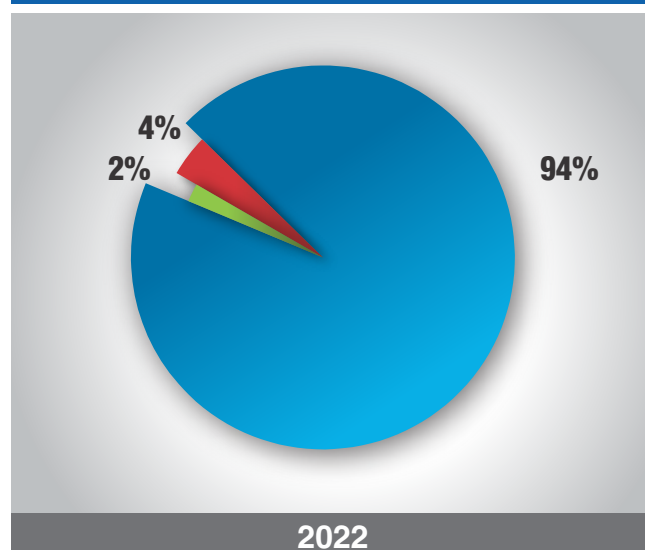


- Non-Current Liabilities
- Certificate Holders Equity
- Current Liabilities

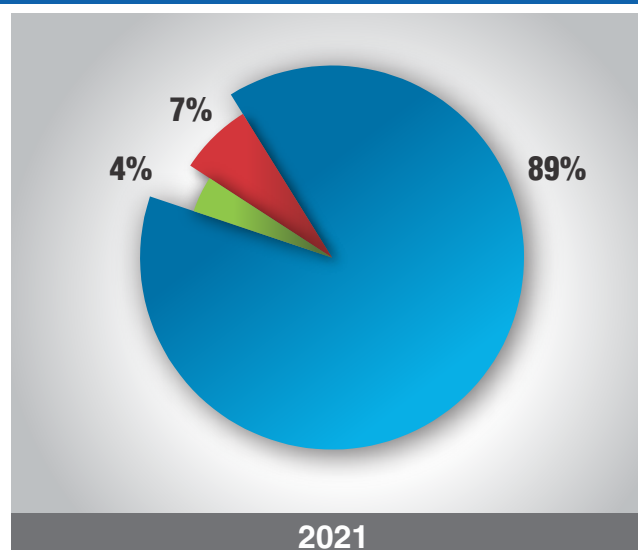


- Non-Current Liabilities
- Certificate Holders Equity
- Current Liabilities

ASSETS



- Financing Assets
- Investments
- Other Assets



- Financing Assets
- Investments
- Other Assets

EXPLANATION OF NEGATIVE CHANGE FROM PRIOR YEAR

Profitability Ratio:

- Cost to Income ratio increased to 56.20% compared to 34.61% mainly due to inflationary pressure
- Return on equity has decreased slightly to 9.64% from 10.01% from last year
- Return on assets has decreased slightly to 2.23% from 3.00% mainly due to the increase in financing assets in the last quarter of the financial year which will enhance the profitability in the upcoming years
- Net Profit to revenue has decreased slightly to 21.89% from 23.50% mainly due to tax implications during this year

Turnover Ratio:

- Total Asset turnover ratio has decreased to 11.41% from 13.60% mainly because of disbursement took place in last quarter whose profit impact will occur over the coming years.
- Fixed asset turnover ratio has decreased to 17.12% as compared to 23.11% in prior year.

Liquidity Ratios:

- Advance to Deposit ratio has decreased slightly to 1.43 times as compared to last year 1.48 times mainly because of major financing took place through funds obtained from certificate of Investment (Musharaka).
- Current ratio has declined to 0.43 times compared to last year 0.61 due to increase Certificate of Investment (Musharaka)
- Cash to Current Liabilities has declined to 1% from 3% compared with last year.
- Cash flow from operations is -267% due to the limitation of presenting cash generated from deposit i.e. Certificate of Investment (Musharaka) in operating activities.
- Gross Non Performing asset to gross advance has increased to 1.58% compared with last year 1.40% due to increase in provisioning against diminishing Musharaka financing.

Investment / Market Ratio:

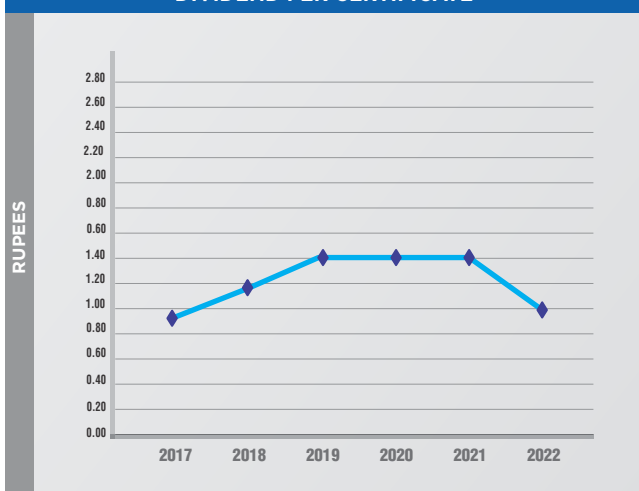
- Dividend payout ratio has decreased from 77.72% to 52.72%. The reason is that the income of non-trading Modarabas is exempt from income tax provided that not less than 90% of their profits are distributed to the certificate holders. The tax clause which provides for such exemption has been omitted through Tax Laws (second) amendment Ordinance, 2021. Still, the Modaraba has declared quite handsome returns to certificate holders in the shape of good dividends.

Capital Structure Ratio

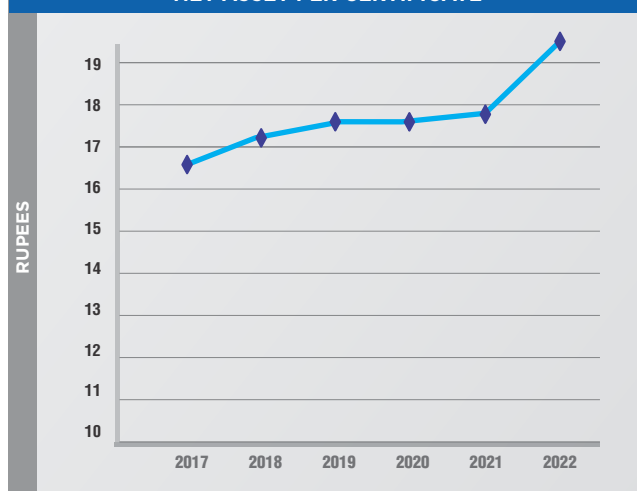
- Capital adequacy ratio has decreased to 24% compared with last year 33% due to funds obtained mainly from Certificate of Investment (Musharaka)
- Debt to equity has increased from 3.32 times to 2.29 times due to increase in Certificate of Investment (Musharaka).

GRAPHICAL PRESENTATION

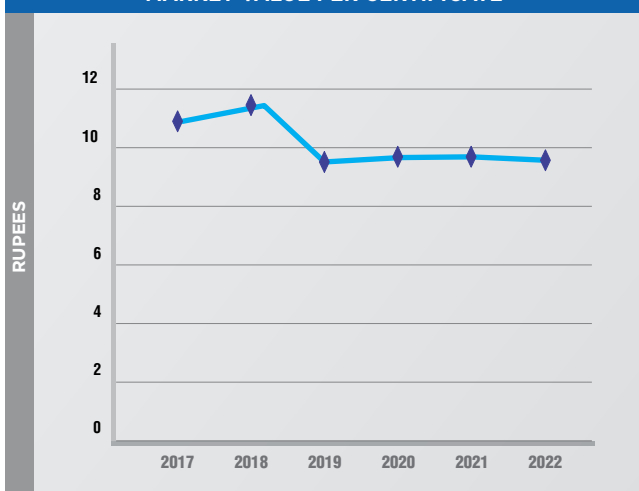
DIVIDEND PER CERTIFICATE



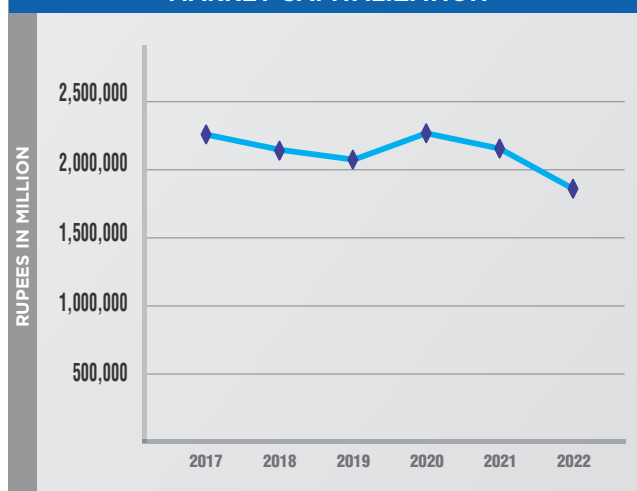
NET ASSET PER CERTIFICATE



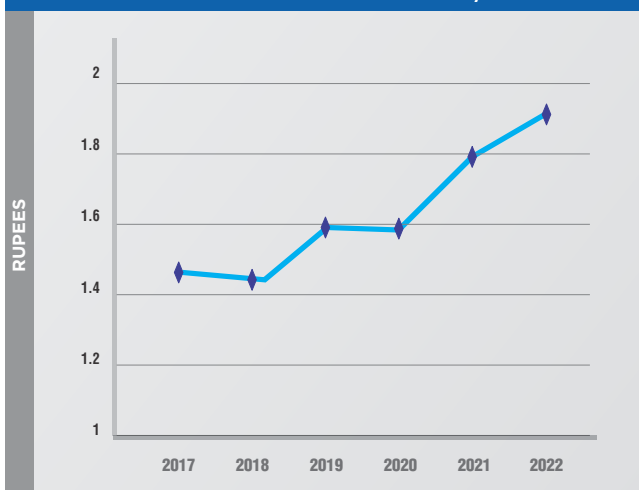
MARKET VALUE PER CERTIFICATE



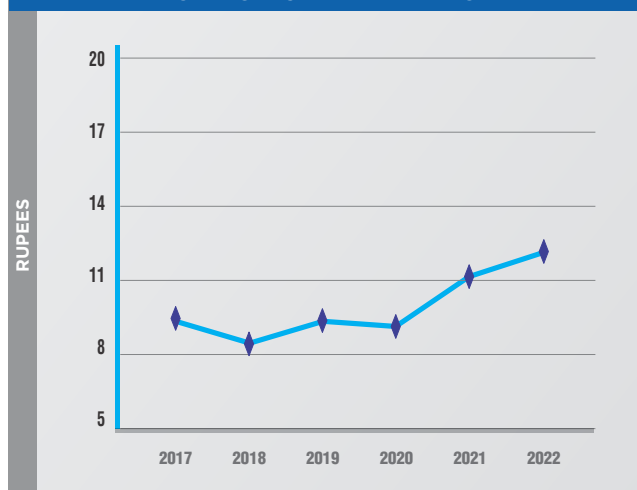
MARKET CAPITALIZATION



EARNING PER CERTIFICATE OF RS. 5/- EACH



RETURN ON CAPITAL EMPLOYED



SIGNIFICANT CHANGE IN ACCOUNTING POLICIES JUDGEMENTS, ESTIMATES & ASSUMPTIONS

- Refer Page No. 175

INFORMATION ABOUT DEFAULTS IN PAYMENT OF ANY DEBT

By the grace of Allah (SWT) there is no delay in performance of FHM financial obligations of any bank/FI and certificate of investment (Musharakah) and always be paid when fall due.

METHODS AND ASSUMPTIONS USED IN COMPILING THE INDICATORS

- Following assumptions/estimates have been used in compiling the indicators:
- Economic review and business forecast at country level
- Expected future business growth and opportunities.
- Current situation of pandemic and its impact on business economy.
- Historical experience and various other factors that are believed to be reasonable under the circumstances.
- Research from different counters
- Review of customers financials
- Customer's feed back
- Market feedback

The estimates and assumptions are reviewed on an ongoing basis and the revision is recognized in the period in which the estimates are revised. Though our statements are reasonable assumptions and expectations based on current data, they are not intended to be a guarantee of future results especially under the present challenging situation particularly with continuous re-occurrence of pandemic and its impact on business and economy.

STATEMENT OF CASH FLOWS - DIRECT METHOD

	2022	2021
	-----Rupees-----	
CASH FLOW FROM OEPRATING ACTIVITIES		
Installments received against lease financing and Diminishing Musharaka Financing	7,229,862,182	5,245,873,812
Net payments made against lease financing and Diminishing Musharaka Financing	(11,204,526,245)	(6,629,020,710)
Working capital movement	130,411,413	90,608,410
Financial charges paid	(761,529,678)	(447,259,812)
Gratuity Paid	(5,569,894)	(3,232,395)
Tax paid	(52,818,039)	(19,238,871)
Net cash (outflow) / inflow from operating activities	(4,664,170,261)	(1,762,269,566)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of assets in own use	(17,563,472)	(6,185,057)
Purchase of intangible assets	(182,531)	-
Purchase of investments	(289,258,660)	-
Proceeds from sale of assets in own use	3,936,137	4,493,195
Proceeds from sale / maturity of investments	278,108,965	10,352,227
Dividends received	27,789,106	21,884,171
Net cash (outflow) / inflow from investing activities	2,829,545	30,544,536
CASH FLOW FROM FINANCING ACTIVITIES		
Profit distribution paid	(279,608,256)	(279,215,967)
Payment of Lease rentals	(16,228,785)	(2,372,914)
Running Musharaka obtained	-	49,999,000
Certificates of Investment (Musharaka)	3,972,060,411	2,010,807,459
Net cash (outflow) / inflow from financing activities	3,676,223,370	1,779,217,578
Net increase / (decrease) in cash and cash equivalents during the year	(985,117,346)	47,492,548
Cash and cash equivalents at beginning of the year	655,751,071	168,609,750
Cash and cash equivalents at end of the year	(329,366,276)	216,102,298

SEGMENT-WISE REVIEW

Financing

Diminishing Musharaka Financing

Financing in Diminishing Musharaka of Rs.11,088 million was made as compare to Rs.6,531 million of last year increase by 70%. Keeping in view of our strategy on product diversification, we have been continuously concentrating on this mode of financing. Disbursement in this segment was 99% of total financing as compared to 98% of last year.

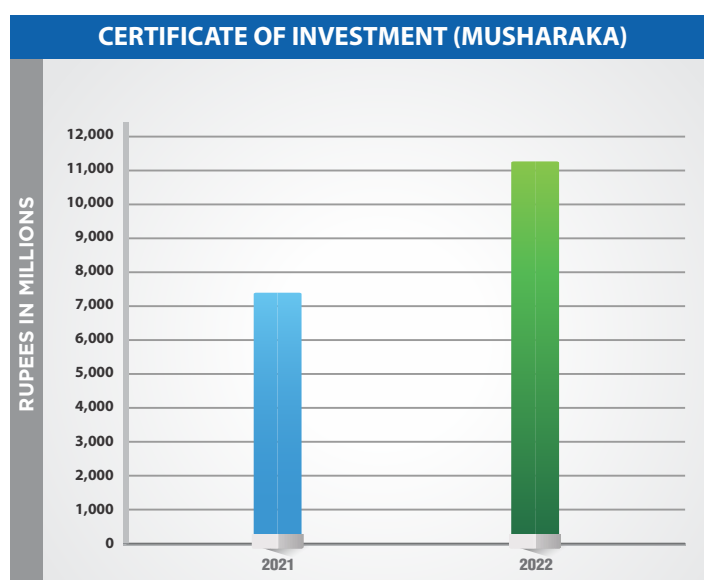
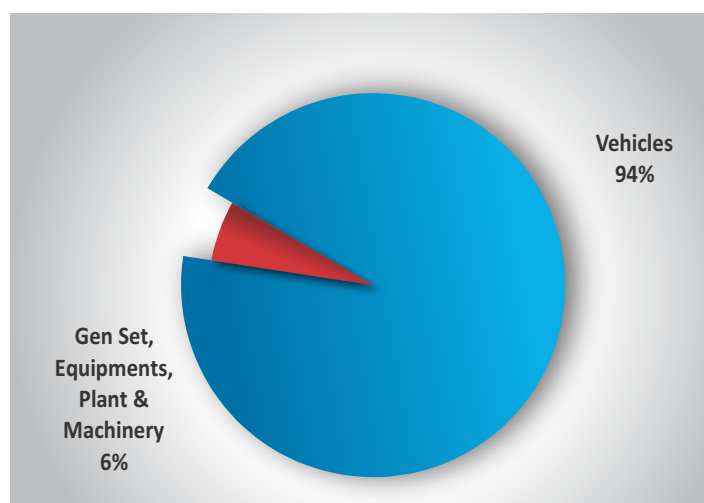
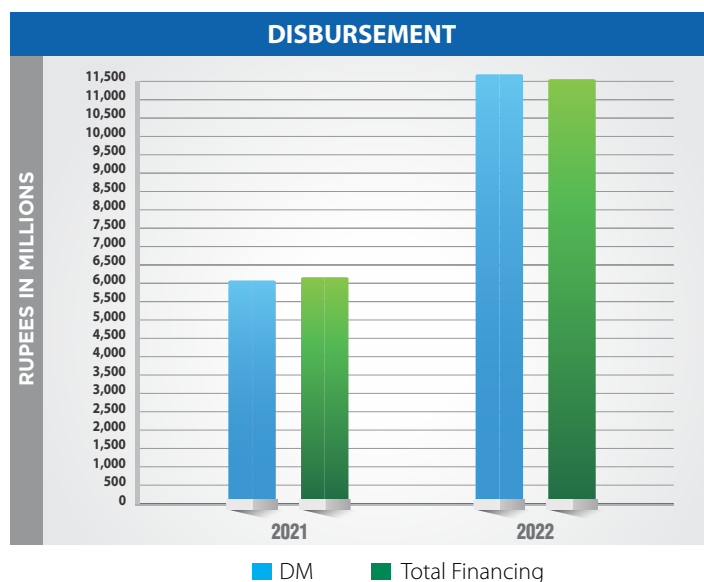
Our branches outside Karachi, i.e., Lahore, Islamabad and Multan have made significant contribution in assets booking as compared to corresponding period of last year. Moreover, good new corporate customers, commercial vehicle segment and consumer car financing segment had also been added by these branches which have supported to further enhance business volume and also help us in maintaining our profitability in their respective areas.

Assets category and sector

Major portion of financing remain within the assets category of motor vehicle i.e. 94% of total financing and rest of financing was made within the assets of generator set, machinery and equipment. The leading sectors of disbursement were targeted such as Pharmaceuticals, Services, Refinery & Lubricant, Food & Allied, and Chemicals.

Certificate of Investment (Musharaka)

Good growth has been witnessed on liability side within the Certificate of Investment (COM). The outstanding amount under COM was Rs.11,262 million at the end of year as compared to Rs.7,192 million of corresponding period of last year, increase by 36%. Our all branches have made their good efforts in channelizing deposit under COM which has greatly supported for generation of business volume at desired level.



SHARE PRICE SENSITIVITY ANALYSIS

Earnings

News on earnings, profits and future positive cash flows develop interest of investors in the shares of company.

Government Policies

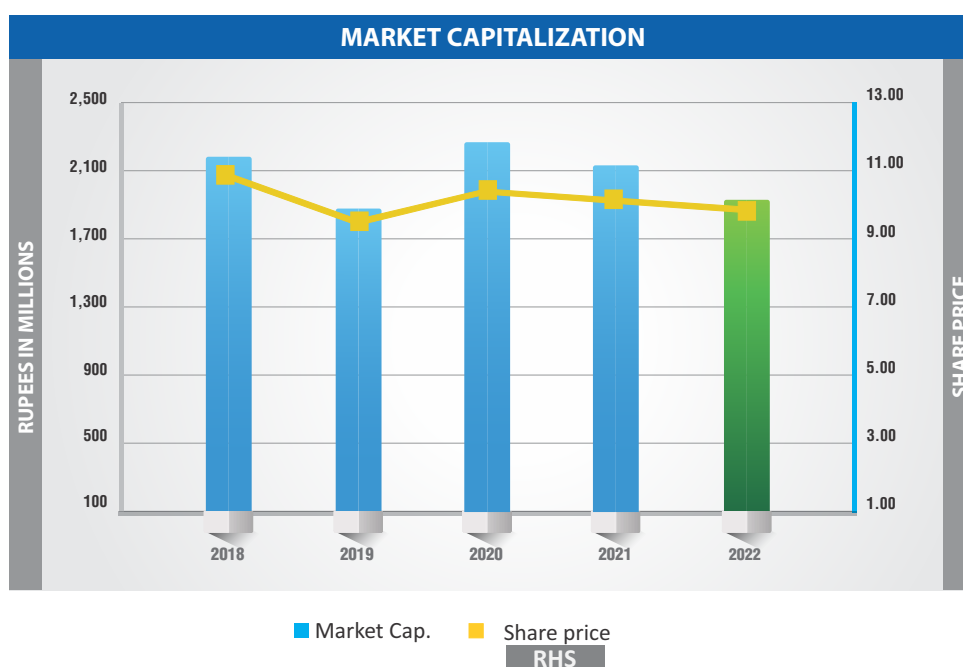
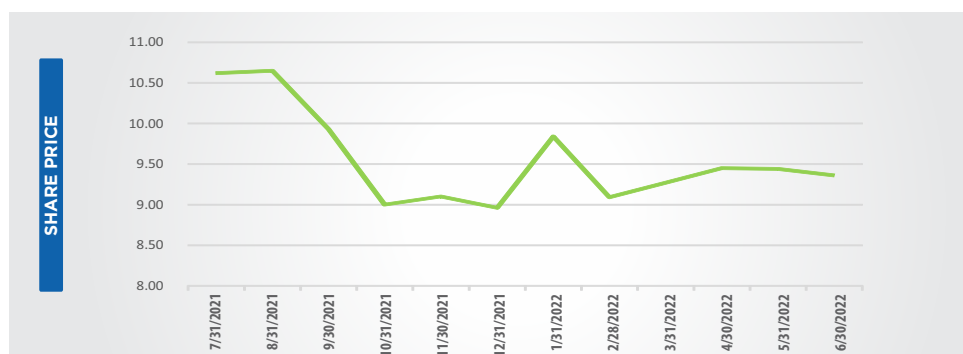
Government policies could be perceived as positive or negative for business. The policies may lead to changes in inflation & interest rates, which may affect stock prices.

Investor sentiments / confidence

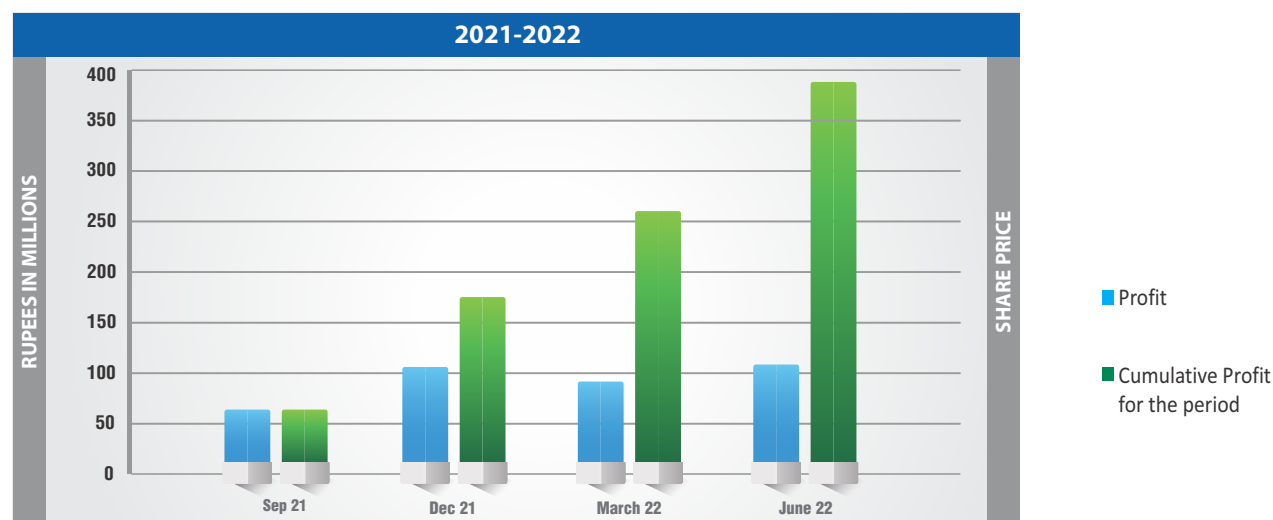
Positive economic reforms can attract investors.

Announcement of dividends

Expected distribution from earning could increase the share prices as expectation of realisation of profit on investment.



ANALYSIS OF VARIATION IN RESULTS REPORTED IN QUARTERLY ACCOUNTS



ANALYSIS OF VARIATION IN QUARTERLY RESULTS

	from April 2022 to June 2022	from April 2021 to June 2021	Variance	From Jan 2022 to Mar 2022	from Jan 2021 to Mar 2021	Variance
	Rupees			Rupees		
Income from lease financing	26,031,153	63,562,345	-59%	28,138,931	19,712,923	43%
Income on diminishing musharaka financing	465,231,299	223,695,184	108%	371,647,517	186,626,699	99%
Administrative expenses	(71,035,885)	(34,212,881)	108%	(58,023,648)	(50,222,624)	16%
Other income	134,475,000	25,158,653	435%	26,081,088	22,243,325	17%
Financial charges	(365,833,513)	(125,554,681)	191%	(258,381,638)	(103,528,477)	150%
Profit after taxation	115,795,071	106,545,817	9%	87,110,576	91,931,820	-5%

	from Oct 2021 to Dec 2021	from Oct 2020 to Dec 2020	Variance	From Jul 2021 to Sep 2021	from Jul 2020 to Sept 2020	Variance
	Rupees			Rupees		
Income from lease financing	49,359,727	14,517,792	240%	34,496,751	31,968,178	8%
Income on diminishing musharaka financing	226,070,806	191,028,426	18%	230,502,904	160,332,356	44%
Administrative expenses	(56,770,180)	(52,845,121)	7%	(54,946,770)	(48,906,985)	12%
Other income	27,614,518	34,640,088	-20%	23,287,335	21,483,859	8%
Financial charges	(172,734,675)	(103,372,321)	67%	(137,432,549)	(90,562,865)	52%
Profit after taxation	111,123,656	83,968,864	32%	68,094,446	80,701,651	-16%

DIVIDEND AND OVERDUE PAYMENTS

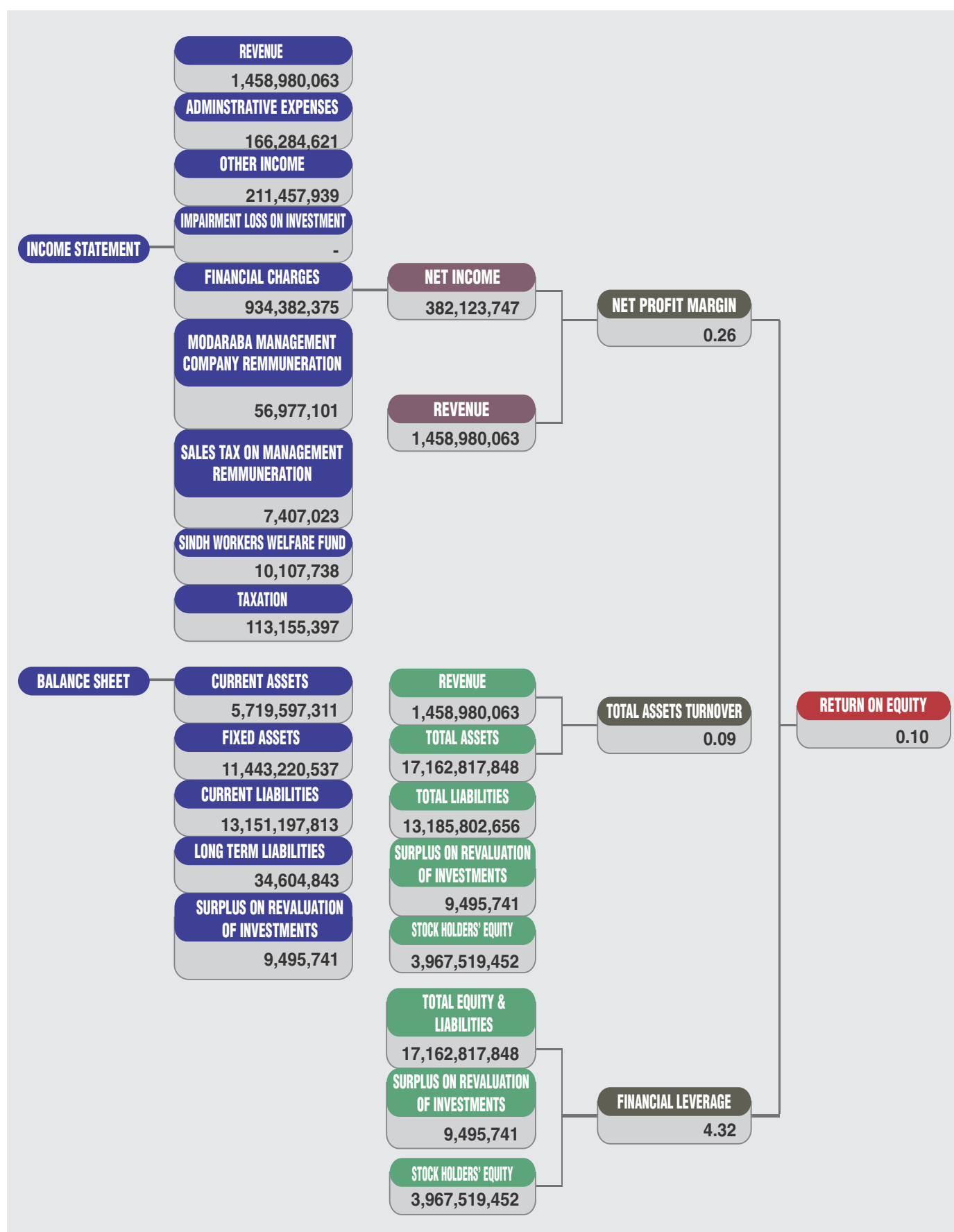
- Dividend has been declared and approved by the Board is 20% i.e Re.1.00 per certificate of Rs. 5/- each
- No overdue or outstanding taxes, duties, levies etc. on account of FHM

CEO PRESENTATION VIDEO ON THE FHM'S WEBSITE

CEO's message has been uploaded on the FHM's website explaining the business overview of FHM at the link below:

<https://www.habibmodaraba.com/ceo-annual-performance-review>

DUPONT ANALYSIS



OUR CORPORATE APPROACH

BEST COMPLIANCE CULTURE

Keeping in view of present changes in regulatory and compliances landscape, FHM further strengthen compliance culture in line with current requirements particularly on AML/CFT.

FOSTERING A CULTURE OF EXCELLENCE:

We aim to build an environment in which our team constantly strives to deliver out of their best capabilities and capacities and it endeavors to achieve this through attracting and retaining the best talent.

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.

PROFIT SHARING

The partnership of FHM has spread on more than 3 decades of successful business operation and now has grown manifold. Enriching every relationship and creating huge benefits through sharing profits every year in the shape of dividends to our Certificate Holders.

PERFORMANCE

Our sound Balance Sheet and the market position of our businesses have placed us well to deliver sustainable growth. We always stand by with our pledge, fulfilled our commitment and give satisfactory financial result with better return to our Certificate Holders every year.

SHARIAH GOVERNANCE

The management of FHM is fully committed for Shariah governance and Shariah compliance culture Strong and effective Shariah governance within the Modaraba are prime objectives of the management of Modaraba.

TECHNOLOGICAL ADVANCEMENT

We firmly believe that without the support of technology the innovation and growth in business cannot be achieved. The management is fully conscious with the significance of technological advancement and pays their full attention on this segment on priority basis.

RISK MANAGEMENT

FHM's risk management capabilities are circled around a strong management structure, sound information system, an effective risk- rating system and robust policies. The primary objective of risk management is to maintain the Company's financial strength and ensure efficient capital deployment to support business growth.

SUSTAINABILITY

We constantly strive to make institution more sustainable and equitable for the coming generations. It is our belief that sustainable development strengthens brand image, drives business growth and ensures long-term and sustainable success.



IT GOVERNANCE & CYBER SECURITY

IT GOVERNANCE POLICY

The FHM's IT governance framework is established in accordance with regulatory requirements including overall improvement of governance in the technology sector through guidance from regulators, IT management and the IT Steering Committee. IT governance, in addition to calculating and monitoring risks, bridges the gap between business and IT strategies and aligns technology initiatives to the benefit of Modaraba.

Information Technology (IT) has evolved over time and has changed the way business is conducted. The way people conduct business has been made easier and more efficient. IT has opened numerous ways for new advancement that are used within business and for individual use. Enterprise governance of IT became keystone to address these challenges. Enterprise governance of IT is an integral part FHM governance and address the implementation the process ,structural and relational mechanism in organization that enable both business and IT resource to execute their responsibility with business alignment and creation of value. It makes sure that all stakeholders' interests are taken into account and that processes provide measurable results. System support department increasing expectation that they will be utilized electronic processes for not only more efficient governance but also improving management of information and services.

This Policy makes the administration for the Information Technology Division for the FHM under its supervision of IT Steering Committee, and Board of Directors. This policy describes and creates a framework that will clear the guide on which IT Division will offer types of services to FHM's business operations and to guarantee that the FHM's business functions are driven based on Technology Solutions.

First Habib Modaraba executed stander SOP to reap the highest advantages from information technology with the lowest risk and at the least costs. These SOP incorporates a scope of procedures and practices that cover the FHM's different departments. Information technology governance and related procedures are planned with the support of the executive management, and department staff. The FHM pursues the procedure of information technology management and maintaining operations as well as executing needed policies to achieve FHM's strategic objectives.

FHM's IT governance covers following functional areas.

Compliance area

Investing in licensed applications in compliance with relevant laws.

Financial reporting area

Integration of the different systems used by various departments.

IT Security area

The IT and Information Security teams are actively engaged in improving the organization's cyber resilience and protecting the organization's information assets and customer information against threats posed by unauthorized or malicious agents. Over time, FHM has invested significant time and effort into maintaining deterrence using thorough defense in consultation with cyber security experts.

Judicious Capital Expenditure

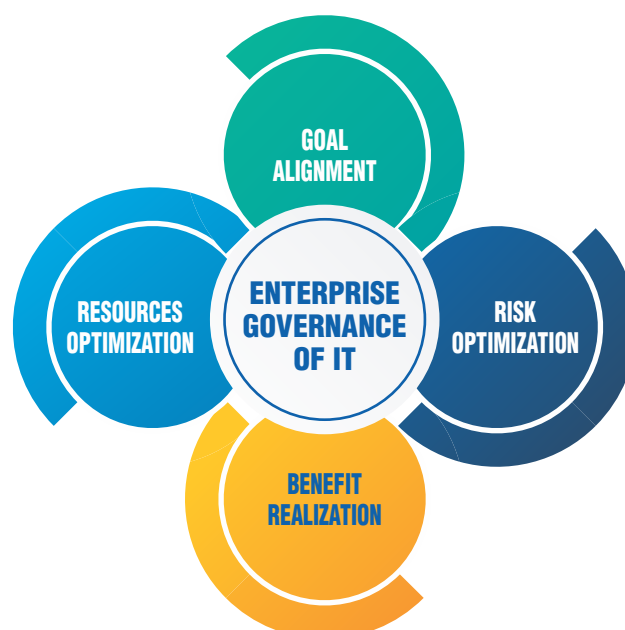
All major IT-related procurement is reviewed and approved by a relevant IT committee.

IT Risk Management functions

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

Data Governance

Data governance encompasses the systematic and formal management of any service or process that is required for effective information management.



IT GOVERNANCE & CYBERSECURITY

Assessing And Enforcing The Legal And Regulatory Impact Of Cyber Risk.

Information security team ensure that effective risk management strategies are developed, implemented and ensured to achieve resilience, improve ability to effectively respond to widespread disruptions, cyber-security threats, and any compromises to critical assets.

Cybersecurity Programs, Procedures and Strategy.

System Support Department (SSD) and Information Security teams are actively engaged in improving the organization's cyber security and protecting the organization's information assets and customer information against threats posed by unauthorized or malicious agents. Over time, FHM has invested significant time and effort into maintaining deterrence using thorough defense in consultation with cyber security experts. To ensure efficient service delivery, SSD also focuses on business needs, customer satisfaction, high performance, and robust security in line with industry best practices. Service standards for all ITG services provide to business units are controlled through Service Level Agreements (SLAs), while IT Helpdesk, with a dedicated technical support team to ensure quick resolution of service issues with appropriate policies and procedures.



Board's Cyber Risk Oversight.

The IT Steering Committee (ITSC) is the governing that reviews, evaluates, prioritizes, and recommends major technology investment plans and strategies to the board. This includes determining value for money and ROI. It also ensures that the information security function within the Modaraba is subject to effective risk oversight and that the information security posture is aligned with its risk appetite.

Board Committees Oversight IT Governance and Cyber Risk Matters.

The ITSC under the board approves major IT and digital investments aligned with business objectives. ITSC takes special care and focus on achieving the highest level of operational optimization with seamless customer service. ITSC also emphasizes timely addressing of all information and cybersecurity issues as well as proactively mitigating associated risks.

Early Warning System.

The Board of Directors and its various senior-level subcommittees review all key risks, including market risk, liquidity, solvency, compliance and information security, through various reports, including early warning indicators to ensure that Modaraba has the necessary Policy, Procedures, Systems and Controls are in place to minimize what could affect its business objective, performance and sustainability.

Policy on Independent Security Risk Assessment.

The Information Security Department meets regulatory requirements for IT security risk management. It maintains a

framework that allows FHM management and employees to mitigate IT security risks to an acceptable level. SSD Continuously monitor evolving and emerging threats to recommends and identifies relevant information security controls. In addition, FHM regularly conducts third-party information security risk assessments and conducts regular security monitoring for identified categories of information security risk management systems, perform security monitoring, information assets, investigate Information security incidents and last assessments was conduct in May-2022 and also raise staff awareness of IT security risks, and report on information security risk management.

Resilient Contingency and Disaster Recovery on Cyber Breach.

A robust business resilience framework is in place to ensure that FHM's systems are available to client's service, even in the event of a crisis or other disruptive event. FHM's business resilience team helps businesses operations resilience in any disruption through proactive planning, maintenance, service, and testing through people, space, systems, and the third-party Business Continuity Management (BCM). FHM works continuously to create a culture of cyber resilience.

Advancement In Digital Transformation to Improve Transparency, Reporting and Governance.

Artificial Intelligence

With the help of Artificial Intelligence, FHM has created a facial recognition system that used for security, authentication and identification. It is an AI-powered attendance management software solution used for attendance management and control access management.

Internet of Things

Using the concept of the Internet of Things (IoT) and the cloud FHM develop a solution system uses existing mobile phone technology to run an application that will enable users to record their attendance via Wi-Fi without the need to queue or share surfaces.

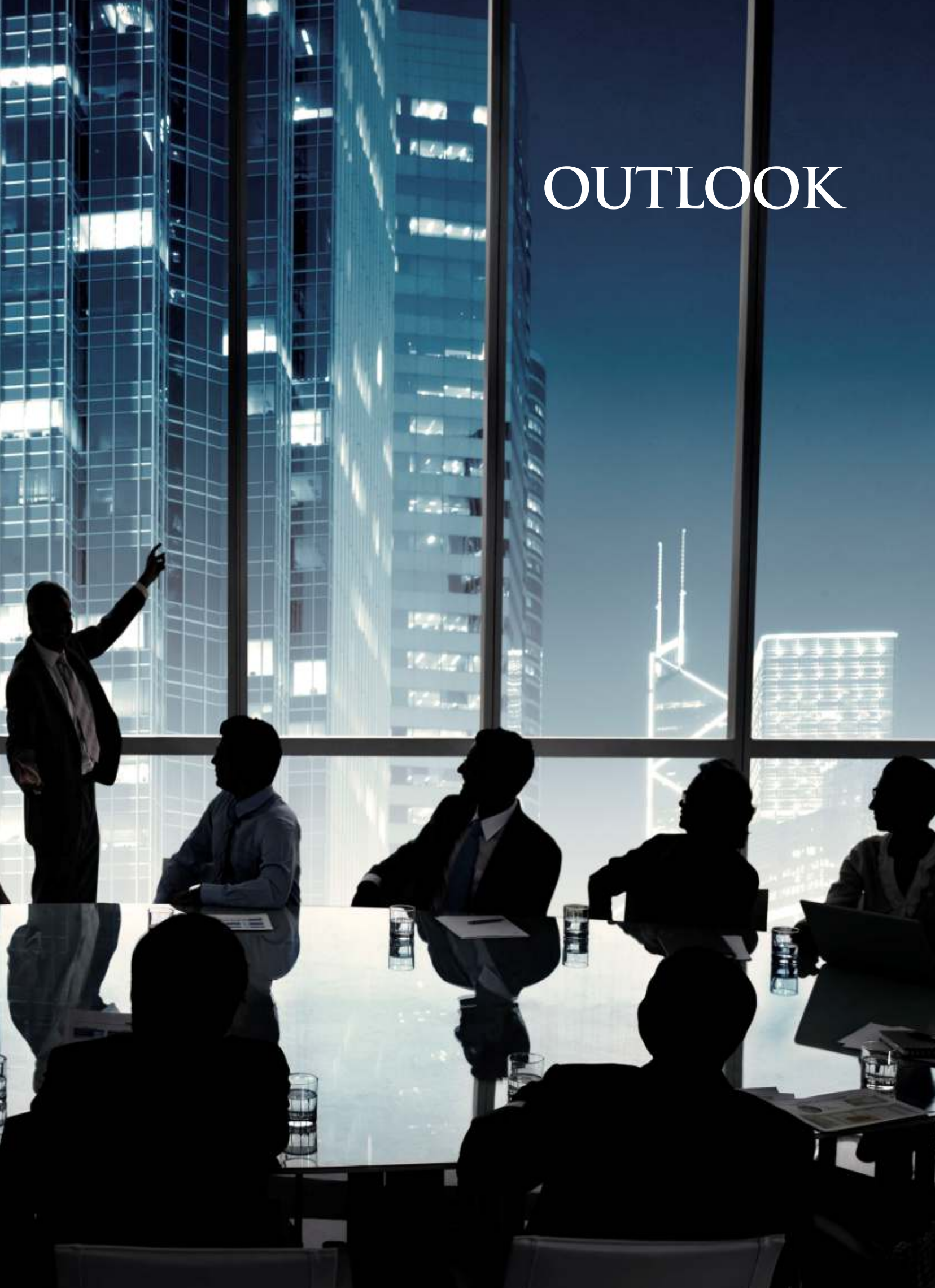
Cloud Computing

Deploying a private cloud on FHM allows us to leverage resources on-demand. This means that workloads can be deployed on different physical servers as service requirements change. This flexibility not only ensures application performance and quick report process, but also reduces costs.

Education and Training Efforts to Reduce Cybersecurity Risks.

We remain focused on building our capabilities in line with regulatory framework and compliance obligations, and have taken many initiatives in this area. Various events on cybersecurity awareness were held with the help of internal IT staff and external experts. Learning initiatives are being taken to increase digital awareness in order to recognize contemporary trends and prepare staff for the cyber resilience.

OUTLOOK



FORWARD LOOKING STATEMENT

In our director's report, we have discussed in details about present economic and business issues which has emerged in last quarter of FY2021-22. Since there are uncertainties related to the unexpected changes in economic or any other front, these should be read in conjunction with contingencies and force majeure segments. A forward-looking statement naturally addresses matters that are, to certain degrees, uncertain and may not happen.

Economic outlook of Pakistan

After showing good recovery in last year, Pakistan economy performed well in FY2021-22 and attained GDP growth of 5.97%. Growth in Pakistan's economy remained strong due to the sound monetary and fiscal stimulus measures initiated by the SBP & Government in the preceding year which has ended with a better growth in FY22. However, this high growth created issues of high trade and current account deficit due to high import bill. Till the 3rd quarter of FY22, the economy performed well and surpassed its targets for GDP, agriculture, services and industrial sector.

Few prominent changes made in last quarter such as political instability, war between Russia and Ukrain and hefty rise in global petroleum prices. These developments had completely changed economic scenario which created unexpected distress and challenges within economy and businesses. Rising commodity prices in last few months and high current account due to inflated the import bill, putting the country on the verge of a balance of payments crisis.

Future outlook of FHM

Going forward, we foresee that the prevailing economic unrest may be further aggravated due to continuous depressed business sentiments. This situation is also impacting timely repayment of borrowed facilities by the businesses. The financial sector outlook remains challenging. Re-pricing risks under rising lending rate scenario and high cost of doing business would be major issues of current financial year. Keeping in view of present business circumstances we will cautiously move forward and will be more careful in our existing and new business engagements for new assets financing.

Simultaneously, we will also undertake the necessary technological innovation and process improvements required to stay ahead in changing market dynamics. Continuous focus will be made on strengthening of risk management tools, optimizing operating efficiencies and maintain highest level of

corporate governance and compliance culture for sustainable growth and building long-term value for our valued Modaraba Certificate Holders.

Merger of Habib Metro Modaraba with First Habib Modaraba

In the month of March, 2022, the Board of Directors, in principle proposed the merger of Habib Metro Modaraba with First Habib Modaraba subject approval from SECP and other relevant authorities. The Board view that the said merger will support for cost saving, improve economies of scale and bring competitive edge in auto financing market. Since the decision, the merger process has been progressed well. After completion of certain formalities, we have secured the No Objection Certificate from Registrar of Modaraba, SECP. Now our consultant is planning to file petition of said merger with Honorable Court for necessary approval. It is expected that we will be able to complete merger process in next 2-3 months.

Significant plans

Keeping in view of present economic and business circumstances, we have devised our future business strategy in cautious and more prudent manner. Key points of our strategy would be as follows:

- Carefully move forward with our existing and new business engagements for new assets booking and financing.
- To enhance our market reach in new cities and add sound customer base
- To increase financing portfolio for with good assets categories.
- To add small and medium customers segments for horizontal growth
- Need to enhance tools of credit risk management, appraisals & evaluation of credit proposals.
- Further strengthen risk assessment and internal controls parameters.
- Focus will be made on strengthening of risk management tools, optimizing operating efficiencies and continuous advancement in technology.
- Enhance technological advancement and broaden digital space for enhancement of operational efficiencies through virtual engagements of staff members.

- To enhance operational capacity of staff members through different segments of training programs.
- Further strengthen compliance culture particularly regulatory and AML/CFT related compliances.
- Enhance capacity building and improve professional grooming of our team members.
- Adverse move on economic front
- Rise in policy rate by Central Bank
- High Inflation
- Impact of Pandemic and its multiple wave
- Any other force majeure.

Furthermore, the performance of FHM may be affected due to change in business environment such as:

- Political and other disturbance within country.
- Change taxation policies.

Forward Looking Statement made in 2021	Performance made in 2022
<ul style="list-style-type: none"> • To enhance our market reach in new cities and add sound customer base • To increase financing portfolio for with good assets categories. • Explore new avenues of low cost resource mobilization through COIs and other Islamic instruments. • Concentrate consumer auto financing segments keeping in view of high demand and vast choices of new variants of light and heavy motor vehicles. • Enhance technological advancement and broaden digital space for enhancement of operational efficiencies through virtual engagements of staff members. • To enhance operational capacity of staff members through different segments of training programs. • Focus will be made on strengthening of risk management tools, optimizing operating efficiencies and continuous advancement in technology. 	<ul style="list-style-type: none"> • Business avenues explored and engaged in new customers few active cities of KPK, Punjab and Sindh to enhance market reach • Our total disbursement during the year touched to Rs.11.461 billion which is increased to around 68% which were highest disbursement since inception. • Our deposit under Certificate of Musharka scheme also reached to Rs.11.621 billion growths of around 59% as compared to last year. • Significant increase made in consumer auto financing segment and said portfolio increased from Rs 698 million to Rs 1,406 million which reflect growth of 101% • Technological advancement made to enhance operational efficiency and customer service level. • For capacity building of staff members, different training program were engaged through inside and outside training programs. • Risk Management processes were further improved and new credit appraisal and assessment tools introduced for better credit engagement.

SOURCES OF INFORMATION AND ASSUMPTIONS

Following sources of information are used by the management for the preparation of projections/forecasts:

- Economic review and business forecast at country level
- Central bank's various reports and monetary policy statement
- Country's internal and external factors
- Research from different counters
- Review of customers financials
- Customer's feed back
- Market feedback

Our above forward looking statement is based on our present business structure model supported by our future business strategy. Though our statements are reasonable assumptions and expectations based on current data, they are not intended to be a guarantee of future results, especially under the present challenging situation particularly with continuous re-occurrence of pandemic and its impact on business and economy.

FHM'S RESPONSE TO THE CRITICAL CHALLENGES AND UNCERTAINTIES LIKELY TO ARISE

FHM always be attentive to address the critical challenges. In business operation of almost three and half decades the institution encountered with various challenges of economic and businesses. We believe that our strength is surrounded with our core values with solid foundation of the institution. This strong footing has been tested from time to time in extreme challenging business scenarios. In the recent example of Pandemic in which how relentlessly our team members stood up and discharge their responsibilities.

Over the years FHM has been continuously recognizing for its satisfactory results, good corporate governance, best report culture and sound and stable credit rating. With a thrust to achieve operational excellence, FHM continue to improve operational processes, infrastructure and professional grooming of human resource in order to provide quality and reliable customer services including compliance of all regulatory and Shariah requirements.

Economic outlook of Pakistan

After showing good recovery in last year, Pakistan economy performed well in FY2021-22 and attained GDP growth of 5.97%. Growth in Pakistan's economy remained strong due to the sound monetary and fiscal stimulus measures initiated by the SBP & Government in the preceding year which has ended with a better growth in FY22. However, this high growth created issues of high trade and current account deficit due to high import bill. Till the 3rd quarter of FY22, the economy performed well and surpassed its targets for GDP, agriculture, services and industrial sector.

Few prominent changes made in last quarter such as political instability, war between Russia and Ukrain and hefty rise in global petroleum prices. These developments had completely changed economic scenario which created unexpected distress and challenges within economy and businesses. Rising commodity prices in last few months and high current account due to inflated the import bill, putting the country on the verge of a balance of payments crisis.

Critical Challenges likely to arise in current year:-

- Political unrest may be aggravated further
- Additional burden on economy recent record breaching heavy rain along with floods which has terribly damage roads and disturbed commodity movements.
- Weak Pak rupees increased import cost will add manufacturing cost shrinkages of margins

- High car prices and high lending rates will further dilute auto financing
- High cost of doing business will dilute profitability and paying capacity of customers.

How we equipped to respond critical challenges and uncertainties that are likely to arise in current year

We foresee that the prevailing economic unrest may continue for quite some time till the next general body election within the country. This situation is also impacting timely repayment of borrowed facilities by the businesses. The financial sector outlook remains challenging. Re-pricing risks under rising lending rate scenario and high cost of doing business would be major issues of current financial year. Keeping in view of present business circumstances we will cautiously move forward and will be more careful in our existing and new business engagements for new assets financing.

- To make sector wise analysis comprising on its product demand and its cost of doing business.
- Careful watch leveraging position of customer and cash flow generation capacity in present difficult environment.
- Support customers through re-profiling and rescheduling of their credit facilities on case to case basis.
- Concentrate on small and medium size customer for horizontal growth.
- Explore the possibilities of introducing new Shariah compliant products such Morabaha, Istisna and mortgage financing.
- Explore possibilities of new products other than auto financing.
- Explore new avenues of low cost resource mobilization through COIs and other Islamic instruments.
- Reduce cost of doing business through support of technology
- Enhance technological advancement and broaden digital space for enhancement of operational efficiencies through virtual engagements of staff members.
- To enhance operational capacity of staff members through different segments of training programs.



Energy Saving Measures

As responsible corporate citizen, it is our responsibility to protect scarce resources particularly energy and water. Energy and water crises are global issues and opportunities in using of Alternate energy i.e., Solar Power and wind power to reduce the emission in environment.

Under our corporate division, we started to look more closely at the emerging opportunities of green finance comprising green buildings, renewable energy and energy-efficient projects, waste management capability development, initiatives to ensure safety and security of factory workers etc.

First Habib Modaraba (FHM) having the vision to establish this thorough practical application within organization. The Management of FHM always encourage for the betterment of the environment and effective implementation of policies so that benefit of energy conservation can be achieved.

The undermentioned measures have been initiated at FHM to preserve the electricity and other resources:

- Conversion of existing energy saver with LED lights and invertors air-conditioners.
- To reduce energy cost FHM is continuously making advancement in technology use of energy
- efficient hardware.
- To promote solar power Financing.
- Paper less environment is encouraged so that more cost saving can be attained.

Quality Assurance

In the business of financial services, quality delivery of services is very important for any institution. This supported through quality assurance process which a systematic process of checking to see whether a product or service being developed is meeting specified requirements or not. A quality assurance system is said to increase customer confidence and a company's credibility to improve work processes and efficiency to enable organization to compete with others in better way.

In highly competitive environment, organizations are placing increased emphasis on customer satisfaction as they consider customer perception of service quality is a significant factor in determining the market share. The core management keeps of testing and analyzing operational systems and enhancing service standards for fast and perfect delivery at entire satisfaction of their customer.

High quality customer service is an important part of FHM's philosophy. It is our constant endeavor to provide greater services with wider accessibility. At FHM customer service operations are designed to keep customers satisfied without compromising operational standards of the organization.

The management of FHM is committed to improve the quality of services and transform it into a modern and dynamic institution. The management has initiated a number of steps aimed at improving the quality and efficiency of its services in all areas of operations. Efforts are being made to harness the skills of its human resources besides managers are continuously reviewing business practices, procedures and service delivery mechanism to set high ethical and service standards.

We continuously develop and recover customer-service oriented culture within FHM. Good Customer service is



helping resolve problems and giving best service timely. To carry out this function effectively, FHM has a system of easy access of the customers to the management whenever it is needed.

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

We always improve our service quality through:

- Customer feedback.
- Analysis of repeat business segments of existing customers.
- Frequent visits of customers.
- Frequent revisits of operational processes.
- Feedback at Annual Review Meeting.
- Complain management system.

STAKEHOLDERS RELATIONSHIP & ENGAGEMENT



STAKEHOLDERS' ENGAGEMENT

Stakeholder engagement has always been a crucial to an organization's performance. Stakeholder is an integral to the organization's business can be described as an effort to understand and involve them in business activities and decision-making processes. Stakeholders are defined here as any group or individual who can affect or can be affected by an organization or its activities.

Stakeholder Engagement is emerging as a means of describing a broader, more inclusive and continuous process between a company and those potentially impacted that encompasses a range of activities and approaches. The overall purpose of stakeholder engagement is to drive strategic direction and operational excellence for organizations and to contribute to the kind of sustainable development from which organizations, their stakeholders and wider society can benefit.

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

In our business we have some key stakeholders what we try to do to meet or exceed their expectations of as responsible corporate venture. We wish to engage with individuals and groups who can help us continue to improve in these areas.

These include, our Certificate Holders, Investors, and Employees, Suppliers, Regulators and local communities. Some of our engagement with stakeholders is listed below.

Certificate Holders

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

Customers

At FHM, we always respect customer needs and design our financial products according to their business needs without compromising principles of Islamic Finance. Being Islamic

Financial Institution, it is built-in feature in corporate objective of FHM for fairness of transaction and no exploitation or deceives 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

Employees

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

Government / Regulators

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

Suppliers

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

Communities

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

STEPS TO ENCOURAGE MINORITY CERTIFICATE HOLDERS TO ATTEND THE ANNUAL REVIEW MEETING

Annual Review Meeting of an Modaraba provides a platform to decide the important matters as well as solicit the viewpoints of certificate holders, especially minority certificate holders, regarding performance of the organization. The Modaraba takes immense interest in encouraging minority certificate holders to participate in the Annual Review meeting of the Modaraba.

Below are the steps taken by the Modaraba for this purpose:

To ensure complete update

Notice of the Annual Review Meeting specifying time and place of the meeting is forwarded to each certificate holder and published in Urdu as well as in English newspapers at least 21 days before the date of the meeting. Further, the notice of the Annual Review Meeting is served to the Pakistan Stock Exchange and is also made available on the Modaraba's website.

To ensure they attend the ARM

All certificate holders are entitled to attend and speak. Annual Report of the Modaraba is provided to all certificate holders before Annual Review Meeting so that they can review performance of the Modaraba. Further, a detailed briefing on Modaraba performance is provided in Annual Review Meeting, including minority certificate holders, are encouraged to raise their queries and provide suggestion relating to performance of the Modaraba.

INVESTORS' RELATIONS SECTION ON CORPORATE WEBSITE

The Modaraba disseminates information to its investors and certificate holders through a mix of information exchange platforms, including its corporate website. The website is updated regularly to provide detailed and latest information including financial highlights, investor information and other requisite information.

CORPORATE BRIEFING SESSION

As mandated by the Pakistan Stock Exchange, the Modaraba conducted its annual 'Corporate Briefing Session' on 27 October, 2021. The session was conducted by the Modaraba's Chief Executive Officer and the Chief Financial Officer and was attended by certificate holders and analysts. The Management presented an analysis of the Modaraba's performance, plans, outlook and answered the queries raised by the attendants to their satisfaction.

REDRESSAL OF INVESTOR COMPLAINTS

Various means of filing a complaint are available on Modarabas' website. Investors' complaints / queries are usually related to receipt of latest dividends, request for hard copies of annual/quarterly reports, updation of bank account details to receive dividends, unclaimed dividends etc.

These queries / complaints are handled with utmost priority meeting the expectations of investors to their satisfaction.

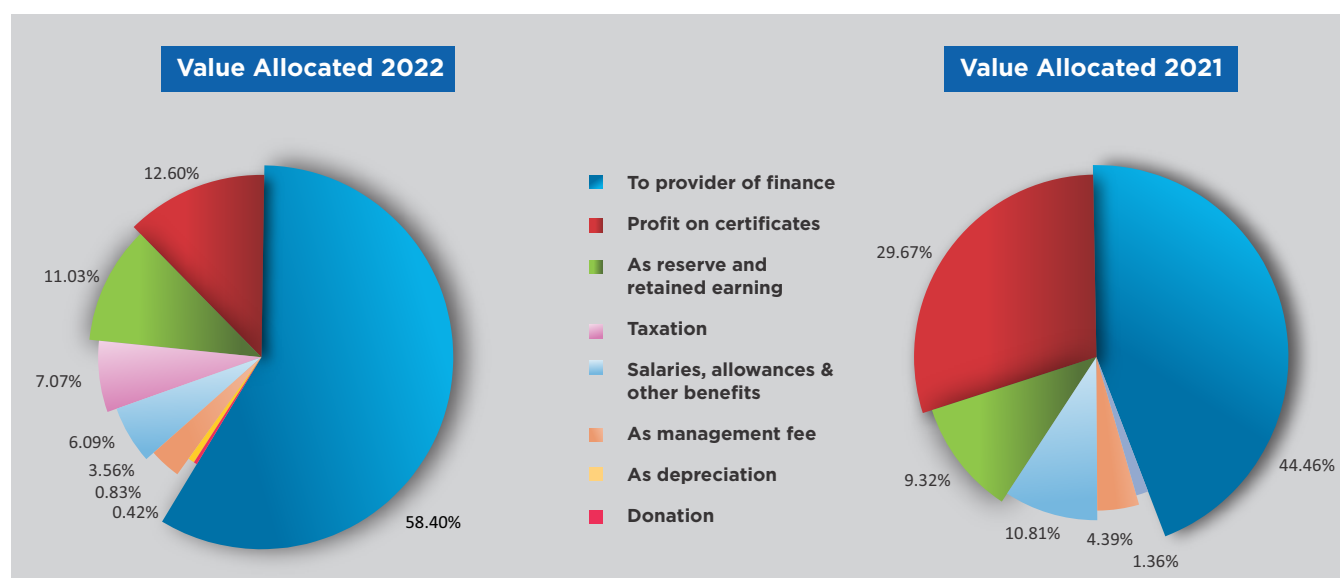
BUSINESS STRATEGY AND ITS IMPLEMENTATION STATUS

Following are the implementation status of the business strategy discussed with the Certificate Holders:

Business Strategy for the year 2021-2022 given in ARM	Achievement during 2021-2022
Exploring new corporate clients and strengthen relationships with existing one	The quality portfolio of client achieved through engagement of more high rated and sound companies
Use Bank's branches network to add quality customer & enhance market outreach	In order to penetrate the FHM Products into market
Further develop and improve the staff capacity through trainings, seminars etc.	Effective training methods have been introduced for professional grooming of the staff members
Enhanced profitability and good dividend distribution in upcoming years	Modaraba has again declared 20% annual dividend
Improve internal control environment and strict adherence to legal and regulatory requirements	With technological advancements and sound control processes, plenty of measures have been taken

STATEMENT OF VALUE ADDED

	2022		2021	
	Rupees	(%)	Rupees	(%)
Value Added				
Revenue from operations	1,562,772,588		967,599,534	
Other income / charges	211,457,939		103,525,925	
Value added by financial services	1,774,230,527		1,071,125,459	
Operating expense including provisions	174,183,485		119,733,980	
	1,600,047,042	100	951,391,479	100
Value Allocated				
To Employees				
Salaries, allowances & other benefits	97,479,411	6.09%	88,634,128	9.32%
To provider of finance				
Profit on Certificate of Investment (COM)	934,382,375	58.40%	423,018,344	44.46%
To Modarib				
As management fee	56,977,101	3.56%	41,776,705	4.39%
To certificate holders				
Profit on certificates (Dividend)	201,600,000	12.60%	282,240,000	29.67%
To Government				
Taxation	113,155,397	7.07%	-	0.00%
To Society				
Donation	6,781,800	0.42%	-	0.00%
To expansion & growth				
As Depreciation	13,246,209	0.83%	12,910,495	1.36%
As Reserve and Retained earning	176,424,749	11.03%	102,811,807	10.81%
	1,600,047,042	100.00%	951,391,479	100.00%



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BUSINESS MODEL

FINANCIAL CAPITAL

- Share Holders Equity: Rs. 3.96 billion
- Customer Deposits: Rs. 11 billion
- Capital Adequacy Ratio: 24

HUMAN CAPITAL

- Highly competent, experienced staff.
- Fully adhered to Compliance & Governance
- Reward & compensation are linked with KPI
- Regular training and development Programs both in house and external

INTELLECTUAL CAPITAL

- Strong Legacy of group
- Strong Branding
- Strong Management Structure and Leadership
- Support in Systems, Processes and Procedures established by the parent Bank

MANUFACTURED CAPITAL

- State-of-the-art internal IT infrastructure
- Geographical presence in major cities (Karachi, Lahore, Islamabad and Multan)
- Three liaison offices (Faisalabad, Sialkot and Hyderabad)
- Providing Islamic Financial Services through various products

SOCIAL AND RELATIONSHIP CAPITAL

- Huge number of corporate and consumer clients
- Excellent relationship with all Stakeholders.
- Engagement in huge CSR.

BUSINESS ACTIVITIES

- Financing Activities: Providing Islamic Financial products to corporate and consumer clients to acquire assets.
- Deposit Mobilisation: Taking deposits from Corporate and individual clients on Shariah Compliant and Halal products.
- Investment Activities: Building strong and income generating portfolio for additional income.
- Improving Corporate Governance Culture within Modaraba
- Enlarging Geographical Expansion through opening of Liaison office.
- System Upgradation given top priority
- Quality lending through stringent Risk Management.
- Increasing Deposit Mobilization
- Human Resource Capability Building through Trainings, Talent Management and Talent Retention

KEY ELEMENTS

- Established brand name across the country
- Professional and Committed Human Capital
- Subsidiary of one the well reputed and sound institution of Pakistan i.e., Habib Metropolitan Bank
- Robust customer confidence and loyalty
- Leading Modaraba within the Modaraba sector
- Highest credit rating within Modaraba sector
- Trained human resource for quality service to customer
- High ethical and professional standards.
- Prudent and Sustainable Business Policies.

FINANCIAL CAPITAL

- Profit after Tax: Rs. 382 million
- Earning per certificate of Rs. 5 each: 1.90
- Dividend per share: Re. 1 / certificate
- Dividend Payout ratio: 52.72%
- Return on Equity (p.a): 9.64%
- Return on Assets (p.a): 2.23%

HUMAN CAPITAL

- 18% Female Staff Ratio: %
- 36 Training sessions
- Huge monetary support in difficult days

INTELLECTUAL CAPITAL

- Best Performing Modaraba Awards for last 21 years from NBFI & Modaraba Association of Pakistan
- 12 Corporate Excellence Awards from Management Association of Pakistan
- 12 Best Corporate Report Awards from Joint Committee of ICAP & ICMAP, 2 times hat rick 1st position
- 12 Best Presented Accounts & Disclosure Awards from South Asian Federation of Accountants (SAFA) and Apex body of SAARC
- 3 Gold Medal Achievement awards from Federation of Pakistan Chambers of Commerce & Industry
- 2 Awards from COMSAT for Best Islamic NBFC
- Islamic Retail Investment Product Award Dubai

SOCIAL AND RELATIONSHIP CAPITAL

- Contribution to National Exchequer: Rs.52 Million
- Deposit Mobilization: 54% Growth
- Long Term Entity Credit Rating: AA+
- Short Term Entity Credit Rating: A1+
- All Complaints Resolved
- Very Low Infection Ratio

STRIVING FOR EXCELLENCE IN CORPORATE REPORTING



BCR CRITERIA CROSS REFERENCE

S.No.	BCR Criteria	Page No.
1	ORGANIZATIONAL OVERVIEW AND EXTERNAL ENVIRONMENT What does the organization do and circumstances under which it operates.	
1.01	Principal business activities and markets local and international including key brands, products and services.	20
1.02	Geographical location and address of all business units including sales units and plants.	23
1.03	Mission, vision, code of conduct, culture, ethics and values.	24, 25, 26, 27
1.04	Ownership, operating structure and relationship with group companies and nature of those relations number of countries in which the organization operates. Also name and country of origin of the holding company/subsidiary company, if such Companies are a foreign company.	28
1.05	Organization chart indicating functional and administrative reporting presented with legend.	29
1.06	Identification of the key elements of the business model of the company through simple diagram supported by a clear explanation of the relevance of those elements to the organization. (The key elements of business model are Inputs, Business activities, Outputs and Outcomes).	30
1.07	Position of the reporting organization within the value chain showing connection with other businesses in the upstream and downstream value chain. (This disclosure shall be provided by the companies in non-service sector organizations through graphical presentation)	N/A
1.08	Significant factors effecting the external environment and the associated organization's response (external environment includes political, economic, social, commercial, technological, environmental and legal environment). Also describe the effect of seasonality on business in terms of production and sales.	31
1.09	The legitimate needs, interests of key stakeholders and industry trends	32
1.10	SWOT Analysis of the company	33
1.11	Competitive landscape and market positioning (considering factors such as the threat of new competition and substitute products or services, the bargaining power of customers and suppliers, , relative strengths and weaknesses of competitors and customer demand and the intensity of competitive rivalry).	34
1.12	The legislative and regulatory environment in which the organization operates.	35
1.13	The political environment where the organization operates and other countries that may affect the ability of the organization to implement its strategy.	36
1.14	Significant changes from prior years (regarding the information disclosed in this section).	47
1.15	History of major events	37
1.16	Details of significant events occurred during the year and after the reporting period.	38/68/175/210
2	STRATEGY AND RESOURCE ALLOCATION Where does the organization want to go and how does it intend to get there	
2.01	Short, medium and long term strategic objectives.	40
2.02	Strategies in place or intended to be implemented to achieve those strategic objectives.	40

S.No.	BCR Criteria	Page No.
2.03	Resource allocation plans to implement the strategy and financial capital structure. (Resource mean CAPITALS including financial capital (e.g. liquidity, cash flows, financing arrangements); human capital, manufactured capital (e.g. building, equipment, infrastructure); intellectual capital (e.g. patents, copyrights, software, licenses, knowledge, system, procedures); social and relationship capital and natural capital).	41
2.04	Key resources and capabilities of the company which provide sustainable competitive advantage	42
2.05	Value created by the business, and for whom, using these resources and capabilities	42
2.06	The effect of technological change, societal issues such as (population and demographic changes, human rights, health, poverty, collective values and educational systems), environmental challenges, such as climate change, the loss of ecosystems, and resource shortages, on the company strategy and resource allocation.	31
2.07	Specific processes used to make strategic decisions and to establish and monitor the culture of the organization, including its attitude to risk and mechanisms for addressing integrity and ethical issues.	43
2.08	Key performance indicators (KPIs) to measure the achievement against strategic objectives including statement as to whether the indicators used will continue to be relevant in the future.	44
2.09	Board's statement on the following: a) significant plans and decisions such as corporate restructuring, business expansion, or discontinuance of operations; b) business rationale of major capital expenditure or projects started during the year and those planned for next year etc	46
2.10	Significant changes in objectives and strategies from prior years.	47
3	RISKS AND OPPORTUNITIES Specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how it is dealing with them	
3.01	Key risks and opportunities effecting availability, quality and affordability of CAPITALS in the short, medium and long term. (Capital mean Financial Capital, Human Capital, Manufactured Capital, Intellectual Capital and Social & Relationship Capital)	50
3.02	Risk Management Framework including risk management methodology and principal risk and uncertainties facing the company	52
3.03	Sources of risks and opportunities (internal and external)	51
3.04	The initiatives taken by the company in promoting and enabling innovation	53
3.05	Assessment of the 'likelihood' that the risk or opportunity will come to fruition and the 'magnitude' of its effect if it does.	50
3.06	Specific steps being taken to mitigate or manage key risks or to create value from key opportunities by identifying the associated strategic objectives, strategies, plans, policies, targets and KPIs.	50
3.07	Board's efforts for determining the company's level of risk tolerance by establishing risk management policies.	54
3.08	A statement from the Board of Directors that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten the business model, future performance, solvency or liquidity.	54
3.09	Strategy to overcome liquidity problem and the company's plan to manage its repayment of debts and meet operational losses	55

S.No.	BCR Criteria	Page No.
3.10	Inadequacy in the capital structure and plans to address such inadequacy.	55
4	SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY	
4.01	Highlights of the company's performance, policies, initiatives and plans in place relating to the various aspects of sustainability and corporate social responsibility as per best business practices including: a) environment related obligation applicable on the company; b) company progress towards environmental, social and & governance initiatives during the year; and c) company's responsibility towards the staff, health & safety	58
4.02	Status of adoption/compliance of the Corporate Social Responsibility (Voluntary) Guidelines, 2013 issued by the SECP or any other regulatory framework as applicable.	61
4.03	Certifications acquired and international standards adopted for best sustainability and CSR practices.	62
5	GOVERNANCE How does the organization's governance structure support its ability to create value in the short, medium and long term.	
5.01	Board composition: a) Leadership structure of those charged with governance. b) Name of independent directors indicating justification for their independence. c) Diversity in the board i.e. competencies, requisite knowledge & skills, and experience. d) Profile of each director including education, experience and involvement /engagement of in other entities as CEO, Director, CFO or Trustee etc. e) No. of companies in which the executive director of the reporting organization is serving as non-executive director	71/72/81/84
5.02	Chairman's Review Report on the overall performance of the board and effectiveness of the role played by the board in achieving the company's objectives	64
5.03	A statement of how the Board operates, including a high-level statement of which types of decisions are to be taken by the Board and which are to be delegated to management.	85
5.04	Annual evaluation of performance, along with description of criteria used for the members of the Board and its committees, CEO and the Chairman.	82
5.05	Disclosure if the Board's Performance evaluation is carried out by an external consultant once in three years.	85
5.06	Details of formal orientation courses for Directors.	71
5.07	Directors' Training Program (DTP) attended by Directors, female executives and head of department from the Institutes approved by the SECP and names of those who availed exemptions during the year.	71
5.08	Description of external oversight of various functions like systems audit / internal audit by an external specialist and other measures taken to enhance credibility of internal controls and systems.	85
5.09	a) Approved policy for related party transactions. b) Details of all related parties transactions, along with the basis of relationship describing common directorship and percentage of shareholding. c) Contract or arrangement with the related party other than in the ordinary course of business on an arm's length basis, if any along with the justification for entering into such contract or arrangement. d) Disclosure of director's interest in related party transactions. e) In case of conflict, disclosure that how such a conflict is managed and monitored by the board	85

S.No.	BCR Criteria	Page No.
5.10	Disclosure of Board's Policy on the following significant matters: a) Governance of risk and internal controls. b) Diversity (including gender), any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives. c) Disclosure of director's interest in significant contracts and arrangements. d) Remuneration of non-executive directors including independent directors for attending board meetings and general meetings e) Retention of board fee by the executive director earned by him against his services as non-executive director in other companies. f) Security clearance of foreign directors. g) Board meetings held outside Pakistan. h) Human resource management including preparation of succession plan.	83/86/71/87
5.10	i) Social and environmental responsibility. j) Communication with stakeholders. k) Investors' relationship and grievances. l) Employee health, safety and protection. m) Whistle blowing policy including mechanism to receive and handle complains in a fair and transparent manner and providing protection to the complainant against victimization and reporting in Audit Committee's report. n) Safety of records of the company. o) Providing reasonable opportunity to the shareholder for participation in the AGM.	88/89/90/91
5.11	Board review statement of the organization's business continuity plan or disaster recovery plan.	92
5.12	Disclosure of beneficial (including indirect) ownership and flow chart of group shareholding and relationship as holding company, subsidiary company or associated undertaking.	93
5.13	Compliance with the Best Practices of Code of Corporate Governance (No marks in case of any non-compliance)	94/96
5.14	A brief description about role of the Chairman and the CEO.	97
5.15	Shares held by Sponsors / Directors / Executives.	98
5.16	Salient features of TOR and attendance in meetings of the Board Committees (Audit, Human Resource, Nomination and Risk management).	102/104
5.17	Timely Communication: Date of authorization of Financial Statements by the Board of Directors: within 40 Days ---6 Marks within 60 days----3 Marks (Entities requiring approval from a Regulator before finalization of their Financial Statements would be provided a 20 days relaxation, on providing evidence to the Committee)	162

S.No.	BCR Criteria	Page No.
5.18	<p>Audit Committee Report should describe the work of the committee in discharging its responsibilities. The report should include:</p> <p>a) Composition of the Committee with at least one member qualifies as “financially literate and all members are non-executive / Independent directors including the Chairman of the Audit Committee.</p> <p>b) Role of the Committee in discharging its responsibilities for the significant issues in relation to the financial statements, and how these issues were addressed with details where particular attention was paid in this regard.</p> <p>c) Committee’s overall approach to risk management and internal control, and its processes, outcomes and disclosure.</p> <p>d) Role of Internal Audit to risk management and internal control, and approach to Internal Audit to have direct access to audit committee and evaluation of Internal Auditors performance.</p> <p>e) Review of arrangement for staff and management to report to audit committee in confidence, concerns, if any, about actual or potential improprieties in financial and other matters and recommended instituting remedial and mitigating measures.</p>	105
5.18	<p>f) An explanation as to how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current statutory auditor; and if the external auditor provides non-audit services, an explanation as to how auditor’s objectivity and independence is safeguarded.</p> <p>g) If Audit Committee recommends external auditors other than the retiring external auditors, before the lapse of three consecutive years, reasons shall be reported.</p> <p>h) The Audit Committee’s views whether the Annual Report was fair, balanced and understandable and also whether it provided the necessary information for shareholders to assess the company’s position and performance, business model and strategy.</p> <p>i) Results of the self-evaluation of the Audit Committee carried out of its own performance.</p> <p>j) Disclosure of the number of whistle-blowing incidences reported to the Audit Committee during the year.</p>	106
5.19	<p>Presence of the chairman of the audit committee at the AGM to answer questions on the audit committee’s activities and matters within the scope of the audit committee’s responsibilities.</p>	107
5.20	<p>Board disclosure on Company’s use of Enterprise Resource Planning (ERP) software including:</p> <p>a) how it is designed to manage and integrate the functions of core business processes/ modules like finance, HR, supply chain and inventory management in a single system;</p> <p>b) management support in the effective implementation and continuous updation;</p> <p>c) details about user training of ERP software;</p> <p>d) how the company manages risks or control risk factors on ERP projects;</p> <p>e) how the company assesses system security, access to sensitive data and segregation of duties.</p>	108
5.21	<p>Where an external search consultancy has been used in the appointment of the Chairman or a non-Executive Director, it should be disclosed if it has any other connection with the company.</p>	109
5.22	<p>Chairman’s significant commitments and any changes thereto.</p>	64
5.23	<p>Disclosure about the Government of Pakistan policies related to company’s business/ sector in Directors’ Report and their impact on the company business and performance.</p>	67
5.24	<p>How the organization’s implemented governance practices have been exceeding legal requirements.</p>	109

S.No.	BCR Criteria	Page No.
6	PERFORMANCE AND POSITION to what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals.	
6.01	Analysis of the financial and non-financial performance using both qualitative and quantitative indicators showing linkage between: (a) Past and current performance; (b) Performance against targets /budget; and (c) Objectives to assess stewardship of management. The analysis should cover significant deviations from previous year in operating results and the reasons for loss, if incurred and future prospects of profits.	110
6.02	Analysis of financial ratios (Annexure I) (this includes marks of ratios for Shariah compliant companies and companies listed on Islamic indices)	113
6.03	Vertical and horizontal analysis of Balance Sheet, Profit and Loss Account and summary of Cash Flow Statement for last 6 years.	115/116/117
6.04	Graphical presentation of the Balance Sheet, Profit & Loss Account and analysis of above.	118/119
6.05	Explanation of negative change in the performance against prior year including analysis of variation in results reported in interim reports with the final accounts, including comments on the results disclosed in 6.02 and 6.03 above.	120
6.06	Any significant change in accounting policies, judgements, estimates and assumptions with rationale.	122
6.07	Information about defaults in payment of any debts and reasons thereof.	122
6.08	Methods and assumptions used in compiling the indicators.	122
6.09	Cash Flow Statement based on Direct Method (separate Cash Flow for specific funds e.g. Zakat).	123
6.10	Segmental review of business performance.	124
6.11	a) Share price sensitivity analysis using key variables (i.e. selling price, raw material cost, interest rate and currency) with the consequent impact on the company's earning. b) Composition of local versus imported material and sensitivity analysis in narrative form due to foreign currency fluctuation (not A/C)	(a)125/ (b)NA
6.12	Brief description and reasons ; (a)for not declaring dividend despite earning profits and future prospects of dividend (b)where any payment on account of taxes ,duties , levies etc is overdue or outstanding.	126
6.13	CEO presentation video on the organization's website explaining the business overview, performance, strategy and outlook.(please provide reference / weblink on company's annual report)	126
7	Disclosures on IT Governance and Cybersecurity How the Board evaluate the company's IT governance and cybersecurity risk and how the Board manages those risks that threaten the company's operations	
7.01	The Board responsibility statement on the evaluation and enforcement of legal and regulatory implications of cyber risks and the responsibilities of the board in case of any breaches	131
7.02	Disclosure related to IT governance and cybersecurity programs, policies and procedures and industry specific requirements for cybersecurity and strategy in place.	131

S.No.	BCR Criteria	Page No.
7.03	Disclosures about how cybersecurity fits into the board's risk oversight function and how the board is engaging with management on this issue	131
7.04	Disclosure that at least one board-level committee is charged with oversight of IT governance and cybersecurity matters and how the board administers its IT risk oversight function related to these risks	131
7.05	Disclosure about Company's controls and procedures about an "early warning system" that enables the company to identify, assess, address, make timely disclosures and timely communications to the board about cybersecurity risks and incidents.	131
7.06	Disclosure of policy related to independent comprehensive security assessment of technology environment, including third party risks and when last such review was carried out.	131
7.07	Disclosure about resilient contingency and disaster recovery plan in terms of dealing with a possible IT failure or cyber breach and details about company's cyber insurance.	132
7.08	Disclosure of advancement in digital transformation on how the organization has leveraged 4.0 Industrial revolution (RPA, Block Chain, AI, Cloud Computing etc.) to improve transparency, reporting and governance.	132
7.09	Disclosure about education and training efforts of the Company to mitigate cybersecurity risks	132
8	OUTLOOK Challenges and uncertainties that the organization is likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance.	
8.01	Forward looking statement in narrative and quantitative form including projections or forecasts about known trends and uncertainties that could affect the company's resources, revenues and operations in the short, medium and long term.	134
8.02	Explanation of the external environment including political, economic, social, technological, environmental and legal environment that is likely to be faced in the short, medium and long term and how it will affect the organization in terms of its business performance, strategic objectives and availability, quality and affordability of capitals.	135/31
8.03	Explanation as to how the performance of the company meets the forward looking disclosures made in the previous year	135
8.04	Status of the projects in progress and were disclosed in the forward looking statement in the previous year	135
8.05	Sources of information and assumptions used for projections / forecasts in the forward looking statement and assistance taken by any external consultant.	136
8.06	How the organization is currently equipped in responding to the critical challenges and uncertainties that are likely to arise.	137
9	STAKEHOLDERS RELATIONSHIP AND ENGAGEMENT State of key stakeholder relationships and how the organization has responded to key stakeholders' legitimate needs and interests.	
9.1	Stakeholders engagement policy of the company and how the company has identified its stakeholders.	140
9.2	Stakeholders' engagement process and the frequency of such engagements during the year. Explanation on how these relationships are likely to affect the performance and value of the company, and how those relationships are managed. These engagements may be with: a) Institutional investors; b) Customers & suppliers; c) Banks and other lenders; d) Media; e) Regulators; f) Local committees and g) Analysts	140

S.No.	BCR Criteria	Page No.
9.3	Steps taken by the management to encourage minority shareholders to attend the general meetings.	141
9.4	Investors' Relations section on the corporate website.	141
9.5	Issues raised in the last AGM, decisions taken and their implementation status.	141
9.6	Statement of value added and its distribution with graphical presentation: a) Employees as remuneration b) Government as taxes (separately direct and indirect) c) Shareholders as dividends d) Providers of financial capital as financial charges e) Society as donation; and f) Retained within the business	142
9.7	Steps Board has taken to solicit and understand the views of the stakeholders through corporate briefing programs and through investor road show etc. and disclosure of brief summary of analysis and shareholders briefings conducted during the year.	141
9.8	Highlights about redressal of investors' complaints	141
10	BUSINESS MODEL Business model is a system of transforming inputs, through its business activities, into outputs and outcomes that aims to fulfil the organization's strategic purposes and create value over the short, medium and long term	
10.01	Describe the business model including inputs, business activities, outputs and outcomes in accordance with the guidance as set out under section 4C of the International Integrated Reporting Framework <IR>.	144
11	STRIVING FOR EXCELLENCE IN CORPORATE REPORTING	
11.01	Statement by management of unreserved compliance of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).	168
11.02	Adoption of International Integrated Reporting Framework <IR> by fully applying the 'Fundamental Concepts' and 'Guiding Principles' of <IR> into their corporate reporting in addition to the 'Content Elements' (disclosures) of <IR>, as covered in this criteria.	N/A
11.03	BCR criteria cross referred with page numbers of the annual report. (details can be maintained by companies on the Investor Relation section of the company's website).	146
11.04	Disclosures beyond BCR criteria (Note :The participating organization to attach the list of additional disclosures)	154
12	SPECIFIC DISCLOSURES OF THE FINANCIAL STATEMENTS	
12.01	For Specific Disclosures of the Financial Statements please refer Annexure 'II'.	155
12.02	Industry specific additional disclosures (if applicable): a) Shariah compliant companies/ companies listed on the Islamic Indices - Annexure 'III'	157
13	ASSESSMENT BASED ON QUALITATIVE FACTORS	
13.01	Please refer Annexure 'IV'	Based on the quality of the text used in the report
14	Industry Specific Disclosures (if applicable)	NA

DISCLOSURES BEYOND BCR CRITERIA

Following is a list of disclosures that have been made in addition to the BCR criteria:

S.No.	Disclosures beyond BCR criteria	Page No.
1	Successive partnership	3
2	Credit Rating	6
3	Corporate information	7
4	About First Habib Modaraba	9
5	Our strength	10
6	Awards and Acheivements	13
7	FHM Awards calender	14
8	Our Financial Highlights	16
9	History of dividend payments	17
10	Focused strategy	18
11	Chairman Message (Urdu)	65
12	Directors Report (Urdu)	80
13	Actual and percieved conflict interest	106
14	Customer satisfaction	111
15	Dupont analysis	127
16	Our corporate approach	128
17	Energy saving & Quality assurance	138

FOR SPECIFIC DISCLOSURES OF THE FINANCIAL STATEMENTS

S.No.	Specific Disclosures Required in the Financial Statements	Reference to the disclosure in financial statements	Reference Page No.
1	Fair value of Property, Plant and Equipment.	Note 6	181
2	Reconciliation of weighted average number of shares for calculating EPS and diluted EPS.	Note 18	186
3	Particulars of significant/ material assets and immovable property including location and area of land	Not applicable	-
4	Key quantitative information (Number of persons employed as on the date of financial statements and average number of employees during the year, separately disclosing factory employees).	Note 47	211
5	Disclosure of product wise data mentioning, product revenue, profit etc.	Profit and Loss, note 44	164/208
6	Capacity of an industrial unit, actual production and the reasons for shortfall.	Not applicable	-
7	Disclosure of discounts on revenue.	Not applicable	-
8	Sector wise analysis of deposits and advances.	Note 42	207
9	Complete set of financial statements (Balance sheet, Income statement & Cash flow) for Islamic banking operations.	BS PNL & Cash-flow	163/164/166
10	Status for adoption of Islamic Financial Accounting Standards (IFAS) issued by the ICAP.	Note 2.1	168
11	Summary of significant transactions and events that have affected the company's financial position and performance during the year.	Note 1	168
12	Forced sale value in case of revaluation of Property, Plant and Equipment or investment property.	Not applicable	-
13	Distribution of shareholders (Number of shares as well as category, e.g. Promoter, Directors/Executives or close family member of Directors/Executives etc.).	Refer Category of certificate holding	98
14	Particulars of major foreign shareholders, other than natural person, holding more than 5% of paid up capital in the company in Pattern of Shareholding.	Refer Category of certificate holding	98
15	Particulars where company has given loans or advances or has made investments in foreign companies or undertakings.	Not applicable	-
16	Accounts Receivable in respect of Export Sales - Name of company or undertaking in case of related party and in case of default brief description of any legal action taken against the defaulting parties.	Not applicable	-
17	Treasury shares in respect of issued share capital of a company.	No Treasury certificates held	-
18	In describing legal proceedings, under any court, agency or government authority, whether local or foreign, include name of the court, agency or authority in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis of the proceeding and the relief sought.	Note 24.3, 24.6 & 26.1	189/193

S.No.	Specific Disclosures Required in the Financial Statements	Reference to the disclosure in financial statements	Reference Page No.
19	Management assessment of sufficiency of tax provision made in the company's financial statements shall be stated along with comparisons of tax provision as per accounts vis a vis tax assessment for last three years.	Note 4.11	177
20	Income tax reconciliation as required by IFRS and applicable tax regime for the year.	Note 32.1	196
21	In respect of loans and advances, other than those to the suppliers of goods or services, the name of the borrower and terms of repayment if the loan or advance exceeds rupees one million, together with the collateral security, if any.	Not applicable	-
22	Disclosure about Human Resource Accounting (includes the disclosure of process of identifying and measuring the cost incurred by the company to recruit, select, hire, train, develop, allocate, conserve, reward and utilize human assets).	Note 29	194
23	In financial statements issued after initial or secondary public offering(s) of securities or issuance of debt instrument(s) implementation of plans as disclosed in the prospectus/offering document with regards to utilization of proceeds raised till full implementation of such plans.	Not applicable	-
24	Where any property or asset acquired with the funds of the company and is not held in the name of the company or is not in the possession and control of the company, this fact along with reasons for the property or asset not being in the name of or possession or control of the company shall be stated; and the description and value of the property or asset, the person in whose name and possession or control it is held shall be disclosed.	Not applicable	-
25	Standards, amendments and interpretations adopted during the current year along with their impact on the company's financial statements.	Note 4.4	175
26	Standards, amendments and interpretations, not yet effective and not adopted along with their impact on the company's financial statements.	Note 3.2	171

SPECIFIC DISCLOSURES FOR SHARIAH COMPLIANT COMPANIES AND THE COMPANIES LISTED ON THE ISLAMIC INDICES

The disclosures required under clause 10 of the Fourth Schedule of the Companies Act, 2017 for Sharia compliant companies and the companies listed on Islamic index are as follows:

Disclosure Required	Reference to the disclosure in financial statements	Page No.
Loans/advances obtained as per Islamic mode	Refer Note 23 and 25	188 and 192
Shariah compliant bank deposits/bank balances;	Refer Note 11.2 and 17	184 and 186
Profit earned from shariah compliant bank deposits/bank balances	Refer Note 30	195
Revenue earned from a shariah compliant business segment	all revenue earned is from shariah compliant business	-
Gain/loss or dividend earned from shariah compliant investments	Refer Note 30	195
Exchange gain earned from actual currency	Not applicable	-
Mark up paid on Islamic mode of financing	Refer "Financial Charges paid" in Cashflow from Operating Activities	166
Relationship with shariah compliant banks	Refer Note 23 and 25	188 and 192
Profits earned or interest paid on any conventional loan or advance	Not applicable	-

SHARIAH ADVISOR'S PROFILE

Mufti Faisal Ahmed

Mufti Faisal Ahmed is the Shariah advisor of FHM holds the degree of Dars-e-Nizami from Jamia Farooqia Takhassus fil Ifta, Takhassus fil Hadith. Takhassus Fiqh ul Halal from Jamia tur Rasheed Karachi. He also holds degree of MBA finance and LLB. He has experience as a teacher of Fiqh, Hadith and Ifta in Jamia tur Rasheed (2003 till now) and has been working as a visiting faculty for PIS, project appraisal, Financial management and Journalism at different Universities and institutions. He is a frequent speaker on Islamic topics including Riba Free Banking, Takaful, Zakat, Economic systems, etc. at different forums. In addition to his primary responsibility of being an associate Mufti from 2004 to 2009 and being a Mufti from 2009 till date, he was also assigned responsibility of Administration, Consultancy and delivering Fatawa at SCS (Shariah Consultancy for trade and finance) under supervision of Dar-ul-Ifta Jamiat-ur-Rasheed from 2009 to 2015.





*All Praise is due to Allah, the Cherisher of the world
Peace and Blessings be upon the Prophet of Allah, on his family and all his companions, and on those who
follow him with Iman till the day of Aakhirah*

SHARIAH CERTIFICATE FOR FIRST HABIB MODARABA

For the year ended June 30, 2022

By the Grace of Allah, the Shari'ah review of First Habib Modaraba managed by Habib Metropolitan Modaraba Management Company (Pvt.) Ltd was conducted for the year ended June 30, 2022 in accordance with requirement of the Shari'ah Compliance and Shari'ah Audit Mechanism for Modaraba.

It is acknowledged and certified in capacity of Sharia Advisor of the Modaraba that, the financial arrangements, contracts and transactions entered into by the Modaraba with its participants, stakeholders and customers were found in compliance with the requirements of Sharia rules and principles. During the review following areas were verified in compliance with Shari'ah compliance mechanism:

- Financing transactions i.e., Diminishing Musharakah was reviewed and found as per guidelines.
- The financing transactions, description of assets, relevant documents and their sequence, delivery of assets, start of repayment and other requirements were reviewed and found proper.
- Charity account was reviewed and found in line with the direction of rules and regulation. The major portion of Charity amount recovered from the customers due to late payments and paid to approved charitable institutions accordingly.
- Profit-sharing ratios, profit weightages and distribution of profit on certificate of Musharkah were in accordance with weightages announced by the Modaraba on monthly basis.
- FHM conducted various trainings for operational staff of all branches during the year.

Observations & Recommendations

- It was observed that ratio of financing assets portfolio coverage under takaful improved from 97% to 98% of total financing assets, however due to limitations of takaful companies some high value assets terrorism coverage obtained from conventional insurance. It is urge to put its effort for conversion of entire portfolio to Takaful.
- It is also recommended that trainings frequency of the staff should improve from bi monthly to monthly basis.
- All investments were made in Shariah compliant shares however dividend received from some investment were purified as per KMI 30 index purification rate and transferred to charity accounts.

Conclusion

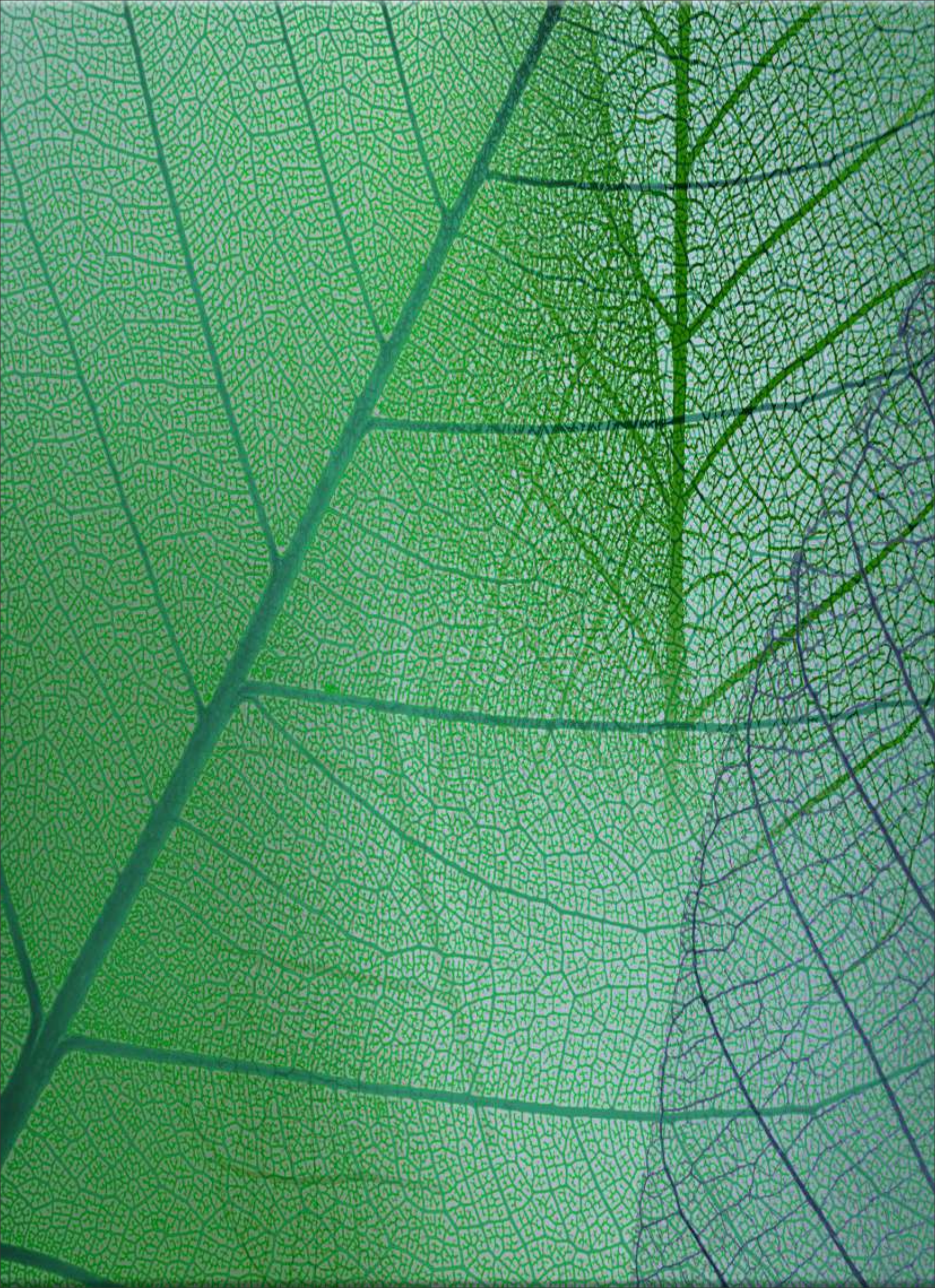
Based on the extensive reviews of sample cases for each class of transaction, related documentation, processes, profit distribution mechanism for the depositors and management's representation made and in this regard, it is opined that, the affairs, activities and transactions, performed by the Modaraba during the year are in compliance with the rules & principles of Shari'ah.

May Allah bless FHM with the best Tawfeeq to accomplish his cherished tasks, all good deeds are from Allah and weaknesses are from our sides that needs to be forgiven.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.



Dated: 13 Muharram UI Haram 1444 Hijri/ August 12, 2022





Financial Statements

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EY Ford Rhodes
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O.Box 15541, Karachi 75530
Pakistan

UAN: +9221 111 11 39 37 (EYFR)
Tel: +9221 3565 0007-11
Fax: +9221 3568 1965
ey.khi@pk.ey.com
ey.com/pk

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of First Habib Modaraba (the Modaraba) as at 30 June 2022 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

These financial statements are the Modaraba Company's [Habib Metropolitan Modaraba Management Company (Private) Limited] responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by the Modaraba Company, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) In our opinion, proper books of account have been kept by the Modaraba Company in respect of First Habib Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI OF 1980), and Modaraba Companies and Modaraba Rules, 1981;
- b) In our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of account and are further in agreement with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the Modaraba's business and
 - iii) the business conducted, investment made, and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- c) In our opinion and to the best of our information and according to explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof confirm with the approved accounting standards as applicable in Pakistan and give the information required by the Modaraba companies and the Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and the Modaraba Rules, 1981 in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at 30 June 2022 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

EY Ford Rhodes
Chartered Accountants
Audit Engagement Partner: Shaikh Ahmed Salman
Date: September 19, 2022
Karachi

BALANCE SHEET

AS AT JUNE 30, 2022

	Note	June 30, 2022	June 30, 2021
-----Rupees-----			
ASSETS			
NON-CURRENT ASSETS			
Lease financing assets	5	185,055,850	861,522,931
Fixed assets in own use	6	50,229,380	54,298,927
Intangible assets	7	141,975	141,250
Diminishing musharaka financing	8	11,172,262,516	6,217,547,845
Long term deposits	9	1,172,800	1,147,800
Deferred tax Assets - net	10	34,358,016	-
		11,443,220,537	7,134,658,753
CURRENT ASSETS			
Investments	11	728,314,744	872,463,162
Current portion of diminishing musharaka financing	8	4,723,078,394	3,696,264,542
Lease financing installments receivable	12	-	385,597
Diminishing Musharaka financing installments receivable	13	2,338,076	155,806
Advances and prepayments	14	13,755,955	9,813,533
Other receivables	15	25,597,501	25,613,009
Income tax refundable	16	89,470,329	167,077,010
Cash and bank balances	17	137,042,312	216,102,298
		5,719,597,311	4,987,874,957
TOTAL ASSETS		17,162,817,848	12,122,533,710
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorized certificate capital 220,000,000 (June 30, 2021: 220,000,000) certificates of Rs.5 each		1,100,000,000	1,100,000,000
Issued, subscribed and paid-up certificate capital	18	1,008,000,000	1,008,000,000
Reserves	19	2,959,519,451	2,619,067,813
Certificate holders' equity		3,967,519,451	3,627,067,813
SURPLUS ON REVALUATION OF INVESTMENTS	20	9,495,741	201,278,830
NON-CURRENT LIABILITIES			
Security deposits against lease financing assets	21	26,320,785	130,913,803
Liability against right of use assets	22	8,284,058	10,133,260
		34,604,843	141,047,063
CURRENT LIABILITIES			
Certificates of investment (musharaka)	23	11,262,599,835	7,290,539,424
Security deposits - current portion	21	33,661,163	70,898,081
Current maturity of liability against right of use assets	22	1,980,642	13,562,585
Unearned lease financing and diminishing musharaka installments		79,964,659	17,850,254
Advance lease financing and diminishing musharaka installments		11,111,098	10,007,913
Trade and other payables	24	741,298,141	546,546,836
Profit payable on certificates of investment (musharaka)		223,420,415	107,487,595
Running Musharaka	25	748,281,800	49,999,000
Unclaimed profit distributions		48,880,060	46,248,316
		13,151,197,813	8,153,140,004
TOTAL EQUITY AND LIABILITIES		17,162,817,848	12,122,533,710

CONTINGENCIES AND COMMITMENTS

26

The annexed notes from 1 to 50 form an integral part of these financial statements.

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

Chief Executive Officer

Chief Financial Officer

Director

Director

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2022

	Note	June 30, 2022	June 30, 2021
-----Rupees-----			
Income from lease financing	27	138,026,562	129,761,238
Income from diminishing musharaka financing		1,424,746,026	796,465,070
Provision in respect of diminishing musharaka	28	(103,792,525)	(41,373,226)
Administrative expenses	29	(166,284,621)	(147,593,647)
		1,292,695,442	737,259,435
Other income	30	211,457,939	103,525,925
		1,504,153,381	840,785,360
Financial charges	31	(934,382,375)	(423,018,344)
Modaraba Management Company's remuneration	24.4	(56,977,101)	(41,776,705)
Sales tax on Modaraba Management Company's remuneration	24.5	(7,407,023)	(5,430,972)
Provision for Sindh Workers' Welfare Fund	24.3	(10,107,738)	(7,411,187)
Profit before taxation		495,279,144	363,148,152
Taxation	32	(113,155,397)	-
Profit for the year		382,123,747	363,148,152
Earning per certificate - basic and diluted	43	1.90	1.80

The annexed notes from 1 to 50 form an integral part of these financial statements.

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

Chief Executive Officer

Chief Financial Officer

Director

Director

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED JUNE 30, 2022

	Note	June 30, 2022	June 30, 2021
		-----Rupees-----	
Profit for the year		382,123,747	363,148,152
Components of other comprehensive income reflected in equity			
Items that will not be reclassified subsequently to profit and loss account			
Actuarial loss on defined benefit plan	24.7 h (ii)	(2,331,483)	(524,251)
Total comprehensive income for the year transferred to unappropriated profit		379,792,264	362,623,901
Components of other comprehensive income reflected below equity			
Items that will not be reclassified subsequently to profit and loss account			
Surplus on revaluation of investments classified as 'at fair value through other comprehensive income' - net	20	80,496,149	114,408,719
Total comprehensive income for the year		460,288,413	477,032,620

The annexed notes from 1 to 50 form an integral part of these financial statements.

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

Chief Executive Officer

Chief Financial Officer

Director

Director

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2022

	Note	June 30, 2022	June 30, 2021
		-----Rupees-----	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	45	1,834,529,918	1,552,743,594
Disbursement of lease financing assets		(57,982,023)	(98,383,329)
Proceeds from transfer of lease financing assets		502,582,914	318,969,377
Diminishing musharaka financing - net		(5,981,528,523)	(2,911,311,473)
Long term deposits		(25,000)	71,050
Security deposits against lease financing assets		(141,829,936)	(154,627,707)
Financial charges paid		(761,529,678)	(447,259,812)
Gratuity paid		(5,569,894)	(3,232,395)
Tax paid		(52,818,039)	(19,238,871)
Net cash outflow from operating activities		(4,664,170,261)	(1,762,269,566)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets in own use		(17,563,473)	(6,185,057)
Purchase of intangible assets		(182,531)	-
Purchase of investments		(289,258,660)	-
Proceeds from sale of fixed assets in own use		3,936,137	4,493,195
Proceeds from sale / maturity of investments		278,108,965	-
Dividends received		27,789,106	21,884,171
Net cash inflow from investing activities		2,829,544	20,192,309
CASH FLOW FROM FINANCING ACTIVITIES			
Profit distribution paid		(279,608,258)	(279,215,967)
Payments of lease rentals	22	(16,228,785)	(2,372,914)
Certificates of investment (musharaka)		3,972,060,411	2,010,807,459
Net cash inflow from financing activities		3,676,223,368	1,729,218,578
Net decrease in cash and cash equivalents during the year		(985,117,349)	(12,858,679)
Cash and cash equivalents at beginning of the year		655,751,071	668,609,750
Cash and cash equivalents at end of the year	34	(329,366,278)	655,751,071

The annexed notes from 1 to 50 form an integral part of these financial statements.

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

Chief Executive Officer

Chief Financial Officer

Director

Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2022

	Certificate capital	Capital reserves		Revenue reserves		Total equity
		Certificate premium	Statutory reserves*	General reserves	Unappropriated profit	
						(Rupees)
Balance as at July 01, 2020	1,008,000,000	378,000,000	1,135,308,260	640,000,000	385,375,652	3,546,683,912
Profit distribution for the year ended June 30, 2020						
at Rs.1.40 per certificate	-	-	-	-	(282,240,000)	(282,240,000)
Total comprehensive income for the year	-	-	-	-	362,623,901	362,623,901
Surplus transferred to unappropriated profit during the year	-	-	-	-	-	-
Transfer to statutory reserve	-	-	72,629,630	-	(72,629,630)	-
Balance as at June 30, 2021	1,008,000,000	378,000,000	1,207,937,890	640,000,000	393,129,923	3,627,067,813
Balance as at July 01, 2021	1,008,000,000	378,000,000	1,207,937,890	640,000,000	393,129,923	3,627,067,813
Profit distribution for the year ended June 30, 2021						
at Rs.1.40 per certificate	-	-	-	-	(282,240,000)	(282,240,000)
Total comprehensive income for the year	-	-	-	-	379,792,264	379,792,264
Surplus transferred to unappropriated profit during the year	-	-	-	-	242,899,374	242,899,374
Transfer to statutory and general reserve	-	-	76,424,749	100,000,000	(176,424,749)	-
Balance as at June 30, 2022	1,008,000,000	378,000,000	1,284,362,639	740,000,000	557,156,812	3,967,519,451

* The statutory reserve represents profit set aside as required under the Modaraba Regulations 2021 for Modarabas as issued by the Securities and Exchange Commission of Pakistan.

The annexed notes from 1 to 50 form an integral part of these financial statements.

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

Chief Executive Officer

Chief Financial Officer

Director

Director

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

1. STATUS AND NATURE OF BUSINESS

First Habib Modaraba (the Modaraba) is a perpetual, multi-purpose modaraba floated and managed by Habib Metropolitan Modaraba Management Company (Private) Limited (the Modaraba Management Company). The Modaraba is listed on Pakistan Stock Exchange Limited. The Modaraba is engaged in the business of leasing (Ijarah), Musharaka, Murabaha financing and other related business. The affairs, activities and transactions, performed by the Modaraba during the year comply with the rules and principles of Islamic Shariah in light of the guidelines and directives given by the Shariah Advisor and guidelines issued by office of the Registrar Modaraba, Securities and Exchange Commission of Pakistan Limited (SECP). The registered office of the Modaraba is at 6th Floor HBZ Plaza, I.I. Chundrigar Road, Karachi.

Geographical location and addresses of business units of the modaraba are as under:

Location	Address	Purpose
Karachi	6th Floor, HBZ plaza, I.I Chundrigar Road, Karachi	Head Office
Karachi	3rd Floor, Al-Manzoor Building, Dr. Ziauddin Ahmed Road, Karachi	Branch Office
Lahore	1st Floor, 5-Z Block, Phase III, Defence Housing Authority, Lahore	Branch Office
Islamabad	Office No. 508, 5th Floor, ISE tower, Jinnah Avenue, Blue Area, Islamabad	Branch Office
Multan	Mezzanine Floor, Abdali Tower, Abdali Road, Multan	Branch Office

- 1.1** The Board of Directors of Habib Metropolitan Modaraba Management Company (Private) Limited being the modaraba management company of First Habib Modaraba (the Modaraba), in their meeting held on June 06, 2022 principally approved the draft Scheme of Arrangement under Sections 279 to 282 and 285(8), read with Section 505, of the Companies Act, 2017, to be entered into between the Modaraba Management Company, Habib Metro Modaraba (another Modaraba managed by the Modaraba Management Company) and the Modaraba subject to necessary approvals along with any such changes, modifications as may be required or advised by legal counsel and / or accounting consultants.

SECP has given approval on July 22, 2022 to the Modaraba Management Company to proceed further with the proposed merger subject to approval of draft Scheme of Merger from the High Court of Sindh. As a consequence of the scheme of merger, First Habib Modaraba shall take over the business, functions, contracts, policies, proceedings, undertakings, assets, liabilities, etc. of Habib Metro Modaraba at a specific date subject to approval of Registrar of Modaraba and since there will be no change in nature of financial assets in hold after scheme of merger arrangement, no adjustments are expected to the carrying amounts of assets and liabilities of the Modaraba. The Modaraba Management Company is in the process to file the petition in the honourable High Court of Sindh along with the draft scheme of arrangement subject to changes, modifications as may be required or advised by legal counsel. Legal and other formalities to effect the proposed merger are in process.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. Such standards as applicable in Pakistan comprises of:

- International Financial Reporting Standards (IFRS Standards) issued by International Accounting Standards Board (IASB) as notified under Companies Act, 2017;

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

- Provisions of and directives issued under the Companies Act, 2017; and
- The requirements of Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Prudential Regulations for Modarabas (hereinafter referred to as the relevant laws).

Where provisions and directives issued under Companies Act, 2017 and the relevant laws differ from IFRS Standards, the provisions and directives issued under Companies Act, 2017 and the relevant laws have been followed.

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

2.2 Basis of measurement

These financial statements have been prepared on the historical cost basis except for the measurement at fair value of certain financial instruments in accordance with the requirements of IFRS 9 'Financial Instrument', wherever applicable.

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

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

2.3 Functional and presentation currency

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

2.4 Significant accounting estimates and judgments

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

a Useful lives, pattern of flow of economic benefits and impairment

Estimates with respect to residual values and depreciable lives and pattern of flow of economic benefits are based on the analysis by the management of the Modaraba. Further, the Modaraba reviews the value of the assets for possible impairment on an annual basis and any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with a corresponding effect on the depreciation charge and impairment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

b Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 23.7 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might effect unrecognized gains and losses in those years.

c Provisions against non-performing financing (Suspense income)

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

d Lease term of contracts with renewal options

The Modaraba determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Modaraba has the option, under some of its leases to lease the asset for additional term based on mutual agreement with the lessor. The Modaraba applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Modaraba reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Modaraba included the renewal period as part of the lease term for leases of Modaraba's branch offices due to the significance of these assets to its operations.

e Current and deferred income taxes

In making the estimates for income taxes payable by the Company, management considers current income tax law and the decisions of appellate authorities on certain cases issued in the past. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax provision in the period in which such final outcome is determined. Deferred taxes are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

f. Contingencies

The assessment of contingencies inherently involves the exercise of significant judgement as the outcome of future events cannot be predicted with certainty. The Company, based on availability of latest information, estimates the value of contingent liabilities, which may differ on the occurrence / non-occurrence of uncertain future event(s).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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

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

There are certain new and amended standards, issued by International Accounting Standards Board (IASB), interpretations and amendments that are mandatory for the Fund's accounting periods beginning on or after July 01, 2021 but are considered not to be relevant or do not have any significant effect on the Modaraba's operations and therefore not detailed in these financial statements.

3.2 Standards, interpretations and amendments to the published accounting and reporting standards that are not yet effective

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

Standards, Interpretations or Amendments	Effective date
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	January 01, 2022
Reference to the Conceptual Framework – Amendments to IFRS 3	January 01, 2022
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	January 01, 2022
AIP IFRS 9 Financial Instruments - Fees in the "10%" test for derecognition of financial liabilities	January 01, 2022
AIP IAS 41 Agriculture - Taxation in fair value measurements	January 01, 2022
Classification of liabilities as current or non-current - Amendment to IAS 1	January 01, 2024
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendment to IFRS 10 and IAS 28	Not yet finalized
Definition of Accounting Estimates - Amendments to IAS 8	January 01, 2023
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	January 01, 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12	January 01, 2023

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standards	IASB Effective date (annual periods beginning on or after)
IFRS 1 - First-time Adoption of International Financial Reporting Standards	July 01, 2009
IFRS 17 - Insurance Contracts	January 01, 2023
The above standards and amendments are not expected to have any material impact on the Modaraba's financial statements in the period of initial application.	

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial years.

4.1 Revenue recognition

Lease financing installments are recognized on accrual basis.

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

Income on diminishing musharaka financing is recognized on accrual basis.

Income on Ijarah GOP Sukuk bond is recognized on accrual basis.

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

Return on deposit accounts is recognized on accrual basis.

4.2 Fixed assets

(a) Lease financing assets

Lease financing assets are stated at cost less accumulated depreciation. Depreciation is charged to profit and loss account applying the straight line method whereby the cost of an asset less salvage value is written off over the Lease financing period, which is considered to be the estimated useful life of the asset. In respect of additions and disposals during the year, depreciation is charged proportionately from the date of delivery of assets to the date of its maturity / termination. At the end of the lease financing period, asset is transferred to the customer in accordance with the arrangement of Ijarah Mumtahia Bittamleek as per the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) shariah standard.

(b) Assets in own use

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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

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

(c) Gain or loss on disposal

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

(d) Impairment

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

4.3 Intangible assets

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

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

Impairment

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

4.4 Financial instruments

Initial recognition and measurement

Financial assets and liabilities, with the exception of bank balances, loans and advances to employees / counter parties and due to counterparties, are initially recognised on the trade date, i.e., the date that the Modaraba becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Bank balances and loans and advances to employees / counter parties are recognised when funds are transferred to the banks / employees / counterparties. The Modaraba recognises due to counterparties when funds reach the Modaraba.

All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

Financial assets

"Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Modarabas business model for managing them."

i) Financial assets measured at amortised cost

A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding. The Modaraba includes in this category short-term non-financing receivables, accrued income and other receivables.

ii) Financial assets measured at fair value through profit or loss (FVPL)

A financial asset is measured at FVPL if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and profit on the principal amount outstanding; or
- (b) It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- (c) At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different basis.

iii) Financial assets measured at fair value through other comprehensive income (FVOCI)

Debt instrument

The Modaraba measures debt instruments at FVOCI if both of the following conditions are met:

- (a) The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

For debt instruments at FVOCI, profit income, foreign exchange revaluation and impairment losses or reversals are recognised in the profit and loss account and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in Other Comprehensive Income. Upon derecognition, the cumulative fair value change recognised in Other Comprehensive Income is recycled to profit and loss account.

Equity instrument

Upon initial recognition, the Modaraba can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under IAS 32 - 'Financial Instruments: Presentation and are not held for trading'. The classification is determined on an instrument-by-instrument basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

Gains and losses on these financial assets are never recycled to profit and loss account. Dividends are recognised as other income in the statement of profit and loss account when the right of payment has been established, except when the Modaraba benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in Other Comprehensive Income. Equity instruments designated at FVOCI are not subject to impairment assessment.

Change in accounting policy - Impairment of financial assets

Effective from July 1, 2021, the Modaraba has adopted the requirement of IFRS 9, 'Financial Instruments' with respect to Expected Credit Loss (ECL) model. The ECL has an impact on the assets of the Modaraba which are exposed to credit risk. Provision for non-performing Islamic financing is made in accordance with the Modaraba Regulation 2021 for modarabas issued by SECP vide SRO 284 (I) / 2021 dated March 05, 2021 and subsequent amendments made therein, and is charged to profit and loss account. Upon adoption of ECL model under IFRS 9, the Modaraba while recognizing provisioning for impaired assets has considered the amount which is higher of :

- the provisioning required under the Modaraba Regulation, 2021; and
- the provisioning required under IFRS 9 using the Expected Credit Loss (ECL) model

The management also evaluates the Islamic financing receivable subjectively to further down-grade if required.

The Modaraba has adopted the requirements of ECL model as given in IFRS 9 using the modified retrospective approach. A lifetime ECL is recorded on Lease financing and Diminishing Musharakah Financing in which there have been significant increase in credit risk for the date of initial recognition and which are credit impaired as on the reporting date.

Furthermore, the management has made an assessment of impairment under expected credit loss model of IFRS 9 for financial assets other than financing assets i.e. balances with banks and other financial assets, and concluded that impact is not material to the financial statements.

Financial liabilities

Financial liabilities measured at amortised cost

This category includes all financial liabilities, other than those measured at fair value through profit or loss. The Modaraba includes in this category short-term payables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired, or the Modaraba has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and the Modaraba has:

- (a) transferred substantially all of the risks and rewards of the asset; or
- (b) neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

When the Modaraba has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Modaraba's continuing involvement in the asset. In that case, the Modaraba also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Modaraba has retained. The Modaraba derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

Any gain or loss on arising on derecognition is charged to Profit and Loss Account.

Offsetting of financial assets and financial liabilities

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

4.5 Trade date accounting

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

4.6 Lease financing installments and Diminishing musharaka financing

Lease financing installments and Diminishing musharaka financing are stated net of provision and suspense income. Provision is recognized for Lease financing installments and Diminishing musharaka financing, in accordance with the Modaraba Regulations 2021 for Modarabas. Bad debts are written-off when identified.

4.7 Deposits, advances, prepayments and other receivables

Deposits, advances, prepayments and other receivables are stated initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

4.8 Cash and cash equivalents

Cash and cash equivalents are carried at cost.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, stamp in hand, current and saving accounts, short term deposits with maturity of 3 months or less from date of acquisition and running musharaka.

4.9 Finance arrangements including Certificate of Investment (Musharaka)

These are measured at principal amount on balance sheet date. The amount received by the modaraba from Certificate of Investment holders is invested in the overall business activity of the modaraba on the basis of full participation in the profit and loss of the modaraba.

The profit shall be shared by Certificate of Investment holders and certificate holders in accordance with the agreed ratio. Profit on certificate of investment arrangement are recognized as financial expense in the period in which they are incurred.

Profit on Musharaka finance is accounted for on the basis of the projected rate of profit. The effect of adjustments, if any, between actual rate and projected rate of profit is accounted for at the end of each quarter after determination of the actual rate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

4.10 Staff retirement benefits

(a) Gratuity scheme

The Modaraba operates an approved funded defined benefit gratuity scheme for all its permanent employees. The scheme is administrated by the trustees nominated under the trust deed. The Scheme provides for a graduated scale of benefits dependent on the length of service of the employee on terminal date, subject to the completion of minimum qualifying period of service. Gratuity is based on employees' last drawn salary. Provisions are made to cover the obligations under the scheme on the basis of actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. Actuarial gain or loss (remeasurements) are immediately recognised in 'Other Comprehensive Income' as they occur. The amount recognised in the statement of financial position represents the present value of defined benefit obligations as reduced by the fair value of the plan assets. Current service costs and any past service costs together with net interest cost are charged to profit or loss.

(b) Provident fund

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

Compensated absences

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

4.11 Taxation

Current

Provision for current taxation is based on the taxable income for the year determined in accordance with the prevailing law for taxation on income. The charge for current tax is calculated using prevailing tax rates. The charge for current tax also includes adjustments for prior years or otherwise considered necessary for such years. Current tax is charged to profit or loss except to the extent it relates to items recognised in other comprehensive income/(loss).

Provision for current taxation is based on the taxable income for the year calculated on the basis of the tax laws enacted or substantively enacted at the reporting date, taxes paid under the final tax regime.

Deferred

Deferred tax is recognised using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. 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 realised."

4.12 Provisions

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

The amount recognised as provision is the best estimate of consideration required to settle the present obligation at end of reporting date, taking into account the risk and uncertainties surrounding the obligation.

4.13 Profit distribution and other appropriations of profit

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

4.14 Certificate capital and earning per certificate

The Modaraba presents basic and diluted earnings per certificate data for its ordinary certificates. Basic earning per certificate is calculated by dividing the profit or loss attributable to ordinary certificate holders of the Modaraba by the weighted average number of certificates outstanding during the year. Diluted earning per certificate is determined by adjusting the profit or loss attributable to ordinary certificate holders and the weighted average number of ordinary certificates outstanding for the effects of all dilutive potential ordinary certificates.

Ordinary certificates are classified as equity and are recorded at their face value. Incremental costs directly attributable to the issue of new certificates or options are shown in equity as a deduction, net of tax, from the proceeds.

4.15 Contingencies

Contingencies are disclosed when the Modaraba has possible obligation that arises from past event and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of entity, or a present obligation that arises from past event but is not recognised because it is not probable that an outflow of resources embodying economic benefit will be required to settle the obligation or, when amount of obligation cannot be measured with sufficient reliability.

4.16 Segment reporting

Segment reporting is based on the operating (business) segments of the Modaraba. An operating segment is a component of the Modaraba that engages in business activities from which it may earn revenue and incur expenses. An operating segment's operating results are reviewed regularly by the Management Committee of the Modaraba to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the BoM includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The business segments are engaged in providing products or services which are subject to risk and rewards which differ from the risk and rewards of other segments. Segments reported are lease financing assets and diminishing musharaka financing.

4.17 Details of related parties of the Modaraba

Name of related party	Nature of relationship	Basis of relationship
Habib Metropolitan Bank Limited	Holding Company of Management Company	Common Management and Control
Habib Bank AG Zurich	Associate	Ultimate parent

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

Name of related party	Nature of relationship	Basis of relationship
Habib Metropolitan Modaraba Management Company (Private) Limited	Associate	Management Company of the Modaraba
Habib Metropolitan Financial Services Limited	Associate	Common Management and Control
First Habib Modaraba Employee Contributory Provident Fund	Associate	Common Management
Name of related party	Nature of relationship	Basis of relationship
First Habib Modaraba Employee Staff Gratuity Fund	Associate	Common Management
Habib Metro Modaraba	Associate	Common Management and Control

4.18 Leases

Right-of-use assets

"The Modaraba recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Modaraba is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. The right of use assets are included in fixed assets in own use.

Lease liabilities

At the commencement date of the lease, the Modaraba recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Modaraba uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Modaraba applies the short-term lease recognition exemption to its short-term leases of property and equipment

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

(i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

	Note	June 30, 2022	June 30, 2021
		Rupees	
5. LEASE FINANCING ASSETS			
Lease financing assets	5.1	185,055,850	861,522,931
Advance against lease financing assets	5.2	-	-
		185,055,850	861,522,931

5.1 Lease financing assets

June 30, 2022								
Particulars	COST			ACCUMULATED DEPRECIATION			Written down value as at end of the year	Rate of depreciation %
	As at beginning of the year	Additions / (disposals) during the year	As at end of the year	As at beginning of the year	Charge / (adjustments) for the year	As at end of the year		
	(Rupees)							
Plant, machinery and equipment*	522,321,056	57,982,023 (188,882,740)	391,420,339	356,841,234	49,052,061 (70,131,550)	335,761,745	55,658,594	8.33 to 50
Vehicles	1,779,906,816	- (1,400,113,976)	379,792,840	1,083,863,707	239,056,138 (1,072,524,261)	250,395,584	129,397,256	15 to 33.33
	2,302,227,872	57,982,023 (1,588,996,716)	771,213,179	1,440,704,941	288,108,199 (1,142,655,811)	586,157,329	185,055,850	

June 30, 2021								
Particulars	COST			ACCUMULATED DEPRECIATION			Written down value as at end of the year	Rate of depreciation %
	As at beginning of the year	Additions / (disposals) during the year	As at end of the year	As at beginning of the year	Charge / (adjustments) for the year	As at end of the year		
	(Rupees)							
Plant, machinery and equipment*	718,715,316	88,471,619 (284,865,879)	522,321,056	503,815,906	82,405,058 (229,379,730)	356,841,234	165,479,822	8.33 to 50
Vehicles	2,730,459,525	38,049,710 (988,602,419)	1,779,906,816	1,253,845,945	577,895,236 (747,877,474)	1,083,863,707	696,043,109	15 to 33.33
	3,449,174,841	126,521,329 (1,273,468,298)	2,302,227,872	1,757,661,851	660,300,294 (977,257,204)	1,440,704,941	861,522,931	

* The cost has been adjusted with impairment amounting to Rs.8.028 (2021: Rs.8.028) million.

	June 30, 2022	June 30, 2021
	Rupees	
5.2 Advance against lease financing assets		
As at beginning of the year	-	28,138,000
Add: Disbursements during the year	-	86,562,210
	-	114,700,210
Less: Transfers to lease financing assets	-	(114,700,210)
As at end of the year	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	Note	June 30, 2022	June 30, 2021
-----Rupees-----			
6. FIXED ASSETS IN OWN USE			
Assets in own use	6.1	32,724,232	31,716,735
Capital work-in-progress	6.2	-	-
Right-of-use assets	6.3	17,505,148	22,582,192
		50,229,380	54,298,927

6.1 Assets in own use

Assets in own use

June 30, 2022								
Particulars	COST			ACCUMULATED DEPRECIATION			Written down value as at end of the year	Rate of depreciation %
	As at beginning of the year	Additions / (disposals) during the year	As at end of the year	As at beginning of the year	Charge / (adjustments) for the year	As at end of the year		
----- (Rupees) -----								
Office equipment	22,590,835	3,889,239	26,480,074	18,282,254	3,026,141	21,308,395	5,171,679	25 to 33.33
Furniture and fixture	12,078,486	- 621,621 (100,000)	12,600,107	8,788,495	- 1,681,982 (99,997)	10,370,480	2,229,627	20 to 25
Vehicles	25,592,680	12,094,507 (7,881,943)	29,805,244	9,119,870	4,800,891 (4,572,179)	9,348,582	20,456,662	16.67
Leasehold improvements	19,246,740	958,106	20,204,846	11,601,387	3,737,195	15,338,582	4,866,264	20
	79,508,741	- 17,563,473 (7,981,943)	89,090,271	47,792,006	13,246,209 (4,672,176)	56,366,039	32,724,232	

June 30, 2021								
Particulars	COST			ACCUMULATED DEPRECIATION			Written down value as at end of the year	Rate of depreciation %
	As at beginning of the year	Additions / (disposals) during the year	As at end of the year	As at beginning of the year	Charge / (adjustments) for the year	As at end of the year		
	(Rupees)							
Office equipment	23,975,963	2,186,492 (3,571,620)	22,590,835	18,792,369	3,046,818 (3,556,933)	18,282,254	4,308,581	25 to 33.33
Furniture and fixture	12,168,786	541,800 (632,100)	12,078,486	7,602,267	1,733,399 (547,171)	8,788,495	3,289,991	20 to 25
Vehicles	28,466,181	2,834,999 (5,708,500)	25,592,680	7,262,262	4,280,844 (2,423,236)	9,119,870	16,472,810	16.67
Leasehold improvements	17,868,205	1,378,535	19,246,740	7,809,414	3,791,973	11,601,387	7,645,353	20
	82,479,135	6,941,826 (9,912,220)	79,508,741	41,466,312	12,853,034 (6,527,340)	47,792,006	31,716,735	

	June 30, 2022	June 30, 2021
-----Rupees-----		
6.2 Capital work-in-progress		
As at beginning of the year	-	756,769
Add: Addition to capital work-in-progress	-	-
	-	756,769
Less: Transfers to assets in own use	-	(756,769)
As at end of the year	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	Note	June 30, 2022	June 30, 2021
		Rupees	
6.3 Right-of-use assets			
As at beginning of the year		22,582,192	27,659,236
Depreciation expense	29	(5,077,044)	(5,077,044)
As at end of the year		17,505,148	22,582,192
7. INTANGIBLE ASSETS			
Intangible assets	7.1	141,975	-
Capital work-in-progress	7.2	-	141,250
		141,975	141,250

7.1 INTANGIBLE ASSETS

Particulars	COST			AMORTIZATION			Written down value as at end of the year	Rate of Amortization %
	As at beginning of the year	Additions / (disposals) during the year	As at end of the year	As at beginning of the year	Charge for the year	As at end of the year		
(Rupees)								
Computer software - June 30, 2022	3,807,214	182,531	3,989,745	3,807,214	40,556	3,847,770	141,975	33.33
Computer software - June 30, 2021	3,807,214	-	3,807,214	3,749,753	57,461	3,807,214	-	33.33

	Note	June 30, 2022	June 30, 2021
		Rupees	
7.2 Capital work-in-progress			
As at beginning of the year		141,250	141,250
Add: Addition to capital work-in-progress		-	-
Less: Written off during the year		(141,250)	
As at end of the year		-	141,250
8. DIMINISHING MUSHARAKA FINANCING			
Secured			
Diminishing musharaka financing	8.1 & 8.3	13,438,064,734	8,601,350,789
Less: Provision in respect of diminishing musharaka	8.2	(254,830,967)	(151,038,442)
	8.3	13,183,233,767	8,450,312,347
Less: Current portion shown in current assets		(4,723,078,394)	(3,696,264,542)
		8,460,155,373	4,754,047,805
Add: Advance against diminishing musharaka financing		2,712,107,143	1,463,500,040
		11,172,262,516	6,217,547,845
8.1 This represents diminishing musharaka financing for a term of 1 to 10 years.			
8.2 Movement of provision in respect of diminishing musharaka			
As at beginning of the year		151,038,442	109,665,216
Charge for the year		206,548,145	126,566,096
Reversal for the year		(102,755,620)	(85,192,870)
	28	103,792,525	41,373,226
As at end of the year		254,830,967	151,038,442

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	Note	June 30, 2022	June 30, 2021
-----Rupees-----			
8.3. Aging of diminishing musharaka financing			
Classification			
Considered good		13,056,159,265	8,248,691,100
Portfolio classified as non-performing			
Other asset especially mentioned (OAEM)		257,714,059	60,197,893
Substandard		13,828,940	194,434,221
Doubtful		1,245,603	-
Loss		109,116,867	98,027,575
	8.3.1	381,905,469	352,659,689
		13,438,064,734	8,601,350,789

8.3.1 This includes classification into various categories based on subjective evaluation of borrowers. As fully explained in note 4.4, the Modaraba also applies Expected Credit Loss (ECL) model to evaluate the provisioning impact. Consequently, as per the ECL model under IFRS 9, the impairment impact is materially same to the provisioning requirements under Modaraba Regulation 2021.

	June 30, 2022	June 30, 2021
-----Rupees-----		
9. LONG TERM DEPOSITS		
Security deposit to Central Depository Company of Pakistan Limited	150,000	150,000
Security deposit of branch offices	786,800	786,800
Security deposit to Habib Metropolitan Bank for locker	155,000	130,000
Miscellaneous deposits	81,000	81,000
	1,172,800	1,147,800

10. DEFERRED TAX ASSETS - NET

Deductible temporary differences in respect of:

- Depreciation on fixed assets
- Provision in respect of diminishing musharaka
- Post retirement employee benefits

Taxable Temporary Differences on:

- Surplus on revaluation of investments
- Other deductible temporary differences

	As at June 30, 2021	Profit or loss	OCI	As at June 30, 2022
-	-	3,855,995	-	3,855,995
-	-	34,251,533	-	34,251,533
-	-	(407,490)	407,490	-
-	-	37,700,038	407,490	38,107,528
-	-	-	(1,360,164)	(1,360,164)
-	-	(2,389,348)	-	(2,389,348)
-	-	(2,389,348)	(1,360,164)	(3,749,512)
-	-	35,310,690	(952,674)	34,358,016

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	Note	June 30, 2022	June 30, 2021
		Rupees	
11 INVESTMENTS			
At fair value through other comprehensive income			
Investment in shares	11.1	92,661,374	302,815,389
Investment in sukuk	11.2	80,000,000	80,000,000
		172,661,374	382,815,389
At amortized cost			
Investment in Term Deposit Musharakas (TDMs)	11.3	281,873,210	489,647,773
Investment in Ijarah GOP sukuk bond		273,780,160	-
		555,653,370	489,647,773
		728,314,744	872,463,162

11.1 Investment in shares

Shares of listed companies

Number of shares		Name of Investee Company	Note	June 30, 2022		June 30, 2021	
				Average Cost	Market Value	Average Cost	Market Value
June 30, 2022	June 30, 2021			(Rupees)			
		Banks					
-	2,009,205	Meezan Bank Limited		-	-	35,209,591	231,882,345
		Sugar and Allied Industries					
1,510,668	1,510,668	Habib Sugar Mills Limited		47,301,563	48,341,374	47,301,563	49,852,044
		Fertilizer					
500,000	300,000	Engro Fertilizer Limited		34,503,905	44,320,000	19,025,405	21,081,000
				81,805,468	92,661,374	101,536,559	302,815,389

11.2 This includes perpetual, unsecured, subordinated, non-cumulative, and contingent convertible shariah compliant sukus having following characteristics:

	Rating	Face value	Rate
Meezan Bank Limited	AA+	1,000,000	3MK + 1.75%
BankIslami Pakistan Limited	A-	5,000	3MK + 2.75%

11.3 These carry profit at rates ranging from 6.40% to 13% (2021: 5.50% to 6.75%) per annum having maturity from 3 months to 6 months.

	Note	June 30, 2022	June 30, 2021
		Rupees	
12. LEASE FINANCING INSTALLMENTS RECEIVABLE			
Secured - considered good			
Lease financing installments due	12.1	140,774	514,033
Less: Provision against lease financing installments receivable		(140,774)	(128,436)
		-	385,597

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	Note	June 30, 2022	June 30, 2021
		Rupees	
12.1 Aging of lease financing installments receivable			
Classification			
Considered good		-	385,597
Portfolio classified as non-performing:			
Other asset especially mentioned (OAEM)		140,774	128,436
Substandard		-	-
Doubtful		-	-
Loss		-	-
	12.1.1	140,774	128,436
		140,774	514,033
12.1.1 This also includes provision on subjective basis.			
13. DIMINISHING MUSHARAKA FINANCING INSTALLMENTS RECEIVABLE			
Secured - considered good			
Diminishing Musharaka financing installments receivable	13.1	31,424,407	8,141,824
Less: Provision against Diminishing Musharaka financing installments receivable		(29,086,331)	(7,986,018)
		2,338,076	155,806
13.1 Aging of Diminishing Musharaka financing installments receivable			
Classification			
Considered good		2,338,076	155,806
Portfolio classified as non-performing:			
Other asset especially mentioned (OAEM)		25,784,035	2,627,036
Substandard		304,991	2,074,392
Doubtful		78,620	888,771
Loss		2,918,685	2,395,819
	13.1.1	29,086,331	7,986,018
		31,424,407	8,141,824
13.1.1 This also includes provision on subjective basis.			
14. ADVANCES AND PREPAYMENTS			
Advances		10,604,411	6,062,804
Prepayments		3,151,544	3,750,729
		13,755,955	9,813,533

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	Note	June 30, 2022	June 30, 2021
-----Rupees-----			
15. OTHER RECEIVABLES			
Unsecured - considered good			
Profit receivable on modaraba deposit accounts		6,775,954	4,134,042
Stamp in hands receivable		137,200	124,000
Profit receivable on sukuk		7,941,445	608,342
Advance tax		-	19,698,872
Other receivables		10,742,902	1,047,753
		25,597,501	25,613,009
16. INCOME TAX REFUNDABLE			
Income tax refund	16.1	89,470,329	167,077,010

16.1 This represents the advance tax deducted by the various withholding agents under various sections of the Income Tax Ordinance, 2001. The management has claimed the tax deducted in return for the Tax Year 2021, since the management is confident that the same shall be refunded.

	Note	June 30, 2022	June 30, 2021
-----Rupees-----			
17. CASH AND BANK BALANCES			
Stamps in hand		289,400	152,200
At banks			
Current accounts			
State Bank of Pakistan		227,149	232,047
With other banks		18,070,536	8,115,580
Profit bearing accounts			
Modaraba deposit account with Habib Metropolitan Bank			
Limited (Islamic branch) - a related party	17.1	118,455,227	207,602,471
Modaraba deposit account with other financial institutions	17.2	-	-
		118,455,227	207,602,471
		137,042,312	216,102,298

17.1 The profit on the above modaraba deposit accounts ranges between 5.5% to 13.50% (2021: 5.50%) per annum.

17.2 The profit on the above modaraba deposit accounts ranges between 2.75% to 4.00% (2021: 2.75% to 2.80%) per annum.

			June 30, 2022	June 30, 2021
-----Rupees-----				
18. ISSUED, SUBSCRIBED AND PAID-UP CERTIFICATE CAPITAL				
June 30, 2022	June 30, 2021			
----- (Number of certificates) -----				
193,900,000	193,900,000	Certificates of Rs.5/- each issued for cash	969,500,000	969,500,000
7,700,000	7,700,000	Certificates of Rs.5/- each issued as bonus certificates	38,500,000	38,500,000
201,600,000	201,600,000		1,008,000,000	1,008,000,000

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	Note	June 30, 2022	June 30, 2021
		-----Rupees-----	
19. RESERVES			
Capital reserves			
Premium on issuance of certificates		378,000,000	378,000,000
Statutory reserves		1,284,362,639	1,207,937,890
		1,662,362,639	1,585,937,890
Revenue reserves			
General		740,000,000	640,000,000
Unappropriated profit		557,156,812	393,129,923
		1,297,156,812	1,033,129,923
		2,959,519,451	2,619,067,813
20. SURPLUS ON REVALUATION OF INVESTMENTS			
Market value of investments		172,661,374	382,815,389
Less: Cost of investments		(161,805,469)	(181,536,559)
Less: Deferred tax		(1,360,164)	-
	20.1	9,495,741	201,278,830
Surplus on revaluation at beginning of the year		201,278,830	86,870,111
Surplus transferred to unappropriated profit during the year		(272,279,238)	-
Surplus on revaluation during the year - net of tax		80,496,149	114,408,719
		(191,783,089)	114,408,719
		9,495,741	201,278,830

20.1 Surplus on revaluation of investments is presented under a separate head below equity as 'surplus on revaluation of investments' in accordance with the requirements of Circular No. SC/M/PRDD/PRs/2017-259 dated December 11, 2017.

	Note	June 30, 2022	June 30, 2021
		-----Rupees-----	
21. SECURITY DEPOSITS AGAINST LEASE FINANCING ASSETS			
Lease security deposits	21.1	59,981,948	201,811,884
Less: Current portion shown under current liabilities		(33,661,163)	(70,898,081)
		26,320,785	130,913,803
21.1 These represent deposits from lease without any remuneration.			
22. LIABILITY AGAINST RIGHT OF USE ASSETS			
As at beginning of the year		23,695,845	22,866,700
Finance cost for the year	31	2,797,640	3,202,059
Payments made during the year		(16,228,785)	(2,372,914)
As at end of the year		10,264,700	23,695,845
Less: Current maturity		(1,980,642)	(13,562,585)
		8,284,058	10,133,260

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	Note	June 30, 2022	June 30, 2021
-----Rupees-----			
23. CERTIFICATES OF INVESTMENT (MUSHARAKA)			
Unsecured			
Certificates of Investment (musharaka)	23.1 & 23.2	11,262,599,835	7,290,539,424
23.1 Movement in Certificates of Investment (musharaka)			
As at beginning of the year		7,290,539,424	5,279,731,965
Add: Certificates issued during the year	23.1.1	23,438,422,335	11,109,139,559
		30,728,961,759	16,388,871,524
Less: Encashment during the year	23.1.1	(19,466,361,924)	(9,098,332,100)
As at end of the year		11,262,599,835	7,290,539,424

23.1.1 The rollover amount of Rs.11,113,380,958 (2021: Rs. 9,721,123,246) has been excluded from the certificate issued during the year.

23.2 The estimated share of profit paid / payable on the above unsecured certificates of investments (musharaka) ranges between 5.50% to 15.85% (2021: 5.55% to 7.30%) per annum having maturity from 3 months to 1 year.

	Note	June 30, 2022	June 30, 2021
-----Rupees-----			
24. TRADE AND OTHER PAYABLES			
Accrued liabilities	24.1	199,785,564	137,531,666
Adjustable against lease financing contracts	24.2	243,842,949	215,160,449
Advance against sale of diminishing musharaka units		124,362,763	49,623,345
Diminishing musharaka customer contribution		11,279,720	11,939,350
Workers' Welfare Fund	24.3	35,858,451	28,730,751
Management fee payable	24.4	56,977,101	41,776,705
Sales tax on management fee payable	24.5	31,240,914	23,833,891
Sales tax on management fee payable to previous management company	24.6	37,950,679	37,950,679
Gratuity payable	24.7	-	-
		741,298,141	546,546,836

24.1 This includes charity payable amounting to Rs.2.535 (2021: Rs. 5.688) million. The reconciliation is as follows:

	June 30, 2022	June 30, 2021
-----Rupees-----		
Balance as at beginning of the year	5,688,378	4,050,297
Addition during the year	3,629,215	3,985,231
Less: Paid to recognized charitable organizations	(6,781,800)	(2,347,150)
Balance as at end of the year	2,535,793	5,688,378

24.2 This relates to withholding tax deposited pertaining to lease financing vehicles. The amounts are adjustable against lease financing contracts upon receipt of refunds from tax authorities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

24.3 The Modaraba received a notice vide letter no. SRB /AC-37/2019-20/63, wherein, the Sindh Revenue Board (SRB) has advised the Modaraba to pay off all its liabilities falling due under the Sindh Workers' Welfare Fund Act, 2014 (SWWF Act). As per SWWF Act, Workers' Welfare Fund (WWF) levy is required to be paid on total income accruing after December 31, 2013. As the Modaraba has its operations all across Pakistan therefore total income declared in its tax return is a cumulative sum of income for all provinces but the management understands that the SWWF Act is limited only to the province of Sindh and till the time there is any mechanism available for apportionment of total income relevant to the province of Sindh, no SWWF liability to SRB can be paid out. On these grounds and foreseeing the expected SWWF demand along with penal actions from SRB, the Modaraba filed an appeal with the Honorable Sindh High Court (SHC). The Honorable SHC has restrained the SRB from levy of SWWF under the SWWF Act. However, the management has recognized the provision in respect of SWWF on daily basis with effect from the date of enactment of the SWWF Act, 2014 (i.e. starting from May 21, 2015) considering it as prudent.

During the year ended June 30, 2020, the Honorable Sindh High Court has issued the order dated March 16, 2020 of the above case requiring the Modaraba to pay the entire SWWF levy amount to 'Nadir'. However, the Modaraba has made an estimated payment of Rs. 2,980,038 (2021: 2,491,456) to SRB based on proportionate income of Sindh and have retained the remaining provision on the basis of the advice of its legal advisor.

24.4 The Modaraba Management Company is entitled to a remuneration for services rendered to the Modaraba under the provisions of the Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980 up to a maximum of 10% per annum of the net annual profits of the Modaraba. The fee for the year ended June 30, 2022 has been recognized at 10% of profit for the year. (June 30, 2021: 10%).

24.5 Sindh sales tax levied by Sindh Government on remuneration of Modaraba Management Company has been charged at the rate of 13% (June 30, 2021:13%).

24.6 Pursuant to Order of Sindh Revenue Board (SRB), the Modaraba has recorded a provision in respect of Sindh sales tax on Management Company's remuneration at the rate of 13% per annum.

A show cause notice was issued wherein sales tax was demanded under the provision of Sindh Sales Tax on Service Act, 2011. This notice was challenged by the Appellant before Assistant Commissioner in which Assistant Commissioner maintained that the Appellant was liable to pay Sales Tax. Management is of the view that the management fee is a profit sharing rather than a fixed fee against rendering of management services by the management company up to the 10% of Modarabas profit as provided in the Modaraba Ordinance, in case of loss in modaraba venture the management company is not entitled to claim any remuneration. So therefore, Habib Management (Pvt.) Ltd. has filed a reference appeal before High Court of Sindh in which stay has been granted against the order of Appellate Tribunal of Sindh Revenue Board. As the case is still pending, therefore the final outcome cannot be determined.

24.7 Staff retirement benefits - Defined benefit plan

a. General description

As mentioned in note 4.10(a), the Modaraba operates an approved funded gratuity scheme for all of its permanent employees. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at June 30, 2022 using the Projected Unit Credit Method.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

b. Number of Employees under the scheme

The number of employees covered under the following defined benefit schemes are:

	June 30, 2022	June 30, 2021
	-----Rupees-----	
Gratuity fund	70	74

c. Principal actuarial assumptions

The actuarial valuations were carried out as at 30 June 2022 using the following significant assumptions:

	June 30, 2022	June 30, 2021
	-----Rupees-----	
Discount rate	13.50%	10.25%
Expected rate of return on plan assets	0.51%	4.42%
Expected rate of salary increase	13.50%	10.25%
d. Reconciliation of payable to defined benefit plan		
Present value of defined benefit obligation	34,566,200	29,607,030
Fair value of plan assets	(34,566,200)	(29,607,030)
Net defined liability / (assets)	-	-
e. Movement in defined benefit obligations		
Obligations at the beginning of the year	29,607,030	28,796,625
Current service cost	2,830,921	2,708,144
Interest cost	3,118,754	2,736,275
Benefits paid by the Modaraba	(945,063)	(3,987,895)
Re-measurement gain	(45,442)	(646,119)
Obligations at the end of the year	34,566,200	29,607,030
f. Movement in fair value of plan assets		
Fair value at the beginning of the year	29,607,030	28,796,625
Interest income on plan assets	3,118,754	2,736,275
Contribution by the Modaraba - net	5,569,894	3,232,395
Actual benefits paid by the Fund during the year	(945,063)	(3,987,895)
Re-measurements: Net return on plan assets over interest income loss	(2,784,415)	(1,170,370)
Fair value at the end of the year	34,566,200	29,607,030
g. Movement in payable under defined benefit scheme		
As at beginning of the year	-	-
Charge for the year	2,830,921	2,708,144
Contribution by the Modaraba - net	(5,569,894)	(3,232,395)
Re-measurement loss recognized in OCI during the year	2,738,973	524,251
Closing balance	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	Note	June 30, 2022	June 30, 2021
-----Rupees-----			
h. Charge for defined benefit plan			
i. Cost recognized in profit and loss			
Current service cost	29.1	2,830,921	2,708,144
Net interest on defined benefit asset / liability		-	-
		2,830,921	2,708,144
ii. Re-measurements recognized in OCI during the year			
Gain on obligation		(45,442)	(646,119)
Return on plan assets over interest income		2,784,415	1,170,370
Less: Deferred tax		(407,490)	-
Total re-measurements recognized in OCI		2,331,483	524,251
i. Components of plan assets			
Cash and cash equivalents - net		13,170,986	7,714,403
Non-Government Debt Securities		21,395,214	21,892,627
		34,566,200	29,607,030
j.	Equity securities and units of mutual funds are subject to price risk whereas non-Government debt securities are subject to credit risk and interest rate risk. These risks are regularly monitored by Trustees of the employee funds.		
k. Sensitivity analysis			
0.5% increase in discount rate			32,881,863
0.5% decrease in discount rate			36,373,133
0.5 % increase in expected rate of salary increase			36,444,936
0.5 % decrease in expected rate of salary increase			32,802,177
l. Expected charge for the next financial year			3,090,750
m. Maturity profile			
The weighted average duration of the obligation (in years)			10.08
n. Funding Policy			
The Modaraba endeavors to ensure that liability under employee benefit scheme is covered by the Fund on any valuation date having regards to the various actuarial assumptions such as projected future salary increase, expected future contributions to the Fund, projected increase in liability associated with future service and the projected investment income of the Fund.			

NOTES TO THE FINANCIAL STATEMENTS

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- o. Following are the significant risks associated with the staff retirement benefit schemes. These may include:

Asset volatility	The risk that the actual mortality experience is different. The effect depends on the beneficiaries' service / age distribution and the benefit.
Changes in bond yields	The risk of investment underperforming and being not sufficient to meet the liabilities.
Life expectancy / Withdrawal rate	The risk of higher or lower withdrawal experience than assumed. The final effect could go either way depending on the beneficiaries' service/age distribution and the benefit.
Final salary risk	The risk that the final salary at the time of cessation of service is greater than what we assumed. Since the benefit is calculated on the final salary, the benefit amount increases similarly.

24.8 Provident Fund related disclosures

The following information is based on the latest un-audited financial statements of the fund:

	Note	June 30, 2022	June 30, 2021
		-----Rupees-----	
Size of the fund - total assets		64,162,997	54,509,439
Cost of investments made		35,821,301	38,312,539
Fair value of investments	24.8.1 & 24.8.2	35,821,301	35,697,203
Percentage of investments made		56%	65%

24.8.1 The break-up of fair value of investments is as follows:

	June 30, 2022		June 30, 2021	
	Percentage of the size of the fund	Rupees	Percentage of the size of the fund	Rupees
Investment in listed debt securities	0.00%	-	0.00%	-
Investment in unlisted debt securities	0.00%	-	0.05%	25,000
Investment in listed equity securities	1.03%	662,750	4.67%	2,548,012
Bank balances	54.80%	35,158,551	60.77%	33,124,191
	56%	35,821,301	65.49%	35,697,203

24.8.2 Investments out of the funds of provident fund have been made in accordance with the provisions of section 218 of the Companies Act, 2017 and the rules formulated for this purpose.

25. RUNNING MUSHARAKA

25.1 Facility for Running Musharaka is obtained from Meezan Bank Limited up to Rs. 250 million during the year. The profit rate on this facility is 3 month KIBOR plus 0.25% per annum. The facility is secured against 1st hypothecation charge on all Modaraba's present and future movable/immovable fixed assets with 30% margin.

25.2 Facility for Running Musharaka is obtained from Habib Bank Limited up to Rs. 500 million during the year. The profit rate on this facility is 3 month KIBOR plus 0.25% per annum. The facility is secured against 1st supplemental letter of hypothecation of Fixed Assets (Plant, Machinery & Equipment) for Rs. 715 Million.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

26. CONTINGENCIES AND COMMITMENTS

26.1 Contingencies

The Modaraba received a letter from Sindh Revenue Board (SRB) dated August 09, 2018, wherein, it is mentioned that the Assistant Commissioner (Unit-12) of the SRB came to know through scrutiny of the financial statements of the Modaraba for the fiscal year years 2012-2017 that the Modaraba is engaged in providing / rendering taxable services which falls under the Second Schedule of Sindh Sales Tax on Services Act, 2011 (the Act), and the sales tax on such services, i.e. on lease rentals / lease financing transactions aggregates to Rs.916.393 million which is outstanding. In view of this, the Modaraba was advised to submit certain financial records to SRB to ascertain the actual tax liability. Such letters were also received by some other Modarabas and collectively, a petition against the same was filed through a common legal counsel in the Honorable High Court of Sindh (HCS) challenging levy of Services Sales Tax on lease financing transactions including the vires of various headings of the Second Schedule of the Act. A stay order in this regard has been granted by the HCS stating that no adverse order in respect of the proposed treatment shall be made against the Petitioners.

The management of the Modaraba based on its discussions with its legal counsel is of the view that in light of the stay order of the HCS and the merits of the matter involved, no provision for any sales tax liability on rentals of lease financing is required to be maintained in the financial statements for the year ended June 30, 2022.

26.2 Commitments

Commitments in respect of financing transactions amounted to Rs. 839 (2021: Rs.569) million.

	Note	June 30, 2022	June 30, 2021
		-----Rupees-----	
27. INCOME FROM LEASE FINANCING			
Lease financing installments	27.1	426,134,761	790,061,532
Less: Depreciation on lease financing assets	5.1	(288,108,199)	(660,300,294)
		138,026,562	129,761,238
27.1	This comprises of principal and profit components.		
28. PROVISION IN RESPECT OF DIMINISHING MUSHARAKA			
Provision during the year	8.2	103,792,525	41,373,226

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	Note	June 30, 2022	June 30, 2021
		-----Rupees-----	
29. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits	29.1	97,479,411	88,634,128
Printing, stationery and advertising		3,594,001	3,488,668
Travelling and conveyance		954,360	641,488
Insurance / takaful charges		833,437	675,515
Utilities		5,127,416	4,067,020
Postage		789,574	960,469
Newspapers and periodicals		18,950	31,182
Repairs and maintenance		2,665,641	2,962,314
Telecommunication		1,018,958	1,129,310
Fees and subscriptions		6,687,446	6,544,857
Legal and professional charges		10,200,412	4,948,101
Depreciation on fixed assets in own use	6.1	13,246,209	12,853,034
Depreciation Expense on Lease Assets	6.3	5,077,044	5,077,044
Amortization on intangible assets	7.1	40,556	57,461
Auditors' remuneration	29.2	3,363,818	2,824,527
Certificate registrar expenses		1,292,245	1,333,282
Vehicle running expenses		3,407,988	1,949,042
Office expense		3,536,057	2,981,238
Staff training and workshop		517,452	583,550
Rent expense		198,002	247,803
Information technology expenses		4,689,842	3,969,960
Miscellaneous		1,545,802	1,633,654
		166,284,621	147,593,647

29.1 Salaries, allowances and other benefits

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

	Note	June 30, 2022			June 30, 2021		
		Other			Other		
		Officers*	employees	Total	Officers	employees	Total
		----- (Rupees) -----			----- (Rupees) -----		
Salaries		14,825,152	34,492,591	49,317,743	11,182,848	29,962,027	41,144,875
House rent		1,555,200	4,826,600	6,381,800	1,306,800	4,644,823	5,951,623
Other allowances		9,998,057	23,452,704	33,450,761	8,265,559	24,911,891	33,177,450
Insurance		446,132	1,664,994	2,111,126	537,458	2,093,155	2,630,613
Gratuity fund	24.7h(i)	1,444,567	1,386,354	2,830,921	597,822	2,110,322	2,708,144
Provident fund		1,111,884	2,275,176	3,387,060	894,637	2,126,786	3,021,423
		29,380,992	68,098,419	97,479,411	22,785,124	65,849,004	88,634,128
Number of employees		5	95	100	4	88	92

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

29.1.2 No remuneration paid to the directors of the Modaraba Management Company during the year (2021: nil)

29.1.3 This includes contribution to staff provident fund amounting to Rs.3.387 (2021: Rs.3.021) million.

* These represent officers as prescribed under the Companies Act, 2017.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	Note	June 30, 2022	June 30, 2021
		-----Rupees-----	
29.2 Auditors' remuneration:			
Audit fee		726,000	660,000
Special audit		1,350,000	550,000
Fee for half yearly review and code of corporate governance		285,500	260,000
Taxation and other services		346,888	798,182
Out of pocket expenses		406,258	374,890
		3,114,646	2,643,072
Sales tax		249,172	181,455
		3,363,818	2,824,527
30. OTHER INCOME			
Dividend on shares	30.1	27,789,106	21,884,171
Gain on transfer of lease financing assets		56,242,009	22,758,280
Gain on sale of owned fixed assets - net		626,369	1,108,318
Profit on modaraba's deposit accounts		30,974,853	19,749,640
Profit on Term Deposit Musharakas (TDMs)		12,343,903	18,183,527
Profit on Ijarah GOP sukuk bonds		15,006,400	-
Profit on sukuk		9,207,207	7,361,138
Loss on termination of lease contract		-	31,180
Premature income on termination of diminishing musharaka		-	9,281,777
Miscellaneous income		59,268,092	3,167,894
		211,457,939	103,525,925
30.1 Dividend on shares			
Meezan Bank Limited		13,411,439	14,064,436
Habib Sugar Mills Limited		4,532,004	4,154,337
Engro Fertilizers Limited		10,200,000	3,900,000
		28,143,443	22,118,773
Less: Charity expense		(354,337)	(234,602)
		27,789,106	21,884,171
31. FINANCIAL CHARGES			
Profit Paid on certificates of investment (musharaka)		877,462,498	419,166,539
Profit Paid on Running Musharaka Financing		53,418,917	-
Financial charges on liability against right of use assets	21	2,797,640	3,202,059
Bank charges		703,320	649,746
		934,382,375	423,018,344
32. TAXATION			
Current			
- for the year		148,466,087	-
- for prior years		-	-
		148,466,087	-
Deferred		(35,310,690)	-
		113,155,397	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	June 30, 2022	June 30, 2021
	Rupees	
32.1 Relationship between accounting profit and tax expense		
Accounting profit before taxation	495,279,144	363,148,152
Tax at the applicable tax rate of 29%	143,630,952	-
Super tax @ 4%	19,811,166	-
Tax effect of:		
- Final tax regime and income subject to lower tax rate	26,918,003	-
- Permanent differences	(77,612,213)	-
- Others	407,490	-
	113,155,397	-

33. CONTRACTUAL LEASE FINANCING INSTALLMENTS RECEIVABLE - LEASE CONTRACTS

	June 30, 2022				June 30, 2021			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total	Not later than one year	Later than one year but not later than five years	Later than five years	Total
	(Rupees)							
Total future lease payments receivable	153,548,511	48,042,030	-	201,590,541	541,817,550	376,301,159	-	918,118,709

	June 30, 2022	June 30, 2021
	Rupees	
34. CASH AND CASH EQUIVALENT		
Cash and bank balances	137,042,312	216,102,298
Investment in Term Deposit Musharakas (TDMs)	281,873,210	489,647,773
Running Musharaka	(748,281,800)	(49,999,000)
	(329,366,278)	655,751,071

35. TRANSACTIONS WITH RELATED PARTIES

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

			June 30, 2022	June 30, 2021
Balances held			Rupees	
Related party	Related party relationship	Nature of balances		
Habib Metropolitan Bank Limited	Holding Company	Bank Balances	134,830,365	215,230,643
		Investment in HMB	-	537,821
		Certificates of investment (musharaka)	4,550,000,000	2,225,000,000
		Profit receivable	5,137,584	2,834,905
		Financial charges payable	71,446,986	25,010,308
		Utility charges Payable	2,354,333	1,691,076
		Prepaid Rent	-	344,556
		Security deposit	130,000	130,000

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

			June 30, 2022	June 30, 2021
			Rupees	
Balances held				
Related party	Related party relationship	Nature of balances		
Habib Metropolitan Modaraba Management Company (Private) Limited	Management Company	Management fee payable	56,977,101	41,776,705
		Sale tax on management fee payable	31,240,914	23,833,891
Transactions during the year	Related party relationship	Nature of balances		
Related party				
Habib Metropolitan Bank Limited	Holding Company	Profit on bank accounts	36,059,427	17,030,486
		Bank charges	688,219	625,833
		Utility charges	2,354,333	1,691,076
		Financial charges	320,915,240	128,145,993
Habib Metropolitan Modaraba Management Company (Private) Limited	Management Company	Management fee	56,977,101	41,776,705
		Sale tax on management fee	7,407,023	5,430,972
		Management fee paid	41,776,705	36,431,341
		Dividend paid	28,224,000	28,224,000
Habib Metropolitan Financial Services Limited Services Limited	Associate	Brokerage commission	420,029	-
		Sale of securities	278,583,598	-
Staff Retirement Benefit Fund	Associate	Gratuity fund	2,830,921	2,708,144
		Contribution made	5,569,894	3,232,395
Provident Fund	Associate	Contribution made	3,387,060	3,021,423

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

35.2 The Modaraba carries out transactions with related parties at commercial terms and conditions as per the Modaraba's policy.

36. CAPITAL MANAGEMENT

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

37. FINANCIAL INSTRUMENTS

37.1 Risk management policies

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

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FOR THE YEAR ENDED JUNE 30, 2022

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

- Credit Risk
- Liquidity Risk
- Market Risk.

37.2 Credit Risk

Credit risk is the risk that the counter party to a financial instrument will cause a financial loss for the Modaraba by failing to discharge an obligation. The Modaraba's policy is to enter into financial contracts with reputable counter parties in accordance with the internal guidelines and regulator requirements. The modaraba has reassessed it's portfolio as at June 30, 2021 and none of it's customers require further downgrading on subjective basis.

Exposure to Credit Risk

The maximum exposure to credit risk before any credit enhancements at June 30, 2022 is the carrying amount of the financial assets as set out below:

	June 30, 2022	June 30, 2021
	-----Rupees-----	
Diminishing musharaka financing	15,895,340,910	9,913,812,387
Lease financing installments receivable	-	385,597
Diminishing musharaka financing installments receivable	2,338,076	155,806
Investment in sukuk and Term Deposit Musharakas (TDMs)	635,653,370	569,647,773
Long term deposits	1,172,800	1,147,800
Other receivables	25,597,501	5,914,137
Bank balances	136,525,764	215,718,051
	16,696,628,421	10,706,781,551

Credit risk ratings

Credit risk rating of the banks and their respective balances are given below:

Banks	Rating		Agency		
	Short term	Long term			
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	134,830,365	215,230,643
Al Baraka (Pakistan) Limited	A1	A+	JCR-VIS	110,640	110,185
BankIslami Pakistan Limited	A1	A+	PACRA	244,632	244,632
Meezan Bank Limited	A1+	AAA	JCR-VIS	1,257,606	59,882
Bank Al-Habib Limited	A1+	AAA	PACRA	72,171	62,359
Dubai Islamic Bank Pakistan Limited	A1+	AA	JCR-VIS	10,350	10,350
				136,525,764	215,718,051

Concentration of Credit Risk

Concentration is the relative sensitivity of the Modaraba's performance to developments affecting a particular industry or geographical location.

Concentration of risks arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

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The Modaraba's portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit worthy counterparties thereby mitigating any significant concentration of credit risk. Details of Modaraba's concentration of credit risk by industrial distribution are detailed in note 44 to the financial statements.

Impaired Assets

Refer note 4.2(d) and 5.1 to the financial statements for details on impairment of assets.

37.3 Liquidity risk

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

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

Note 39 to the financial statements summarizes the maturity profile of the Modaraba's financial instruments.

Mitigating / managing the risk

Modaraba's policy is to invest the majority of its assets in investments that includes Term Deposit Musharakas that are having short-term maturities. Only a limited proportion of its investments are of long-term in nature.

37.4 Market Risk

a Market Price Risk

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

Exposure

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

As at June 30, 2022, the fair value of equity and debt securities exposed to price risk was as follows:

Particulars	Average Cost June 30, 2022	Fair Value June 30, 2022	Average Cost June 30, 2021	Fair Value June 30, 2021
	----- (Rupees) -----			
Shares of listed companies	81,805,468	92,661,374	101,536,559	302,815,389
Sukuk	353,780,160	353,780,160	80,000,000	80,000,000
	435,585,628	446,441,534	181,536,559	382,815,389

Risk Management

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

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

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b Profit rate risk

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

Risk exposure

The Modaraba has lease financing portfolio. The majority of lease financing portfolio is linked with KIBOR rate as a bench mark. The Modaraba reviews KIBOR on lease financing portfolio on quarterly / six monthly basis.

As at June 30, 2022, the profile of the Modaraba's variable value financial instruments were as follows:

	June 30, 2022	June 30, 2021
	-----Rupees-----	
Variable rate instruments		
Assets		
Sukuk	80,000,000	80,000,000
GOP Ijarah sukuk bonds	273,780,160	-
Diminishing musharaka financing	13,438,064,734	8,601,350,789
Bank deposits	118,455,227	207,602,471
Liabilities		
Certificate of Investment (Musharaka)	(11,262,599,835)	(7,290,539,424)
Running Musharaka	(748,281,800)	(49,999,000)
	1,899,418,486	1,548,414,836

Fair value sensitivity analysis for variable rate instruments

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

Asset / liability class (Having variable interest rates)	(Increase / Decrease) (+/-)	Changes in profit / (loss) ------(Rupees)-----	
Assets			
Sukuk	100 basis points	800,000	800,000
GOP Ijarah sukuk bonds	100 basis points	273,780,160	-
Diminishing musharaka financing	100 basis points	134,380,647	86,013,508
Bank deposits	100 basis points	1,184,552	2,076,025
Liability			
Certificate of Investment (Musharaka)	100 basis points	(112,625,998)	(72,905,394)
Running Musharaka	100 basis points	(7,482,818)	(499,990)

Above sensitivities are calculated on the assumption that all factors remain constant except interest rates and resulting variation in fair values of the subjugated investments and impact on the profit and loss.

Risk Management / Mitigation

The Modaraba monitors the interest rate environment on a regular basis and alters the portfolio mix of fixed and floating rate securities.

The Modaraba's policy requires the Modaraba management to manage this risk by measuring the mismatch of the interest rate sensitivity gap of financial assets and liabilities and calculating the average duration of the portfolio of fixed interest securities.

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FOR THE YEAR ENDED JUNE 30, 2022

The average effective duration of the Modaraba's portfolio is a measure of the sensitivity of the fair value of the Modaraba's variable interest securities to changes in market interest rates.

The Modaraba's policy refrains from holding interest bearing instruments that induce the average effective duration of the variable interest portfolio to pass the benchmark of the average duration.

37.5 Operational risks

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

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

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

38. FAIR VALUE OF FINANCIAL AND NON-FINANCIAL ASSETS

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

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

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

Level 1:	quoted prices in active markets for identical assets or liabilities;
Level 2:	those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
Level 3:	those with inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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FOR THE YEAR ENDED JUNE 30, 2022

	June 30, 2022						
	Carrying amount			Fair value			
	At fair value through OCI	At fair value through profit or loss	At amortized cost	Total	Level 1	Level 2	Level 3
	(Rupees)				(Rupees)		
Financial assets measured at fair value							
Shares of listed companies	92,661,374	-	-	92,661,374	92,661,374	-	-
Sukuk (note 38.1)	80,000,000	-	-	80,000,000	-	80,000,000	-
	172,661,374	-	-	172,661,374	92,661,374	80,000,000	-
Financial assets not measured at fair value (note 38.2)							
Investment in Term Deposit Musharaka (TDMs)	-	-	281,873,210	281,873,210			
Investment in GOP Ijarah sukuk	-	-	273,780,160	273,780,160			
Diminishing musharaka financing	-	-	15,895,340,910	15,895,340,910			
Long term deposits	-	-	1,172,800	1,172,800			
Lease financing installments receivables	-	-	-	-			
Diminishing musharaka financing installments receivables	-	-	-	-			
Advances	-	-	2,338,076	2,338,076			
Other receivables	-	-	10,604,411	10,604,411			
Cash and bank balances	-	-	25,597,501	25,597,501			
	-	-	136,525,764	136,525,764			
	-	-	16,627,232,832	16,627,232,832			

During the year ended June 30, 2022, there were no transfers between level 1 and level 2 fair value measurements, and no transfer into and out of level 3 fair value measurements.

	June 30, 2022		
	At fair value	Other financial liabilities	Total
	(Rupees)		
Financial liabilities			
Security deposits against lease financing assets	-	59,981,948	59,981,948
Certificates of investment (musharaka)	-	11,262,599,835	11,262,599,835
Unearned lease financing and diminishing musharaka installments	-	79,964,659	79,964,659
Advance lease financing and diminishing musharaka installments	-	11,111,098	11,111,098
Trade and other payables	-	636,248,097	636,248,097
Profit payable on certificates of investment (musharaka)	-	223,420,415	223,420,415
Unclaimed profit distributions	-	48,880,060	48,880,060
	-	12,322,206,112	12,322,206,112

	June 30, 2021						
	Carrying amount			Fair value			
	At fair value through OCI	At fair value through profit or loss	At amortized cost	Total	Level 1	Level 2	Level 3
	(Rupees)				(Rupees)		
Financial assets measured at fair value							
Shares of listed companies	302,815,389	-	-	302,815,389	302,815,389	-	-
Sukuk	80,000,000	-	-	80,000,000	-	80,000,000	-
	382,815,389	-	-	382,815,389	302,815,389	80,000,000	-
Financial assets not measured at fair value							
Investment in Term Deposit Musharaka (TDMs)	-	-	489,647,773	489,647,773			
Diminishing musharaka financing	-	-	9,913,812,387	9,913,812,387			
Long term deposits	-	-	1,147,800	1,147,800			
Lease financing installments receivables	-	-	385,597	385,597			
Diminishing musharaka financing installments receivables	-	-	155,806	155,806			
Advances	-	-	6,062,804	6,062,804			
Other receivables	-	-	5,914,137	5,914,137			
Cash and bank balances	-	-	215,718,051	215,718,051			
	-	-	10,632,844,355	10,632,844,355			

During the year ended June 30, 2021, there were no transfers between level 1 and level 2 fair value measurements, and no transfer into and out of level 3 fair value measurements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	June 30, 2021		
	At fair value	Other financial liabilities	Total
		(Rupees)	
Financial liabilities			
Security deposits against lease financing assets	-	201,811,884	201,811,884
Certificates of investment (musharaka)	-	7,290,539,424	7,290,539,424
Unearned lease financing and diminishing musharaka installments	-	17,850,254	17,850,254
Advance lease financing and diminishing musharaka installments	-	10,007,913	10,007,913
Trade and other payables	-	456,031,515	456,031,515
Profit payable on certificates of investment (musharaka)	-	107,487,595	107,487,595
Unclaimed profit distributions	-	46,248,316	46,248,316
	-	8,129,976,901	8,129,976,901

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

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

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

39. MATURITIES OF ASSETS AND LIABILITIES

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

June 30, 2022									
Total	Up to 1 month	Over 1 month to 3 month	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 year	Over 2 year to 3 year	Over 3 year to 5 year	Over 5 year to 10 year	Over 10 year
(Rupees)									
Assets									
Lease financing assets	185,055,850	9,025,797	8,781,024	31,466,338	36,889,220	32,389,589	66,503,882	-	-
Fixed assets in own use	50,229,380	1,508,070	3,007,109	4,390,467	8,104,899	13,232,272	10,421,749	8,167,400	1,397,412
Intangible assets	141,975	5,069	10,138	15,208	30,417	60,833	20,310	-	-
Diminishing musharaka financing Investments	15,895,340,910	555,669,204	861,402,016	1,280,632,224	2,513,697,715	4,554,113,692	3,319,692,974	2,782,083,507	28,049,578
Diminishing musharaka financing installments receivable	728,314,744	-	-	281,873,210	172,661,374	-	-	273,780,160	-
Advances, deposits and prepayments	2,338,076	2,338,076	-	-	-	-	-	-	-
Income tax refundable	14,928,755	-	10,604,411	3,151,544	-	1,172,800	-	-	-
Other receivables	89,470,329	-	-	-	89,470,329	-	-	-	-
Cash and bank balances	25,597,501	17,656,056	-	7,941,445	-	-	-	-	-
	137,042,312	137,042,312	-	-	-	-	-	-	-
	17,128,459,832	723,244,584	883,804,698	1,609,470,436	2,820,853,954	4,600,969,186	3,396,638,915	3,064,031,067	29,446,990
Liabilities									
Security deposits against lease financing assets	59,981,948	7,605,800	5,644,490	4,381,325	16,029,548	23,688,285	2,632,500	-	-
Liability against right of use assets	10,264,700	355,789	16,837	879,700	720,010	973,272	3,482,779	1,672,119	2,164,194
Certificates of investment (musharaka)	11,262,599,835	5,814,555,576	5,340,906,917	74,471,250	32,666,092	-	-	-	-
Unearned lease financing and diminishing musharaka installments	79,964,659	-	-	-	79,964,659	-	-	-	-
Advance lease financing and diminishing musharaka installments	11,111,098	-	-	-	11,111,098	-	-	-	-
Trade and other payables	741,298,141	371,286,498	-	56,977,101	313,034,542	-	-	-	-
Profit payable on certificates of investment (musharaka)	223,420,415	115,345,519	105,949,573	1,477,314	648,009	-	-	-	-
Running Musharaka	748,281,800	748,281,800	-	-	-	-	-	-	-
Unclaimed profit distributions	48,880,060	48,880,060	-	-	-	-	-	-	-
	13,185,802,656	7,106,311,042	5,452,517,817	138,186,690	454,173,958	24,661,557	6,115,279	1,672,119	2,164,194
Difference	3,942,657,176								
Represented by:									
Issued, subscribed and paid-up certificate capital	1,008,000,000								
Reserves	2,959,519,451								
Total Equity	3,967,519,451								
Surplus on revaluation of investments	9,495,741								
	3,977,015,192								

June 30, 2021									
Total	Up to 1 month	Over 1 month to 3 month	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 year	Over 2 year to 3 year	Over 3 year to 5 year	Over 5 year to 10 year	Over 10 year
(Rupees)									
Assets									
Lease financing assets	861,522,931	37,531,397	102,341,954	116,593,603	217,318,901	241,189,582	103,188,017	43,359,477	-
Fixed assets in own use	54,298,927	1,463,350	2,872,735	4,234,373	8,117,348	14,473,289	10,478,976	10,789,189	1,869,667
Intangible assets	141,250	-	-	-	-	-	141,250	-	-
Diminishing musharaka financing Investments	9,913,812,387	175,144,120	644,090,534	937,891,231	1,746,873,954	3,034,594,196	2,007,483,019	1,348,666,166	19,069,167
Lease financing installments receivable	872,463,162	-	-	489,647,773	382,815,389	-	-	-	-
Diminishing musharaka financing installments receivable	385,597	385,597	-	-	-	-	-	-	-
Advances, deposits and prepayments	155,806	155,806	-	-	-	-	-	-	-
Income tax refundable	10,961,333	-	6,062,804	3,750,729	-	1,147,800	-	-	-
Other receivables	167,077,010	-	-	-	167,077,010	-	-	-	-
Cash and bank balances	25,613,009	5,914,137	-	-	19,698,872	-	-	-	-
	216,102,298	216,102,298	-	-	-	-	-	-	-
	12,122,533,710	436,696,705	755,368,027	1,552,117,709	2,541,901,474	3,291,404,867	2,121,291,262	1,402,814,832	20,938,834
Liabilities									
Security deposits against lease financing assets	201,811,884	3,173,665	11,507,175	13,955,541	42,261,700	67,664,063	38,985,585	24,264,155	-
Liability against right of use assets	23,695,845	341,716	14,653	300,805	13,012,779	1,802,234	964,965	4,443,237	2,815,456
Certificates of investment (musharaka)	7,290,539,424	3,187,152,644	2,218,365,527	1,865,179,086	19,842,167	-	-	-	-
Unearned lease financing and diminishing musharaka installments	17,850,254	-	-	-	17,850,254	-	-	-	-
Advance lease financing and diminishing musharaka installments	10,007,913	-	-	-	10,007,913	-	-	-	-
Trade and other payables	546,546,836	227,825,112	-	41,776,705	276,945,019	-	-	-	-
Profit payable on certificates of investment (musharaka)	107,487,595	46,989,578	32,706,328	27,499,146	292,543	-	-	-	-
Running Musharaka	49,999,000	49,999,000	-	-	-	-	-	-	-
Unclaimed profit distributions	46,248,316	46,248,316	-	-	-	-	-	-	-
	8,294,187,067	3,561,730,031	2,262,593,683	1,948,711,283	380,212,375	69,466,297	39,950,550	28,707,392	2,815,456
Difference	3,828,346,643								
Represented by:									
Issued, subscribed and paid-up certificate capital	1,008,000,000								
Reserves	2,619,067,813								
Total Equity	3,627,067,813								
Surplus on revaluation of investments	201,278,830								
	3,828,346,643								

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

40. FINANCIAL ASSETS AND LIABILITIES

		June 30, 2022					
		Profit bearing			Non-profit bearing		
		Maturity up to one year	Maturity after one year up to five years	Sub-total	Maturity up to one year	Maturity after one year and up to five years	Total
		(Rupees)					
Financial assets							
Cash and bank balances	118,455,227	-	-	118,455,227	18,587,085	-	137,042,312
Other receivables	-	-	-	-	25,597,501	-	25,597,501
Investments	361,873,210	273,780,160	635,653,370	92,661,374	-	92,661,374	728,314,744
Lease financing installments receivable	-	-	-	-	-	-	-
Diminishing musharaka financing installments receivable	2,338,076	-	2,338,076	-	-	-	2,338,076
Long term deposits	-	-	-	-	1,172,800	1,172,800	1,172,800
Advances	-	-	-	10,604,411	-	10,604,411	10,604,411
Diminishing musharaka financing	4,723,078,394	11,172,262,516	15,895,340,910	-	-	-	15,895,340,910
	5,205,744,907	11,446,042,676	16,651,787,583	147,450,371	1,172,800	148,623,171	16,800,410,754
Financial liabilities							
Security deposits against lease financing assets	-	-	-	33,661,163	26,320,785	59,981,948	59,981,948
Certificates of investment (musharaka)	11,262,599,835	-	11,262,599,835	-	-	-	11,262,599,835
Unearned lease financing and diminishing musharaka installments	79,964,659	-	79,964,659	-	-	-	79,964,659
Advance lease financing and diminishing musharaka installments	11,111,098	-	11,111,098	-	-	-	11,111,098
Trade and other payables	-	-	-	636,248,097	-	636,248,097	636,248,097
Profit payable on certificates of investment (musharaka)	-	-	-	223,420,415	-	223,420,415	223,420,415
Running Musharaka	748,281,800	-	748,281,800	-	-	-	748,281,800
Unclaimed profit distribution	-	-	-	48,880,060	-	48,880,060	48,880,060
	12,101,957,392	-	12,101,957,392	942,209,735	26,320,785	968,530,520	13,070,487,912
On balance sheet gap	(6,896,212,485)	11,446,042,676	4,549,830,191	(794,759,364)	(25,147,985)	(819,907,349)	3,729,922,842
Lease financing assets*	86,162,379	98,893,471	185,055,850	-	-	-	185,055,850
		June 30, 2021					
		Profit bearing			Non-profit bearing		
		Maturity up to one year	Maturity after one year up to five years	Sub-total	Maturity up to one year	Maturity after one year and up to five years	Total
		(Rupees)					
Financial assets							
Cash and bank balances	207,602,471	-	207,602,471	8,499,827	-	8,499,827	216,102,298
Other receivables	-	-	-	5,914,137	-	5,914,137	5,914,137
Investments	569,647,773	-	569,647,773	302,815,389	-	302,815,389	872,463,162
Lease financing installments receivable	385,597	-	385,597	-	-	-	385,597
Diminishing musharaka financing installments receivable	155,806	-	155,806	-	-	-	155,806
Long term deposits	-	-	-	-	1,147,800	1,147,800	1,147,800
Advances	-	-	-	6,062,804	-	6,062,804	6,062,804
Diminishing musharaka financing	3,696,264,542	6,217,547,845	9,913,812,387	-	-	-	9,913,812,387
	4,474,056,189	6,217,547,845	10,691,604,034	323,292,157	1,147,800	324,439,957	11,016,043,991
Financial liabilities							
Security deposits against lease financing assets	-	-	-	70,898,081	130,913,803	201,811,884	201,811,884
Certificates of investment (musharaka)	7,290,539,424	-	7,290,539,424	-	-	-	7,290,539,424
Unearned lease financing and diminishing musharaka installments	17,850,254	-	17,850,254	-	-	-	17,850,254
Advance lease financing and diminishing musharaka installments	10,007,913	-	10,007,913	-	-	-	10,007,913
Trade and other payables	-	-	-	456,031,515	-	456,031,515	456,031,515
Profit payable on certificates of investment (musharaka)	-	-	-	107,487,595	-	107,487,595	107,487,595
Running Musharaka	49,999,000	-	49,999,000	-	-	-	49,999,000
Unclaimed profit distribution	-	-	-	46,248,316	-	46,248,316	46,248,316
	7,368,396,591	-	7,368,396,591	680,665,507	130,913,803	811,579,310	8,179,975,901
On balance sheet gap	(2,894,340,402)	6,217,547,845	3,323,207,443	(357,373,350)	(129,766,003)	(487,139,353)	2,836,068,090
Lease financing assets*	473,785,855	387,737,076	861,522,931	-	-	-	861,522,931

*Lease financing assets has been included above in order to depict a true picture of the gap between the assets and liabilities of the Modaraba. The expected rates of profit for financial assets and liabilities are mentioned in the respective notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

(i) Yield / profit rate risk

Yield / profit rate risk arises from the possibility that changes in yield / profit rates will affect the value of financial instruments. All financial instruments of the Modaraba are on a profit and loss sharing basis, or on variable profit rate.

(ii) Market risk

The Modaraba recognizes market risk as the exposure created by potential changes in the market prices and rates.

(iii) Fair values of financial assets and liabilities

The fair values of traded instruments is based on quoted market prices. Fair value of future lease financing installments receivable against lease financing assets, other assets, other liabilities and other items cannot be calculated with sufficient reliability due to absence of current active market for such assets and liabilities.

41. SEGMENT BY CLASS OF BUSINESS OF FINANCING ASSETS

	June 30, 2022		June 30, 2021	
	Rupees	%	Rupees	%
Auto and allied	460,999,144	2.82	479,814,588	4.45
Cable and electric goods	574,297,664	3.52	341,337,842	3.17
Cargo, courier and logistic services	577,053,381	3.53	426,247,363	3.96
Cement	163,923,470	1.00	94,169,544	0.87
Chemical	1,151,212,488	7.05	678,211,872	6.29
Construction	203,369,582	1.24	62,144,744	0.58
Education	159,890,667	0.98	97,161,276	0.90
Fertilizer	134,125,998	0.82	142,111,575	1.32
Financial institutions	185,702,874	1.14	164,865,365	1.53
Food and allied	2,434,047,317	14.90	1,429,489,727	13.27
Fuel, power and energy	102,857,531	0.63	36,832,772	0.34
Glass and ceramics	103,118,045	0.63	67,202,777	0.62
Health care	265,600,911	1.63	172,816,810	1.60
Individuals	1,445,263,881	8.85	730,163,876	6.78
Information technology	867,344,759	5.31	939,432,697	8.72
Leather and tanneries	8,618,338	0.05	6,340,302	0.06
Oil and gas exploration	55,301,164	0.34	32,098,740	0.30
Paper and board	203,465,743	1.25	95,871,285	0.89
Pharmaceutical	2,241,067,487	13.72	1,765,515,431	16.38
Refinery, lubricant, oil and gas marketing	165,693,912	1.01	204,107,248	1.89
Services	2,378,980,227	14.56	1,496,240,686	13.89
Steel and engineering	512,704,473	3.14	357,806,846	3.32
Sugar and allied	493,471,064	3.02	239,971,447	2.23
Textile	1,213,030,624	7.43	691,113,391	6.41
Others	234,086,983	1.43	24,267,114	0.23
	16,335,227,727	100.00	10,775,335,318	100.00

41.1 The Modaraba's operations are restricted to Pakistan only.

42. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

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

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

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

	June 30, 2022				June 30, 2021			
	Advances, deposits, prepayments	Diminishing musharaka financing	Diminishing musharaka financing installment receivables	Lease financing installments receivables	Advances, deposits, prepayments	Diminishing musharaka financing	Diminishing musharaka financing installment receivables	Lease financing installments receivables
	(Rupees)				(Rupees)			
Segment by class of business								
Auto and allied	-	398,332,565	5,086,700	-	5,717,100	388,143,433	333,478	-
Cable and electric goods	-	574,297,664	443,096	-	-	339,588,579	45,030	23,127
Cargo, courier and logistic services	-	548,515,365	878,288	-	-	401,880,341	5,629,692	-
Cement	-	163,923,470	543,672	-	-	94,169,544	69,060	-
Chemical	-	1,136,707,162	3,557,592	-	-	550,237,499	277,525	37,052
Construction	-	191,032,216	455,467	-	-	62,144,744	394,444	-
Education	-	159,890,667	261,511	-	-	96,766,826	25,557	-
Fertilizer	-	133,911,309	55,323	-	-	131,231,411	-	-
Financial institutions	4,689,424	168,829,658	591,843	-	1,546,209	137,409,276	-	-
Food and allied	-	2,432,467,999	4,718,571	-	-	1,426,188,607	173,598	-
Fuel, power and energy	-	102,857,531	256,287	-	1,691,076	36,832,772	-	-
Glass and ceramics	-	67,198,553	293,197	-	-	67,202,908	107,095	-
Health care	-	252,149,501	733,352	2,882	-	172,815,810	2,502	-
Individuals	796,898	1,443,520,233	4,848,605	-	-	729,371,046	491,885	-
Information technology	445,492	863,725,116	927,111	8,647	304,490	725,513,637	53,582	9,073
Leather and tanneries	-	8,618,338	38,755	-	-	5,860,402	-	7,160
Oil and gas exploration	-	55,301,164	541,328	-	-	32,098,740	2,667	-
Paper and board	-	199,617,872	244,478	-	-	86,472,548	5,697	-
Pharmaceutical	-	2,141,897,503	1,082,809	83,759	-	1,598,396,960	82,597	430,123
Refinery, lubricant, oil and gas marketing	-	61,740,647	4,202	-	-	176,696,040	-	-
Services	-	2,359,592,522	3,021,927	44,322	657,063	1,367,225,865	243,972	-
Steel and engineering	-	498,042,707	382,405	-	-	357,806,846	36,490	-
Sugar and allied	-	487,504,304	218,071	-	-	223,402,533	10,874	-
Textile	-	1,209,534,660	2,176,139	1,164	-	682,966,741	122,592	7,051
Others	8,996,941	233,957,965	63,678	-	1,045,395	23,389,279	33,487	447
	14,928,755	15,893,166,691	31,424,407	140,774	10,961,333	9,913,812,387	8,141,824	514,033

43. EARNINGS PER CERTIFICATE - BASIC AND DILUTED

43.1 Basic

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	June 30, 2022	June 30, 2021
	-----Rupees-----	
Profit for the year	382,123,747	363,148,152
Weighted average number of certificates of Rs. 5/- each	201,600,000	201,600,000
Earnings per certificate	1.90	1.80

43.2 Diluted

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

44. SEGMENT INFORMATION

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

The Chief Executive Officer is responsible for Modaraba's entire product portfolio and consider business to have a two operating segments. The Modaraba's assets allocation decisions are based on a single integrated investment strategy and the Modaraba's performance is evaluated on basis of two operating segments.

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

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

Details of segment revenues, costs, profit, assets and liabilities are as follows:

	Lease financing assets		Diminishing musharaka financing		Total	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	------(Rupees)-----					
Segment revenues and (losses) / profits						
Revenue - net of depreciation, where applicable	138,026,562	129,761,238	1,424,746,026	796,465,070	1,562,772,588	926,226,308
Costs	(8,970,492)	(13,827,965)	(925,411,883)	(409,190,379)	(934,382,375)	(423,018,344)
Reportable segment (loss) / profit	129,056,070	115,933,273	499,334,143	387,274,691	628,390,213	503,207,964
Segment assets and liabilities						
Reportable segment assets						
Lease financing asset	185,055,850	861,522,931	-	-	185,055,850	861,522,931
Diminishing musharaka financing	-	-	11,172,262,516	6,217,547,845	11,172,262,516	6,217,547,845
Current portion of diminishing musharaka financing	-	-	4,723,078,394	3,696,264,542	4,723,078,394	3,696,264,542
Lease financing installments receivable	-	385,597	-	-	-	385,597
Diminishing musharaka financing installments receivable	-	-	2,338,076	155,806	2,338,076	155,806
	185,055,850	861,908,528	15,897,678,986	9,913,968,193	16,082,734,836	10,775,876,721

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	Lease financing assets		Diminishing musharaka financing		Total	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	(Rupees)					
Reportable segment liabilities						
Security deposits against lease financing assets	26,320,785	130,913,803	-	-	26,320,785	130,913,803
Certificates of investment (musharaka)	108,126,034	238,319,028	11,154,473,801	7,052,220,396	11,262,599,835	7,290,539,424
Security deposits - current portion	33,661,163	70,898,081	-	-	33,661,163	70,898,081
Unearned lease financing and diminishing musharaka installments	-	247,969	79,964,659	17,602,285	79,964,659	17,850,254
Advance lease financing and diminishing musharaka installments	3,847,170	8,688,396	5,050,953	1,319,517	8,898,123	10,007,913
Adjustable against lease financing contracts	243,842,949	215,160,449	-	-	243,842,949	215,160,449
Advance against sale of diminishing musharaka	-	-	124,362,763	49,623,345	124,362,763	49,623,345
Diminishing musharaka customer contribution	-	-	11,279,720	11,939,350	11,279,720	11,939,350
	415,798,101	664,227,726	11,375,131,896	7,132,704,893	11,790,929,997	7,796,932,619

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities, is as follow:

Revenues

Revenue classified in segment reported

1,562,772,588	926,226,308
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Profit

Profit classified in segment reported

Provision in respect of diminishing musharaka	628,390,213	503,207,964
Administrative expenses	-	-
Other income	(166,284,621)	(147,593,647)
Impairment loss on investment in equity security classified as 'available-for-sale'	211,457,939	103,525,925
Modaraba Management Company's remuneration	-	-
Sales tax on Modaraba Management Company's remuneration	(56,977,101)	(41,776,705)
Provision for Sindh Workers' Welfare Fund	(7,407,023)	(5,430,972)
Taxation	(10,107,738)	(7,411,187)
	-	-
	599,071,669	404,521,378

Assets

Assets classified in segment reported

Assets in own use	16,082,734,836	10,775,876,721
Intangible assets	50,229,380	54,298,927
Long term deposits	141,975	141,250
Investments	1,172,800	1,147,800
Advances and prepayments	728,314,744	872,463,162
Other receivables	13,755,955	9,813,533
Income tax refundable	25,597,501	25,613,009
Cash and bank balances	89,470,329	167,077,010
	137,042,312	216,102,298
	17,128,459,832	12,122,533,710

Liabilities

Liability classified in segment reported

Trade and other payables	11,790,929,997	7,796,932,619
Profit payable on certificates of investment (musharaka)	361,812,709	269,823,692
Unclaimed profit distribution	223,420,415	107,487,595
	48,880,060	46,248,316
	12,425,043,181	8,220,492,222

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	Note	June 30, 2022	June 30, 2021
-----Rupees-----			
45. CASH GENERATED FROM OPERATIONS			
Profit for the year		495,279,144	363,148,152
Adjustment for:			
Gain on disposal of assets:			
Lease financing assets	30	(56,242,009)	(22,758,280)
Assets in own use	30	(626,369)	(1,108,318)
Depreciation on fixed assets:			
Lease financing assets	27	288,108,199	660,300,294
Assets in own use	29	13,246,209	12,853,034
Right of use Assets	29	5,077,044	5,077,044
Amortization of intangible assets	29	40,556	57,461
Provision in respect of diminishing musharaka		103,792,525	41,373,226
Provision for gratuity	24.7h(i)	2,830,921	2,708,144
Dividend income		(27,789,106)	(21,884,171)
Intangible Assets - right off		141,250	-
Financial charges		880,260,138	422,368,598
Movement in working capital	45.1	130,411,416	90,608,410
		1,834,529,918	1,552,743,594
45.1 Movement in working capital			
(Decrease) / Increase in current assets:			
Lease financing installments receivable		385,597	617,778
Diminishing Musharaka financing installments receivable		(105,974,795)	(38,743,523)
Advances and prepayments		(3,942,422)	(5,373,505)
Income tax refundable		(18,041,367)	(13,365,523)
Other receivables		15,508	14,728,021
		(127,557,479)	(42,136,752)
(Decrease) / increase in current liabilities:			
Advance lease financing and diminishing musharaka installments		1,103,185	(5,185,736)
Unearned lease financing and diminishing musharaka installments		62,114,405	10,645,476
Trade and other payables		194,751,305	127,285,422
		257,968,895	132,745,162
		130,411,416	90,608,410

46. PROFIT DISTRIBUTION AND APPROPRIATION

Subsequent to the period ended June 30, 2022, the Board of Directors of the Modaraba Management Company has declared a final distribution of Rs. 1.00 per certificate, amounting to total profit distribution of Rs. 201.60 million (2021: Rs. 1.40 per certificate, amounting to total profit distribution of Rs. 282 million) in its meeting held on September 06, 2022

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

	June 30, 2022	June 30, 2021
	-----Rupees-----	
47. NUMBER OF EMPLOYEES		
Total number of employees at end of the year	76	74
Average number of employees for the year	75	70

48. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. However, no significant rearrangement or reclassification has been made in these financial statements during the current year.

49. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 06, 2022 by the Board of Directors of the Modaraba Management Company.

50. GENERAL

Figures have been rounded off to the nearest rupee.

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

Chief Executive Officer

Chief Financial Officer

Director

Director

GLOSSARY

AML

Anti Money Laundering

CEO

Chief Executive Officer

CFO

Chief Financial Officer

FHM

First Habib Modaraba

Companies Ordinance

Companies Ordinance 1984

CSR

Corporate Social Responsibility

Earning per share (EPS)

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

IASB

International Accounting Standards Board

IFRS

International Financial Reporting Standards

ITO

Income Tax Ordinance, 2001

KIBOR

Karachi Inter Bank Offer Rate

KYC

Know your Customer

WWF

Workers Welfare Fund

EOBI

Employees Old Age Benefits Institution

SRO

Statutory Regulatory Order

IFAC

International Federation of Accountants

CCG

Code of Corporate Governance

IFAS

Islamic Financial Accounting Standard

SAFA

South Asian Federation of Accountants

SAARC

South Asian Association of Regional Cooperation

NBFI & Modaraba

NBFI & Modaraba Association of Pakistan

MAP

Management Association of Pakistan

MAP

Modaraba Association of Pakistan

MAP

Marketing Association of Pakistan

PACRA

Pakistan Credit Rating Agency Limited

ICF

Internal Control Framework

ERP

Enterprise Resource Program

IFSB

Islamic Financial Services Board

IIFM

International Islamic Financial Market

IBP

Institute of Bankers of Pakistan