

# **First Habib Modaraba**

(An Islamic Financial Institution)



**ANNUAL REPORT 2021**



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



عمر بن الخطاب



# A Progressive Partnership

## Based on True Sharing and Equality

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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.

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.

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.



# 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.



CREDIT RATINGS - BY PACRA



FHM has been maintaining AA+ category rating since last 13 years



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# 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 36 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. 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 ratings. 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.

During the turbulent time of COVID-19, the FHM has shown resilient and continued with uninterrupted business operations. Proactive, decisive responses to such crises reflect a true leadership. FHM has long enjoyed a leading position within Modaraba sector and it was our responsibility to lead by example in unexpected situations.

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 12 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 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.1,017 billion with branch network of 406 throughout the country.



# 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. Anas Majid	- Secretary

### HUMAN RESOURCE COMMITTEE

Syed Rasheed Akhtar	- Chairman
Mr. Saeed Uddin Khan	- Member
Mr. Mohammad Shams Izhar	- Member
Mr. Tehsin Abbas	- 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](http://www.habibmodaraba.com)

Email: [fhm@habibmodaraba.com](mailto: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:

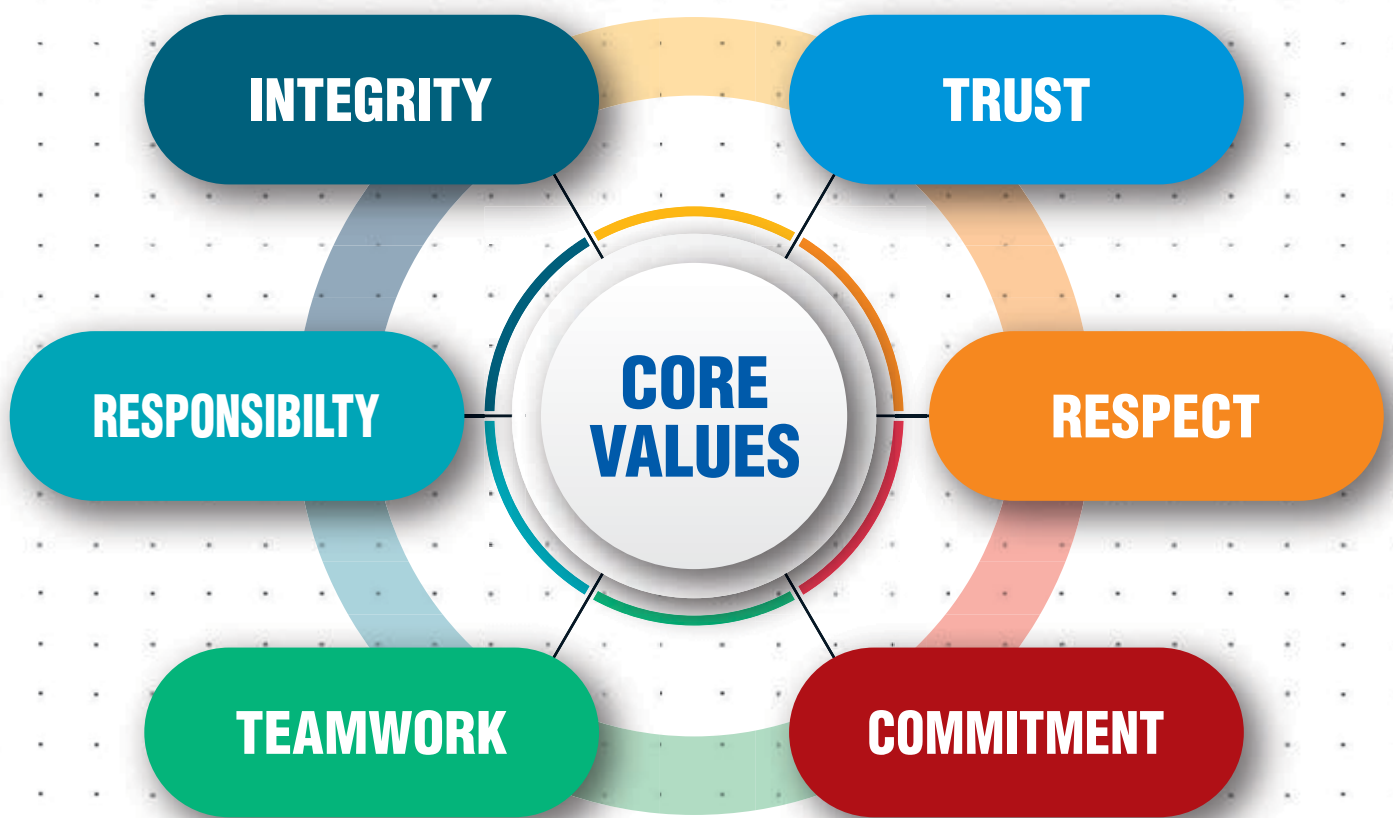
Mezzanine Floor, Abdali Tower,

Abdali Road, Multan.

Tel : 061-4500121-3



# CORE VALUES





# Ethics

## 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.
- Uphold Shariah governance culture and atmosphere in line with Islamic principles.
- Not to 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

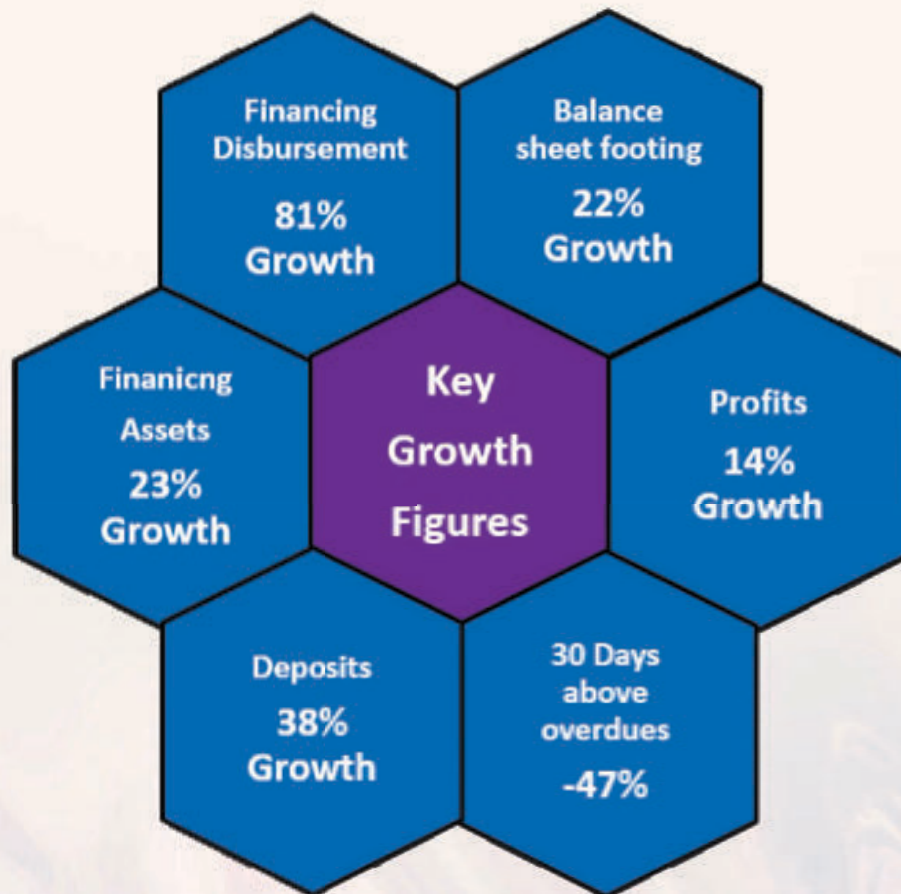
- To carry out all business transactions in line with approved mode of Shariah principles of Islamic finance.
- To promote good corporate governance and follow best business practices
- To be the leading Modaraba within the Modaraba sector as an Islamic Financial Institution.
- To maintain high ethical 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.

## 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



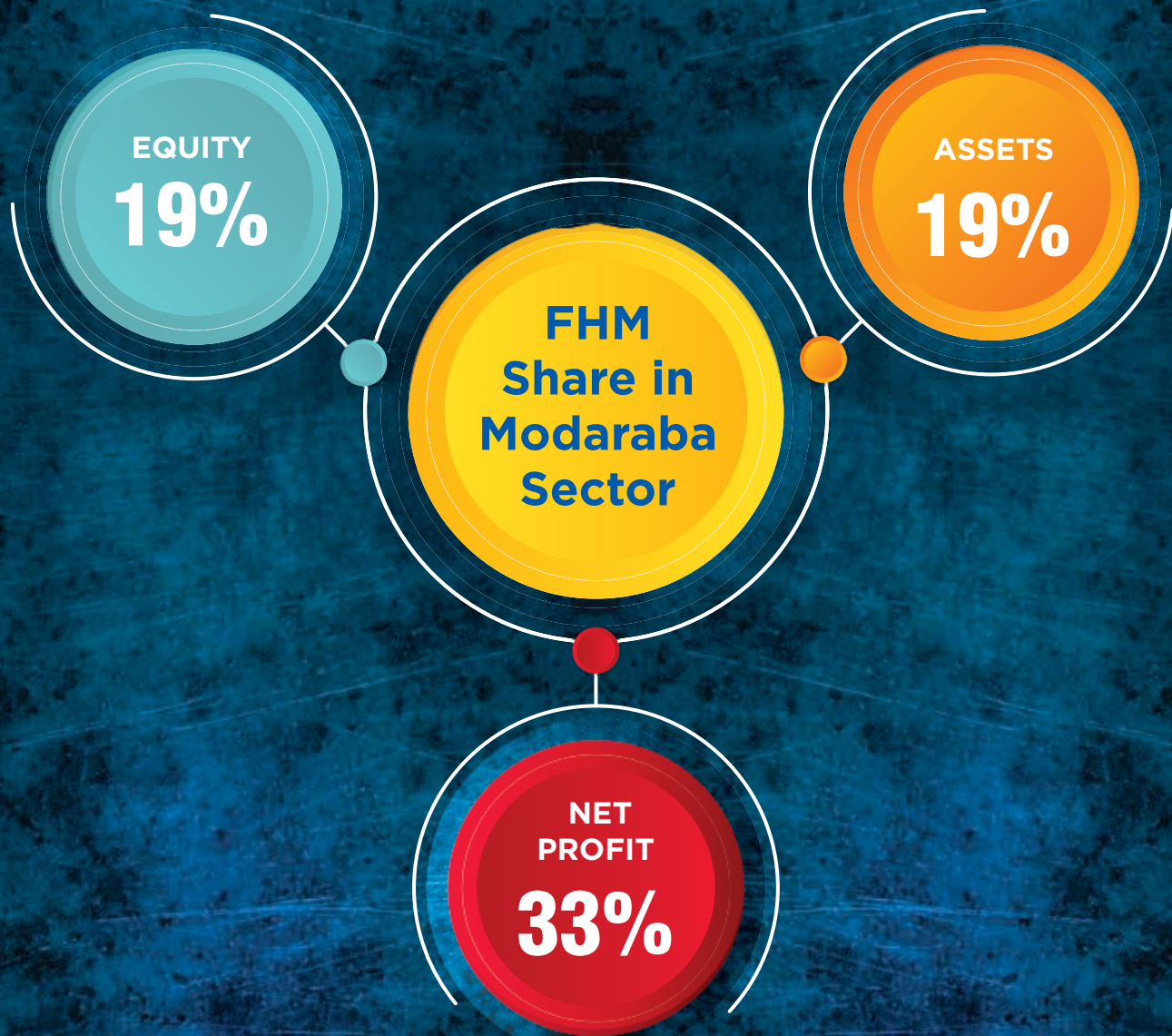
## FINANCIAL HIGHLIGHTS FOR THE YEAR 2020-2021



- All time high disbursement of Rs.6.6 billion in any single year since business operations.
- First time Balance Sheet footing crossed Rs.12.0 billion plus mark.
- Financing assets portfolio touched Rs.10.0 billion.
- Deposits reached to Rs.7.0 billion, again highest in any year since business operations.
- Overdue of 30 days and above reduced to 47%.



SHARE OF FIRST HABIB MODARABA WITHIN THE  
MODARABA SECTOR OF PAKISTAN  
AS ON JUNE 2020



SOURCE: Year Book of NBFI & Modaraba Association of Pakistan of 2020



# 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 2020-21



**NBFI & Modaraba**  
Association of Pakistan

### BEST PERFORMING MODARABA AWARD

The NBFI and Modaraba Association of Pakistan started said award in 2020 with moto to promote entities who are performing well and also adhering to best corporate and governance culture within the sector.

Alhamdulillah, FHM securing said award almost every year by meeting the winning criteria. So far FHM has received 20 awards since last 22 years from said association.



### BEST PRESENTED ANNUAL REPORT AWARD

South Asian Federation of Accountants (SAFA) in its award ceremony was held at Colombo, Sri Lanka, in December, 2020, awarded SAFA BPA "Certificate of Merit" award for "Best Presented Annual Report Award" and "SAARC Anniversary Award for Corporate Governance Disclosures".

SAFA which is the Apex Body of the South Asian Association for Regional Co-operation (SAARC) and a Regional Grouping of the International Federation of Accountants (IFAC). The SAFA BPA Award is considered as the most prestigious accolade for financial reporting in the South Asian region and signifies SAFA's recognition and reward for organizations within the region.

Alhamdulillah, FHM is receiving said award since last eleven consecutive years within the category of Financial Services sector.





## AWARD RECEIVED DURING THE YEAR 2020-21



### BEST CORPORATE REPORT AWARD

The Joint Committee of ICAP and ICMAP promote best report culture with the aim to encourage local companies to follow transparency in preparing their annual reports according to international accounting standards.

Every year, said committee evaluates and assess corporate reports in line with prescribed criteria. The criteria not only comprise on mandatory requirement of Companies Ordinance, the Code of Corporate Governance and International Financial Reporting Standard but also encourages adopting best business practices and good governance being followed all over the world.

Since last 12 years, FHM is securing best report award and this our 3rd consecutive years of winning First Position. Out of 12 awards, so far FHM has secured 6 awards of First Position and the only entity within Modaraba and NBFIs sector who has made twice Hat-Trick in securing 1st Position



### FPCCI ACHIEVEMENT AWARD

The FPCCI, which is the apex body of trade and industry of Pakistan, is promoting the interest of Pakistan's Commercial and Industrial community as well as economic and socio-economic activities.

To encourage the outstanding Organizations and Individuals, FPCCI organizes "FPCCI Achievement Awards", to cater their performance, so as to recognize and honor the dedicated individuals and enterprises of Pakistani origin who have made sustained and lasting contribution in economic and socio-economic development of Pakistan.

On September 24, 2020 FPCCI has awarded "FPCCI Achievement Award" to FHM under the category of "Islamic Modes of Financing". This recognition has been given to FHM for outstanding achievement during 2020 within NBFIs and Modaraba sector. So far FHM has secured 3 awards from FPCCI in above category.





# FHM AWARDS CALENDAR

2020



2011



2012



2013



2010



2009



2008



2000

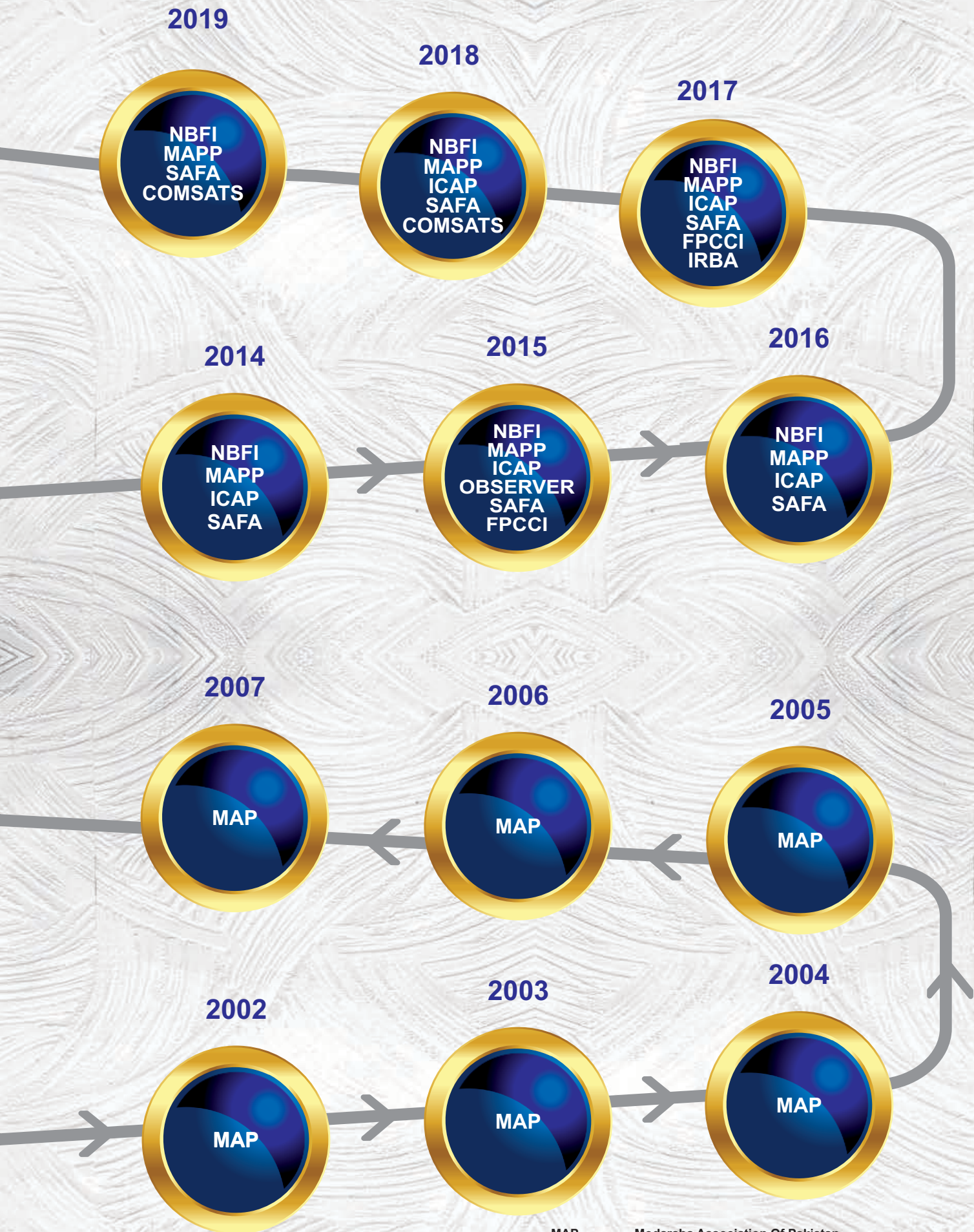
1999



2001







MAP  
NBFI  
MAPP  
ICAP  
SAFA  
BOY  
FPCCI  
OBSERVER  
IRBA

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



# PRODUCT DETAIL

## Principle Business activities of the Modaraba

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

### Lease Financing



It is an Islamic Lease Financing based on Ijarah Muntahia Bittamleek in which customer pay the financing amount during the agreed period in installment and at the completion of financing period the ownership of assets transfer to the customer.

### 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.

### Sirat-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



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.

## Istisna



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.

## Musharaka



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.

## Certificate of Investment (Musharaka)



COI (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 COMs has combination of reliance, security, shariah compliant income accompanying with a rewarding ROI to its COM holders.

## 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 13 years.
- Secured large numbers 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.

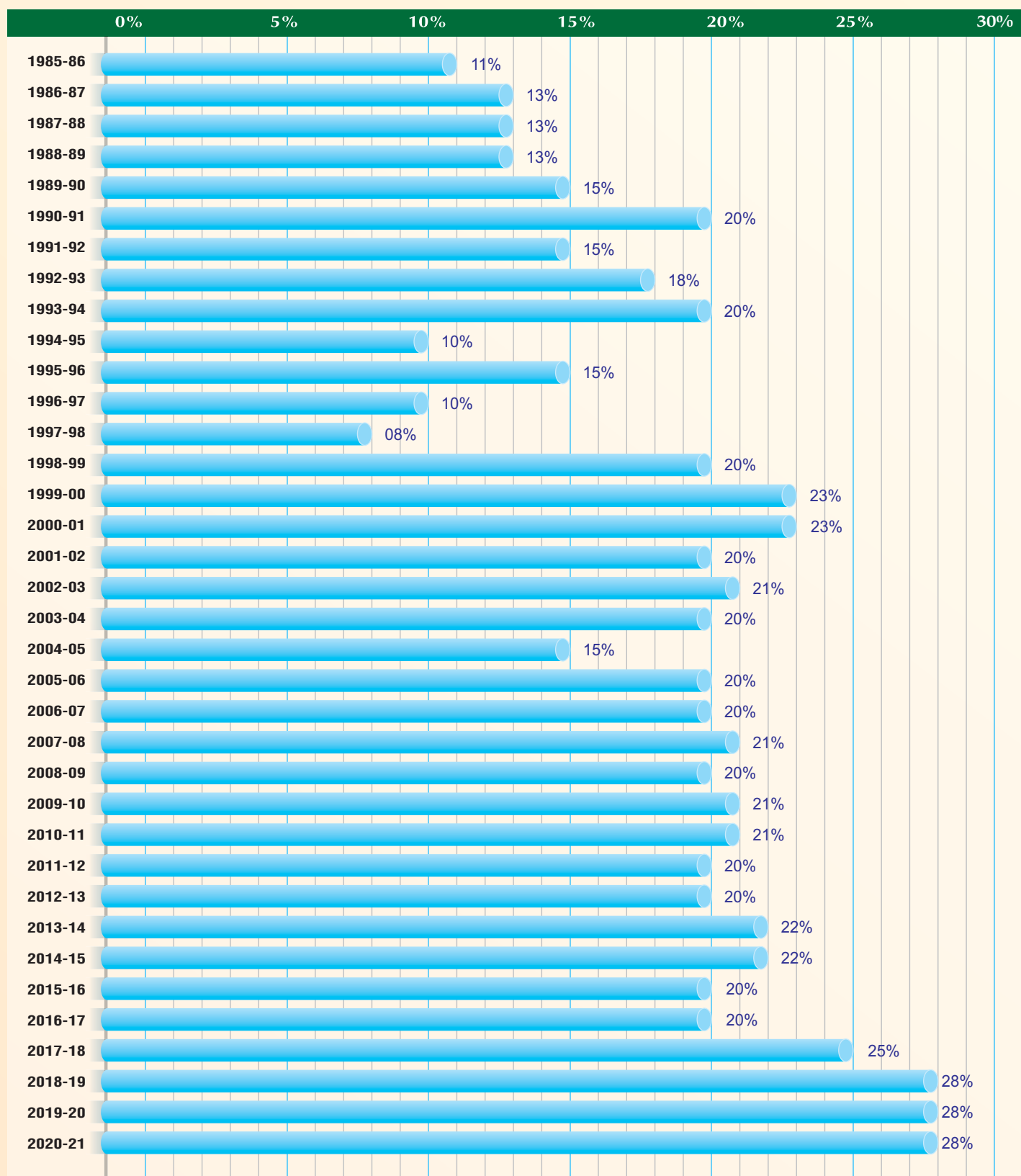




# DELIVERING 36 YEARS OF UNBROKEN DIVIDEND PAYOUT HISTORY

## AVERAGE DIVIDEND PAYMENT 18.86% PER ANNUM

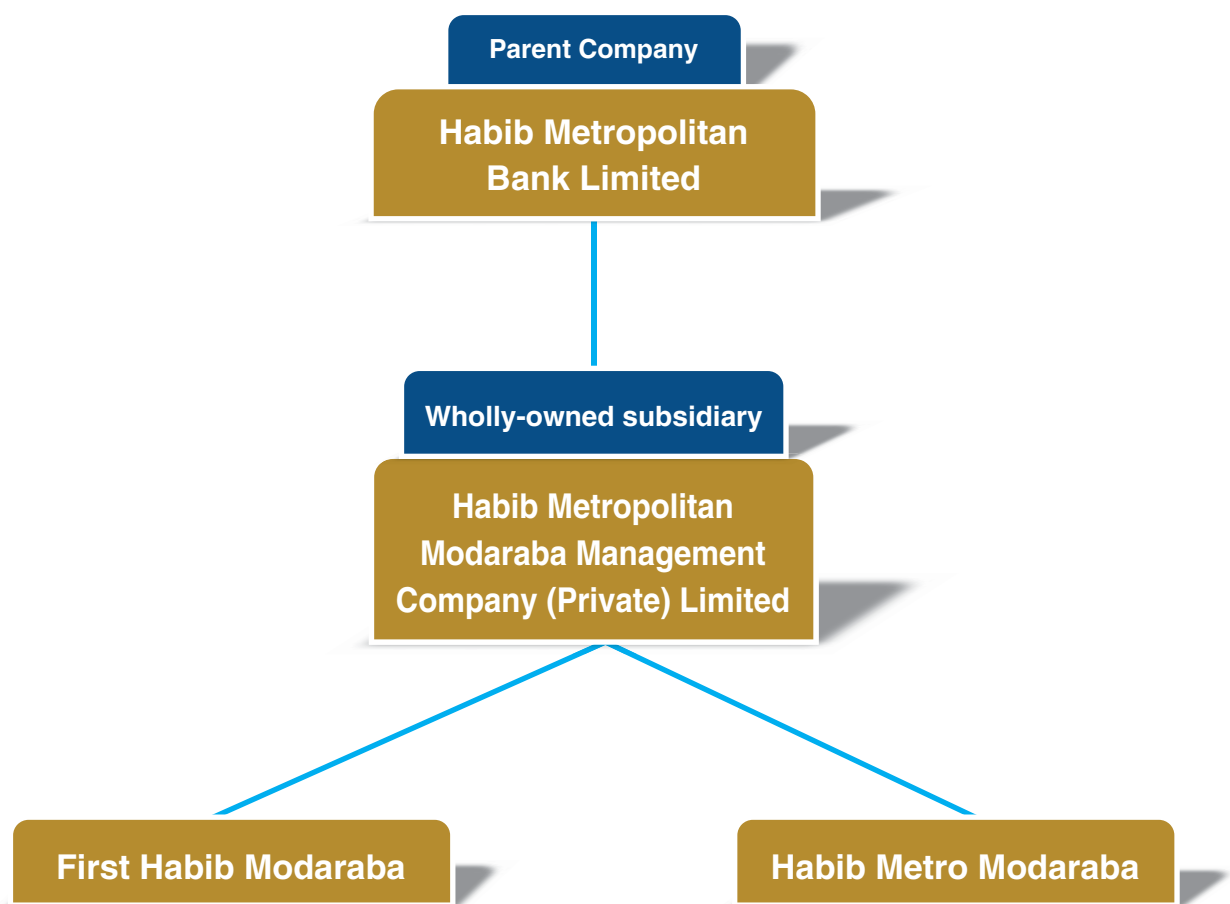
### DIVIDEND %



FIRST HABIB MODARABA NEVER SKIPPED DIVIDEND SINCE INCEPTION

## GROUP STRUCTURE

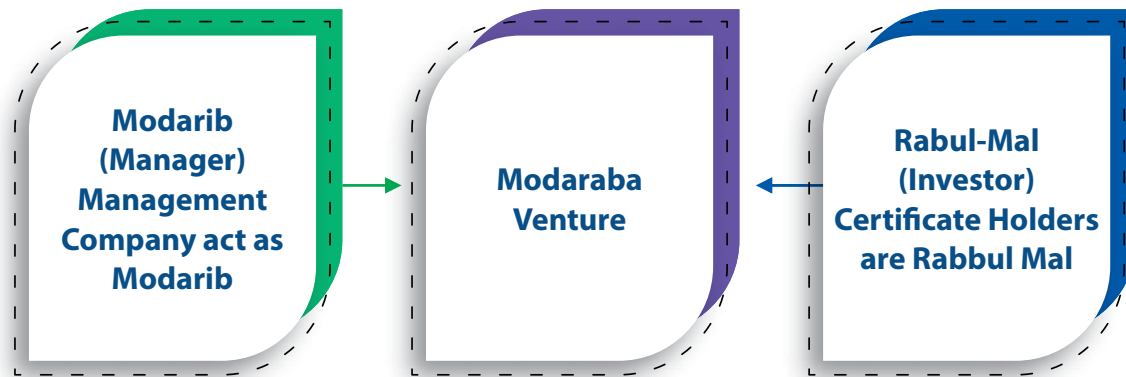
First Habib Modaraba is a perpetual, multi-purpose modaraba having its registered office at 6th Floor, HBZ Plaza, I.I. Chundrigar Road, Karachi. It is listed on the Pakistan Stock Exchange and engaged in Shariah compliant mode of financing and investment. The group comprises of Habib Metropolitan Bank 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.





## 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 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

## Organizational Structure



### Number of Employees

FHM's has employed around 74 people in its operations including branches & head office at country level.

Disclosure of total & average number of employees has been made in note 46 of the financial statements.

### Significant changes from prior year

All significant changes from last year, have been appropriately disclosed in the relevant sections of this report.

### Position within the value chain

FHM adds value to their business model, through our people, system and relationships to create additional value for our stake holders.



# SWOT Analysis

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

Highest credit rating within Modaraba sector.

Existence in major cities of the country.

Leading Modaraba within the financial the Modaraba sector

Sound Financing portfolio with very low infection rate



Limited products of resource mobilization

Low remuneration of the Modaraba Management Company as a profit sharing of Mudarib



Growing economic activities

Untapped Islamic Finance market in SME sector

Increasing market of motor car financing

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



Instability in policy rate

COVID 19 spread and its repeated reemergence

Political instability

Growing competition with other financial institution

Withdrawal of income tax exemption and levying of service sales tax on ijarah financing



# OUR STRENGTH

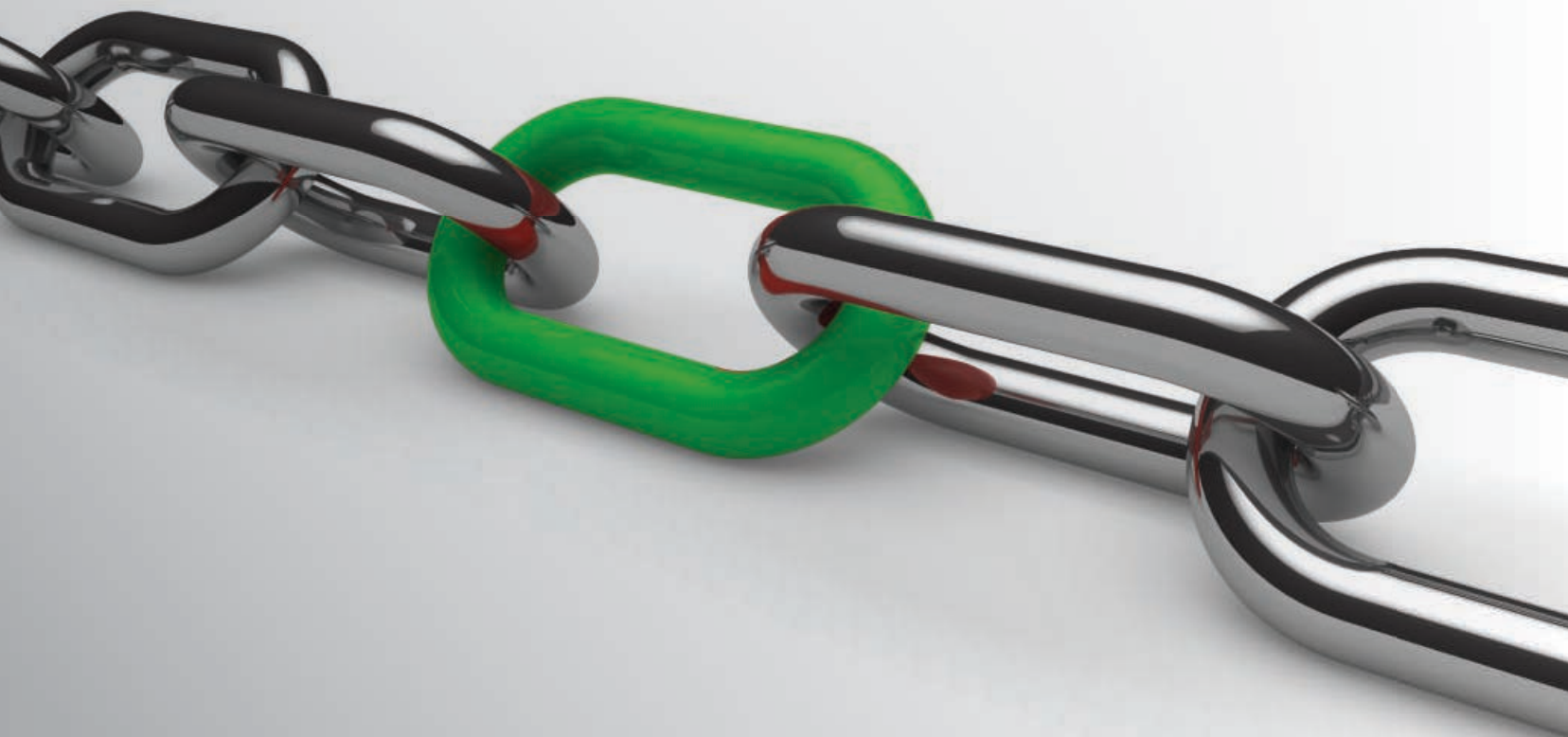
Our strengths and key differentiating factors will continue to drive us forward in our journey continuous success and maintaining position leading Modaraba within the sector.

Sound financial position, Strong Shariah governance, Compliance with regulatory requirements. High standards of Corporate Governance and better return to our investors every year are the key strengths of our successful business journey of 36 years.

Our growth strategy is based on creating value for our stakeholders. Our shared values determine the way in which we interpret and respond to business opportunities and challenges, and establish expectations about how we work with them

We focus on our growing business need and simultaneously enhance our service quality for satisfactory delivery to our worthy customers. Besides, provide sustainable and long term return to investor and certificate holders, we also fulfill satisfying the needs of other key stakeholders.

With a track record of excellent performance of three & half decades is the success story which truly reflects of our strength and unparalleled dedication with sincere commitment within entire organization. Consistency in distribution of dividends among the certificate holders along with increase in certificate holders' equity, transparency and best business practices are key to our success and to earn the reputation of most awarded Modaraba within the Modaraba sector of Pakistan.





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

## Focused Strategy

**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.**

- 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.
- Need to enhance 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 power of technology for operational efficiency and delivering of quality service.
- Develop operational capacity of human resource through proper training and job rotation.



## 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, 2021, on the overall performance of the Board of Directors and effectiveness of the role played by the Board in achieving Modaraba's strategic objectives.

It is indeed heartening to note that over more than 3 decades, First Habib Modaraba (FHM) has not only established itself as the leading Islamic financial institution but also earned the recognition from different prestigious forums i.e., ICAP, Management Association, NBFI and Modaraba Association etc., Recently FHM secured 1st Position on Best Corporate Award form joint committee of ICAP and ICMA. Since last 12 years, FHM is securing best report award and this is 3rd consecutive years of winning First Position. Repeated wining of awards reflects our consisting quest for excellence and good governance across at all levels of FHM.

The year under review was the most challenging year across the globe due to pandemic. Like other countries, Pakistan's economy also passed through with its most challenging time. Unfortunately, many precious lives were lost due to spread of the COVID-19. The year under review brought about exceptional scenarios in the Global economic activities.

However, I am glade to note that despite difficult operating environment; FHM has made remarkable performance during the financial year 2020-21. Highest disbursement of Rs.6.629 billion, achieving of highest footing of balance sheet size of Rs.12.120 billion including 14% increase in profits from Rs.356.0 million to Rs.405.0 million are the exceptional accomplishments of team of FHM. Every staff member deserves appreciation on such remarkable achievements.

We have been committed to create sustainable value for all our stakeholders with high standard of corporate governance culture. It is on the back of such excellent support that we crossed a milestone of 36 years as journey of continuous success. The institution which started with very small base, has expanded its size to become a leading Modaraba within the Modaraba sector of Pakistan.

Our strength lies in our commitment towards good governance, corporate excellence and best business practices. Our brand characteristics are in lined with our core values followed by our vision and mission. It is blessing of Allah (SWT) that our institution has established and progressing on foundation of Trust, Integrity, Respect and commitment.

Looking back at FY2020-21, I can now say that it was a year of learning and testing of our resilience in manner that has never been encountered before. It was our commitment towards our values that allowed us to remain sound and stable even in extremely challenging market environment. I am confident that management team of Modaraba will remain focus on our core strategy of prudent management with sound and sustainable progress.

In conclusion, I would like to acknowledge continued support, strategic guidance and prudent and invaluable contributions of Board of Directors in this difficult time. 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 effectively managing the impact of the crises and producing satisfactory results of FHM. I place my sincere appreciation to our Certificate Holders, business partners and all other valued stakeholders for their conviction 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

Date: September 30, 2021



## چیرمین کا پیغام

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 ۲۰۲۱ 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۔

یہ واقعی خوشی کی بات ہے کہ ۳۰ دہائیوں سے زائد عرصے کے دوران فرسٹ حبیب مضاربہ (ایف ایچ ایم) نے نہ صرف خود کو معروف اسلامی مالیاتی ادارے کے طور پر قائم کیا ہے بلکہ مختلف معزز فورمز یعنی ICAP، بینجمنٹ ایسوسی ایشن، NBFI اور مضاربہ ایسوسی ایشن وغیرہ سے بھی یہ اعزاز حاصل کیا ہے، حال ہی میں ایف ایچ ایم نے ICAP اور ICMAP کی مشترکہ کمیٹی کی بہترین کارپوریٹ ایوارڈ فارم پر پہلا انعام حاصل کیا ہے۔ گزشتہ ۱۲ سال سے ایف ایچ ایم بہترین رپورٹ ایوارڈ حاصل کر رہی ہے اور فرسٹ پوزیشن جیتنے کا یہ مسلسل تیسرا سال ہے۔ ایوارڈ کی مسلسل جیت ایف ایچ ایم کی تمام سطحوں پر اچھی کارکردگی اور اچھی حکمرانی / سربراہی کی عکاسی کرتی ہے۔

وہابی وجہ سے زیر جائزہ سال دنیا بھر میں سب سے زیادہ چیلنجنگ / کھٹن سال تھا۔ دیگر ممالک کی طرح پاکستان کی معیشت بھی اپنے سب سے مشکل وقت کیساتھ گزری۔ بد قسمتی سے کوویڈ-۱۹ کے پھیلاؤ کے باعث بہت سی قیمتی جائیں ضائع ہو گئیں۔ زیر جائزہ سال عالمی اقتصادی سرگرمیوں میں غیر معمولی منظر نامے لے کر آیا۔

تاہم، مجھے یہ بتاتے ہوئے خوشی محسوس ہو رہی ہے کہ مشکل حالات کے باوجود ایف ایچ ایم نے مالی سال ۲۰۲۰-۲۱ کے دوران قابل ذکر کارکردگی کا مظاہرہ کیا ہے۔ سب سے زیادہ ۶.۶۲۹ ارب روپے کی تقسیم، ۱۲.۱۲۰ ارب روپے کے بیلنس شیٹ سائز کی سب سے اونچی سطح کا حصول جس میں منافع ۳۵.۶۰ ملین روپے سے ۴۰.۵۰ ملین روپے تک ۱۴ فیصد اضافہ شامل ہے، ایف ایچ ایم کی ٹیم کی غیر معمولی کامیابیاں ہیں۔ عملے کا ہر رکن اس طرح کی قابل ذکر کامیابیوں پر تعریف کا مستحق ہے۔

ہم کارپوریٹ گورننس کلچر کے اعلیٰ معیار کے ساتھ اپنے تمام اسٹیک ہولڈرز کے لئے پائیدار قدر پیدا کرنے کے لئے پرعزم ہیں۔ ہم نے مسلسل کامیابی کے سفر کے طور پر ۳۶ سال کا سنگ میل عبور کیا۔ جس ادارے کا آغاز بہت چھوٹے ادارے سے ہوا، اس نے اپنا حجم بڑھا کر پاکستان کے مضاربہ سیکٹر کے اندر ایک سرکردہ مضاربہ بن گیا ہے۔

ہماری قوت اچھی کارکردگی، معاشی پروقار اور بہترین کاروباری طریقوں کے تحت ہمارے عزم میں ہے۔ ہماری برانڈ کی خصوصیات ہماری بنیادی اقدار کی صف میں ہیں اور اس کے بعد ہماری سوچ اور مشن ہے۔ یہ اللہ سبحان تعالیٰ کی برکت ہے کہ ہمارے ادارے نے اعتماد، دیانتداری، احترام اور عزم کی بنیاد پر قائم کیا ہے اور ترقی کی ہے۔

مالی سال ۲۰۲۰-۲۱ پر نظر ڈالتے ہوئے اب میں یہ کہہ سکتا ہوں کہ یہ ہماری پختگی اور پلک کو سیکھنے اور جانچنے کا سال تھا جس کا اس سے پہلے کبھی سامنا نہیں کیا گیا تھا۔ یہ ہماری اقدار کیساتھ ہماری وابستگی تھی جس نے ہمیں انتہائی چیلنجنگ ماحول میں بھی مضبوط اور مستحکم رہنے کا حوصلہ فراہم کیا۔ مجھے یقین ہے کہ مضاربہ کی بینجمنٹ ٹیم مضبوط اور پائیدار پیش رفت کے ساتھ دانشمندانہ انتظام کی ہماری بنیادی حکمت عملی پر توجہ مرکوز کرے گی۔

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 کے اثرات کو موثر طریقے سے سنبھالنے اور ایف ایچ ایم 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 رجسٹر آف مضاربہ، سیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان، اسٹیٹ بینک آف پاکستان، 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

چیرمین

۳۰ ستمبر ۲۰۲۱

## 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, 2021.

(Rupees)

Profit before management fee	417,767,016
Modaraba Management Company's remuneration	(41,776,705)
Services Sales Tax on Management Company's remuneration	(5,430,972)
Workers Welfare Fund	(7,411,187)
Profit before taxation	363,148,152
Taxation	-
Profit for the year	363,148,152
Unappropriated Profit b/f	103,135,652
Surplus transferred to unappropriated profit during the year	-
Profit available for appropriation	466,283,804

Earning per Certificate of Rs. 5/- each	1.80
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### APPROPRIATIONS

Cash Dividend @ 28% (Re.1.40 /- per certificate of Rs.5/- each)	282,240,000
Transfer to statutory reserve @ 20% of profit	72,629,630
Unappropriated profit c/f	111,414,174
	466,283,804

### DIVIDEND

The board of directors has pleased to declare cash dividend of 28% i.e. Rs.1.40 per certificate of Rs.5/- each for the year ended 30th June, 2021.



## ECONOMIC REVIEW

During the financial year 2020-21 Pakistan's economy showed good progress and performed beyond expectations with major macroeconomic indicators displayed a positive trend. Economy achieved GDP growth of 3.94% which has exceeded estimate of State Bank of Pakistan and also surpassed IMF and World Bank projections.

Economy has witnessed a V-shaped recovery. The economic recovery was achieved without compromising internal and external stability.

Manufacturing had shown remarkable growth as major sectors of LSM shown significant improvement i.e., Textile, Food Beverages & Tobacco, Non-Metallic Mineral Products and Automobile.

Despite innumerable challenges due to pandemic and high inflation, the major economic indicators have shown satisfactory progress. Presently, Pakistan's economy is moving progressively and on sustainable growth path.

Pakistan was implementing stabilization policy post economic crisis due to Covid-19 and the economy started recovering from macroeconomic imbalances.

Government took several key policy decisions as monetary and fiscal measures for revival of economy. Stimulate packages of State Bank of Pakistan (SBP) played a vital role for accelerating the pace of economic activities and business. High exports earnings, strong inflow of remittances and stability in policy rate of SBP supported well for accelerating pace of economic activities.

SBP stimulate package Temporary Economic Reform Facility (TERF) helped to speed up industrial productivity in a depressed economic environment. Salary package and Rozgar schemes provided timely loan relief and working capital to commercial entities.

Going forward, despite good economic performance, the challenges for sustainable growth and development still raise concerns.

Presently, inflation numbers are not in comfort zone, Trade deficit is gradually increasing due to high import bill. The government's efforts against



minimizing trade deficit is reversing as it widened driven largely by double increase in imports compared to exports from the country. The circular debt keeps piling up and debt-to-GDP ratio remains in the red zone.

So far, the healthy remittance inflows have really helped the current account to remain in surplus. However, due to high economic growth, the import remains on higher side and will impact widening of trade deficit. The high inflow of remittances and better exports earning can support to minimize our current account deficit.

Fixed investment and private consumption growth may be impacted due to ongoing pandemic-related concerns and dwindling global economic recoveries weigh on domestic demand. Downside risks can be emerged from new variants of the virus, high inflation, rising debt and geopolitical tensions.

However, once Pakistan successfully navigates its way through these challenges, the medium-term sustainability and economic growth can be achieved in upcoming years.

## BUSINESS REVIEW OF FHM

The year under review was full of unique challenges and opportunities due to persistence of COVID 19. The pandemic which started in early 2020 has changed all economic and business landscape globally. The "New Normal" that emerged from midst of lockdowns, closures and social distances altogether demanded quick adaptability and forward thinking to continue with routine engagements.

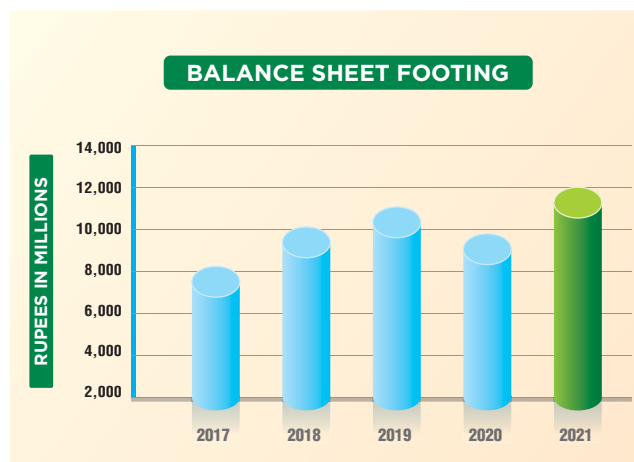
We are proud to say that despite very difficult operating environment performance of First Habib Modaraba (FHM) remained satisfactory with excellent growth in key business areas such as yearly disbursement, size of financing assets and balance sheet footings including deposits and profits.

During the year we have made disbursement of Rs.6.629 billion as compared to disbursement of Rs.3.653 billion which is increased by around 80%. This was the highest disbursement in any single year since the inception. The size of balance sheet has also reached to Rs.12.12 billion as compared to last of Rs.9.913 billion which reflect growth of around 22%. Handsome increase in profitability has also been made. Profit before management fee increased by 14% i.e., from Rs. 356 million to Rs.405 million for the period ended 30th June, 2021.

Majority of financing was made through financing product of Diminishing Musharakah. Around 94% financing was made in private and commercial vehicles. A sizeable financing facility disbursed through our Lahore, Islamabad and Multan branches. As usual, disbursements of our Karachi Branch remain high amongst the other branches which is around 53%. Rest of financing was booked by our Lahore, Islamabad and Multan branches.

Our consumer auto finance portfolio has also made impressive growth i.e., around 43%. The size of said portfolio has reached to Rs. 692 million as compared to Rs. 484 of same period of last year. During the year auto financing by financial banks hit an all-time high. It is due to low interest rates and introduction of new car models including Korean and Chinese models. Furthermore, the outbreak had put decisions to buy a new car on hold which has badly hit the auto industry. The post pandemic broader recovery in the economy in general and auto industry in particular had generated double demand of motor vehicles.

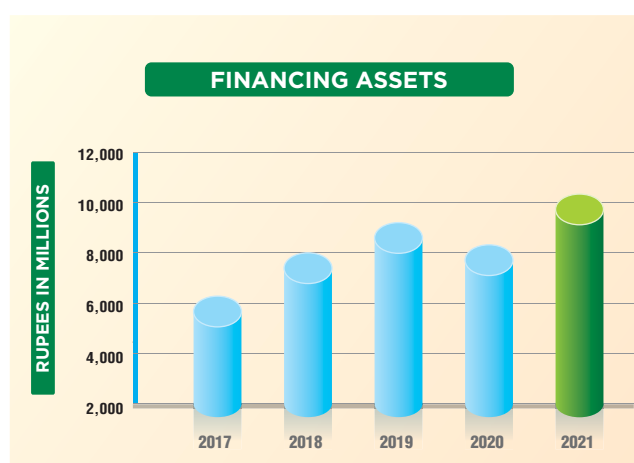
In order to support financing book, a dedicated effort was also made for resource mobilization. Our deposit size has also increased to Rs.7.291 billion from Rs.5.281 billion which reflect the growth of around 38%. In order to have fully compliant with AML/CFT Regulations, we keep our deposit portfolio from the investors



who are compliant with all required regulations. Our majority of Certificate of Investment portfolio of around 96% is with sound corporate entities.

Recently, Securities & Exchange Commission of Pakistan has issued revised Prudential Regulations (PR) for Modaraba Sector of Pakistan. According to said regulations, Capital Adequacy Ratio (CAR) has made applicable for deposit taking entities. The said revised PR requires for first two years at 8% and subsequently 10% CAR is required to be maintained. Allhamdulillah, as on 30th June, 2021 our CAR is worked out to be 33%. The adequacy ratio shows that your Modaraba is well-capitalized and also much above the minimum regulatory requirements.

Our constitutional petition on levy of services sales tax by Sindh Board of Revenue (SRB) on our Ijarah (Lease) financing portfolio is still pending with Honorable Sindh High Court. The court's stay on said issue is maintained and due to pandemic and other reasons there was no proper hearing made during the year.





In March, 2021, the Federal Government has issued an Ordinance pertain to withdrawal of certain tax exemption on several segments. In said ordinance, tax exemption on Modaraba sector was also withdrawn. Our NBFIs and Modaraba association has made several communications and made representation to Tax Authorities, Finance Minister and SECP for restoration of tax exemption status of Modarabas Sector. However, said withdrawal was not restored and finally said amendment made part of Finance Bill 2021-22. The recent development in taxation on Modaraba i.e., withdrawal of tax exemption status is also cause of concern for net profitability and dividend distributions to our investors.

Going forward, Alhamdulillah, we have made good performance in FY 2020-21, and expecting good business progress in current year as well. As per recent economic statistics, economy of Pakistan is moving in positive direction. The recent economic recovery and government measures for inclusive and sustainable growth have built investors' confidence. However, due to high economic growth, the import remains on higher side and will impact widening of trade deficit.

Keeping in view of present economic environment mixed with challenges and opportunities, we are well positioned to take benefits of growing and progressing phase of trade and businesses. We shall make our hard efforts to further enhance our market outreach in new cities and add sound customers within our assets financing portfolio. Continuous focus will be made on strengthening of risk management tools, optimizing operating efficiencies and continuous advancement in technology.

Looking ahead, FHM is well-positioned for sustainable growth and building long-term value for our valued Modaraba Certificate Holders. To cope with changing business dynamics, we will accelerate our technological support and focus on business processes in more efficient manner. At the same time, investing in human capital and creating a caring culture will also our priorities.

## **BUSINESS OUTLOOK & FUTURE STRATEGY**

Since the beginning of the pandemic, the global economy is poised to stage its most robust post-recession recovery in a century. The sharp shift of sentiments and priorities post-vaccine roll-out has resulted in strong consumer confidence and growth across the majority of the developed and developing economies.



The year under review was full of unique challenges and opportunities due to persistence of COVID 19. The

pandemic which started in early 2020 has changed all economic and business landscape globally.

Likewise, Pakistan's economy also performed beyond expectations with all major macroeconomic indicators reflected positive trend and achieved 4 per cent economic growth rate compared to negative growth of last year. Economy has witnessed a V-shaped recovery. The economic recovery was achieved without compromising internal and external stability.

However, in spite of economic resilience and good performance the repeated emergence of COVID virus in different shapes, rising debt and inflation, weakening Pak rupee, high trade & current account deficit and unstable geopolitical tensions will continue as challenges.

Alhamdulillah, FHM has made good performance in FY 2020-21, and expecting good business progress in current year as well. Our focus will be for sustainable growth and building long-term value for our valued Modaraba Certificate Holders.

Key points of our future business and efficient operational strategies would be as follows:

- To enhance our market reach in new cities and add sound customer base
- To increase financing portfolio 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 multiple choices of new variants of light and heavy motor vehicles.
- 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.
- Focus will be made on strengthening of risk management tools and optimizing operating efficiencies.
- Continuous adoption of prescribed health care measures for safety of staff members till the deadly virus completely washed out.

Furthermore, maintaining asset quality and satisfactory growth within the financing portfolio, will remain a key area of focus for the Modaraba. The objective is to increase financing in a remunerative and satisfactorily performed sector for prudent and sustainable growth.

To cope with changing business dynamics, we will accelerate our technological support and concentrate on business processes in more efficient manner. At the same time, investing in human capital and creating a caring culture will also our priorities.

Key points of our future business and efficient operational strategies would be as follows:

- To enhance our market reach in new cities and add sound customer base

To increase financing portfolio with good assets categories.

### **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 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 Shariah Advisor for the year ended June 30, 2021 is also attached with 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 believe 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 educations, 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**

Majority 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).



### 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, 2021 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, 2021 except for those disclosed in the financial statements.

### Provident Fund and Gratuity

The value of investments of provident fund and gratuity based on audited accounts as at December 31, 2020 are Rs. 54,509 million and Rs.29.607 million respectively.

### Composition of the Board

The composition of the Board of Directors of the Company as on June 30, 2021 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, Four 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	4	4	1
Mr. Muhammad Shoaib Ibrahim	4	NA	NA
Mr. Mohammad Shams Izhar	4	4	1
Mr. Saeed uddin Khan	4	4	1
Mr. Usman Nurul Abedin	4	NA	NA
Dr. Irum Saba	4	NA	NA

### Auditors

Present auditors M/s. EY Ford Rhodes, Chartered Accountants, are being eligible to offer themselves for reappointment as auditors for the financial year ending June 30, 2022, however their appointment will be subject to approval from Registrar Modaraba Office.

### 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  
Karachi: September 30, 2021

**Syed Rasheed Akhtar**  
Director



## ڈائریکٹر رپورٹ

### آڈیٹرز

موجودہ آڈیٹرز میسرز ای وائی فورڈ روڈز، چارٹرڈ اکاؤنٹنٹس، ۳۰ جون ۲۰۲۲ کو ختم ہونے والے مالی سال کے لئے آڈیٹرز کے طور پر دوبارہ تقرری کے لئے خود کو پیش کرنے کے اہل ہو رہے ہیں، تاہم ان کی تقرری رجسٹرار مضاربہ آفس سے منظوری سے مشروط ہوگی۔

### اظہار تشکر

بورڈ شکر گزار ہے کہ جو تعاون اور مدد اُسے سیکیورٹیز اینڈ ایکسچینج کمیشن پاکستان (SECP)، رجسٹرار 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۔

محمد رشید اختر  
ڈائریکٹر

محمد شعیب ابراہیم  
چیف ایگزیکٹو آفیسر

کراچی: ۳۰ ستمبر ۲۰۲۱

## ڈائریکٹرز رپورٹ

- 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 دسمبر ۲۰۲۰ تک بالترتیب ۵۴،۵۰۹ ملین روپے اور ۲۹،۶۰ ملین روپے ہے۔

## بورڈ کی تشکیل

۳۰ جون ۲۰۲۱ء 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 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
شیخ رشید اختر	۴	۴	۱
ایم آر۔ محمد شعیب ابراہیم	۴	NA	NA
جناب محمد شمس ازہر	۴	۴	۱
جناب سعید الدین خان	۴	۴	۱
جناب عثمان نورالآبیدین	۴	NA	NA
محترمہ ارم صبا	۴	NA	NA



## ڈائریکٹرز رپورٹ

### ڈائریکٹرز کے اجلاس میں شرکت کے لئے فیس

چیئرمین، نان ایگزیکٹو ڈائریکٹرز اور آزاد ڈائریکٹر صرف 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

ایک 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 ۲۰۲۱ 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 گی 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 تجزیے 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۔
- بورڈ مضاربہ کی موجودہ جاری پیشرفت سے مطمئن ہے۔

## ڈائریکٹر رپورٹ

ہمارے مستقبل کے کاروباری اور موثر آپریشنل حکمت عملی کے اہم نکات درج ذیل ہوں گے

### شرعی تعمیل اور آڈٹ کا طریقہ کار

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

شرعی اصولوں کے زیر نگرانی ایسے مختلف معاہدے کسی اسلامی مالیاتی ٹرانزیکشن کی حرمت اور درستگی کو برقرار رکھتی ہیں۔ جیسے کہ، جو فرسٹ حبیب مضاربہ (FHM) شریعت کے فریم ورک کے اندر ان اصولوں پر سختی سے کاربند ہے۔

ہمارا یقین ہے کہ شرعی اصولوں کے زیر نگرانی، اسلامی مالیاتی نظام رسک شیئرنگ کی حوصلہ افزائی کرتا ہے، کاروبار کو فروغ دیتا ہے، نمائشی چیزوں کی حوصلہ شکنی کرتا ہے اور معاہدوں کی حرمت پر زور دیتا ہے۔

الحمد للہ! فرسٹ حبیب مضاربہ کی انتظامیہ شرعی اصولوں اور تکمیل کیلئے بہترین شرعی عالم / ایڈوائزر کے زیر نگرانی کام کرتی ہے۔ تاہم، اس کو مزید بہتر سے بہتر بنانے کی کوششیں بھی لگاتار جاری و ساری ہیں۔

ہم سمجھتے ہیں کہ شریعت کی رہنمائی ہماری سب سے پہلی اور بڑی ذمہ داری ہے اور ہماری ٹیم کا یہ مکمل عزم ہے کہ ہمارا سب سے اہم مقصد اس پروسز میں مزید نکھار اور غلطیوں سے پاک کام کیا جائے۔ ایک مکمل شرعی آڈٹ رپورٹ شرعی ایڈوائزر کی طرف سے اختتام پیرید ۳۰ جون، ۲۰۲۰ کی سالانہ رپورٹ کے ساتھ منسلک ہے۔

۳۰ جون ۲۰۲۱ کو ختم ہونے والے سال کے لئے شرعی ایڈوائزر کی مکمل شرعی 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 بااختیار 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

اکثریتی ڈائریکٹر انسٹی ٹیوٹ آف چارٹرڈ اکاؤنٹنٹس آف پاکستان (ICAP)، انسٹی ٹیوٹ آف کاسٹ اینڈ مینجمنٹ اکاؤنٹنٹس آف پاکستان (آئی سی ایم اے پی) اور انسٹی ٹیوٹ آف بزنس ایڈمنسٹریشن (IBA) سے ڈائریکٹر ٹریننگ سرٹیفکیٹ کے ضروری تقاضوں کے مطابق ہیں۔



## ڈائریکٹر رپورٹ

### کاروباری نقطہ نظر اور مستقبل کی حکمت عملی

زیر جائزہ سال کوویڈ ۱۹ کے مستقبل رہنے کی وجہ سے منفرد چیلنجوں اور مواقع سے بھرا ہوا تھا۔ ۲۰۲۰ کے اوائل میں شروع ہونے والی وبائی عالمی سطح پر تمام معاشی اور کاروباری منظر نامے کو تبدیل کر دیا ہے۔

وبا کے آغاز سے ہی عالمی معیشت ایک صدی میں کساد بازاری کے بعد اپنی سب سے مضبوط بحالی کا مرحلہ عبور کرنے کے لئے تیار ہے۔ ویکسین کے رول آؤٹ کے بعد خواہشات اور ترجیحات کی تیزی میں تبدیلی کے نتیجے میں ترقی یافتہ اور ترقی پذیر معیشتوں کی اکثریت میں صارفین کا اعتماد اور ترقی مضبوط ہوئی ہے۔

اسی طرح پاکستان کی معیشت نے بھی توقعات سے بالاتر کارکردگی کا مظاہرہ کیا جس میں تمام بڑے میکرو اکنامک اشاریے مثبت رجحان کی عکاسی کرتے ہیں اور گزشتہ سال کی منفی نمو کے مقابلے میں ۴ فیصد اقتصادی شرح نمو حاصل کی۔ معیشت میں ۷ شکل کی بحالی دیکھنے میں آئی ہے۔ معاشی بحالی اندرونی اور بیرونی استحکام پر سمجھوتہ کئے بغیر حاصل کی گئی۔

تاہم معاشی لچک اور اچھی کارکردگی کے باوجود مختلف شکلوں میں کوویڈ وائرس کا بار بار ابھرنا، قرضوں اور افراط زر میں اضافہ، پاکستانی روپیہ کمزور ہونا، تجارت میں اضافہ اور کرنٹ اکاؤنٹ خسارہ اور غیر مستحکم جیو پولیٹیکل کشیدگی چیلنجوں کے طور پر جاری رہے گی۔

الحمد للہ! ایف ایم نے مالی سال ۲۰۲۰-۲۱ میں اچھی کارکردگی کا مظاہرہ کیا ہے اور رواں سال بھی اچھی کاروباری پیش رفت کی توقع کر رہے ہیں۔ ہماری توجہ پائیدار ترقی اور ہمارے قابل قدر مضاربہ سرٹیفکیٹ ہولڈرز کے لئے طویل مدتی قدر کی تعمیر پر مرکوز ہوگی۔ موجودہ معاشی ماحول کو چیلنجوں اور مواقع کے ساتھ ملانے کے پیش نظر ہم تجارت اور کاروبار کے بڑھتے ہوئے اور ترقی پذیر مرحلے کے فوائد حاصل کرنے کے لئے اچھی پوزیشن میں ہیں۔

بدلتی ہوئی کاروباری ڈائنامکس سے نمٹنے کے لئے ہم اپنی تکنیکی معاونت میں تیزی لائیں گے اور کاروباری عمل پر زیادہ موثر طریقے سے توجہ مرکوز کریں گے۔ اس کے ساتھ ساتھ لوگوں پر سرمایہ کاری اور دیکھ بھال کا کلچر تخلیق کرنا بھی ہماری ترجیحات ہوں گے۔

ہمارے مستقبل کے کاروباری اور موثر آپریشنل حکمت عملی کے اہم نکات درج ذیل ہوں گے:

- نئے شہروں میں ہماری مارکیٹ کی رسائی کو بڑھانا اور بہترین کسٹمرز کو شامل کرنا۔
- فنانشنگ پورٹ فولیو میں اچھے اثاثوں کے زمروں / کیٹیگریز میں اضافہ کرنا۔
- سی او آئی اور دیگر اسلامی آلات کے ذریعے کم لاگت کے وسائل کو متحرک کرنے کی نئی راہیں تلاش کریں۔
- زیادہ ڈیماڈ اور ہلکی اور بھاری موٹر گاڑیوں کی نئی اقسام کے متعدد انتخاب کے پیش نظر کنزیومر آؤٹ فنانسنگ پر توجہ مرکوز کرنا۔
- ٹیکنالوجی کی معاونت کے ذریعے کاروباری لاگت کو کم کرنا۔
- عملے کے ارکان کی ورچوئل مصروفیات کے ذریعے آپریشنل کارکردگی میں اضافے کے لئے تکنیکی ترقی کو بڑھانا اور ڈیجیٹلائزیشن کو وسیع کرنا۔
- تربیتی پروگراموں کے ذریعے عملے کے ارکان کی مختلف حصوں کی آپریشنل صلاحیت کو بڑھانا۔
- رسک مینجمنٹ ٹولز کو مضبوط بنانے اور آپریٹنگ کارکردگی کو بہتر بنانے پر توجہ مرکوز کرنا۔
- مہلک وائرس کے مکمل طور پر خاتمے تک عملے کے ارکان کی حفاظت کے لئے صحت کی دیکھ بھال کے مقررہ اقدامات کو مسلسل اپنانا۔

مزید برآں فنانشنگ پورٹ فولیو کے اندر اثاثوں کے معیار اور اطمینان بخش نمو کو برقرار رکھنا مضاربہ کے لئے توجہ کا ایک اہم شعبہ رہے گا۔ اس کا مقصد دانشمندانہ اور پائیدار ترقی کے لئے منافع بخش اور اطمینان بخش کارکردگی کے شعبے میں مالی اعانت میں اضافہ کرنا ہے۔

بدلتی ہوئی کاروباری ڈائنامکس سے نمٹنے کے لئے ہم اپنی تکنیکی معاونت میں تیزی لائیں گے اور کاروباری عمل پر زیادہ موثر طریقے سے توجہ مرکوز کریں گے۔ اس کے ساتھ ساتھ لوگوں میں سرمایہ کاری اور دیکھ بھال کا کلچر تخلیق کرنا بھی ہماری ترجیحات ہوں گے۔

## ڈائریکٹر رپورٹ

زیادہ تر مالی معاونت مشارکہ مناقصہ کے ذریعے کی گئی ہے۔ نجی اور تجارتی گاڑیوں میں تقریباً ۹۴ فیصد فنانسنگ کی گئی۔ ہماری لاہور، اسلام آباد اور ملتان برانچز کے ذریعے ایک بڑی فنانسنگ تقسیم کی گئی۔ ہمیشہ کی طرح ہماری کراچی برانچ کی تقسیم دیگر برانچز کے مقابلے میں زیادہ ہے جو تقریباً ۵۳ فیصد ہے۔ باقی مالی اعانت ہماری لاہور، اسلام آباد اور ملتان برانچز نے بک کی تھی۔

ہمارے کمزور آٹو فنانس پورٹ فولیو نے بھی متاثر کن ترقی کی ہے جو کہ تقریباً ۴۳ فیصد رہی۔ مذکورہ پورٹ فولیو کا حجم گزشتہ سال کی اسی مدت کے ۲۸۴ روپے کے مقابلے میں ۶۹۲ ملین روپے تک پہنچ گیا ہے۔ سال کے دوران مالیاتی بینکوں کی جانب سے آٹو فنانسنگ اب تک کی بلند ترین سطح پر پہنچ گئی۔ اس کی وجہ کم شرح سود اور کوریائی اور چینی ماڈلز سمیت نئے کارماڈلز کا متعارف کرانا ہے۔ مزید برآں، اس وباء نے نئی کار خریدنے کے فیصلوں کو روک دیئے تھے جس نے آٹو انڈسٹری کو بہت بری طرح متاثر کیا تھا۔ عام طور پر معیشت میں وبا کے بعد وسیع تر بحالی اور خاص طور پر آٹو صنعت نے موٹر گاڑیوں کی دہری مانگ پیدا کی تھی۔

فنانسنگ بک کی معاونت کے لئے وسائل کو متحرک کرنے کے لئے کوشش بھی کی گئی۔ ہمارا ڈپازٹ سائز بھی ۵۲۸ ارب روپے سے بڑھ کر ۲۹۱ ارب روپے ہو گیا ہے جو تقریباً ۳۸ فیصد کی نمو کی عکاسی کرتا ہے۔ اے ایم ای / سی ایف ٹی ضوابط کے مکمل مطابق ہونے کے لئے، ہم اپنا ڈپازٹ پورٹ فولیو ان سرمایہ کاروں سے رکھتے ہیں جو تمام مطلوبہ ضوابط کے مطابق ہوں۔ ہماری سرمایہ کاری کے سرٹیفکیٹ پورٹ فولیو کی اکثریت جو کہ تقریباً ۹۶ فیصد ہے مضبوط کارپوریٹ اداروں کے پاس ہے۔

حال ہی میں سیوریئر اینڈ ایکسیچینج کمیشن آف پاکستان نے پاکستان کے مضاربہ سیکٹر کے لئے نظر ثانی شدہ پروڈینشل ریگولیشنز (پی آر) جاری کیے ہیں۔ مذکورہ ضوابط کے مطابق کیپیٹل اینڈ وکیسی ریشو (سی اے آر) نے ڈپازٹ لینے والے اداروں کے لئے قابل اطلاق بنادیا ہے۔ مذکورہ نظر ثانی شدہ پی آر کو پہلے دو سال ۸ فیصد اور اس کے بعد ۱۰ فیصد سی اے آر پر قرار رکھنے کی ضرورت ہے۔ الحمد للہ ۳۰ جون ۲۰۲۱ تک ہماری سی اے آر پر ۳۳ فیصد تک کام کیا گیا ہے۔ مناسبت کا تناسب ظاہر کرتا ہے کہ آپ کا مضاربہ ریگولیٹری ضروریات کے مطابق ہے۔

ہمارے اجارہ (لیز) فنانسنگ پورٹ فولیو پر سندھ بورڈ آف ریونیو (ایس آر بی) کی جانب سے لیوی سرومز سلیزن ٹیکس سے متعلق ہماری آئینی درخواست ابھی معزز سندھ ہائی کورٹ میں زیر التوا ہے۔ مذکورہ معاملے پر عدالت کا ”اسٹے“ برقرار ہے اور وبا اور دیگر وجوہات کی وجہ سے سال کے دوران کوئی مناسب سماعت نہیں ہوئی۔

مارچ ۲۰۲۱ میں وفاقی حکومت نے ایک آرڈیننس جاری کیا ہے جس کا تعلق متعدد شعبہ جات پر عائد ٹیکسوں سے بعض استثنیٰ واپس لینے سے متعلق ہے۔ مذکورہ آرڈیننس میں مضاربہ سیکٹر پر ٹیکس چھوٹ بھی واپس لے لی گئی۔ ہماری این بی ایف آئی اور مضاربہ ایسوسی ایشن نے نمائندگی کرتے ہوئے ٹیکس حکام، وزیر خزانہ اور ایس ای سی پی سے متعدد دراصلے کیے ہیں اور مضاربہ ایسوسی ایشن کی ٹیکس چھوٹ کی حیثیت کی بحالی کے لئے بات کی ہے۔ تاہم ابھی تک مذکورہ چھوٹ بحال نہیں کی گئی اور آخر میں کہا گیا کہ مذکورہ آرڈیننس فنانس بل ۲۰۲۱-۲۲ کا حصہ بنادیا گیا ہے۔ مضاربہ پر ٹیکس میں حالیہ پیشرفت یعنی ٹیکس چھوٹ کی حیثیت واپس لینا بھی ہمارے سرمایہ کاروں کو خالص منافع اور منافع کی تقسیم کے لئے تشویش کا باعث ہے۔

آگے بڑھتے ہوئے الحمد للہ، ہم نے مالی سال ۲۰۲۰-۲۱ میں اچھی کارکردگی کا مظاہرہ کیا ہے اور رواں سال بھی اچھی کاروباری پیشرفت کی توقع کر رہے ہیں۔ حالیہ معاشی اعداد و شمار کے مطابق پاکستان کی معیشت مثبت سمت میں بڑھ رہی ہے۔ حالیہ معاشی بحالی اور جامع اور پائیدار ترقی کے لئے حکومتی اقدامات نے سرمایہ کاروں میں اعتماد پیدا کیا ہے۔ تاہم زیادہ معاشی ترقی کی وجہ سے دلاؤ زیادہ پہلو پر برقرار ہے اور اس سے تجارتی خسارے میں اضافے پر اثر پڑے گا۔ مزید برآں وبا سے متعلق جاری خدشات اور عالمی اقتصادی بحالیوں کو کمزور کرنے کی وجہ سے سرمایہ کاری اور نجی کھپت میں اضافے پر اثر پڑ سکتا ہے۔ وائرس کی نئی شکلوں، زیادہ افراط زر، بڑھتے ہوئے قرضوں اور جیو پولیٹیکل کشیدگی سے منفی خطرات سامنے آسکتے ہیں۔

موجودہ معاشی ماحول کو چیلنجوں اور مواقع کے ساتھ ملانے کے پیش نظر ہم تجارت اور کاروبار کے بڑھتے ہوئے اور ترقی پذیر مرحلے کے فوائد حاصل کرنے کے لئے اچھی پوزیشن میں ہیں۔ ہم نئے شہروں میں اپنی مارکیٹ کی رسائی کو مزید بڑھانے اور اپنے اثاثوں کی مالی معاونت کے پورٹ فولیو کے اندر مضبوط صارفین کو شامل کرنے کے لئے اپنی سخت کوششیں کریں گے۔ رسک مینجمنٹ ٹولز کو مضبوط بنانے، آپریٹنگ کارکردگی کو بہتر بنانے اور ٹیکنالوجی میں مسلسل ترقی پر مسلسل توجہ مرکوز کی جائے گی۔

آگے دیکھتے ہوئے، ایف ایچ ایم پائیدار ترقی اور ہمارے قابل قدر مضاربہ سرٹیفکیٹ ہولڈرز کے لئے طویل مدتی قدر کی تعمیر کے لئے اچھی پوزیشن میں ہے۔ بدلتی ہوئی کاروباری ڈائنامکس سے نمٹنے کے لئے ہم اپنی تکنیکی معاونت میں تیزی لائیں گے اور کاروباری عمل پر زیادہ موثر طریقے سے توجہ مرکوز کریں گے۔ اس کے ساتھ ساتھ لوگوں میں سرمایہ کاری اور دیکھ بھال کا کلچر تخلیق کرنا بھی ہماری ترجیحات ہوں گے۔



## ڈائریکٹر رپورٹ

مینوفیکچرنگ نے قابل ذکر ترقی کا مظاہرہ کیا کیونکہ ایل ایس ایم کے بڑے شعبوں یعنی ٹیکسٹائل، فوڈیور، بجری، اینڈ ٹوبیکو، غیر دھاتی معدنی مصنوعات اور آٹو موبائل میں نمایاں بہتری آئی ہے۔  
دبا اور افراط زر کی وجہ سے بے شمار چیلنجوں کے باوجود بڑے معاشی اشاریوں نے اطمینان بخش پیش رفت کا مظاہرہ کیا ہے۔ اس وقت پاکستان کی معیشت بتدریج اور پائیدار ترقی کی راہ پر گامزن ہے۔

پاکستان بحران کے بعد استحکام کی پالیسی پر عمل درآمد کر رہا ہے اور معیشت میکرو اکنامک عدم توازن سے بہتری کی جانب سنبھل رہی ہے۔

حکومت نے معیشت کی بحالی کے لئے مالیاتی اور مالی اقدامات کے لئے کئی اہم پالیسی فیصلے کیے۔ اسٹیٹ بینک آف پاکستان (SBP) کے پیکیج نے معاشی سرگرمیوں اور کاروبار کی رفتار کو متحرک اور تیز کرنے میں اہم کردار ادا کیا۔ برآمدات کی زیادہ آمدنی، گھریلو ترسیلات زر میں مضبوط بہاؤ اور اسٹیٹ بینک کی پالیسی شرح میں استحکام نے معاشی سرگرمیوں کی رفتار کو تیز کرنے میں اچھی مدد فراہم کی۔

اسٹیٹ بینک کے متحرک پیکیج نے عارضی اقتصادی اصلاحات کی سہولت (ٹی ای آر ایف) نے تناؤ زدہ سست معاشی ماحول میں صنعتی پیداواری صلاحیت کو تیز کرنے میں مدد کی۔ تنخواہیں اور روزگار اسکیموں نے تجارتی اداروں کو بروقت قرضوں میں راحت و سکون اور ورکنگ کیسینٹل فراہم کیا۔

مزید بڑھتے ہوئے، اچھی معاشی کارکردگی کے باوجود پائیدار ترقی اور ترقی کے راہ میں حائل چیلنجز اب بھی خدشات پیدا کر رہے ہیں۔

اس وقت افراط زر کے اعداد آرمہ حالات میں نہیں ہے، زیادہ درآمدی بل کی وجہ سے تجارتی خسارہ بتدریج بڑھ رہا ہے۔ تجارتی خسارے کو کم سے کم کرنے کے خلاف حکومت کی کوششیں الٹ رہی ہیں کیونکہ اس میں ملک سے برآمدات کے مقابلے میں درآمدات میں دو گنا اضافہ ہوا ہے۔ سرکلر قرض جمع ہوتا جا رہا ہے اور قرض سے جی ڈی پی کا تناسب ریڈ زون میں رہتا ہے۔

اب تک، صحت مند ترسیلات زر کی آمد نے واقعی کرنٹ اکاؤنٹ کو سرپلس میں رہنے میں مدد کی ہے۔ تاہم اعلیٰ معاشی ترقی کی وجہ سے درآمد اعلیٰ پہلو پر برقرار ہے اور اس سے تجارتی خسارے میں اضافے پر اثر پڑے گا۔ ترسیلات زر کی زیادہ آمد اور بہتر برآمدات کمانے سے ہمارے کرنٹ اکاؤنٹ خسارے کو کم سے کم کرنے میں مدد مل سکتی ہے۔

وبائے متعلق جاری خدشات اور عالمی اقتصادی بحالی میں کمی کی وجہ سے مقررہ سرمایہ کاری اور نجی کھیت میں اضافہ متاثر ہو سکتا ہے جو ڈومیسٹک مانگ پر اثر انداز ہوگا۔ وائرس کی نئی شکلوں، زیادہ افراط زر، بڑھتے ہوئے قرضوں اور جیو پالیٹیکل کشیدگی سے منفی خطرات سامنے آسکتے ہیں۔

تاہم ایک بار جب پاکستان ان چیلنجوں سے کامیابی کے ساتھ گزر جائے گا تو آنے والے برسوں میں درمیانی مدت کی پائیداری اور معاشی ترقی حاصل کی جاسکتی ہے۔

## ایف ایچ ایم کا کاروباری جائزہ

زیر جائزہ سال کوویڈ ۱۹ کی مستقل رہنے وجہ سے منفرد چیلنجوں اور مواقع سے بھرا ہوا تھا۔ ۲۰۲۰ کے اوائل میں شروع ہونے والی اس وبائے عالمی سطح پر تمام معاشی اور کاروباری منظر نامے کو تبدیل کر دیا ہے۔ لاک ڈاؤن، بندشوں اور سماجی فاصلوں کے درمیان ابھرنے والے "نیو نارمل" نے معمول کی مصروفیات کو جاری رکھنے کے لئے فوری مطابقت پذیری اپنانے اور آگے کیلئے مزید سوچنے کا مطالبہ کیا ہے۔

ہمیں یہ کہتے ہوئے فخر ہے کہ فرسٹ حبیب مضاربہ (ایف ایچ ایم) نے انتہائی مشکل آپریٹنگ ماحول کے باوجود اہم کاروباری شعبوں جیسے سالانہ تقسیم، فنانسنگ اثاثوں کے حجم اور ڈپازٹس اور منافع سمیت بیلنس شیٹ کی بنیادوں میں بہترین نمو کے ساتھ اطمینان بخش کارکردگی دکھائی۔

سال کے دوران ہم نے ۶۵۳ ارب روپے کی تقسیم کے مقابلے میں ۶۲۹ ارب روپے کی تقسیم کی ہے جس میں تقریباً ۸ فیصد اضافہ کیا گیا ہے۔ یہ شروعات کے بعد کسی بھی ایک سال میں سب سے زیادہ تقسیم تھی۔ بیلنس شیٹ کا حجم بھی ۹۱۳ ارب روپے کے مقابلے میں ۱۱۲ ارب روپے تک پہنچ گیا ہے جو تقریباً ۲۲ فیصد کی نمو کی عکاسی کرتا ہے۔ منافع میں بھی اچھا اضافہ کیا گیا ہے۔ منجمنٹ فیس سے قبل منافع ۱۴ فیصد یعنی ۳۰ جون ۲۰۲۱ کو ختم ہونے والی مدت کے دوران ۳۵۶ ملین روپے سے بڑھ کر ۴۰۵ ملین روپے ہو گیا۔

## ڈائریکٹر رپورٹ

مجھے بورڈ آف ڈائریکٹرز کی جانب سے ۳۰ جون ۲۰۲۱ کو ختم ہونے والے سال کے لئے مضاربہ کے آؤٹ شدہ اکاؤنٹس پیش کرتے ہوئے خوشی ہو رہی ہے۔

(پاکستانی روپے)	مینجمنٹ فیس سے قبل منافع
۴۱۷,۷۶۷,۰۱۶	مضاربہ مینجمنٹ کمپنی کی فیس
(۴۱,۷۷۶,۷۰۱)	مینجمنٹ کمپنی کے معاوضے پر سروسز سیلز ٹیکس
(۵,۴۳۰,۹۷۲)	ورکرز ویلفیئر فنڈ
(۷,۴۱۱,۱۸۷)	منافع قبل از ٹیکس
۳۶۳,۱۳۸,۱۵۲	ٹیکس
-	سال کا منافع
۳۶۳,۱۳۸,۱۵۲	غیر منقسم منافع
۱۰۳,۱۳۵,۶۵۲	سال کے دوران سرپلس کی غیر منقسم منافع میں منتقلی
-	قابل تقسیم منافع
۴۶۶,۲۸۳,۸۰۴	(۵ روپے فی سٹیفکیٹ / شیئر پر منافع)
۱.۸۰	قابل تقسیم منافع
۲۸۲,۵۳۰,۰۰۰	۲۸ فیصد کے حساب سے نقد منافع برائے تقسیم (۵ روپے کے سٹیفکیٹ ۱.۴۰ پیسے) نقد منافع فی سٹیفکیٹ
۷۲,۶۲۹,۶۳۰	۵ فیصد کے حساب سے منافع کی قانونی ریزرو میں منتقلی
۱۱,۴۱۴,۱۷۴	غیر منقسم منافع
۴۶۶,۲۸۳,۸۰۴	

## منافع کی ادائیگی

بورڈ آف ڈائریکٹرز انتہائی مسرت کے ساتھ ۳۰ جون، ۲۰۲۰ پر ختم ہونے والے سال کیلئے ۲۸ فیصد (۵ روپے کے سٹیفکیٹ پر ۱.۴۰ پیسے کے حساب سے) نقد منافع دینے کا اعلان کرتا ہے۔

## اقتصادی جائزہ

مالی سال ۲۰۲۰-۲۱ کے دوران پاکستان کی معیشت نے اچھی پیش رفت کا مظاہرہ کیا اور بڑے میکرو اکنامک اشاریوں نے توقعات سے بالا کارکردگی اور مثبت رجحان کا مظاہرہ کیا۔ معیشت نے جی ڈی پی کی شرح نمو ۹.۴ فیصد حاصل کی جو اسٹیٹ بینک آف پاکستان کے تخمینے سے تجاوز کر چکی ہے اور آئی ایم ایف اور عالمی بینک کے اندازوں سے بھی آگے نکل گئی ہے۔

معیشت کی بحالی V کی شکل میں دیکھنے میں آئی ہے۔ معاشی بحالی اندرونی اور بیرونی استحکام پر سمجھوتہ کئے بغیر حاصل کی گئی۔



## 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.

### **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. Irum Saba is Assistant Professor in the Department of Finance and program Director of MS Islamic Banking and Finance at IBA-Karachi Pakistan, and currently she is on deputation from State Bank of Pakistan to IBA-Karachi. She having experience of more than 15 years as progressive regulatory, research, training and teaching experience with organizations of international repute. She is well known personality within Islamic Finance industry in Pakistan and globally as well.

## 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	3
Mr. Intisar Usmani Secretary to Audit Committee	1

## HR COMMITTEE TERMS OF REFERENCE

The committee shall be responsible for:

- i) Recommending human resource management policies to the board;
- ii) recommending to the board the selection, evaluation, compensation (including retirement benefits) and succession planning of the CEO;
- iii) Recommending to the board the selection, evaluation, compensation (including retirement benefits) of CFO, Company Secretary and Head of Internal Audit; and
- iv) Consideration and approval on recommendations of CEO on such matters for key management positions who report directly to CEO or BOD.

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

Members	No. of Meeting Attended
Mr. Syed Rasheed Akhtar Non-Executive (Chairman)	1
Mr. Saeed udding Khan Non-Executive Independent (Member)	1
Mr. Muhammad Shams Izhar Non-Executive (Member)	1
Secretary to HR Committee Mr. Tehsin Abbas	1

## 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 Company (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.



## 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 operating environment during the distress situation of economic and businesses due to COVID-19.
- 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 strategy 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 2020-21

FHM has exceptionally done well during the FY 2020-21 despite of the most challenging year and extremely difficult operating

environment due to pandemic. FHM has made remarkable performance during the financial year 2020-21. Highest disbursement of Rs.6.629 billion, achieving of highest footing of balance sheet size of Rs.12.120 billion including 14% increase in profits from Rs.356.0 million to Rs.405.0 million are the exceptional accomplishments of team of FHM.

The key performance indicators during year 2020-21 were as follows:

22.3% growth in Balance Sheet size  
81% growth in yearly disbursement  
23.5% growth in total financing assets  
14.7% growth in profitability  
38.1% growth in Certificate of Investment (Musharaka)

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, attaining highest assets size and significant increase in profits and resource mobilization.



## 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, in turn, are shaped in line with all applicable regulations and directives from relevant regulators and Board of Directors. The head of internal auditor is directly access to Chairman of the Audit Committee. 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 internal auditor. The audit committee actively monitors the implementation of internal control 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 and performance, business model

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

### 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 and regulations and procedure encompass all important areas.
- Improved reporting framework throughout the organization by technology.
- Improve compliance culture by inducting quality resource, updating standing operational procedures.
- Ensure adherence to its policies and plans so that organization strategic objective achieved.

The department also ensures compliance of regulatory requirement, which is the core requirement of any financial institution and FHM's internal control function 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 procedure through internal control function.

Following control mechanism were further strengthen during the year:

- A revised and much needed audit methodology was developed keeping in view in line the rapid changes the world is going through
- Added tools applied for sound credit assessment appraisals so that credit risk threat are identified and mitigated.
- Credit Risk Management functions/processes have been further improved through capacity building of staff and ERP system.
- We believe branch empowerment will improve the turnaround time of operation which need strong monitoring and control mechanism. For this purpose branch audit mechanism and frequency of audit visit enhanced.
- Information technology is the back bone of any organization which improve the efficiency and effectiveness of the employees vis a vis credit risk. Strong system control and firewalls need to be address. ICF responsible for close monitoring of transaction and process.
- Processes and procedures reviewed further in line with requirements of parent bank so that alignment of Holding company policies and procedure to be address.
- 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

### Role of Internal Auditor

The internal auditor 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 2020-2021
- The Audit Committee reviewed quarterly, half yearly 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.
- Apart from above, the Committee also reviewed and deliberated upon the relevant control and suggest further insight over the control mechanism which consider necessary for effective control mechanism.
- An update on entire audit activity carried out by Internal Audit Function during the year. Especially that one which having material impact.
- 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 effectively operated.

- Review of Shariah Advisor reports and its compliance status to ascertain all the transaction inline with shariah rules and 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, 2021.
- The statutory auditors have indicated their willingness to continue as auditors.
- Being eligible for reappointment under listing regulations, the Board Audit Committee recommends the reappointment of M/s EY Chartered Accountants as statutory auditors for the financial year ending 30th June, 2022, on terms approved by the Board of Directors.

The Audit Committee approves the audited accounts of FHM for the period year ended 30th June, 2021 audited by M/s. EY Ford Rhodes, Chartered Accountant and confirms that there is no material non-compliance found within the audited accounts or narrated by auditors.

**Saeed ud din 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.



## 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.

## IT GOVERNANCE POLICY

The policy framework for IT Governance at the FHM is to offer kinds of services to the FHM's Business operation. This policy framework is furthermore lined up with the IT Security Policy of the FHM

The success of the organization will be greatly influenced by its ability in utilizing IT optimally. IT governance is a procedure directive implementation of organizational arrangements to support the management of IT integrally and follow up the goals and strategies of organizations IT governance is basic leadership that ensures the allocation of IT usage in the organization's strategies.

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

Sound IT security is in placed in such a way that protects within the FHM and outside to function asa proactive management of information security along with its risk and controls

### Judicious Capital Expenditure

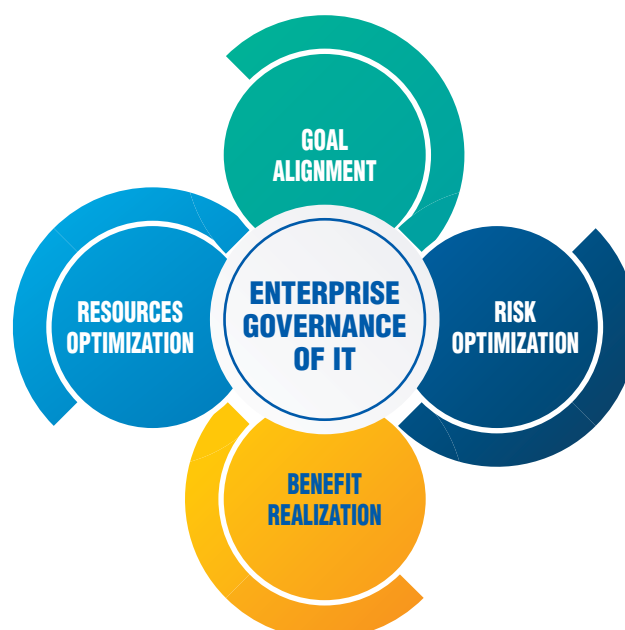
All major IT-related procurement is reviewed and approved by a relevant IT committee.

### 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.





## 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.

- 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 them 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.



## 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

With continued focus on effective resource utilization through putting in improved hierarchical structures that can realize better efficiencies and ideal effects. 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

FHM promotes and values diversity within its workforce for promoting and maintaining sustainable and strong culture. We want our people to feel confident, comfortable and able to reach their potential regardless of gender, age, ability, background or sexual preferences.

### 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.

### 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 assimilating 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, Risk Management and Personal Effectiveness in collaboration with different training institutes.

From the last two quarters, 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.



## 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, 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. Approximately 70% of assets purchased for lease financing are from local suppliers. FHM regularly engage and communicate with suppliers during and after contract. We promote an ethical supplier management relationship in our policy guidelines.

### 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.

## 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.



## ASSOCIATED COMPANIES & UNDERTAKINGS

Name of Associated Entity	Nature of Relationship	Basis of Relationship	Aggregate Percentage of Certificate Holding
Habib Metropolitan Bank Limited	Parent Company	Common Management and Control	10.0%
Habib Bank AG Zurich*	Ultimate Parent	Ultimate parent	5.1%
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.

## 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.

## BOARD'S PERFORMANCE EVALUATION BY EXTERNAL CONSULTANT

The Modaraba does not have a policy to involve an external consultant to carry out an evaluation of the Board's performance.

## 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 holder s, 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 Company 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.

## CORPORATE BRIEFING SESSION

As mandated by the Pakistan Stock Exchange, the Modaraba conducted its annual 'Corporate Briefing Session' on 24 October, 2020. 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.

## 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.



## HOW THE BOARD OPERATES

The Board meetings of the Company are usually 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 Chairman of the Board who either suggests the way to resolve or refers the matter to Board of Directors.

## SPECIFIC PROCESSES USED TO MAKE STRATEGIC DECISIONS

Strategic decision-making is a process to evaluate the pros and cons of a current and expected future situation and way to achieve the goals of the organization. In FHM for any strategic decision the management involve the operational level staff for feedback and get suggestion about future new development to address the expected future challenges and course of action to counter the said challenges.

## INITIATIVES TO PROMOTE & ENABLE INNOVATION

**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 process 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. During the COVID-19 Pandemic our technological innovation helps us a lot and our operation effectively work without any hindrances.**



## EXTERNAL OVERSIGHT BY AN EXTERNAL SPECIALIST

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 M/s. EY Ford Rhodes.

## RELATED PARTIES POLICY

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.

All related party transactions and information have been appropriately disclosed in note no. 4.17 & 34 of the Financial Statements, including the name, basis of the relationship, percentage holding, nature, and amount.

## 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 EXCEEDING LEGAL REQUIREMENTS

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

## 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.



## 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

## DIVIDEND AND OVERDUE PAYMENTS

- Dividend has been declared and approved by the Board is 28% i.e Rs1.40 per certificate
- No overdue or outstanding taxes, duties, levies etc. on account of FHM

## 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.

## RISK MANAGEMENT FRAMEWORK

Companies tailor their Risk management process through the following risk categorization:

- Risk arising internally which is controllable called it preventive risk.
- Risk arising which is assumed by the management to get higher return called it strategy risk.
- Risk arising externally which is not controllable and beyond the control of management called it external risk.

FHM's management developed their risk management process under the preview of above-mentioned framework. This framework includes identification, measurement & assessment, mitigation, reporting and governance to maximize the wealth of the certificate holders through growth in business without compromising the risk of any negative effect.

FHM management always be proactive to minimize the risk of uneven circumstances arising or to be arise under the guidance of the Board of Directors using the strong interdepartmental coordination and communication, sound information system and effective risk rating system.

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

### Credit Risk Management

FHM management always be cautious while granting any financing facility. For this purpose, developed various credit granting tools to minimize the infections. Our credit granting model is very effective and have ability to sustain any uneven circumstances which was proved during the COVID-19 pandemic.

### Market Risk Management

Asset Liability Management Committee (ALCO) always be vigilant for any changes in the market scenario. Our ALCO committee has close watch over the current regional changes and prepare for any abrupt changes. Our entire portfolio is based on floating rate which is reviewed on quarterly/half yearly basis reduces the risk of any abrupt changes in policy rate.

### Liquidity Risk Management

Any organization cannot grow without liquidity management. The liquidity risk is the risk the organization are unable to meet its financial obligations on timely manner. Without proper cash flow management and sound system of liquidity risk management any business may face liquidity crises which leads to insolvency. First Habib Modaraba has sound system of liquidity management managed by treasury function and oversee the ALCO committee on regular basis. This process was witnessed during COVID-19 pandemic period where FHM has strongly manage the liquidity position without having single day delay in any financial obligation.



### Risk Management and Control Principles

For better risk management the following control principle are essential part:

- Early identification of risk
- Clear objective and Goals are defined
- To ensure the risk within the framework.
- Stakeholders are the key to find out the risk
- Roles and responsibilities are clear
- Review the process to ensure the risk cycle.
- Continuous improvement in the process to mitigate the risk

### Risk Management Framework

Effective risk management is an essential part of any financial institution. The Management has always endeavored to adapt to the best market practices.

### Maintaining business continuity:

The maintaining of business continuity framework is the process to identify the risk of exposure to internal and external threats including disaster recovery, business recovery, crisis management, incident management, emergency management and contingency planning. FHM has strong system to mitigate such risk which was tested during COVID-19 Pandemic.

### Resumption of business operations:

During the COVID-19 Pandemic we have taken various steps to mitigate various risk including timely recovery, business operation, safety of staff and visitors. Our business operation is now fully functional with the COVID-19 SOP guidelines.



# PANDEMIC STATEMENT & RECOVERY PLAN

Outbreak of COVID-19 had brought all business activities standstill with unparalleled and unforeseen impact in our lives, economies, our societies and livelihoods. The Pandemic inflicted an unprecedented global crisis taking a colossal impact on human lives and economic downturn particularly large impact on low income households.

Global pandemic presented us with exceptional challenges in modern times and has made substantial changes in ways that we think and work. The year under review was full of unique experiments and opportunities due to persistence of COVID 19. The pandemic which started in early 2020 has changed all economic and business landscape globally. The "New Normal" that emerged from midst of lockdowns, closures and social distances altogether demanded quick adaptability and forward thinking to continue with routine engagements.

## PANDEMIC RECOVERY PLAN

Our ability to redefine working methodology enabled us to continue our business operations uninterrupted coupled with agility and adoption of new technology which enabled us to thrive in these challenging circumstances. The efforts undertaken by the Modaraba in response to the pandemic have been summarized as under:

### a) Health safety issues of our staff members

Health safety of our staff members remained most challenging area within our operations and still it is critical segment of our daily business operations. We have already implemented all required health safety measures and continuously observing the same at our entire network.

### b) Routine update on COVID-19 Statistics

Our HR department is responsible to update the prevailing situation of pandemic at country level and also monitor the same within the organization.

### c) Operations and support of technology

To continue smooth operations under present circumstances is very difficult particularly by adopting all precautionary measures with alternate operations team of staff members. However, with the support of technology the remote work capabilities were enabled for all key staff members. Most of the discussion and meeting have been arranged through video conferencing even within the same office and with branches of other cities. At present, the operations are still continuing with same precaution with cautious approach and switch to remote working within no time.

### d) Liquidity management

Our treasury department had successfully managed the liquidity issue within our system and kept sufficient liquidity available at the strong attack of COVID period in FY 2019-20. Presently, our treasury department keeps sufficient liquidity within the system in order to counter any future contingencies.

### e) Re-assessment of Business Continuity Plan (BCP) on regular basis

FHM BCB team continuously monitoring the situation, assesses the severity, and devises the strategy to overcome the adverse impacts. In case if the operations affected with pandemic, the Business continuity plan implementation team (BCPIT) will assess the severity of situation and devise strategy with consultation of senior management.

Furthermore, following significant steps also observed to safeguard staff members.

- a) Medical Assistance to affected staff members
- b) Temperature check at the time of entry in premises
- c) Face scanning instead of biometric at the time of attendance



## INTERNAL CONTROL

The Company 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 Audit Committee of the Board of Directors. 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 implemation 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





# 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 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.

## MANAGEMENT OBJECTIVES, STRATEGIES AND SIGNIFICANT CHANGES

Management Objectives	Strategies to meet the objectives	Relationship between FHM Results and objectives
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.
To give best return to investors	Business volume was enhanced with the prudent and cautious lending strategy.	Cash Dividend of 28% was announced.
Sharia governance	Established separate Shariah compliance department to oversee day to day operations.	Continuous improvement in Shariah governance and Shariah compliance culture.
Sustained profitability	In order to maintain the profitability the volume of business and good number of customer were targeted and successfully achieved.	In a very competitive business environment, particularly in very low lending rates, the profitability of the Modaraba has been maintained.
Quality assets growth	Tapped good corporate clients for financing 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 effective 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 finalization of annual financial 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.

Key points of our future business and efficient operational strategies would be as follows:

- 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.
- 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.
- Focus will be made on strengthening of risk management tools, optimizing operating efficiencies and continuous advancement in technology.
- Continuous adoption of prescribed health care measures for safety of staff members till the deadly virus completely washed out.



## STRATEGY TO OVERCOME LIQUIDITY PROBLEM

Assets Liability Management Committee (ALCO) 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 issues and reputation loss.

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

The 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.



## KEY PERFORMANCE INDICATORS

Key Performance Indicators (KPI's) to measure Modaraba's performance against its short, medium and long term objectives. KPIs are measurable values that demonstrate how effectively an organization is achieving key business objectives. FHM has identified KPIs that are critical to its business segment. The FHM analyzed various indicators while identifying said KPIs.

The year under review was full of unique challenges and opportunities due to persistence of COVID 19. The pandemic which started in early 2020 has changed all economic and business landscape globally. The "New Normal" that emerged from midst of lockdowns, closures and social distances altogether demanded quick adaptability and forward thinking to continue with routine engagements.

The year under review was the most challenging year across the globe due to pandemic. Like other countries, Pakistan's economy also passed through with its most challenging time. The year under review brought about exceptional scenarios in the Global economic activities.

However, despite difficult operating environment; FHM has made remarkable performance during the financial year 2020-21.

The key performance indicators during year 2020-21 were as follows:

- 22.3% growth in balance sheet size
- 81% growth in yearly disbursement
- 23.5% growth in total financing assets
- 14.7% growth in profitability
- 38.1% growth in certificate of investment (Musharaka)

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
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 criterion	Low infected financing assets portfolio	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 equity base	Healthy profits and good retentions support for strong equity base	Strong equity base	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
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 strengthen and improve Shariah Governance culture.	Continuous Shariah learning and training to relevant staff members	Shariah Governance	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
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 13 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 28% which is similar to last year distribution and the highest in operational history of FHM	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
Health and safety of staff members	Take care of all prescribed measures keep safe all staff members from COVID -19 Pandemic	Low affected with Pandemic	The KPI shall remain relevant in future

### Strategies to be followed to further strengthen key performance indicators in 2021-22

- 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 of variants of light and heavy motor vehicles.
- 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.
- Focus will be made on strengthening of risk management tools, optimizing operating efficiencies and continuous advancement in technology.
- Continuous adoption of prescribed health care measures for safety of staff members till the deadly virus completely washed out.

### 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.

### 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.

## STRATEGY & RESOURCE ALLOCATION

Strategy is a powerful tool for helping us to reach your goals in line with vision and mission of our entity. It also defines methods and tactics we need to take within our institution. The business strategy also guides many of your organizational decisions, such as hiring new employees.

Well defined strategy is utmost important for development and growth of any institutions. Our strategy broadly covers in line with our vision and mission statement i.e., how to remain a leading Modaraba within the sector, create value addition for our Modaraba Certificate holders and achieve attain steady growth with long sustainability.

### 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

- Grab prevailing business opportunities.
- Quick and fast processing of customers' proposals.
- Adopt all required measures for safety of health of staff members.
- Enhance efficiency, reduce cost and improve customer service.
- Further strengthen tools of risk management, appraisals & evaluation of credit proposals.
- Further strengthen overall compliance culture.

#### Medium Term

- Enhance capacity building and improve professional grooming of our team 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.
- 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.

## STRATEGIES IN PLACE

Last year due to pandemic, we could not maintain our growth momentum and our balance sheet size reduced to 10.90%. However, in FY 2020-21 we have not only filled the gap of missing target of FY 2019-20, but also made highest disbursement of any single year since our business history. Our balance sheet has also reached to highest level since the operations of FHM. 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.

To cope with changing business dynamics, we will accelerate our technological support and concentrate on business processes in more efficient manner. At the same time, investing in human capital and creating a caring culture will also our priorities.

Furthermore, maintaining asset quality and satisfactory growth within the financing portfolio, will remain a key area of focus for the Modaraba. The objective is to increase financing in a remunerative and satisfactorily performed sector for prudent and sustainable growth. Recent change in taxation on Modaraba sector will be a cause of concern and dilute profit distribution of investors and Modaraba Certificate holders.



## 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 professionals 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 employee 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 Modaraba.



## ANALYSIS OF THE FINANCIAL AND NON-FINANCIAL PERFORMANCE

### FINANCIAL MEASURES

#### Past and current performance

Although COVID-19 has slowed down overall economic and businesses activities across the globe. But due to lower interest rates and revamping economy of Pakistan, Modaraba managed to increase overall size of balance sheet from Rs. 9.913 billion to Rs. 12.122 billion. During the period, Modaraba made total financing of Rs. 6.229 billion as compared to Rs. 3.653 billion targeting various sectors of the country i.e. increased by around 81%. As a result total annual profits have been increased despite lower profit rates marking increase of 14.5%.

	2021	2020
Balance sheet Size	12,122,533,710	9,913,057,271
Income from Financing Assets	1,545,153,376	1,209,205,634
Disbursements	6,629,020,710	3,652,897,713
Net Profit	363,148,152	316,683,071
Earning per Certificate	1.80	1.57

KPIs to assess and measure the financial performance in 2021 are disclosed in "Key Performance Indicators" section of Annual report.

#### Performance against Targets

During 2021, the Modaraba has surpassed targeted budget of total financing, balance sheet size and net annual profits. Key growth indicators are disclosed in Financial Highlight section of Annual report.

#### Objectives to Assess Stewardship of Management

The Modaraba endeavours 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 (KPI's) 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

**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
- 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.



## BUSINESS CONTINUITY PLAN (BCP) DISASTER RECOVERY PLANNING (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.

DR 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.

## SEGMENT-WISE REVIEW

### Financing

#### Lease Financing

Lease financing of Rs.98 million were made out of total financing of Rs.6,629 million as compared to financing of Rs.3,653 million last year. Leading sectors of disbursement was targeted during the year were Services, Pharmaceuticals, Refinery & Lubricant, Food & Allied, Chemicals, IT, Telecom and Auto & Allied.

#### Diminishing Musharaka Financing

Financing in Diminishing Musharaka of Rs.6,531 million was made as compare to Rs.3,043 million of last year decrease by 104%. Keeping in view of our strategy on product diversification, we have been continuously concentrating on this mode of financing. Disbursement in this segment was 98% of total financing as compared to 83% of last year.

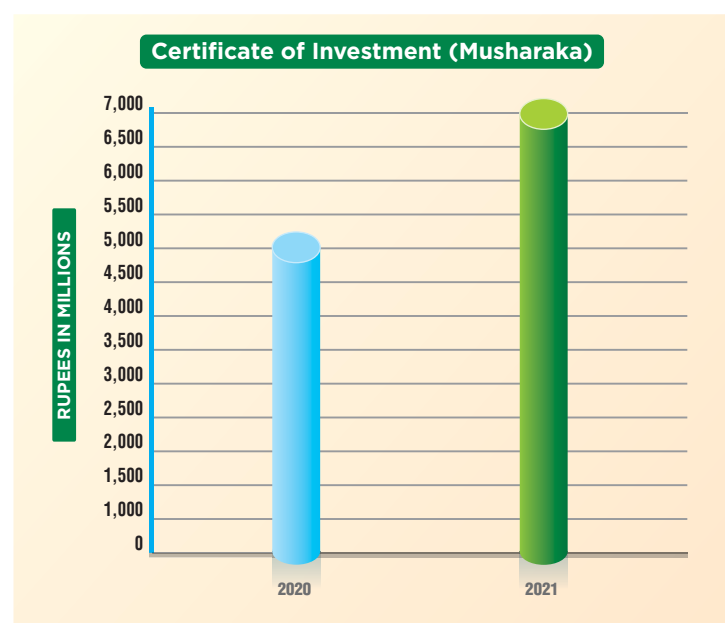
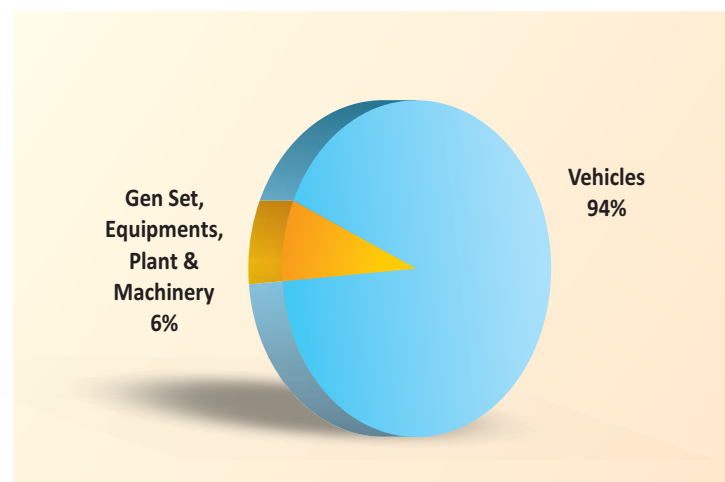
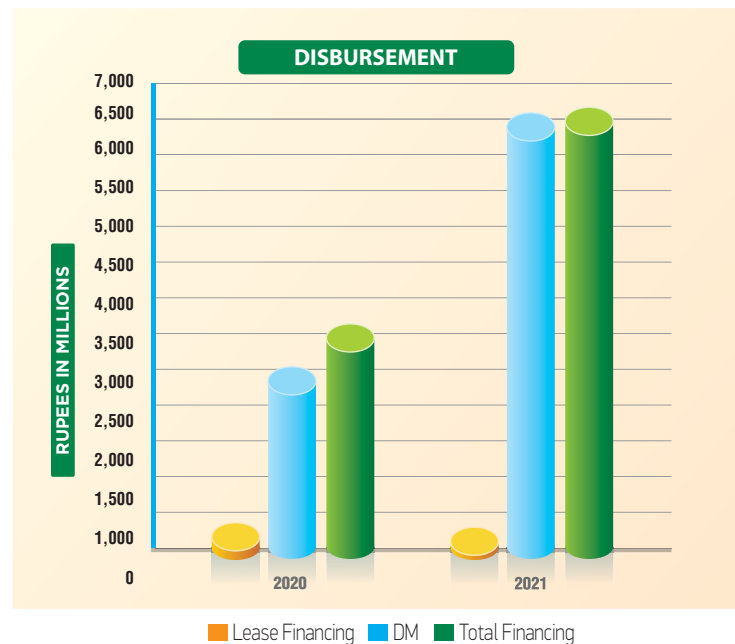
Our branches outside Karachi, i.e., Lahore, Islamabad and Multan have made significant contribution in assets booking as compared to corresponding period of last year Moreover, good new corporate customers, commercial vehicle segment and consumer car financing segment had also been added by these branches 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.7,192 million at the end of year as compared to Rs.5,279 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.





## Energy Saving Measures

As a 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.

CLIENTS FEEDBACK

<input checked="" type="checkbox"/>	Excellent
<input type="checkbox"/>	Good
<input type="checkbox"/>	Average
<input type="checkbox"/>	Poor

## FORWARD LOOKING STATEMENT

In our directors' report, we have discussed in details about present growing economic and business scenario.

Since there are uncertainties related to the unexpected changes in economic or any other front, these should be read in conjunction with future contingencies and force majeure segments. A forward-looking statement naturally addresses matters that are, to certain degrees, uncertain and may not happen. In most cases, a forward-looking statement is made in respect of Modaraba's earnings, business growth, cost structure and dividend etc.

### Economic outlook of Pakistan

The year under review was full of unique challenges and opportunities due to persistence of COVID 19. The pandemic which started in early 2020 has changed all economic and business landscape globally. The "New Normal" that emerged from midst of lockdowns, closures and social distances altogether demanded quick adaptability and forward thinking to continue with routine engagements.

During the financial year 2020-21 Pakistan's economy showed good progress and performed beyond expectations with major macroeconomic indicators displayed a positive trends. Economy achieved GDP growth of 3.94% which has exceeded estimate of State Bank of Pakistan and also surpassed IMF and World Bank projections. Economy has witnessed a V-shaped recovery. The economic recovery was achieved without compromising internal and external stability.

Manufacturing had shown remarkable growth as major sectors of LSM shown significant improvement i.e., Textile, Food Beverages & Tobacco, Non-Metallic Mineral Products and Automobile. Despite innumerable challenges due to pandemic and high inflation, the major economic indicators have shown satisfactory progress. Presently, Pakistan's economy is moving progressively and on sustainable growth path. Pakistan was implementing stabilization policy post crisis of and the economy was recovering from macroeconomic imbalances.

### Future outlook of FHM

Going forward, Alhamdulillah, we have made good performance in FY 2020-21, and expecting good business progress in current year as well. As per recent economic statistics, economy of Pakistan is moving in positive direction. The recent economic recovery and government measures for inclusive and sustainable growth have built investors' confidence. However, due to high economic growth, the

import remains on higher side and will impact widening of trade deficit. Furthermore, investment and private consumption growth may be impacted due to ongoing pandemic-related concerns and weakening global economic recoveries. Downside risks can be emerged from new variants of the virus, high inflation, rising debt and geopolitical tensions.

Looking ahead, FHM is well-positioned for sustainable growth and building long-term value for our valued Modaraba Certificate Holders. To cope with changing business dynamics, we will accelerate our technological support and focus on business processes in more efficient manner. At the same time, investing in human capital and creating a caring culture will also our priorities.

In March, 2021, the Federal Government has issued an Ordinance pertain to withdrawal of certain tax exemption on several segments. In said withdrawal, tax exemption on Modaraba sector was also withdrawn. Our NBFIs and Modaraba association has made several communications and made representation to Tax Authorities, Finance Minister and SECP for restoration of tax exemption status of Modarabas Association. However, said withdrawal was not restored and finally said amendment made the part of Finance Bill 2021-22. The recent development in taxation on Modaraba i.e., withdrawal of tax exemption status is also cause of concern for net profitability and dividend distributions to our investors.

### Significant plans

Keeping in view of present economic environment mix with challenges and opportunities, we are in well positioned to take benefits of growing and progressing phase of trade and businesses. Key points of our strategies would be as follows:

- 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.
- 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.



- Focus will be made on strengthening of risk management tools, optimizing operating efficiencies and continuous advancement in technology.
- Continuous adoption of prescribed health care measures for safety of staff members till the deadly virus completely washed out.

**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.
- Adverse move on economic front
- High Inflation
- Impact of Pandemic and its multiple wave
- Any other force majeure.

**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 statements on our business operations and future 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.



## CUSTOMER SATISFACTION

High quality customer service is an integral part of FHM's philosophy. It is our constant endeavor 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 with the services they want 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-service oriented culture within FHM.

Knowing our customer and their need is the key 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.



## 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

In director report we have discussed in detail the current economy condition is turned to V shape recovery during the FY-2020-21 and GDP growth rate also reported positive i.e. 3.9% while it was negative in previous year. This situation posted good opportunities for the businesses growth and economic development. Government has taken various steps to support business community including discounted financing rate schemes like TERF which played a vital role in growth of various sectors.

Previous year financial results reflect our performance which posted growth, and our assets size improved by 22.3% and the net profit also posted growth by 14.7%. We had declared a cash dividend of 28% for the period ending June 30, 2021 to maintain our tradition. We aim to maintain a competitive advantage in market, and grab opportunities by using our strengths and capabilities.

### Key Source of Uncertainty

There are various uncertainties due to the development on internal and external front that can directly or indirectly influence the activity of the Modaraba. Following are the key sources of uncertainties:

- Instability on political front.
- Increase in Policy rate.
- Increasing Inflation
- COVID-19 Pandemic is still active.
- Regulatory and taxation issues.

### Materiality Approach

Any event which significantly affect the FHM performance, profitability and its reputation is to be considered material. FHM efficiently deployed their resources to mitigate the medium to high risk area. FHM manage its operation through its own resources and give more attention to regulatory and Shariah compliance with exception.

### Information about defaults in payment of any debt

FHM management maintained its legacy to honor financial commitments on time and by Grace of Allah (SWT), there were no delay in payment of financial obligations during the year. FHM ensure to honor all credit payments when fall due includes financing arrangements from financial institutions / banks, certificate of investment (Musharaka) and other debt obligations.

### Inadequacy in the capital structure and plans to address such inadequacy.

FHM Capital Adequacy ratio was satisfactory. As per regulatory requirement CAR requirement is at 8%, while FHM CAR was 33%.



## 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 has close eye in changes of government policies for timely decision making and devise business strategies accordingly.
Economic	<ul style="list-style-type: none"> <li>• High Inflation</li> <li>• Upward in discount rate</li> <li>• Depreciation of Pak Rupees</li> <li>• COVID-19 Impact</li> </ul>	<p>For lending rates fluctuation, the entire financing portfolio is on floating rates basis and review on quarterly basis.</p> <p>Closely monitored Pak rupees movement and its impact on import and raw materials.</p> <p>Avoid financing to such vulnerable sector which may exposed to high cost of imported raw materials.</p>
Social	Increasing CSR awareness. Provision of improved health and safety environment.	The management of Modaraba actively takes part in social initiatives and work towards safe workplace environment. The Modaraba extend supports to various social and charitable causes including towards health, education, welfare etc.
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, secretarial, 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.	<p>The Company adheres to all applicable laws and regulations and voluntarily takes initiatives to create long-term value for community and environment.</p> <p>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.</p>

## CEO STATEMENT ON SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

### Sustainability

The year under review was full of unique challenges and opportunities due to persistence of COVID 19. The pandemic which started in early 2020 has changed all economic and business landscape globally. The "New Normal" that emerged from midst of lockdowns, closures and social distances altogether demanded quick adaptability and forward thinking to continue with routine engagements.

The year was full of challenges and changes with profound impacts on the way we live and work. During this time, the health and well-being of our people has always been a top priority of the Company. The pandemic gave us a lesson on the different segments of sustainability i.e., smooth operations, to maintain desire liquidity, risk of credit, wellbeing of staff members and their health safety etc. As a leading Modaraba within the Modaraba sector, it is our responsibility to look ahead and assess how the pandemic will impact the way we live and operate. We are committed to maximizing the value for our Certificate Holders and simultaneously we feel our responsibility for fulfilling our essential role in protecting the environment and contributing to the society.

It is our core objective to focus on sustainability measures and it has been proved in difficult period of Pandemic where the Modaraba not only ensured the smooth operations, but also met all its financial and other non-financial obligations including taking care of all staff members and timely payment of their remunerations and other facilities. The vision of the Board and management is clear in continuing to emphasize and work on Sustainability in coming years as well. In line with our mission statement to add value to all stockholders through an effective human resource management in a modern and progressive

organizational culture maintaining high ethical and professional standards.

### 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) have 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

According tax laws, the income of Modaraba is exempt from income tax, if 90% of the profit distributes to Certificate Holders in shape of dividend. In order to pass on maximum profit to its Certificate Holders, FHM distribute 90% profits to its Certificate Holders. However, despite tax exemption, 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.





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

FHM always be attentive to address the critical challenges like COVID-19 Pandemic. There are various challenges on the economic front of the country which ultimately impact the performance of the company.

On political front the management of FHM has close eye on changes of government policies for timely decision making and devise business strategies accordingly.

On Economic front FHM may face various challenges like inflation, volatility in bench mark/ policy rate, devaluation of Pak rupee etc., however, 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 exposed to high cost of imported raw materials.

On Technological front FHM is exposed to obsolescence in financial ERP models. However, FHM have in house facility to counter the any obsolesce and continuous development and updating the ERP Model.

On Regulatory front there are various challenges, like any amendment in regulatory requirement, taxation, AML/CFT. FHM has an independent compliance department to counter such challenges.

FHM management believes on skilled staff a core asset of the any financial services organization and always focus on learning and development of its staff to ensure the competitive advantage to counter the challenges and uncertainties



## KEY FINANCIAL DATA FOR SIX YEARS

KEY FINANCIAL DATA	Rupees in Million					
	2021	2020	2019	2018	2017	2016
Total Assets	12,122.53	9,913.06	11,124.02	10,279.25	8,366.65	7,160.75
Lease Financing Assets	861.52	1,719.65	2,739.37	2,902.83	2,440.98	2,725.21
Diminishing Musharaka Financing Asset	9,913.81	7,002.50	6,939.90	5,595.93	4,291.64	3,051.52
Lease Financing Asset Disbursement	97.98	610.00	1,218.43	1,689.22	1,052.48	1,124.23
Diminishing Musharaka Asset Disbursement	6,531.04	3,042.89	4,010.66	3,342.90	2,860.15	2,316.86
Current Assets	4,987.87	3,839.71	3,849.50	3,994.81	3,259.09	2,613.51
Current Liabilities	8,153.14	6,025.45	7,185.65	6,303.09	4,652.98	3,540.63
Total Liabilities	8,294.19	6,279.50	7,487.42	6,719.12	4,894.75	3,844.69
Paid-up Capital	1,008.00	1,008.00	1,008.00	1,008.00	1,008.00	1,008.00
Reserves	2,619.07	2,538.68	2,503.72	2,434.26	2,346.27	2,254.25
Certificate Holders' Equity	3,627.07	3,546.68	3,511.72	3,442.26	3,354.27	3,262.25
Gross Revenue	1,545.15	2,201.31	2,023.99	1,572.55	1,571.72	1,608.45
Net Profit	363.15	316.68	319.69	290.32	304.60	298.30
Earning Per Certificate - Rs.5/- each	1.80	1.57	1.59	1.44	1.46	1.48
Cash Dividend	28%	28%	28%	25%	20%	20%
Income from Lease Financing	130	192	179	193	218.09	286.09
Income from Diminishing Musharaka Financing	796.47	1,017.66	734.36	393.55	321.75	224.89
STAKEHOLDER INFORMATION	2021	2020	2019	2018	2017	2016
<b>Profitability Ratios</b>						
Profit after tax ratio (%)	23.50	14.39	15.79	18.46	19.38	18.55
Gross yield on earning assets (%)	13.27	23.19	18.75	16.12	19.57	23.70
Gross spread ratio (%)	16.80	6.68	9.30	11.25	12.83	12.03
Cost / Income ratio (%)	34.61	38.47	31.06	21.71	17.46	13.82
Return on equity (%)	10.01	8.93	9.10	8.43	9.08	9.14
Return on assets (%)	3.00	3.19	2.87	2.82	3.64	4.17
Return on capital employed (%)	11.04	9.57	9.59	8.92	9.58	9.68
Gross profit ratio (%)	29.89	15.51	17.90	20.49	21.43	19.91
Net profit to sale (%)	23.50	14.39	15.79	18.46	19.38	18.55
EBITDA margin to sale (%)	36.59	23.22	24.40	27.70	27.98	26.42
Income / Expense ratio	1.26	1.10	1.13	1.16	1.19	1.17
<b>Liquidity Ratios</b>						
Advance to deposit ratio	1.48	1.65	1.57	1.52	1.72	1.89
Current ratio	0.61	0.64	0.54	0.63	0.70	0.74
Cash to current liabilities	3%	3%	1%	5%	4%	7%
Cashflow from operations to sale	(1.14)	(0.55)	(0.46)	(0.80)	(0.40)	(0.42)
<b>Turnover ratio</b>						
Total Asset Turnover Ratio (%)	13.60	23.92	19.38	16.40	20.02	23.93
Fixed Asset Turnover Ratio (%)	23.11	39.04	29.63	26.83	32.79	37.68
<b>Investment / Market ratio</b>						
Market Value Per Share	9.80	9.95	9.41	10.75	10.95	10.50
High	9.80	10.89	11.46	11.69	11.85	11.13
Low	9.70	9.31	9.31	9.25	9.71	9.50
EPS (Earning per share)	1.80	1.57	1.59	1.44	1.46	1.48
Price earning ratio	5.44	6.34	5.92	7.47	7.50	7.09
Price to book ratio	0.54	0.57	0.54	0.63	0.66	0.65
Dividend Yield ratio (%)	14.29	14.07	14.88	11.63	9.13	9.52
Dividend Payout ratio (%)	77.72	89.12	88.29	86.80	66.18	67.58
Dividend cover ratio	1.29	1.12	1.14	1.15	1.46	1.48
Cash dividend (%)	28%	28%	28%	25%	20%	20.0%
Cash dividend per certificate/ share	1.40	1.40	1.40	1.25	1.00	1.00
Book Value Per certificate/ share	17.99	17.59	17.42	17.07	16.64	16.18
Dividend (in million rupees)	282	282	282	252	202	202
Profit Growth Ratio (%) [YoY]	15	(1)	10	(5)	2	(3)
Profit Growth Ratio (%) [base year 2014]	27	11	12	(1)	4	2
<b>Capital Structure ratio</b>						
Net assets per share	18.99	18.02	18.04	17.66	17.22	16.45
Earning asset to total asset ratio (%)	96.08	95.74	97.06	94.93	95.99	94.79

\*Certificate of Rs. 5/- each

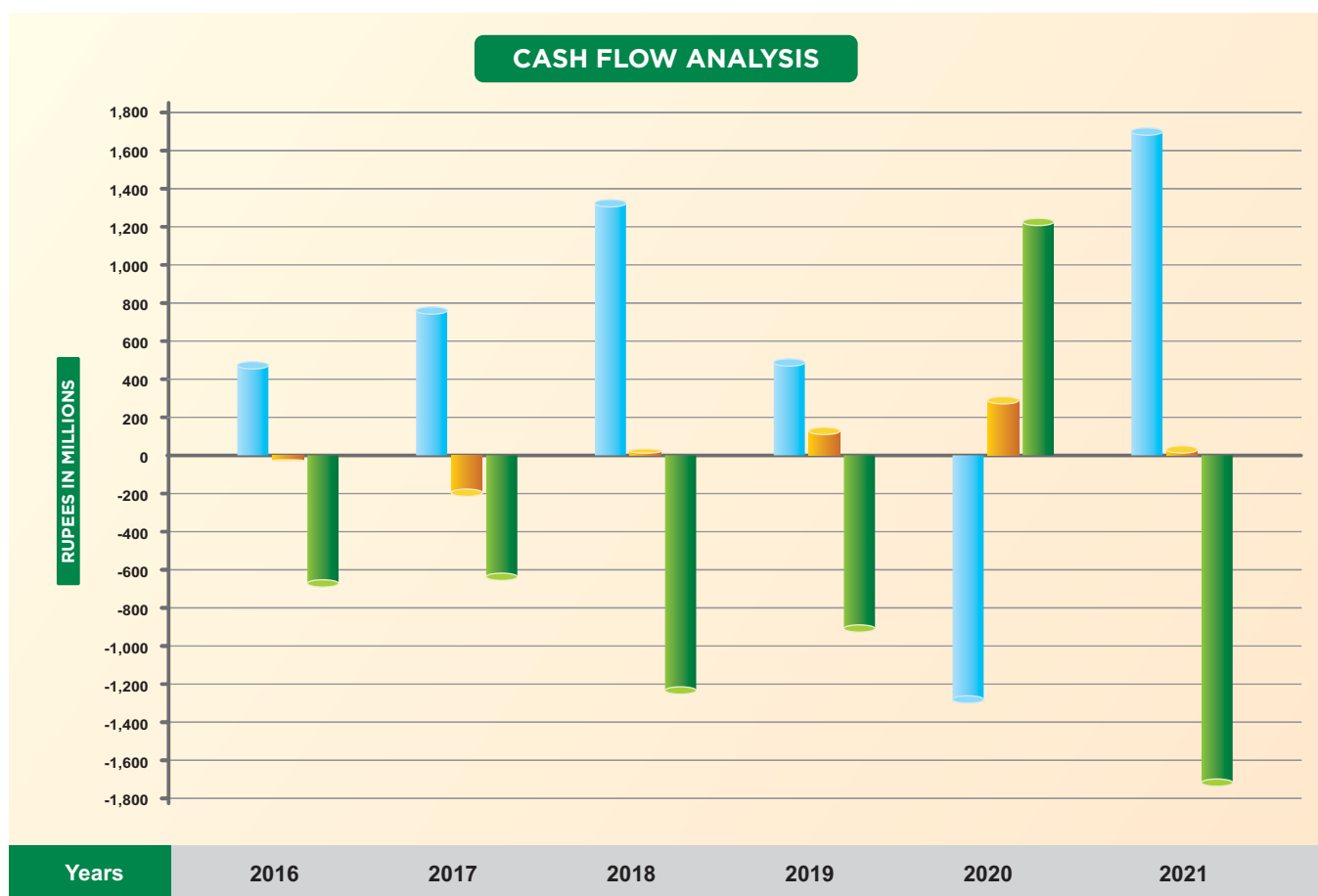


## FREE CASH FLOWS TO EQUITY

	Rupees			
	30-Jun-21 Annual	31-Mar-21 Nine monthly	31-Dec-20 Half yearly	30-Sep-20 Quarterly
net cash used in from operating activity	(1,762,269,566)	(1,063,823,590)	(459,918,319)	(28,675,782)
net cash generated from / (used in ) investing activities	17,819,395	511,342,028	506,945,990	(149,969,396)
net cash inflow from financing activities- excluding dividends	2,010,807,459	1,073,093,391	484,323,569	200,813,188
	266,357,288	520,611,829	531,351,240	22,168,010

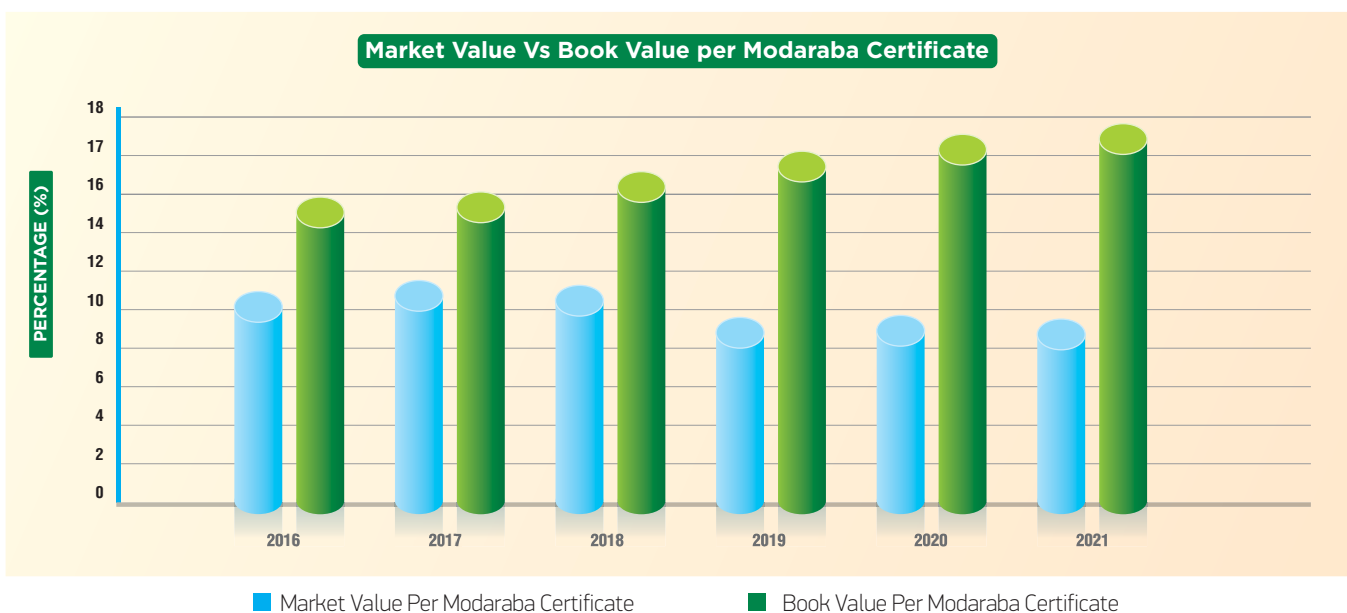
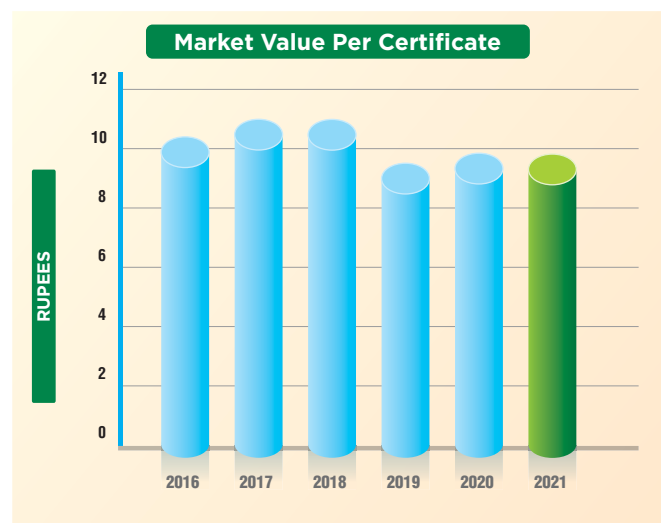
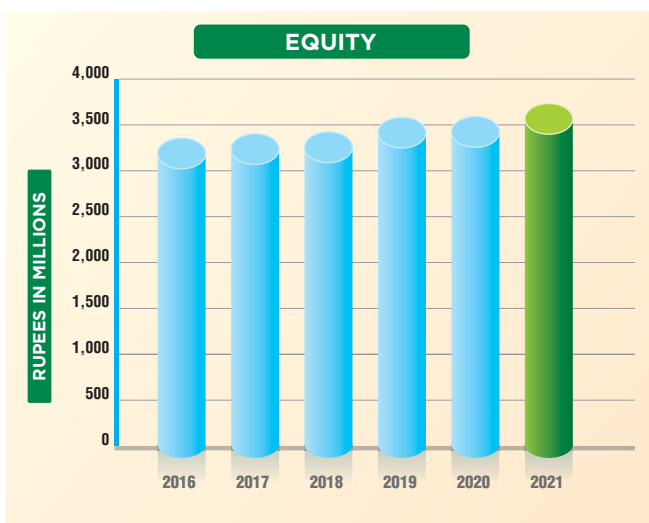
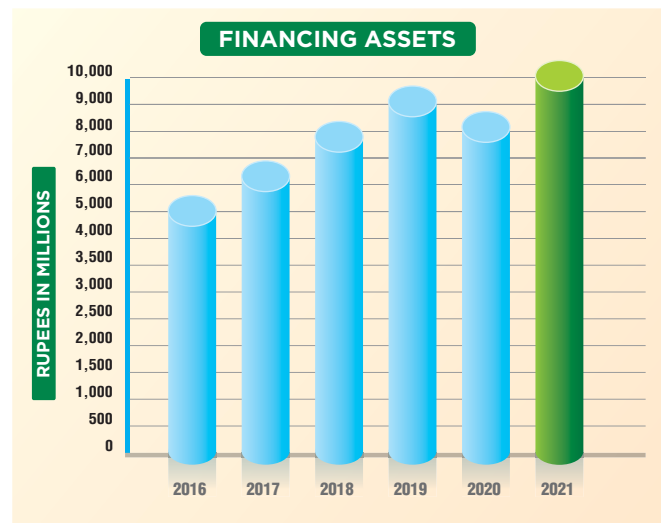
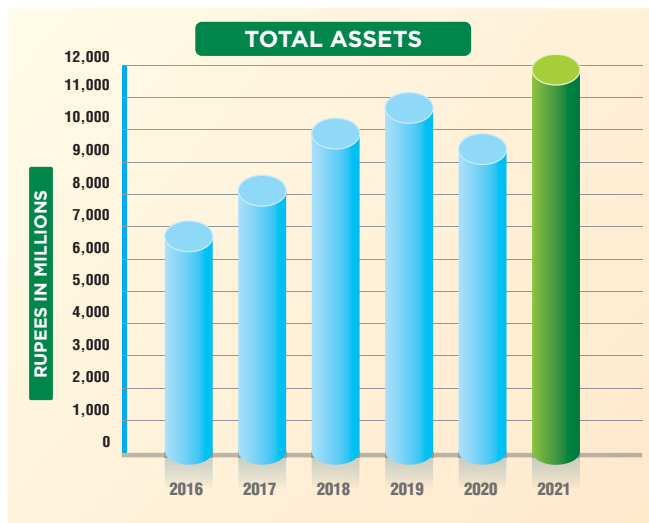
## SUMMARY OF CASH FLOWS

	Rupees in Million					
	2021	2020	2019	2018	2017	2016
Cash & cash equivalents at the beginning of the year	668	51	321	192	248	487
Net Cash flow from operating activities	(1,762)	1,212	(930)	(1,260)	(629)	(672)
Net Cash flow from investing activities	18	303	152	14	(216)	(39)
Net Cash flow from financing activities	1,731	(1,398)	507	1,375	789	472
Net increase/decrease in cash & cash equivalent	(13)	117	(271)	129	(56)	(239)
Cash & cash equivalents at the end of the year	655	168	50	321	192	248



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

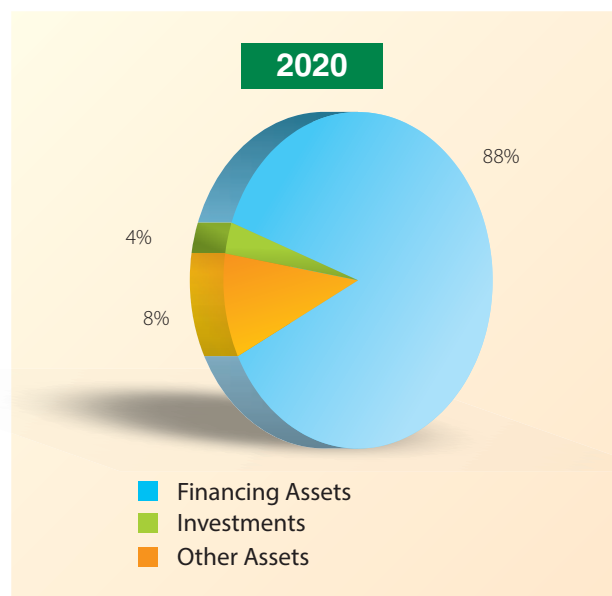
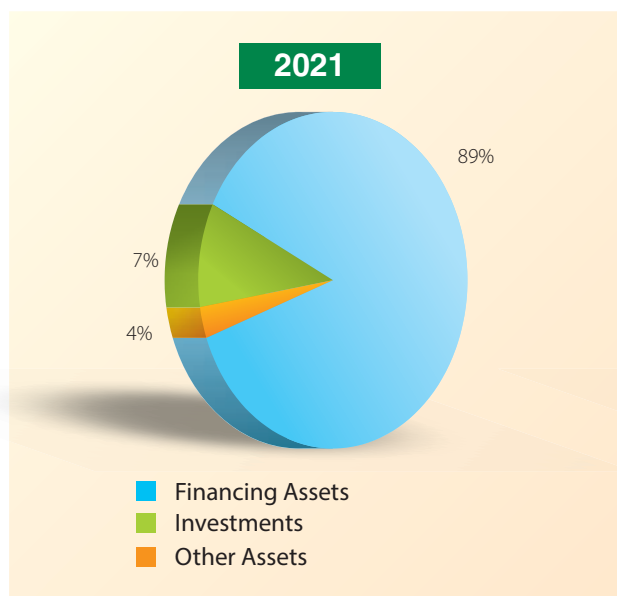
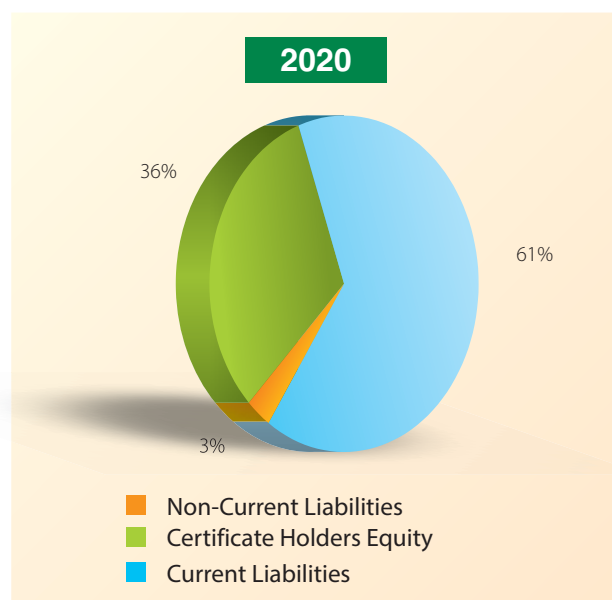
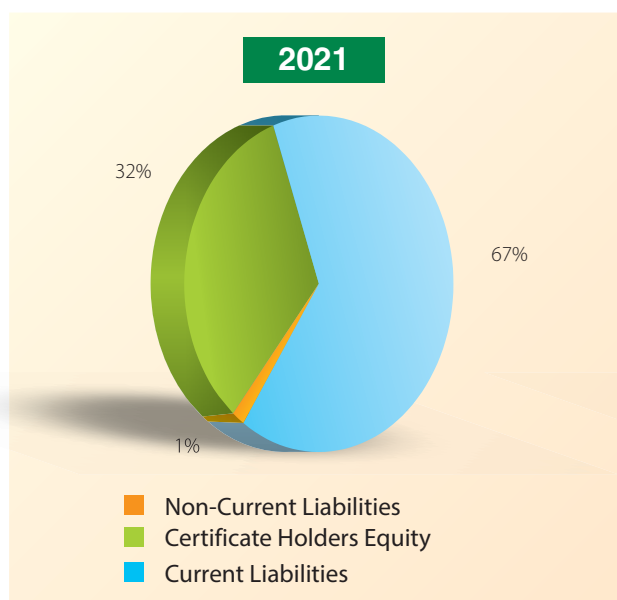
## GRAPHICAL PRESENTATION OF FINANCIAL SUMMARY





## BALANCE SHEET COMPOSITION

### Equity & Liabilities



## HORIZONTAL ANALYSIS

<b>BALANCE SHEET (%)</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>						
<b>NON-CURRENT ASSETS</b>						
Lease financing assets	(49.90)	(37.22)	(5.63)	18.92	(10.43)	(11.30)
Fixed assets in own use	(21.79)	57.98	45.83	145.16	42.91	(0.41)
Intangible assets	(28.92)	12.02	(42.30)	765.60	(88.45)	(53.50)
Diminishing musharaka financing	45.17	(4.61)	34.03	26.25	46.39	76.02
Long term advances and deposits	(5.83)	0.99	(0.74)	32.76	37.55	(3.14)
<b>CURRENT ASSETS</b>						
Investments	13.54	(31.23)	(11.24)	(3.07)	28.45	2.62
Current portion of diminishing musharaka financing	35.91	11.00	9.09	37.09	32.22	77.16
Lease financing installments receivables	(61.57)	(92.01)	487.31	99.06	21.90	(75.52)
Diminishing Musharaka financing installments receivables	(94.41)	(93.76)	1,065.07	876.87	(62.79)	25.80
Advances and prepayments	121.02	13.70	(15.03)	(40.44)	(29.22)	205.30
Other receivables	21.38	(36.55)	(25.86)	41.69	37.97	(45.30)
Income tax refundable	8.70	12.17	20.54	27.73	11.99	34.29
Cash and bank balances	28.17	233.06	(84.22)	66.89	(22.52)	(49.10)
<b>TOTAL ASSETS</b>	<b>22.29</b>	<b>(10.89)</b>	<b>8.22</b>	<b>22.86</b>	<b>16.84</b>	<b>12.00</b>
<b>EQUITY &amp; LIABILITIES</b>						
<b>CAPITAL &amp; RESERVES</b>						
Reserves	3.17	1.40	2.85	3.75	4.08	3.52
Certificate holders' equity	2.27	1.00	2.02	2.62	2.82	2.40
<b>SURPLUS ON REVALUATION OF INVESTMENTS</b>	131.70	(30.44)	5.94	0.21	118.62	(24.43)
<b>NON-CURRENT LIABILITIES</b>						
Security deposits against lease financing assets	(43.64)	(23.03)	(27.46)	72.08	(20.49)	(11.43)
<b>CURRENT LIABILITIES</b>						
Certificates of investment (musharaka)	38.09	(14.14)	9.94	42.91	28.28	29.27
Security deposits - current portion	(42.90)	(15.51)	144.33	(41.05)	8.67	24.84
Unearned lease financing and diminishing musharaka installments	147.76	(58.98)	(72.33)	158.94	133.90	(19.38)
Advance lease financing and diminishing musharaka installments	(34.13)	(52.94)	23.39	15.84	(1.14)	38.28
Trade and other payables	17.88	(1.68)	12.58	16.51	29.76	10.57
Unclaimed profit distributions	7.00	12.33	13.39	6.33	13.40	9.61
Proposed profit distribution	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>22.29</b>	<b>(10.89)</b>	<b>8.22</b>	<b>22.86</b>	<b>16.84</b>	<b>12.00</b>
<b>PROFIT &amp; LOSS ACCOUNT (%)</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Lease financing income	(32.26)	6.82	(6.73)	(11.85)	(12.98)	(12.39)
Income on diminishing musharaka	(17.50)	25.98	84.61	22.31	43.07	45.79
Administrative expenses	0.59	16.42	24.86	13.02	9.74	8.06
Other Income	(38.94)	29.01	15.88	10.15	(1.72)	(17.73)
Financial charges	(44.73)	40.83	105.62	30.14	30.73	11.78
Modaraba company's management fee	14.67	(0.94)	10.40	(4.94)	2.00	(2.78)
Profit for the year	14.67	(0.94)	10.40	(4.94)	2.11	(2.67)



## VERTICAL ANALYSIS

<b>BALANCE SHEET (%)</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>						
<b>NON-CURRENT ASSETS</b>						
Lease financing assets	7.11	17.35	24.63	28.24	29.18	38.06
Fixed assets in own use	0.45	0.70	0.40	0.29	0.15	0.12
Intangible assets	0.0012	0.0020	0.0016	0.0030	0.0004	0.0043
Diminishing musharaka financing	51.29	43.20	40.36	32.59	31.71	25.31
Long term advances and deposits	0.01	0.01	0.01	0.01	0.01	0.01
<b>CURRENT ASSETS</b>						
Investments	7.20	7.75	10.04	12.25	15.52	14.12
Current portion of diminishing musharaka financing	30.49	27.44	22.03	21.85	19.58	17.30
Lease financing installments receivables	0.00	0.01	0.11	0.02	0.01	0.01
Diminishing Musharaka financing installments receivables	0.00	0.03	0.40	0.04	0.00	0.01
Advances and prepayments	0.08	0.04	0.04	0.04	0.09	0.15
Other receivables	0.21	0.21	0.30	0.44	0.38	0.32
Income tax refundable	1.38	1.55	1.23	1.11	1.06	1.11
Cash and bank balances	1.78	1.70	0.46	3.12	2.30	3.47
<b>TOTAL ASSETS</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>EQUITY &amp; LIABILITIES</b>						
<b>CAPITAL &amp; RESERVES</b>						
Authorized Certificate capital	9.07	11.10	9.89	10.70	13.15	15.36
Issued, subscribed & paid-up capital	8.32	10.17	9.06	9.81	12.05	14.08
Reserves	21.60	25.61	22.51	23.68	28.04	31.48
Certificate holders' equity	29.92	35.78	31.57	33.49	40.09	45.56
<b>SURPLUS ON REVALUATION OF INVESTMENTS</b>	1.66	0.88	1.12	1.15	1.41	0.75
<b>NON-CURRENT LIABILITIES</b>						
Security deposits against lease financing assets	1.08	2.34	2.71	4.05	2.89	4.25
<b>CURRENT LIABILITIES</b>						
Certificates of investment (musharaka)	60.14	53.26	55.28	54.41	46.78	42.61
Security deposits - current portion	0.58	1.25	1.32	0.59	1.22	1.31
Unearned lease financing and diminishing musharaka installments	0.15	0.07	0.16	0.62	0.29	0.15
Advance lease financing and diminishing musharaka installments	0.08	0.15	0.29	0.25	0.27	0.32
Trade and other payables	5.40	5.60	5.07	4.88	5.14	4.63
Taxation	-	-	-	-	-	0.039
Unclaimed profit distributions	0.38	0.44	0.35	0.33	0.38	0.39
Profit payable on murabaha financing	-	-	0.11	0.00	0.05	-
Advance against murabaha	-	-	2.02	0.24	1.48	-
Total Current Liabilities	68.42	63.35	67.31	65.37	58.50	53.69
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>PROFIT &amp; LOSS ACCOUNT (%)</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Income from lease financing	13.13	15.01	17.29	27.49	33.93	43.19
Profit on diminishing musharaka financing	76.40	71.71	70.04	56.28	50.05	38.75
Other Income	10.47	13.28	12.67	16.22	16.02	18.05
<b>Total Income</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
Administrative expenses	14.93	11.50	12.15	14.44	13.89	14.02
Other charges	-	-	-	0.12	-	-
Financial charges	42.80	59.96	52.39	37.80	31.59	26.77
Modaraba Management Company's remuneration	4.23	2.85	3.55	4.76	5.45	5.92
Sales tax on Modaraba Management Company's remuneration	0.55	0.37	0.46	0.62	0.71	0.83
Provision for Sindh Workers' Welfare Fund	0.75	0.51	0.63	0.85	0.97	1.05
Profit for the year	36.74	24.81	30.82	41.41	47.39	51.41
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

## COMMENTS ON FINANCIAL RATIOS

### Profitability Ratios:

- Gross profit ratio is 29.89% which is improved as compared to last year.
- The profit after tax ratio is 23.5% as compared to 14.39% in prior year.
- Return on equity is 10.01% as compared to 8.93% in prior year.
- Gross spread ratio is increased than the previous years.
- Return on capital employed is slightly increased than previous year.
- EBITDA margin to sale ratio is 36.59% as compared to 23.22% in prior year.
- Income to expense ratio is 1.26 as compared to 1.10 prior year.
- Liquidity Ratios:
- Cash to current liabilities is 3% in 2021 which is same as of prior year.
- Advance to deposit ratio slightly decreased.
- Current ratio is slightly decreased due to increase in Certificate of Investment (Musharaka).
- Cash flow from operations is -114% due to the limitation of presenting cash generated from deposit i.e. Certificate of Investment (Musharaka) in operating activities as stipulated by IFRS.

### Activity / Turnover Ratios:

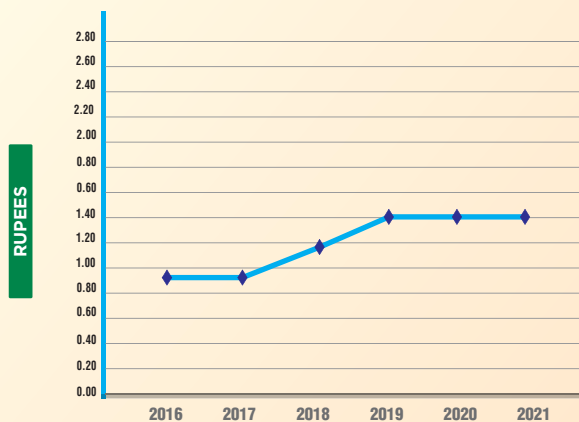
- Total asset turnover ratio is 13.60% in 2021 as compared to 23.92% in prior year mainly due to increase in total assets and decrease in total turnover of the Modaraba.
- Earning assets to total assets is 96.08% as compared to 95.74% in prior year due net addition in earning assets.

### Investment / Market Ratios

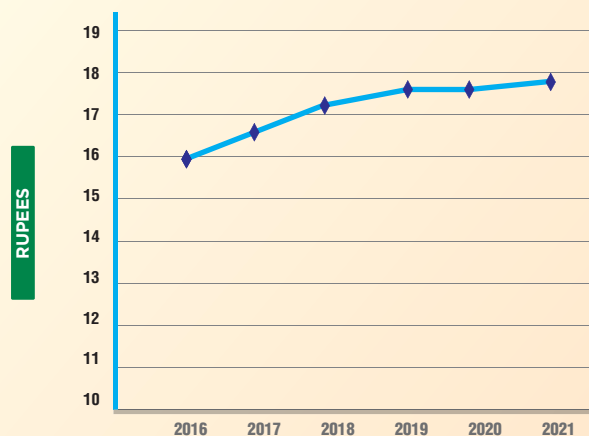
- Earnings per share has slightly increased from Rs. 1.57 to Rs. 1.80 in 2021 as a result of the increase in net profit.
- P/E ratio was reflected as 5.44 as compared to last year of 6.34 due to decrease in market value and slight increase in earnings per share.
- Dividend yield ratio increased from 14.07% to 14.29% this year.
- Book value per certificate increased from Rs. 17.59 to 17.99 in 2021 due to the increase in total equity.
- Cash dividend per Modaraba certificate remained same. However, dividend payout ratio has been decreased due to increase in profit after tax.
- Market value per certificate of Modaraba has been slightly decreased.
- Dividend coverage ratio has remained between 1.12 to 1.48 over the period of six years.



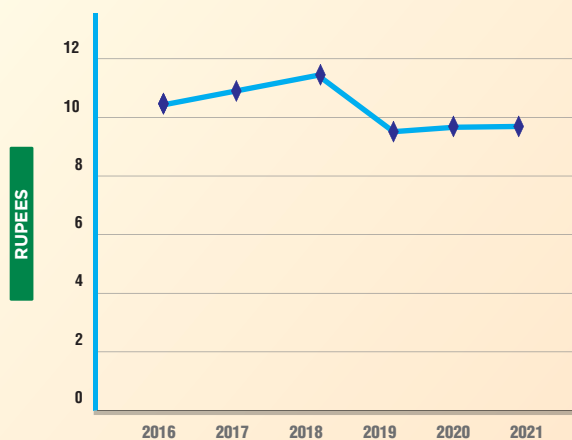
**Dividend Per Certificate**



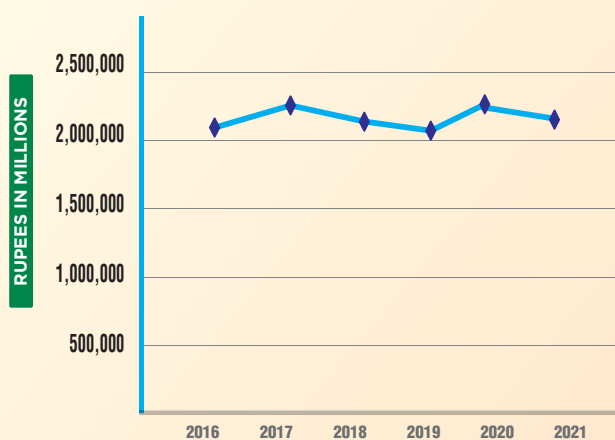
**Net Asset Per Certificate**



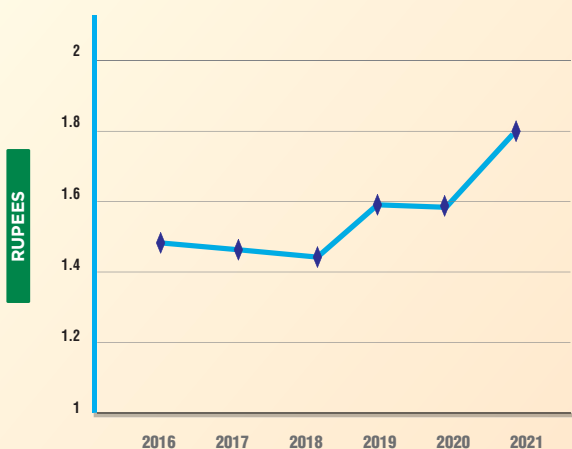
**Market Value Per Certificate**



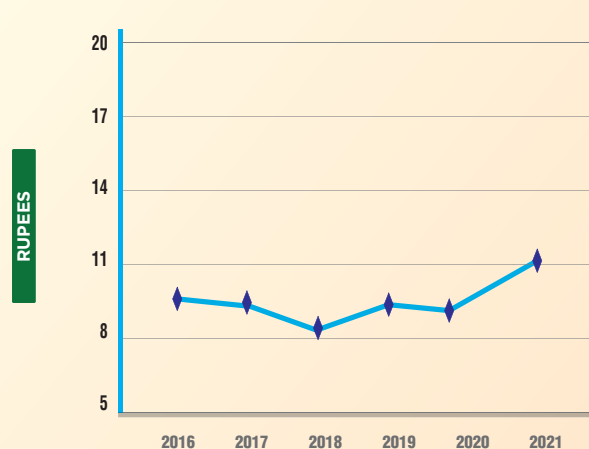
**Market Capitalization**



**Earning per Certificate of Rs. 5/- each**



**Return on Capital Employed**



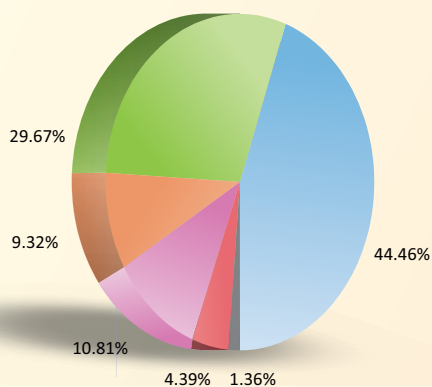
## STATEMENT OF VALUE ADDED

	2021		2020	
	Rupees	(%)	Rupees	(%)
<b>Value Added</b>				
Revenue from operations	967,599,534		1,106,824,492	
Other income / charges	103,525,925		169,560,968	
Value added by financial services	1,071,125,459		1,276,385,460	
Operating expense	119,733,980		12,893,323	
	951,391,479	100	1,263,492,137	100

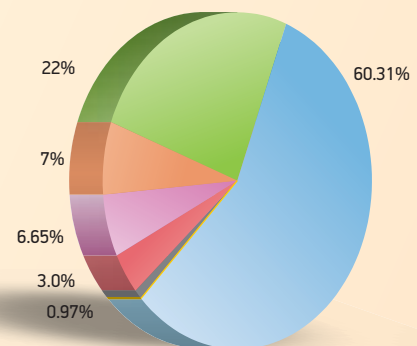
### Value Allocated

To Employees				
Salaries, allowances & other benefits	88,634,128	9.32%	82,326,025	6.52%
To certificate holders				
Profit on certificates	423,018,344	44.46%	765,344,450	60.57%
To Modarib				
As management fee	41,776,705	4.39%	36,431,341	2.88%
To certificate holders				
Profit on certificates (Dividend)	282,240,000	29.67%	282,240,000	22.34%
To Society				
Donation	-	0.00%	840,000	0.07%
To expansion & growth				
As Depreciation	12,910,495	1.36%	12,302,304	0.97%
As Reserve and Retained earning	102,811,807	10.81%	84,008,017	6.65%
	951,391,479	100.00%	1,263,492,137	100.00%

**Value Allocated 2021**



**Value Allocated 2020**





## 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

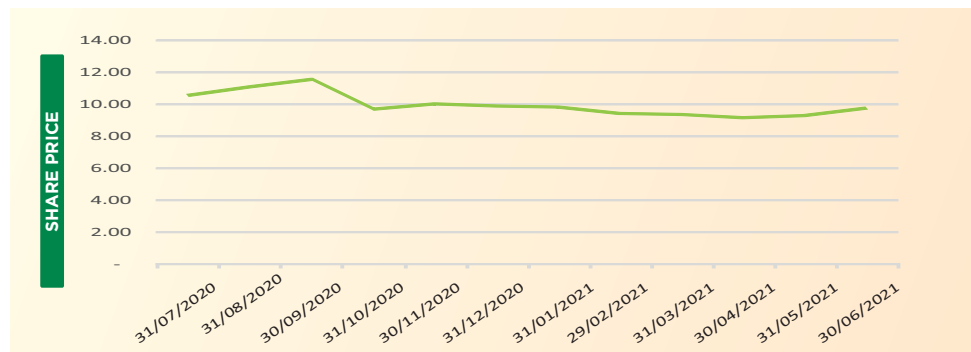
Government policies could be perceived as positive or negative for business. The policies may lead to changes in inflation & interest rates, which may affect stock prices.

### Investor sentiments / confidence

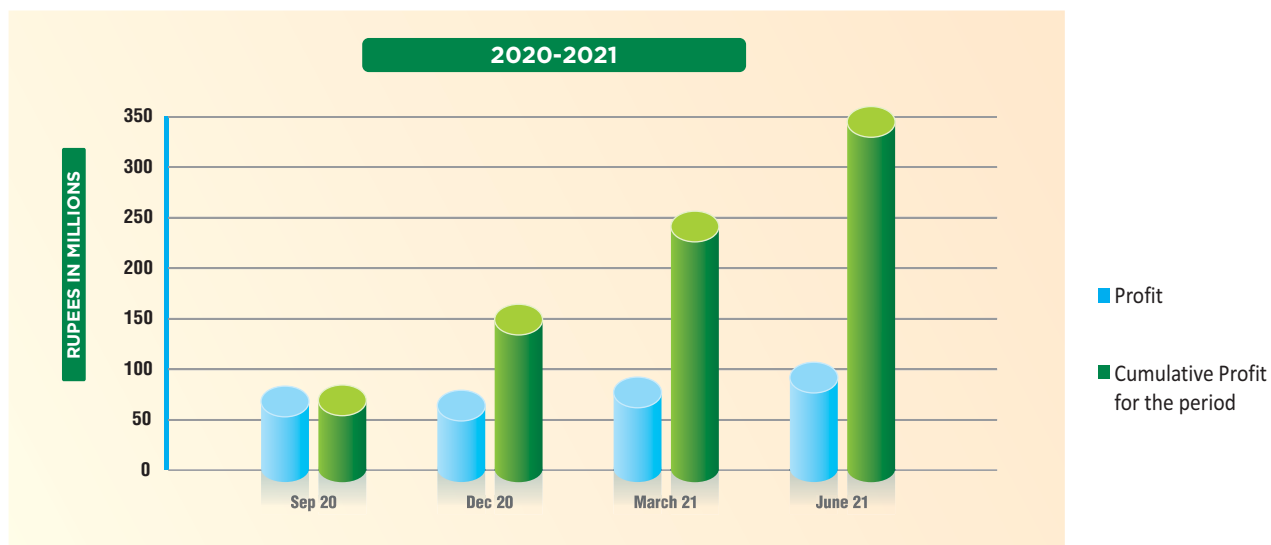
Positive economic reforms can attract investors.

### 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 2021 to June 2021	from April 2020 to June 2020	Variance	From Jan 2021 to Mar 2021	from Jan 2020 to Mar 2020	Variance
	Rupees			Rupees		
Income from lease financing	63,562,345	48,848,495	30%	19,712,923	58,896,841	-67%
Income on diminishing musharaka financing	223,695,184	156,129,556	43%	195,176,686	251,310,230	-22%
Administrative expenses	(34,212,881)	(37,353,099)	-8%	(36,395,731)	(33,805,790)	8%
Other income	25,158,653	36,647,878	-31%	22,243,325	53,090,045	-58%
Financial charges	(125,554,681)	(145,637,327)	-14%	(103,528,477)	(224,069,959)	-54%
Profit after taxation	106,545,817	50,969,497	109%	91,931,820	91,638,578	0%

	from Oct 2020 to Dec 2020	from Oct 2019 to Dec 2019	Variance	From Jul 2020 to Sep 2020	from Jul 2019 to Sept 2019	Variance
	Rupees			Rupees		
Income from lease financing	14,517,792	36,783,731	-61%	31,968,178	47,016,007	-32%
Income on diminishing musharaka financing	214,067,290	255,968,754	-16%	163,525,910	242,923,234	-33%
Administrative expenses	(40,215,884)	(40,974,598)	-2%	(36,769,151)	(35,025,563)	5%
Other income	34,640,088	43,822,581	-21%	21,483,859	36,000,464	-40%
Financial charges	(103,372,321)	(203,033,133)	-49%	(90,562,865)	(191,014,047)	-53%
Profit after taxation	83,968,864	88,242,912	-5%	80,701,651	86,839,156	-7%

## EXPLANATION OF NEGATIVE CHANGE IN THE PERFORMANCE AGAINST PRIOR YEARS

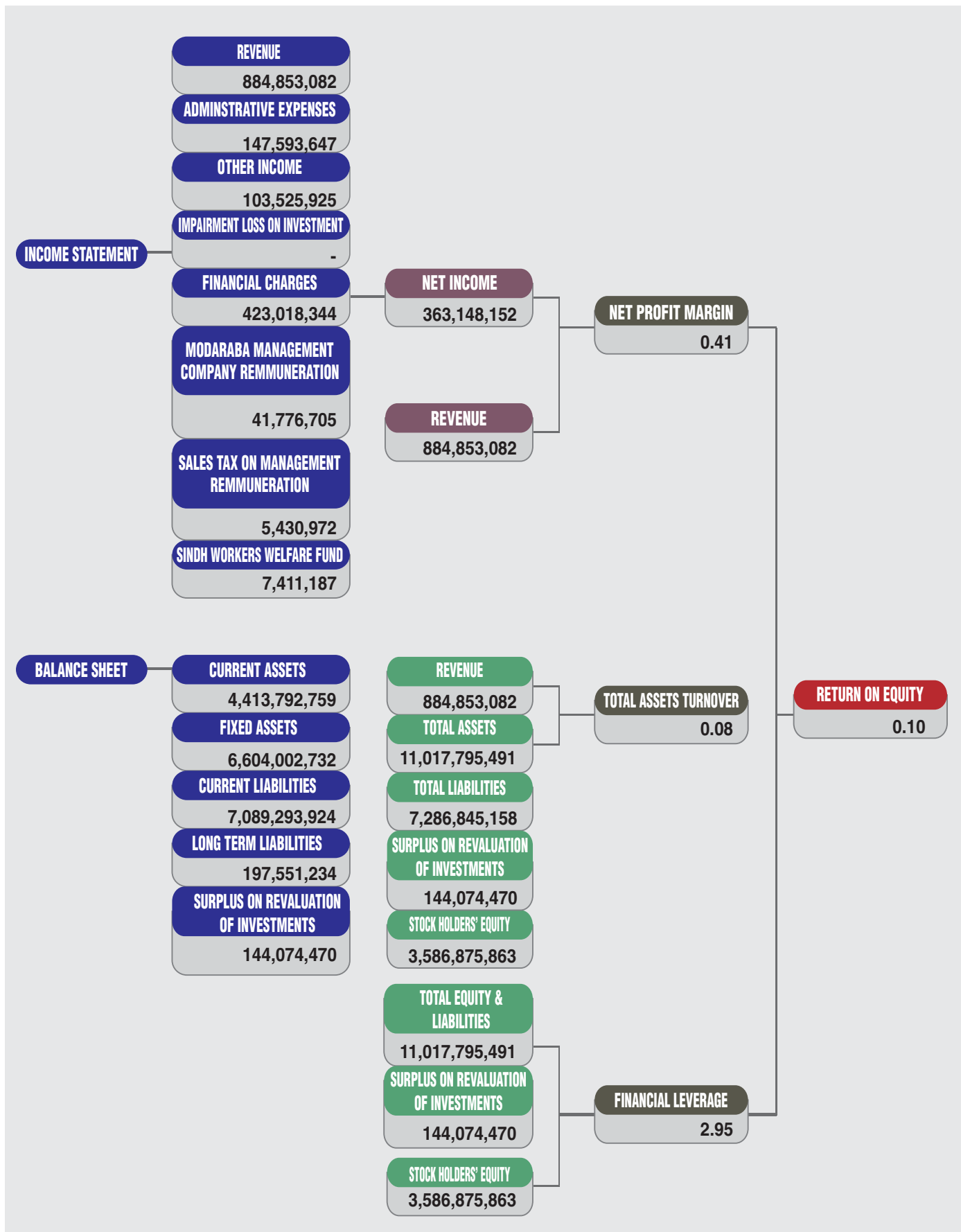
- The reason for negative variation in income from lease financing is the management's strategic decision to convert the business portfolio from lease financing to diminishing musharaka financing due to product diversification.
- The reason for the decline in DM income, financial charges and other income is mainly due to the downfall of interest rates as compare to prior year.

## RATIONALE FOR MAJOR CAPITAL EXPENDITURE MADE DURING THE YEAR 2020-21

- During the year no major capital expenditure was made.



## DUPONT ANALYSIS



## STATEMENT OF CASH FLOWS - DIRECT METHOD

	2021	2020
	-----Rupees-----	
<b>CASH FLOW FROM OEPRATING ACTIVITIES</b>		
Installments received against lease financing and Diminishing Musharaka Financing	<b>4,869,160,459</b>	5,012,947,892
Net payments made against lease financing and Diminishing Musharaka Financing	<b>(6,629,020,710)</b>	(3,642,798,697)
Working capital movement	<b>90,608,410</b>	(107,655,355)
Financial charges paid	<b>(447,259,812)</b>	(724,210,275)
Gratuity Paid	<b>(3,232,395)</b>	(2,202,973)
Tax paid	<b>(19,238,871)</b>	(14,065,533)
Net cash flow from operating activities	<b>(2,138,982,919)</b>	522,015,059
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of assets in own use	<b>(6,185,057)</b>	(10,180,631)
Purchase of intangible assets	-	(141,250)
Purchase of investments	-	(5,000,000)
Payment of Lease rentals	<b>(2,372,914)</b>	(12,660,468)
Proceeds from sale of assets in own use	<b>4,493,195</b>	258,820
Proceeds from transfer of lease financing assets	<b>318,969,377</b>	552,134,946
Proceeds from sale / maturity of investments	<b>10,352,227</b>	315,847,897
Profit on Deposit and sukus	<b>57,743,976</b>	138,238,054
Dividends received	<b>21,884,171</b>	15,177,576
Net cash generated from investing activities	<b>404,884,975</b>	993,674,944
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Profit distribution paid	<b>(279,215,967)</b>	(277,496,016)
Running Musharaka obtained	<b>49,999,000</b>	-
Proceeds from murabaha financing	-	100,000,000
Profit paid on murabaha financing	-	(25,662,777)
Payment on maturity of murabaha financing	-	(325,000,000)
Certificates of investment (musharaka)	<b>2,010,807,459</b>	(869,546,164)
Net cash (outflow) / inflow from financing activities	<b>1,781,590,492</b>	(1,397,704,957)
Net increase / (decrease) in cash and cash equivalents during the year	<b>47,492,548</b>	117,985,046
Cash and cash equivalents at beginning of the year	<b>168,609,750</b>	50,624,704
Cash and cash equivalents at end of the year	<b>216,102,298</b>	168,609,750



## 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 2021

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, 2021 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 company 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 and Ijarah (Lease) financing were 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 Musharakah were in accordance with weightages announced by the Modaraba on monthly basis.
- FHM conducted onsite and online series of trainings for the existing and newly appointed staff during the year and also nominated its staff members for different trainings on Islamic Finance conducted by NBFI & Modaraba Association of Pakistan.

### **Observations & Recommendations**

- It was observed that FHM has transferred over its assets portfolio from Conventional Insurance to Takaful and said ratio improved from 93% to 97% of total assets. However, further improvement required to put its effort for conversion of remaining portfolio to Takaful.
- It is also recommended that FHM should further enhance trainings frequency of the staff to financing and treasury.
- 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 deed are from Allah and weaknesses are from our sides that needs to be forgiven. Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

  
Mufti Faisal Ahmed  
Shari'ah Advisor



Dated: 15th Dhu al-Haj 1442 Hijri/ August 26, 2021

## STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE – YEAR ENDED JUNE 30, 2021

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

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

Male	5
Female	1

2. 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

3. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this company.
4. 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.
5. 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;
6. 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.
7. 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.
8. The board of directors have a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations.
9. 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 ICMA
Dr. Irum Saba	Certified from IBA

10. 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. Anas Majid

**HR and Remuneration Committee**

Chairman	Syed Rasheed Akhtar
Member	Mr. Saeed Uddin Khan
Member	Mr. Mohammad Shams Izhar
Secretary	Mr. Tehsin Abbas

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:
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 30, 2021

**Syed Rasheed Akhtar**  
Chairman



EY Ford Rhodes  
Chartered Accountants  
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## **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 2021 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 2021.

EY Ford Rhodes  
Chartered Accountants  
**Place:** Karachi  
**Date:** October 06, 2021



## 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 24, 2020 in order to review performance of FHM for the year ended June 30, 2020.

The following were present from FHM:

Mr. Muhammad Shoaib	-	Chief Executive Officer
Syed Rasheed Akhtar	-	Director
Mr. Saeed ud din Khan	-	Director
Mr. Tehsin Abbas	-	Chief Financial Officer
Mr. Intisar M. Usmani	-	Head of Credit

CEO of FHM has briefed updated the forum about the business activities and performance of FHM along with challenges faced during the year 2019-20 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

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

Business Strategy for the year 2020-2021 given in ARM	Achievement during 2020-2021
New customer engagements and enhance customer base with sound corporate entities	Measures have been taken by the management to enhance the efficiency and better customer services.
Further develop and improve the staff capacity through trainings, seminars etc.	Effective training methods have been introduced for professional grooming of the staff members.
Improved profitability and good dividend distribution in years to come.	Modaraba has again declared 28% annual dividend
Expand in new areas and locations by improving branch network	In order to penetrate the FHM Products into market
Strengthen Risk management tool and further improve internal control system	Plenty of measures have been taken to further upgrade our control systems with the help of technological advancements

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, 2020.

Certificate Holders were raised following questions during the meeting.

- Why the investments in the equity market remains low?
- What are the major sectors of investment?
- What will be the future profitability of Modaraba in current circumstances?
- Why the administrative expenses increased compared to previous year?
- How the overall operational effectiveness maintained by the Modaraba?
- What about the strategy for investment in capital market?

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, 2019 through CD along with the notice of Annual Review Meeting.

## 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](http://www.habibmodaraba.com)  
Email: [fhm@habibmodaraba.com](mailto: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 4,653 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 28% (Rs. 1.40 per Modaraba Certificate of Rs. 5/- each) for the financial year ended 30th June, 2021.

### Book Closure Dates

The Certificate Transfer Book of the Modaraba will remain close from 18-10-2021 to 27-10-2021 (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     | 25% |
| 2. whose name not appearing in the Active Tax Payers List | 50% |

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: 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.



## 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.



# Major Event During the Year

July 2020 - June 2021

## QUARTER

# 01

- Board of Directors meeting for the year ended June 30, 2020 was held on September 23, 2020.
- On September 24, 2020 FPCCI has awarded "Certificate of Achievement" to First Habib Modaraba (FHM) under the category of "Islamic Modes of Financing". This recognition has been given to FHM for outstanding achievement during 2020 within NBFI and Modaraba sector
- PACRA Maintains Entity Rating AA+ for long term of First Habib Modaraba on September 25, 2020.

## QUARTER

# 02

- 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) 2019 Awards" under the category of NBFIs and Modaraba on October 14, 2020.
- Board of Directors meeting for the Quarter ended September 30, 2020 was held on October 27, 2020.
- Annual Review Meeting of the Modaraba for the year ended June 30, 2019 was held on October 24, 2020.
- Credit of Final Cash Dividend for the year ended June 30, 2020 on November 06, 2020.
- Received Merit Certificate in the Financial Services Category of SAFA Awards 2019 on 23rd December 2020.

## QUARTER

# 03

- Board of Directors meeting for the Half Year ended December 31, 2020 was held on February 23, 2021.

## QUARTER

# 04

- Board of Directors meeting for the Quarter ended March 31, 2021 was held on April 28, 2021.
- Received Best Performing Award (2nd Position) from NBFI & Modaraba Association of Pakistan on June 28, 2021.









## **Financial Statements**

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## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of First Habib Modaraba (the Modaraba) as at 30 June 2021 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 2021 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: October 06, 2021  
Karachi

## BALANCE SHEET

AS AT JUNE 30, 2021

	Note	June 30, 2021	June 30, 2020
		Rupees	
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Lease financing assets	5	861,522,931	1,719,650,990
Fixed assets in own use	6	54,298,927	69,428,828
Intangible assets	7	141,250	198,711
Diminishing musharaka financing	8	6,217,547,845	4,282,849,332
Long term deposits	9	1,147,800	1,218,850
		7,134,658,753	6,073,346,711
<b>CURRENT ASSETS</b>			
Investments	10	872,463,162	768,406,670
Current portion of diminishing musharaka financing	8	3,696,264,542	2,719,651,582
Lease financing installments receivable	11	385,597	1,003,375
Diminishing Musharaka financing installments receivable	12	155,806	2,785,509
Advances and prepayments	13	9,813,533	4,440,028
Other receivables	14	25,613,009	21,102,159
Income tax refundable	15	167,077,010	153,711,487
Cash and bank balances	16	216,102,298	168,609,750
		4,987,874,957	3,839,710,560
<b>TOTAL ASSETS</b>		12,122,533,710	9,913,057,271
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Authorized certificate capital 220,000,000 (June 30, 2020: 220,000,000) certificates of Rs.5 each		1,100,000,000	1,100,000,000
Issued, subscribed and paid-up certificate capital	17	1,008,000,000	1,008,000,000
Reserves	18	2,619,067,813	2,538,683,912
Certificate holders' equity		3,627,067,813	3,546,683,912
<b>SURPLUS ON REVALUATION OF INVESTMENTS</b>	19	201,278,830	86,870,111
<b>NON-CURRENT LIABILITIES</b>			
Security deposits against lease financing assets	20	130,913,803	232,284,208
Liability against right of use assets	21	10,133,260	21,771,196
		141,047,063	254,055,404
<b>CURRENT LIABILITIES</b>			
Certificates of investment (musharaka)	22	7,290,539,424	5,279,731,965
Security deposits - current portion	20	70,898,081	124,155,383
Current maturity of liability against right of use assets	21	13,562,585	1,095,504
Unearned lease financing and diminishing musharaka installments		17,850,254	7,204,778
Advance lease financing and diminishing musharaka installments		10,007,913	15,193,649
Trade and other payables	23	546,546,836	419,261,414
Profit payable on certificates of investment (musharaka)		107,487,595	135,580,868
Running Musharaka	24	49,999,000	-
Unclaimed profit distributions		46,248,316	43,224,283
		8,153,140,004	6,025,447,844
<b>TOTAL EQUITY AND LIABILITIES</b>		12,122,533,710	9,913,057,271
<b>CONTINGENCIES AND COMMITMENTS</b>			
	25		

The annexed notes from 1 to 49 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, 2021

	Note	June 30, 2021	June 30, 2020
		-----Rupees-----	
Income from lease financing	26	129,761,238	191,545,074
Income from diminishing musharaka financing		796,465,070	1,017,660,560
Provision in respect of diminishing musharaka	27	(41,373,226)	(102,381,142)
Administrative expenses	28	(147,593,647)	(146,727,604)
		737,259,435	960,096,888
Other income	29	103,525,925	169,560,968
		840,785,360	1,129,657,856
Financial charges	30	(423,018,344)	(765,344,450)
Modaraba Management Company's remuneration	23.4	(41,776,705)	(36,431,341)
Sales tax on Modaraba Management Company's remuneration	23.5	(5,430,972)	(4,736,074)
Provision for Sindh Workers' Welfare Fund	23.3	(7,411,187)	(6,462,920)
<b>Profit before taxation</b>		<b>363,148,152</b>	<b>316,683,071</b>
Taxation	31	-	-
<b>Profit for the year</b>		<b>363,148,152</b>	<b>316,683,071</b>
<b>Earning per certificate - basic and diluted</b>	42	<b>1.80</b>	<b>1.57</b>

The annexed notes from 1 to 49 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, 2021

	Note	June 30, 2021	June 30, 2020
		-----Rupees-----	
Profit for the year		363,148,152	316,683,071
<b>Components of other comprehensive income reflected in equity</b>			
<b>Items that will not be reclassified subsequently to profit and loss account</b>			
Actuarial (loss) / gain on defined benefit plan	23.7(j)	(524,251)	615,045
<b>Total comprehensive income for the year transferred to unappropriated profit</b>		<b>362,623,901</b>	<b>317,298,116</b>
<b>Components of other comprehensive income reflected below equity</b>			
<b>Items that will not be reclassified subsequently to profit and loss account</b>			
Surplus / (deficit) on revaluation of investments classified as 'at fair value through other comprehensive income' - net	19	114,408,719	(38,106,235)
<b>Total comprehensive income for the year</b>		<b>477,032,620</b>	<b>279,191,881</b>

The annexed notes from 1 to 49 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, 2021

	Note	June 30, 2021	June 30, 2020
		-----Rupees-----	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	44	<b>1,552,743,594</b>	2,166,429,259
Disbursement of lease financing assets		<b>(98,383,329)</b>	(610,813,503)
Proceeds from transfer of lease financing assets		<b>318,969,377</b>	552,134,946
Diminishing musharaka financing - net		<b>(2,911,311,473)</b>	(62,596,041)
Long term deposits		<b>71,050</b>	(12,000)
Security deposits against lease financing assets		<b>(154,627,707)</b>	(92,275,821)
Financial charges paid		<b>(447,259,812)</b>	(724,210,275)
Gratuity paid		<b>(3,232,395)</b>	(2,202,973)
Tax paid		<b>(19,238,871)</b>	(14,065,533)
<b>Net cash (outflow)/ inflow from operating activities</b>		<b>(1,762,269,566)</b>	1,212,388,059
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets in own use		<b>(6,185,057)</b>	(10,180,631)
Purchase of intangible assets		-	(141,250)
Purchase of investments		-	(5,000,000)
Proceeds from sale of fixed assets in own use		<b>4,493,195</b>	258,820
Proceeds from sale / maturity of investments		-	15,847,897
Dividends received		<b>21,884,171</b>	15,177,576
<b>Net cash generated from investing activities</b>		<b>20,192,309</b>	15,962,412
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Profit distribution paid		<b>(279,215,967)</b>	(277,496,016)
Payments of lease rentals	21	<b>(2,372,914)</b>	(12,660,468)
Proceeds from murabaha financing		-	100,000,000
Profit paid on murabaha financing		-	(25,662,777)
Payment on maturity of murabaha financing		-	(325,000,000)
Certificates of investment (musharaka)		<b>2,010,807,459</b>	(869,546,164)
<b>Net cash inflow/ (outflow) from financing activities</b>		<b>1,729,218,578</b>	(1,410,365,425)
Net decrease in cash and cash equivalents during the year		<b>(12,858,679)</b>	(182,014,954)
Cash and cash equivalents at beginning of the year		<b>668,609,750</b>	850,624,704
<b>Cash and cash equivalents at end of the year</b>	33	<b>655,751,071</b>	668,609,750

The annexed notes from 1 to 49 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, 2021

	Certificate capital	Capital reserves		Revenue reserves		Total equity
		Certificate premium	Statutory reserves*	General reserves	Unappropriated profit	
						(Rupees)
Balance as at July 01, 2019	1,008,000,000	378,000,000	1,119,474,106	640,000,000	366,248,017	3,511,722,123
Profit distribution for the year ended June 30, 2019 at Rs.1.40 per certificate	-	-	-	-	(282,240,000)	(282,240,000)
Total comprehensive income for the year	-	-	-	-	317,298,116	317,298,116
Surplus transferred to unappropriated profit during the year	-	-	-	-	(96,327)	(96,327)
Transfer to statutory reserve	-	-	15,834,154	-	(15,834,154)	-
<b>Balance as at June 30, 2020</b>	<b>1,008,000,000</b>	<b>378,000,000</b>	<b>1,135,308,260</b>	<b>640,000,000</b>	<b>385,375,652</b>	<b>3,546,683,912</b>
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)	-
<b>Balance as at June 30, 2021</b>	<b>1,008,000,000</b>	<b>378,000,000</b>	<b>1,207,937,890</b>	<b>640,000,000</b>	<b>393,129,923</b>	<b>3,627,067,813</b>

\* 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 49 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, 2021

### 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, Hirani centre, 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

### 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;
- 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 Modaraba Regulations 2021 for Modarabas (hereinafter referred to as the relevant laws). Up until previous years, Modaraba was also following the requirements of Prudential Regulations for Modarabas, which are now repealed by Modaraba Regulations 2021. There are no material financial adjustments required upon adoption of Modaraba Regulations 2021 in place of Prudential Regulations for Modarabas.

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.

IFRS 9 'Financial Instruments' was applicable effective from July 01, 2018. The standard addresses recognition classification, measurement and derecognition of financial assets and financial liabilities. The standard has also introduced a new impairment model for financial assets which requires recognition of impairment charge based on 'expected credit losses' (ECL) approach.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

Accordingly, Modaraba adopted IFRS 9 and assessed the requirements of the same for classification of investments and expected credit loss of financial assets, other than the provisioning requirements for financing assets, which continued to be assessed under the requirements of Prudential Regulations / Modaraba Regulations, in light of the subsequent deferment provided by the SECP for application of IFRS 9, which is valid up till June 30, 2022. The impact of the adoption of IFRS 9 to the extent stated above is not considered material to these financial statements.

### 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.

#### 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



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

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.

### 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

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:

Standard or Interpretation	Effective date (annual periods beginning on or after)
- IFRS 3 - Revised Conceptual Framework (Amendments)	January 01, 2022
- IFRS 9 - Financial Instruments: Classification and Measurement	July 01, 2022
- IAS 16 - Property, Plant and Equipments: proceeds before intended use	January 01, 2022
- IAS 37 - Onerous Contracts: cost of fulfilling a contract	January 01, 2022
- IAS 1 - Classification of Liabilities as Current or Non-current (Amendments)	January 01, 2023
- IAS 1 - Disclosure of Accounting Policies (Amendments)	January 01, 2023
- IAS 8 - Definition of Accounting Estimates (Amendments)	January 01, 2023
- IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)	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.

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

- IFRS 1 - First time adoption of IFRSs
- IFRS 17 - Insurance Contracts
- IFRS 14 - Regulatory Deferral Accounts

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### 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.

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 carrying values are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### (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.

#### 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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

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 bases.

### 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.

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.

#### **Impairment of financial assets**

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 (see note 2.1).



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

The management also evaluates the Islamic financing receivable subjectively to further down-grade if required.

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### 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 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.

### 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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### 4.11 Taxation

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. Based on the advice of the legal and tax advisor, the management is of the view that the said exemption is valid for the entire year ended June 30, 2021 and its withdrawal will be effective from July 1, 2021. Accordingly, no provision for taxation has been made in the financial statements for the current year.

As a result of withdrawal of tax exemption, there are implications of deferred tax which have been assessed by the management as at June 30, 2021 in consultation with its tax advisor. The management and the tax advisor are of the view that since the income of the Modaraba would be chargeable to tax for the first time in the tax year 2022, potential differences may arise in practice which are not yet envisaged. Therefore, the management has prudently decided not to recognise the deferred tax asset in these financial statements.

### 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.

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 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 recourse embodying economic benefit will be required to settle the obligation or, when amount of obligation cannot be measured with sufficient reliability.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### 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
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
First Habib Modaraba Employee Staff Gratuity Fund	Associate	Common Management
Habib Metro Modaraba	Associate	Common Management and Control

\* This associated company is incorporated outside Pakistan, the details of which are as follows:

Country of Incorporation	: Switzerland
Aggregate percentage of shareholding	: 5.1% (Indirect holding)

### 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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### " 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 (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, 2021	June 30, 2020
-----Rupees-----			
<b>5. LEASE FINANCING ASSETS</b>			
Lease financing assets	5.1	<b>861,522,931</b>	1,691,512,990
Advance against lease financing assets	5.2	-	28,138,000
		<b>861,522,931</b>	<b>1,719,650,990</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### 5.1 Lease financing assets

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		
	(Rupee s)							
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	
June 30, 2020								
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		
	(Rupee s)							
Plant, machinery and equipment*	888,406,202	28,577,736 (198,268,622)	718,715,316	560,307,057	135,502,499 (191,993,650)	503,815,906	214,899,410	8.33 to 50
Vehicles	4,150,238,238	710,501,500 (2,130,280,213)	2,730,459,525	1,895,369,367	958,981,669 (1,600,505,091)	1,253,845,945	1,476,613,580	15 to 33.33
	5,038,644,440	739,079,236 (2,328,548,835)	3,449,174,841	2,455,676,424	1,094,484,168 (1,792,498,741)	1,757,661,851	1,691,512,990	

\* The cost has been adjusted with impairment amounting to Rs.8,028 (2020: Rs.8,028) million.

		Note	June 30, 2021	June 30, 2020
			Rupees	
<b>5.2 Advance against lease financing assets</b>				
As at beginning of the year			28,138,000	156,403,733
Add: Disbursements during the year			86,562,210	578,191,767
			<b>114,700,210</b>	734,595,500
Less: Transfers to lease financing assets			(114,700,210)	(706,457,500)
<b>As at end of the year</b>			<b>-</b>	<b>28,138,000</b>
<b>6. FIXED ASSETS IN OWN USE</b>				
Assets in own use	6.1		31,716,735	41,012,823
Capital work-in-progress	6.2		-	756,769
Right-of-use assets	6.3		22,582,192	27,659,236
			<b>54,298,927</b>	<b>69,428,828</b>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### 6.1 Assets in own use

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		
----- (Rupee s) -----								
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, 2020								
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		
(Rupee s)								
Office equipment	21,916,197	2,462,166 (402,400)	23,975,963	16,267,272	2,927,491 (402,394)	18,792,369	5,183,594	25 to 33.33
Furniture and fixture	14,341,326	1,049,460 (3,222,000)	12,168,786	8,892,008	1,815,580 (3,105,321)	7,602,267	4,566,519	20 to 25
Vehicles	23,223,571	5,360,238 (117,628)	28,466,181	3,384,275	3,934,801 (56,814)	7,262,262	21,203,919	16.67
Leasehold improvements	16,100,518	1,767,687 -	17,868,205	4,304,907	3,504,507 -	7,809,414	10,058,791	20
	75,581,612	10,639,551 (3,742,028)	82,479,135	32,848,462	12,182,379 (3,564,529)	41,466,312	41,012,823	

Note		June 30, 2021	June 30, 2020
		Rupees	
<b>6.2 Capital work-in-progress</b>			
As at the beginning of the year		756,769	1,215,689
Add: Addition to capital work-in-progress		-	756,769
		756,769	1,972,458
Less: Transfers to assets in own use		(756,769)	(1,215,689)
As at end of the year		-	756,769
<b>6.3 Right-of-use assets</b>			
As at July 01, 2020		27,659,236	33,419,015
Depreciation Expense	28	(5,077,044)	(5,097,125)
Terminated during the year		-	(662,654)
As at June 30, 2021		22,582,192	27,659,236

FOR THE YEAR ENDED JUNE 30, 2021

	Note	June 30, 2021	June 30, 2020
<b>7. INTANGIBLE ASSETS</b>			
Intangible assets	7.1	-	57,461
Capital work-in-progress	7.2	141,250	141,250
		<b>141,250</b>	198,711

## 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		
Computer software - June 30, 2021	3,807,214	-	3,807,214	3,749,753	57,461	3,807,214	-	33.33
Computer software - June 30, 2020	3,807,214	-	3,807,214	3,629,828	119,925	3,749,753	57,461	33.33

	Note	June 30, 2021	June 30, 2020
<b>7.2 Capital work-in-progress</b>			
As at the beginning of the year		141,250	-
Add: Addition to capital work-in-progress		-	141,250
		<b>141,250</b>	<b>141,250</b>
<b>8. DIMINISHING MUSHARAKA FINANCING</b>			
<b>Secured</b>			
Diminishing musharaka financing	8.1	<b>8,601,350,789</b>	6,789,058,938
Less: Provision in respect of diminishing musharaka	8.2	<b>(151,038,442)</b>	(109,665,216)
	8.3	<b>8,450,312,347</b>	6,679,393,722
Less: Current portion shown in current assets		<b>(3,696,264,542)</b>	(2,719,651,582)
		<b>4,754,047,805</b>	3,959,742,140
Add: Advance against diminishing musharaka financing		<b>1,463,500,040</b>	323,107,192
		<b>6,217,547,845</b>	4,282,849,332
<b>8.1</b> This represents diminishing musharaka financing for a term of 1 to 10 years.			
<b>8.2 Movement of provision in respect of diminishing musharaka</b>			
Opening balance		<b>109,665,216</b>	7,844,072
Charge for the year		<b>126,566,096</b>	102,381,142
Reversal for the year		<b>(85,192,870)</b>	-
Write off for the year		<b>-</b>	(559,998)
		<b>41,373,226</b>	101,821,144
		<b>151,038,442</b>	109,665,216



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

	Note	June 30, 2021	June 30, 2020
-----Rupees-----			
<b>8.3.</b> Aging of diminishing musharaka financing			
<b>Classification</b>			
Considered good		8,248,691,100	6,535,009,166
Portfolio classified as non-performing			
Other asset especially mentioned (OAEM)		60,197,893	152,073,516
Substandard		194,434,221	3,634,503
Doubtful		-	3,854,770
Loss		98,027,575	94,486,983
	8.3.1	352,659,689	254,049,772
		8,601,350,789	6,789,058,938
<b>8.3.1</b> This includes classification into various categories based on subjective evaluation of borrowers.			
<b>9. LONG TERM DEPOSITS</b>			
Security deposit to Central Depository Company of Pakistan Limited		150,000	150,000
Security deposit of branch offices		786,800	846,800
Security deposit to Habib Metropolitan Bank for locker		130,000	130,000
Miscellaneous deposits		81,000	92,050
		1,147,800	1,218,850
<b>10 INVESTMENTS</b>			
At fair value through other comprehensive income			
Investment in shares	10.1	302,815,389	188,406,670
Investment in sukuk	10.2	80,000,000	80,000,000
		382,815,389	268,406,670
At amortized cost			
Investment in Term Deposit Musharakas (TDMs)	10.3	489,647,773	500,000,000
		872,463,162	768,406,670

### 10.1 INVESTMENT IN SHARES

#### Shares of listed companies

		30 June, 2021		30 June, 2020	
		Average Cost	Market Value	Average Cost	Market Value
		----- (Rupees) -----			
Number of shares					
2021	2020				
		<b>Banks</b>			
2,009,205	1,826,550				
		35,209,591	231,882,345	35,209,591	125,757,968
		<b>Sugar and Allied Industries</b>			
1,510,668	1,510,668				
		47,301,563	49,852,044	47,301,563	44,564,702
		<b>Fertilizer</b>			
300,000	300,000				
		19,025,405	21,081,000	19,025,405	18,084,000
		101,536,559	302,815,389	101,536,559	188,406,670

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

- 10.2** This includes perpetual, unsecured, subordinated, non-cumulative, and contingent convertible shariah compliant sukuks 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%

- 10.3** These carry profit at rates ranging from 5.50% to 6.75% (2020: 6.25% to 13.00%) per annum having maturity from 3 months to 6 months.

	Note	June 30, 2021	June 30, 2020
<b>11. LEASE FINANCING INSTALLMENTS RECEIVABLE</b>			
<b>Secured - considered good</b>			
Lease financing installments due		514,033	2,204,007
Less: Provision against lease financing installments receivable		(128,436)	(1,200,632)
	11.1	385,597	1,003,375
<b>11.1 Aging of lease financing installments receivable</b>			
<b>Classification</b>			
Considered good		385,597	1,003,375
Portfolio classified as non-performing:			
Other asset especially mentioned (OAEM)		128,436	1,200,632
Substandard		-	-
Doubtful		-	-
Loss		-	-
	11.1.1	128,436	1,200,632
		514,033	2,204,007
<b>11.1.1 This also includes provision on subjective basis.</b>			
<b>12. DIMINISHING MUSHARAKA FINANCING INSTALLMENTS RECEIVABLE</b>			
<b>Secured - considered good</b>			
Diminishing Musharaka financing installments receivable		8,141,824	26,657,874
Less: Provision against Diminishing Musharaka financing installments receivable		(7,986,018)	(23,872,365)
	12.1	155,806	2,785,509
<b>12.1 Aging of Diminishing Musharaka financing installments receivable</b>			
<b>Classification</b>			
Considered good		155,806	2,785,509
Portfolio classified as non-performing:			
Other asset especially mentioned (OAEM)		2,627,036	22,521,315
Substandard		2,074,392	1,169,559
Doubtful		888,771	181,491
Loss		2,395,819	-
	12.1.1	7,986,018	23,872,365
		8,141,824	26,657,874



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

	Note	June 30, 2021	June 30, 2020
-----Rupees-----			
<b>12.1.1</b>	This also includes provision on subjective basis.		
<b>13. ADVANCES AND PREPAYMENTS</b>			
Advances		6,062,804	2,043,244
Prepayments		3,750,729	2,396,784
		<b>9,813,533</b>	<b>4,440,028</b>
<b>14. OTHER RECEIVABLES</b>			
<b>Unsecured - considered good</b>			
Profit receivable on modaraba deposit accounts		4,134,042	5,692,186
Stamp in hands receivable		124,000	118,200
Profit receivable on sukuk		608,342	673,233
Advance tax		19,698,872	14,425,520
Other receivables		1,047,753	193,020
		<b>25,613,009</b>	<b>21,102,159</b>
<b>15. INCOME TAX REFUNDABLE</b>			
Income tax refund	15.1	<b>167,077,010</b>	153,711,487
<b>15.1</b>	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 2020, since the management is confident that the same shall be refunded.		

	Note	June 30, 2021	June 30, 2020
-----Rupees-----			
<b>16. CASH AND BANK BALANCES</b>			
Stamps in hand		152,200	95,800
<b>At banks</b>			
<b>Current accounts</b>			
State Bank of Pakistan		232,047	253,980
With other banks		8,115,580	2,176,850
<b>Profit bearing accounts</b>			
Modaraba deposit account with Habib Metropolitan Bank Limited (Islamic branch) - a related party	16.1	<b>207,602,471</b>	165,958,016
Modaraba deposit account with other financial institutions	16.2	-	125,104
		<b>207,602,471</b>	166,083,120
		<b>216,102,298</b>	<b>168,609,750</b>

**16.1** The profit on the above modaraba deposit accounts ranges between 5.5% (2020: 6.25% 10.80%) per annum.

**16.2** The profit on the above modaraba deposit accounts ranges between 2.75% to 2.80% (2020: 3.75% to 6.26%) per annum.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

		Note	June 30, 2021	June 30, 2020
			-----Rupees-----	
17.	ISSUED, SUBSCRIBED AND PAID-UP CERTIFICATE CAPITAL			
	2021 ----- (Number of certificates)-----	2020		
	193,900,000	193,900,000	Certificates of Rs.5/- each issued for cash	969,500,000
	7,700,000	7,700,000	Certificates of Rs.5/- each issued as bonus certificates	38,500,000
	201,600,000	201,600,000	1,008,000,000	1,008,000,000
18.	RESERVES			
	Capital reserves			
	Premium on issuance of certificates		378,000,000	378,000,000
	Statutory reserves		1,207,937,890	1,135,308,260
			1,585,937,890	1,513,308,260
	Revenue reserves			
	General		640,000,000	640,000,000
	Unappropriated profit		393,129,923	385,375,652
			1,033,129,923	1,025,375,652
			2,619,067,813	2,538,683,912
19.	SURPLUS ON REVALUATION OF INVESTMENTS			
	Market value of investments		382,815,389	268,406,670
	Less: Cost of investments		(181,536,559)	(181,536,559)
			201,278,830	86,870,111
	Surplus on revaluation at beginning of the year		86,870,111	124,880,019
	Surplus transferred to unappropriated profit during the year		-	96,327
	Surplus on revaluation during the year		114,408,719	(38,106,235)
			114,408,719	(38,009,908)
			201,278,830	86,870,111

- 19.1** 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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

	Note	June 30, 2021	June 30, 2020
-----Rupees-----			
<b>20. SECURITY DEPOSITS AGAINST LEASE FINANCING ASSETS</b>			
Lease security deposits	20.1	<b>201,811,884</b>	356,439,591
Less: Current portion shown under current liabilities		<b>(70,898,081)</b>	(124,155,383)
		<b>130,913,803</b>	232,284,208
<b>20.1</b>	These represent deposits from lease without any remuneration.		
<b>21. LIABILITY AGAINST RIGHT OF USE ASSETS</b>			
As at July 01,		<b>22,866,700</b>	32,876,629
Finance cost for the year	30	<b>3,202,059</b>	3,292,359
Payments made during the year		<b>(2,372,914)</b>	(12,660,468)
Terminated during the year		-	(641,820)
As at June 30,		<b>23,695,845</b>	22,866,700
Less: Current maturity		<b>(13,562,585)</b>	(1,095,504)
		<b>10,133,260</b>	21,771,196
<b>22. CERTIFICATES OF INVESTMENT (MUSHARAKA)</b>			
<b>Unsecured</b>			
Certificates of Investment (musharaka)	22.1 & 22.2	<b>7,290,539,424</b>	5,279,731,965
<b>22.1 Movement in Certificates of Investment (musharaka)</b>			
As at beginning of the year		<b>5,279,731,965</b>	6,149,278,129
Add: Certificates issued during the year	22.1.1	<b>11,109,139,559</b>	25,042,159,205
		<b>16,388,871,524</b>	31,191,437,334
Less: Encashment during the year		<b>(9,098,332,100)</b>	(25,911,705,369)
As at end of the year		<b>7,290,539,424</b>	5,279,731,965
<b>22.1.1</b>	The rollover amount of Rs.9,721,123,246 (2020: Rs. 4,075,752,457) has been excluded from the certificate issued during the year.		
<b>22.2</b>	The estimated share of profit paid / payable on the above unsecured certificates of investments (musharaka) ranges between 5.50% to 7.30% (2020: 6.55% to 13.90%) per annum having maturity from 3 months to 1 year.		

	Note	June 30, 2021	June 30, 2020
-----Rupees-----			
<b>23. TRADE AND OTHER PAYABLES</b>			
Accrued liabilities	23.1	<b>137,531,666</b>	91,056,838
Adjustable against lease financing contracts	23.2	<b>215,160,449</b>	199,332,949
Advance against sale of diminishing musharaka units		<b>49,623,345</b>	9,918,529
Diminishing musharaka customer contribution		<b>11,939,350</b>	1,654,400
Workers' Welfare Fund	23.3	<b>28,730,751</b>	23,811,020
Management fee payable	23.4	<b>41,776,705</b>	36,431,341
Sales tax on management fee payable	23.5	<b>23,833,891</b>	18,402,919
Sales tax on management fee payable to previous management company	23.6	<b>37,950,679</b>	38,653,418
Gratuity payable	23.7	-	-
		<b>546,546,836</b>	419,261,414

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

	Note	June 30, 2021	June 30, 2020
		-----Rupees-----	
<b>23.1</b>	This includes charity payable amounting to Rs.5,688 (2020: Rs. 4,050) million. The reconciliation is as follows:		
	Balance as at beginning of the year	<b>4,050,297</b>	238,907
	Addition during the year	<b>3,985,231</b>	8,995,135
	Less: Paid to recognized charitable organizations	<b>(2,347,150)</b>	(5,183,745)
	Balance as at end of the year	<b>5,688,378</b>	4,050,297

**23.2** 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.

**23.3** 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. 2,491,456 (2020: 13,644,808) on December 28, 2020 to SRB based on proportionate income of Sindh and have retained the remaining provision on the basis of the advice of its legal advisor.

**23.4** 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, 2021 has been recognized at 10% of profit for the year. (2020: 10%).

**23.5** Sindh sales tax levied by Sindh Government on remuneration of Modaraba Management Company has been charged at the rate of 13% (2020:13%).

**23.6** 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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### 23.7 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, 2021 using the Projected Unit Credit Method.

#### b. Number of Employees under the scheme

The number of employees covered under the following defined benefit schemes are:

Note	June 30, 2021	June 30, 2020
	----- (Number) -----	
Gratuity fund	74	71

#### c. Principal actuarial assumptions

The actuarial valuations were carried out as at June 30, 2021 using the following significant assumptions:

Note	June 30, 2021	June 30, 2020
	----- Per annum -----	
Discount rate	10.25%	9.25%
Expected rate of return on plan assets	4.42%	7.01%
Expected rate of salary increase	10.25%	9.25%

Note	June 30, 2021	June 30, 2020
	----- Rupees -----	
Present value of defined benefit obligation	29,607,030	28,796,625
Fair value of plan assets	(29,607,030)	(28,796,625)
Net defined liability / (assets)	-	-

#### d. Reconciliation of payable to defined benefit plan

#### e. Movement in defined benefit obligations

Obligations at the beginning of the year	28,796,625	29,800,925
Current service cost	2,708,144	2,390,870
Interest cost	2,736,275	4,408,972
Benefits paid by the Modaraba	(3,987,895)	(4,803,527)
Re-measurement (gain)	(646,119)	(3,000,615)
Obligations at the end of the year	29,607,030	28,796,625

#### f. Movement in fair value of plan assets

Fair value at the beginning of the year	28,796,625	29,424,751
Interest income on plan assets	2,736,275	4,357,998
Contribution by the Modaraba-net	3,232,395	2,202,973
Actual benefits paid by the Fund during the year	(3,987,895)	(4,803,527)
Re-measurements: Net return on plan assets over interest income (loss)	(1,170,370)	(2,385,570)
Fair value at the end of the year	29,607,030	28,796,625

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

	Note	June 30, 2021	June 30, 2020
<b>g. Movement in payable under defined benefit scheme</b>			
Opening balance		-	376,174
Charge for the year		<b>2,708,144</b>	2,441,844
Contribution by the Modaraba - net		<b>(3,232,395)</b>	(2,202,973)
Re-measurement loss/ (gain) recognized in OCI during the year		<b>524,251</b>	(615,045)
Closing balance		-	-
<b>h. Charge for defined benefit plan</b>			
<b>i. Cost recognized in profit and loss</b>			
Current service cost		<b>2,708,144</b>	2,390,870
Net interest on defined benefit asset / liability		-	50,974
		<b>2,708,144</b>	2,441,844
<b>j. Re-measurements recognized in OCI during the year</b>			
(Gain) on obligation			
Financial assumptions		<b>(646,119)</b>	(3,000,615)
Return on plan assets over interest income		<b>1,170,370</b>	2,385,570
Total re-measurements recognized in OCI		<b>524,251</b>	(615,045)
<b>k. Components of plan assets</b>			
Cash and cash equivalents - net		<b>7,714,403</b>	5,926,436
Non-Government Debt Securities		<b>21,892,627</b>	22,870,189
		<b>29,607,030</b>	28,796,625
<b>l. 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.</b>			
<b>m. Sensitivity analysis</b>			
0.5% increase in discount rate			<b>28,060,367</b>
0.5% decrease in discount rate			<b>31,274,745</b>
0.5 % increase in expected rate of salary increase			<b>31,337,747</b>
0.5 % decrease in expected rate of salary increase			<b>27,989,896</b>
<b>n. Expected charge / (reversal) for the next financial year</b>			<b>2,830,921</b>
<b>o. Maturity profile</b>			
The weighted average duration of the obligation (in years)			<b>10.83</b>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### p. 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.

### q. Following are the significant risks associated with the staff retirement benefit schemes. These may include:

<b>Asset volatility</b>	The risk that the actual mortality experience is different. The effect depends on the beneficiaries' service/age distribution and the benefit.
<b>Changes in bond yields</b>	The risk of investment underperforming and being not sufficient to meet the liabilities.
<b>Life expectancy / Withdrawal rate</b>	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.
<b>Final salary risk</b>	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

	Note	June 30, 2021	June 30, 2020
<b>23.8 Provident Fund related disclosures</b>		-----Rupees-----	
The following information is based on the latest un-audited financial statements of the fund:			
Size of the fund - total assets		<b>54,509,439</b>	61,807,533
Cost of investments made		<b>38,312,539</b>	42,496,028
Fair value of investments	23.8.1& 23.8.2	<b>35,697,203</b>	42,016,162
Percentage of investments made		<b>65%</b>	68%

#### 23.8.1 The break-up of fair value of investments is as follows:

	2021		2020	
	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	0.05%	25,000	0.12%	75,000
Investment in listed equity securities	4.67%	2,548,012	4.24%	2,623,332
Bank balances	60.77%	33,124,191	63.61%	39,317,830
	<b>65%</b>	<b>35,697,203</b>	<b>68%</b>	<b>42,016,162</b>

#### 23.8.2 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.

### 24. RUNNING MUSHARAKA

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 1 month KIBOR plus 0.25% per annum. The facility is secured against 1st hypothecation charge on all the Modaraba's present and future movable / immovable fixed assets with 30% margin. Un-availed facility as at June 30, 2021 amount to Rs. 200 million.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### 25. CONTINGENCIES AND COMMITMENTS

#### 25.1 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, 2021.

#### 25.2 Commitments

Commitments in respect of financing transactions amounted to Rs. 569 (2020: Rs.136) million.

	Note	June 30, 2021	June 30, 2020
		-----Rupees-----	
<b>26. INCOME FROM LEASE FINANCING</b>			
Lease financing installments	26.1	<b>790,061,532</b>	1,286,029,242
Less: Depreciation on lease financing assets		<b>(660,300,294)</b>	(1,094,484,168)
		<b>129,761,238</b>	191,545,074
<b>26.1</b>	This comprises of principal and profit components.		
<b>27. PROVISION IN RESPECT OF DIMINISHING MUSHARAKA</b>			
Provision during the year	8.2	<b>41,373,226</b>	101,821,144
Write off during the year		-	559,998
		<b>41,373,226</b>	102,381,142

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

	Note	June 30, 2021	June 30, 2020
<b>28. ADMINISTRATIVE EXPENSES</b>		<b>-----Rupees-----</b>	
Salaries, allowances and other benefits	28.1	<b>88,634,128</b>	82,326,025
Printing, stationery and advertising		<b>3,488,668</b>	3,194,184
Travelling and conveyance		<b>641,488</b>	661,793
Insurance / takaful charges		<b>675,515</b>	657,982
Utilities		<b>4,067,020</b>	3,732,400
Postage		<b>960,469</b>	811,109
Newspapers and periodicals		<b>31,182</b>	31,875
Repairs and maintenance		<b>2,962,314</b>	2,846,520
Telecommunication		<b>1,129,310</b>	1,035,558
Fees and subscriptions		<b>6,544,857</b>	4,513,852
Legal and professional charges		<b>4,948,101</b>	6,950,975
Donations	28.2	-	840,000
Depreciation on fixed assets in own use	6.1	<b>12,853,034</b>	12,182,379
Depreciation expense on Lease Assets	6.3	<b>5,077,044</b>	5,097,125
Amortization on intangible assets	7.1	<b>57,461</b>	119,925
Auditors' remuneration	28.3	<b>2,824,527</b>	2,758,308
Certificate registrar expenses		<b>1,333,282</b>	1,174,024
Vehicle running expenses		<b>1,949,042</b>	2,051,850
Office expense		<b>2,981,238</b>	2,748,525
Staff training and workshop		<b>583,550</b>	248,092
Staff hajj expenses		-	700,000
Rent expense		<b>247,803</b>	813,182
Information technology expenses		<b>3,969,960</b>	3,482,534
Commission expense - HMB		-	1,078,415
Miscellaneous		<b>1,633,654</b>	6,670,972
		<b>147,593,647</b>	146,727,604

### 28.1 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:

	2021			2020		
	Officers*	Other employees	Total	Officers	Other employees	Total
	(Rupees)			(Rupees)		
Salaries	11,182,848	29,962,027	41,144,875	11,333,432	24,723,013	36,056,445
House rent	1,306,800	4,644,823	5,951,623	1,341,900	3,617,550	4,959,450
Other allowances	8,265,559	24,911,891	33,177,450	7,374,068	25,982,906	33,356,974
Insurance	537,458	2,093,155	2,630,613	454,762	2,168,091	2,622,853
Gratuity fund	597,822	2,110,322	2,708,144	1,426,338	1,015,506	2,441,844
Provident fund	894,637	2,126,786	3,021,423	908,341	1,980,118	2,888,459
	<b>22,785,124</b>	<b>65,849,004</b>	<b>88,634,128</b>	<b>22,838,841</b>	<b>59,487,184</b>	<b>82,326,025</b>
Number of employees	<b>4</b>	<b>88</b>	<b>92</b>	<b>4</b>	<b>83</b>	<b>87</b>

**28.1.1** Certain officers are also provided with self maintained cars by the Modaraba.

**28.1.2** No remuneration paid to the directors of the Modaraba Management Company during the year (2020: nil)

**28.1.3** This includes contribution to staff provident fund amounting to Rs.3.021 (2020: Rs.2.888) million.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

**28.2** The Directors of the Modaraba Management Company do not have any interest in any donees' fund to which donations were made.

\* These represent officers as prescribed under the Companies Act, 2017.

	Note	June 30, 2021	June 30, 2020
<b>28.3 Auditors' remuneration:</b>			
Audit fee		<b>660,000</b>	600,000
Special audit		<b>550,000</b>	500,000
Fee for half yearly review and code of corporate governance		<b>260,000</b>	240,000
Taxation and other services		<b>798,182</b>	928,046
Out of pocket expenses		<b>374,890</b>	308,818
		<b>2,643,072</b>	2,576,864
Sales tax		<b>181,455</b>	181,444
		<b>2,824,527</b>	2,758,308
<b>29. OTHER INCOME</b>			
Dividend on shares	29.1	<b>21,884,171</b>	15,177,576
Gain on transfer of lease financing assets		<b>22,758,280</b>	16,084,852
Gain on sale of owned fixed assets - net		<b>1,108,318</b>	81,320
Profit on modaraba's deposit accounts		<b>19,749,640</b>	32,653,590
Profit on Term Deposit Musharakas (TDMs)		<b>18,183,527</b>	78,983,794
Profit on sukuk		<b>7,361,138</b>	11,185,737
Loss on termination of lease contract		<b>31,180</b>	(20,834)
Premature income on termination of diminishing musharaka		<b>9,281,777</b>	10,952,737
Miscellaneous income		<b>3,167,894</b>	4,462,196
		<b>103,525,925</b>	169,560,968
<b>29.1 Dividend on shares</b>			
Meezan Bank Limited		<b>14,064,436</b>	7,306,200
Habib Sugar Mills Limited		<b>4,154,337</b>	4,154,337
Engro Fertilizers Limited		<b>3,900,000</b>	3,900,000
		<b>22,118,773</b>	15,360,537
Less: Charity expense		<b>(234,602)</b>	(182,961)
		<b>21,884,171</b>	15,177,576
<b>30. FINANCIAL CHARGES</b>			
Profit on certificates of investment (musharaka)		<b>419,166,539</b>	747,529,622
Profit on murabaha financing		-	13,911,819
Financial charges on liability against right of use assets	21	<b>3,202,059</b>	3,292,359
Bank commission and charges		<b>649,746</b>	610,650
		<b>423,018,344</b>	765,344,450
<b>31. TAXATION</b>			

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. Based on the advice of the legal and tax advisor, the management is of the view that the said exemption is valid for the entire year ended June 30, 2021 and it's withdrawal will be effective from July 1, 2021. Accordingly, no provision for taxation has been made in the financial statements for the current year.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

As a result of withdrawal of tax exemption, there are implications of deferred tax which have been assessed by the management as at June 30, 2021 in consultation with its tax advisor. The management and the tax advisor are of the view that since the income of the Modaraba would be chargeable to tax for the first time in the tax year 2022, potential differences may arise in practice which are not yet envisaged. Therefore, the management has prudently decided not to recognise the deferred tax asset in these financial statements.

### 32. CONTRACTUAL LEASE FINANCING INSTALLMENTS RECEIVABLE - LEASE CONTRACTS

	2021				2020			
	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	541,817,550	376,301,159	-	918,118,709	857,617,845	988,791,447	-	1,846,409,292

	Note	June 30, 2021	June 30, 2020
		Rupees	
33. CASH AND CASH EQUIVALENT			
Cash and bank balances		216,102,298	168,609,750
Investment in Term Deposit Musharakas (TDMs)		489,647,773	500,000,000
Running Musharaka		(49,999,000)	-
		<b>655,751,071</b>	<b>668,609,750</b>

### 34. 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:

			Note	June 30, 2021	June 30, 2020
				Rupees	
<b>Balances held</b>					
<b>Related party</b>	<b>Related party relationship</b>	<b>Nature of balances</b>			
Habib Metropolitan Bank Limited	Holding Company	Bank Balances		215,230,643	167,733,693
		Investment in HMB		537,821	100,000,000
		Certificates of investment (musharaka)		2,225,000,000	700,000,000
		Profit receivable		2,834,905	3,855,200
		Financial charges payable		25,010,308	13,024,658
		Prepaid Utility charges		1,691,076	1,845,689
		Prepaid Rent		344,556	344,556
		Security deposit		130,000	130,000
		Lease financing assets*		-	-
Habib Bank AG Zurich	Ultimate Parent	Lease financing assets*		-	121,821
Habib Metropolitan Modaraba Management Company (Private) Limited	Management Company	Management fee payable		41,776,705	36,431,341
		Sale tax on management fee payable		23,833,891	18,402,912
Habib Metropolitan Financial Services Limited	Associate	Lease financing assets*		-	-
Provident Fund	Associate	Certificates of investment (musharaka)		-	-

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

			Note	June 30, 2021	June 30, 2020
				Rupees	
Transactions during the year					
Related party	Related party relationship	Nature of transactions			
Habib Metropolitan Bank Limited	Holding Company	Profit on bank accounts		<b>17,030,486</b>	31,875,107
		Bank charges		<b>625,833</b>	682,186
		Utility charges		<b>1,691,076</b>	4,158,282
		Financial charges		<b>128,145,993</b>	459,288,219
		Lease financing installments received*		-	2,508,277
		Termination cost received		-	-
Habib Bank AG Zurich	Ultimate Parent	Lease financing installments received*		-	641,797
Habib Metropolitan Modaraba Management Company (Private) Limited	Management Company	Management fee		<b>41,776,705</b>	36,431,341
		Sale tax on management fee		<b>5,430,972</b>	4,736,074
		Management fee paid		<b>36,431,341</b>	33,834,566
		Dividend paid		<b>28,224,000</b>	28,224,000
Habib Metropolitan Financial Services Limited	Associate	Brokerage commission		-	13,225
		Sale of securities		-	15,847,897
Staff Retirement Benefit Fund	Associate	Gratuity fund		<b>2,708,144</b>	2,441,844
		Contribution made		<b>3,232,395</b>	2,202,973
Provident Fund	Associate	Contribution made		<b>3,021,423</b>	2,888,459

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

**34.2** The Modaraba carries out transactions with related parties at commercial terms and conditions as per Modaraba's policy.

\* No new financing disbursements have been made to associated undertakings during the year ended June 30, 2021, further the lease financing outstanding was originally disbursed before March 31, 2017 when these were not associated undertakings (related party) of the Modaraba.

### 35. 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.

### 36. FINANCIAL INSTRUMENTS

#### 36.1 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



FOR THE YEAR ENDED JUNE 30, 2021

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.

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

## 36.2 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, 2021 is the carrying amount of the financial assets as set out below:

				Note	June 30, 2021	June 30, 2020
					-----Rupees-----	
Diminishing musharaka financing					9,913,812,387	7,002,500,914
Lease financing installments receivable					385,597	1,003,375
Diminishing musharaka financing installments receivable					155,806	2,785,509
Investment in sukuk and Term Deposit Musharakas (TDMs)					569,647,773	580,000,000
Long term deposits					1,147,800	1,218,850
Other receivables					5,914,137	6,676,639
Bank balances					215,718,051	168,259,970
					<b>10,706,781,551</b>	<b>7,762,445,257</b>
<b>Credit risk ratings</b>						
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		215,230,643	167,733,693
Al Baraka (Pakistan) Limited	A1	A	PACRA		110,185	109,704
BankIslami Pakistan Limited	A1	A+	PACRA		244,632	244,632
Meezan Bank Limited	A1+	AAA	JCR-VIS		59,882	100,091
Bank Al-Habib Limited	A1+	AAA	PACRA		62,359	61,500
Dubai Islamic Bank Pakistan Limited	A1+	AA	JCR-VIS		10,350	10,350
					<b>215,718,051</b>	<b>168,259,970</b>

Concentration is the relative sensitivity of the Modaraba's performance to developments affecting a particular industry or geographical location.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

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.

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.

### 36.3 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 38 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.

### 36.4 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, 2021, the fair value of equity and debt securities exposed to price risk was as follows:

Particulars	Average Cost 2021	Fair Value 2021	Average Cost 2020	Fair Value 2020
	(Rupees)			
Shares of listed companies	101,536,559	302,815,389	101,536,559	188,406,670
Sukuk	80,000,000	80,000,000	80,000,000	80,000,000
	<b>181,536,559</b>	<b>382,815,389</b>	181,536,559	268,406,670

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### 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.

### 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, 2021, the profile of the Modaraba's variable value financial instruments were as follows:

Note	June 30, 2021	June 30, 2020
	-----Rupees-----	
<b>Variable rate instruments</b>		
<b>Assets</b>		
Sukuk	80,000,000	80,000,000
Diminishing musharaka financing	8,601,350,789	6,789,058,938
Bank deposits	207,602,471	166,083,120
<b>Liabilities</b>		
Certificate of Investment (Musharaka)	(7,290,539,424)	(5,279,731,965)
Running Musharaka	(49,999,000)	-
	<b>1,548,414,836</b>	<b>1,755,410,093</b>

### 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)-----	
<b>Assets</b>			
Sukuk	100 basis points	800,000	800,000
Diminishing musharaka financing	100 basis points	86,013,508	67,890,589
Bank deposits	100 basis points	2,076,025	1,660,831
<b>Liability</b>			
Certificate of Investment (Musharaka)	100 basis points	(72,905,394)	(52,797,320)
Running Musharaka	100 basis points	(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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### **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.

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.

### **36.5 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.

### **37. 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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

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).

	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	Total
	(Rup ees)				(Rup ees)			
Financial assets measured at fair value								
Shares of listed companies	302,815,389	-	-	302,815,389	302,815,389	-	-	302,815,389
Sukuk (note 37.1)	80,000,000	-	-	80,000,000	-	80,000,000	-	80,000,000
	382,815,389	-	-	382,815,389	302,815,389	80,000,000	-	382,815,389
Financial assets not measured at fair value (note 37.2)								
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.

	2021		
	At fair value	Other financial liabilities	Total
	(Rup ees)		
<b>Financial liabilities</b>			
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
	<b>-</b>	<b>8,129,976,901</b>	<b>8,129,976,901</b>

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FOR THE YEAR ENDED JUNE 30, 2021

	2020							
	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	Total
	(Rup ees)				(Rup ees)			
<b>Financial assets measured at fair value</b>								
<b>'Available-for-sale'</b>								
Shares of listed companies	188,406,670	-	-	188,406,670	188,406,670	-	-	188,406,670
Ijarah GOP sukuk bonds	80,000,000	-	-	80,000,000	-	80,000,000	-	80,000,000
	<u>268,406,670</u>	<u>-</u>	<u>-</u>	<u>268,406,670</u>	<u>188,406,670</u>	<u>80,000,000</u>	<u>-</u>	<u>268,406,670</u>
<b>Financial assets not measured at fair value</b>								
Investment in Term Deposit Musharaka (TDMs)			500,000,000	500,000,000				
Diminishing musharaka financing	-	-	7,002,500,914	7,002,500,914				
Long term deposits	-	-	1,218,850	1,218,850				
Lease financing installments receivables	-	-	1,003,375	1,003,375				
Diminishing musharaka financing installments receivables	-	-	2,785,509	2,785,509				
Advances			2,043,244	2,043,244				
Other receivables	-		6,676,639	6,676,639				
Cash and bank balances	-	-	168,609,750	168,609,750				
	<u>-</u>	<u>-</u>	<u>7,684,838,281</u>	<u>7,684,838,281</u>				

During the year ended June 30, 2020, 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.

	2020		
	At fair value	Other financial liabilities	Total
	(Rup ees)		
Security deposits against lease financing assets	-	356,439,591	356,439,591
Certificates of investment (musharaka)	-	5,279,731,965	5,279,731,965
Unearned lease financing and diminishing musharaka installments	-	7,204,778	7,204,778
Advance lease financing and diminishing musharaka installments	-	15,193,649	15,193,649
Trade and other payables	-	338,394,057	338,394,057
Profit payable on certificates of investment (musharaka)	-	135,580,868	135,580,868
Unclaimed profit distributions	-	43,224,283	43,224,283
	<u>-</u>	<u>6,175,769,191</u>	<u>6,175,769,191</u>

### 37.1 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).

### 37.2 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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### 38. 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.

	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 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years
	(Rupees)								
<b>Assets</b>									
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	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
Investments	872,463,162	-	-	489,647,773	382,815,389	-	-	-	-
Lease financing installments receivable	385,597	385,597	-	-	-	-	-	-	-
Diminishing musharaka financing installments receivable	155,806	155,806	-	-	-	-	-	-	-
Advances, deposits and prepayments	10,961,333	-	6,062,804	3,750,729	-	1,147,800	-	-	-
Income tax refundable	167,077,010	-	-	-	167,077,010	-	-	-	-
Other receivables	25,613,009	5,914,137	-	-	19,698,872	-	-	-	-
Cash and bank balances	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
<b>Liabilities</b>									
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
<b>Difference</b>	<b>3,828,346,643</b>								
<b>Represented by:</b>									
Issued, subscribed and paid-up certificate capital	1,008,000,000								
Reserves	2,619,067,813								
<b>Total Equity</b>	<b>3,627,067,813</b>								
Surplus on revaluation of investments	201,278,830								
	<b>3,828,346,643</b>								

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

	2020								
	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 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years
	(Rupees)								
<b>Assets</b>									
Lease financing assets	1,719,650,990	82,200,315	127,048,632	179,195,775	371,450,851	594,926,862	275,573,492	89,255,063	-
Fixed assets in own use	69,428,828	1,500,438	2,995,716	4,472,170	8,770,667	16,185,655	13,765,880	16,791,770	4,946,532
Intangible assets	198,711	9,571	19,143	28,747	-	-	141,250	-	-
Diminishing musharaka financing	7,002,500,914	241,382,688	447,727,385	698,590,726	1,331,950,783	2,175,607,494	1,454,292,006	641,139,442	11,810,390
Investments	768,406,670	-	-	500,000,000	268,406,670	-	-	-	-
Lease financing installments receivable	1,003,375	1,003,375	-	-	-	-	-	-	-
Diminishing musharaka financing installments receivable	2,785,509	2,785,509	-	-	-	-	-	-	-
Advances, deposits and prepayments	5,658,878	527,321	710,779	1,061,538	2,140,390	1,218,850	-	-	-
Income tax refundable	153,711,487	-	-	-	153,711,487	-	-	-	-
Other receivables	21,102,159	6,676,639	-	-	14,425,520	-	-	-	-
Cash and bank balances	168,609,750	168,609,750	-	-	-	-	-	-	-
	9,913,057,271	504,695,606	578,501,655	1,383,348,956	2,150,856,368	2,787,938,861	1,743,772,628	747,186,275	16,756,922
<b>Liabilities</b>									
Security deposits against lease financing assets	356,439,591	47,733,067	9,769,065	17,682,621	48,970,630	115,530,335	73,718,163	43,035,710	-
Liability against right of use assets	22,866,700	345,075	685,100	1,016,637	2,009,591	4,296,661	4,926,639	8,520,307	1,066,690
Certificates of investment (musharaka)	5,279,731,965	3,660,226,062	1,192,961,074	409,300,000	17,244,829	-	-	-	-
Unearned lease financing and diminishing musharaka installments	7,204,778	-	-	-	7,204,778	-	-	-	-
Advance lease financing and diminishing musharaka installments	15,193,649	-	-	-	15,193,649	-	-	-	-
Trade and other payables	419,261,414	90,968,195	36,499,142	-	291,794,077	-	-	-	-
Profit payable on certificates of investment (musharaka)	135,580,868	93,992,769	30,634,641	10,510,618	442,840	-	-	-	-
Unclaimed profit distributions	43,224,283	43,224,283	-	-	-	-	-	-	-
	6,279,503,248	3,936,489,451	1,270,549,022	438,509,876	382,860,394	119,826,996	78,644,802	51,556,017	1,066,690
<b>Difference</b>	3,633,554,023								
<b>Represented by:</b>									
Issued, subscribed and paid-up certificate capital	1,008,000,000								
Reserves	2,538,683,912								
<b>Total Equity</b>	3,546,683,912								
Surplus on revaluation of investments	86,870,111								
	3,633,554,023								

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### 39. FINANCIAL ASSETS AND LIABILITIES

	2021					
	Profit bearing			Non-profit bearing		
	Maturity after		Sub-total	Maturity after		Sub-total
	Maturity up to one year	one year up to five years		Maturity up to one year	one year and up to five years	
						Total
	(Rupees)					
<b>Financial assets</b>						
Cash and bank balances	207,602,471	-	207,602,471	8,499,827	-	8,499,827
Other receivables	-	-	-	5,914,137	-	5,914,137
Investments	569,647,773	-	569,647,773	302,815,389	-	302,815,389
Lease financing installments receivable	385,597	-	385,597	-	-	-
Diminishing musharaka financing installments receivable	155,806	-	155,806	-	-	-
Long term deposits	-	-	-	-	1,147,800	1,147,800
Advances	-	-	-	6,062,804	-	6,062,804
Diminishing musharaka financing	3,696,264,542	6,217,547,845	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
<b>Financial liabilities</b>						
Security deposits against lease financing assets	-	-	-	70,898,081	130,913,803	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
Running Musharaka	49,999,000	-	49,999,000	-	-	-
Unclaimed profit distribution	-	-	-	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)
Lease financing assets	473,785,855	387,737,076	861,522,931	-	-	-
						861,522,931



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

YEAR ENDED JUNE 30, 2021

	2020						
	Profit bearing			Non-profit bearing			
	Maturity after			Maturity after			
	Maturity up to one year	one year up to five years	Sub-total	Maturity up to one year	one year and up to five years	Sub-total	Total
(Rupees)							
<b>Financial assets</b>							
Cash and bank balances	166,083,120	-	166,083,120	2,526,630	-	2,526,630	168,609,750
Other receivables	-	-	-	6,676,639	-	6,676,639	6,676,639
Investments	500,000,000	80,000,000	580,000,000	188,406,670	-	188,406,670	768,406,670
Lease financing installments receivable	1,003,375	-	1,003,375	-	-	-	1,003,375
Diminishing musharaka financing installments receivable	2,785,509	-	2,785,509	-	-	-	2,785,509
Long term deposits	-	-	-	-	1,218,850	1,218,850	1,218,850
Advances	-	-	-	2,043,244	-	2,043,244	2,043,244
Diminishing musharaka financing	2,719,651,582	4,282,849,332	7,002,500,914	-	-	-	7,002,500,914
	3,389,523,586	4,362,849,332	7,752,372,918	199,653,183	1,218,850	200,872,033	7,953,244,951
<b>Financial liabilities</b>							
Security deposits against lease financing assets	-	-	-	124,155,383	232,284,208	356,439,591	356,439,591
Certificates of investment (musharaka)	5,279,731,965	-	5,279,731,965	-	-	-	5,279,731,965
Unearned lease financing and diminishing musharaka installments	7,204,778	-	7,204,778	-	-	-	7,204,778
Advance lease financing and diminishing musharaka installments	15,193,649	-	15,193,649	-	-	-	15,193,649
Trade and other payables	-	-	-	338,394,057	-	338,394,057	338,394,057
Profit payable on certificates of investment (musharaka)	-	-	-	135,580,868	-	135,580,868	135,580,868
Unclaimed profit distribution	-	-	-	43,224,283	-	43,224,283	43,224,283
	5,302,130,392	-	5,302,130,392	641,354,591	232,284,208	873,638,799	6,175,769,191
On balance sheet gap	(1,912,606,806)	4,362,849,332	2,450,242,526	(441,701,408)	(231,065,358)	(672,766,766)	1,777,475,760
Lease financing assets	759,895,573	959,755,417	1,719,650,990	-	-	-	1,719,650,990

\*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.

### (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

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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### 40. SEGMENT BY CLASS OF BUSINESS OF FINANCING ASSETS

	2021		2020	
	Rupees	%	Rupees	%
Auto and allied	479,814,588	4.45	335,381,430	3.85
Cable and electric goods	341,337,842	3.17	226,520,128	2.60
Cargo, courier and logistic services	426,247,363	3.96	351,372,656	4.03
Cement	94,169,544	0.87	84,043,184	0.96
Chemical	678,211,872	6.29	620,901,316	7.12
Construction	62,144,744	0.58	87,475,331	1.00
Education	97,161,276	0.90	202,466,630	2.32
Fertilizer	142,111,575	1.32	113,468,245	1.30
Financial institutions	164,865,365	1.53	123,911,429	1.42
Food and allied	1,429,489,727	13.27	950,871,566	10.90
Fuel, power and energy	36,832,772	0.34	27,525,915	0.32
Glass and ceramics	67,202,777	0.62	27,503,107	0.32
Health care	172,816,810	1.60	154,649,926	1.77
Individuals	730,163,876	6.78	544,122,732	6.24
Information technology	939,432,697	8.72	251,601,582	2.88
Leather and tanneries	6,340,302	0.06	5,082,238	0.06
Oil and gas exploration	32,098,740	0.30	52,669,480	0.60
Paper and board	95,871,285	0.89	50,631,975	0.58
Pharmaceutical	1,765,515,431	16.38	1,768,581,837	20.28
Refinery, lubricant, oil and gas marketing	204,107,248	1.89	399,562,916	4.58
Services	1,496,240,686	13.89	1,588,996,931	18.22
Steel and engineering	357,806,846	3.32	154,810,770	1.77
Sugar and allied	239,971,447	2.23	206,736,211	2.37
Textile	691,113,391	6.41	359,967,319	4.13
Others	24,267,114	0.23	33,297,050	0.38
	<b>10,775,335,318</b>	<b>100.00</b>	<b>8,722,151,904</b>	<b>100.00</b>

**40.1** Modaraba's operations are restricted to Pakistan only.

### 41. 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.

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:

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

	2021				2020			
	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)			
<b>Segment by class of business</b>								
Auto and allied	5,717,100	388,143,433	333,478	-	195,736	304,931,483	1,406,673	2,736
Cable and electric goods	-	339,588,579	45,030	23,127	-	208,541,628	974,997	180,622
Cargo, courier and logistic services	-	401,880,341	5,629,692	-	-	256,414,061	6,204,399	253,268
Cement	-	94,169,544	69,060	-	21,874	84,043,184	144,816	-
Chemical	-	550,237,499	277,525	37,052	103,904	401,306,247	1,545,520	483,061
Construction	-	62,144,744	394,444	-	-	87,475,331	1,038,477	24,988
Education	-	96,766,826	25,557	-	-	107,091,784	175,554	-
Fertilizer	-	131,231,411	-	-	-	66,316,718	7,202	-
Financial institutions	1,546,209	137,409,276	-	-	494,500	81,092,033	-	-
Food and allied	-	1,426,188,607	173,598	-	3,550	950,871,566	2,421,151	20,472
Fuel, power and energy	1,691,076	36,832,772	-	-	1,571,274	27,525,915	3,389	618
Glass and ceramics	-	67,202,908	107,095	-	-	27,503,107	184,629	-
Health care	-	172,815,810	2,502	-	-	141,742,626	396,414	54,280
Individuals	-	729,371,046	491,885	-	1,029,429	544,122,732	2,814,971	-
Information technology	304,490	725,513,637	53,582	9,073	161,661	245,093,237	343,865	241,309
Leather and tanneries	-	5,860,402	-	7,160	-	5,082,238	9,726	9,969
Oil and gas exploration	-	32,098,740	2,667	-	-	52,669,480	337,176	-
Paper and board	-	86,472,548	5,697	-	-	28,993,512	527,901	43,714
Pharmaceutical	-	1,598,396,960	82,597	430,123	945,219	1,169,479,159	1,742,172	747,076
Refinery, lubricant, oil and gas marketing	-	176,696,040	-	-	-	355,040,246	79,948	-
Services	657,063	1,367,225,865	243,972	-	1,071,731	1,159,243,232	2,828,499	98,307
Steel and engineering	-	357,806,846	36,490	-	-	154,810,770	2,554,158	15,754
Sugar and allied	-	223,402,533	10,874	-	-	175,690,308	144,246	-
Textile	-	682,966,741	122,592	7,051	-	335,780,367	739,433	12,498
Others	1,045,395	23,389,279	33,487	447	60,000	31,639,950	32,558	15,335
	10,961,333	9,913,812,387	8,141,824	514,033	5,658,878	7,002,500,914	26,657,874	2,204,007

## 42. EARNINGS PER CERTIFICATE

### 42.1 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:

	Note	June 30, 2021	June 30, 2020
		Rupees	
Profit for the year		363,148,152	316,683,071
Weighted average number of certificates of Rs. 5/- each		201,600,000	201,600,000
Earnings per certificate		1.80	1.57

### 42.2 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.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

### 43. SEGMENT INFORMATION3

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	
	2021	2020	2021	2020	2021	2020
(Rupees)						
<b>Segment revenues and (losses) / profits</b>						
Revenue - net of depreciation, where applicable	129,761,238	191,545,074	796,465,070	1,017,660,560	926,226,308	1,209,205,634
Costs	(13,827,965)	(694,202,701)	(409,190,379)	(71,141,749)	(423,018,344)	(765,344,450)
Reportable segment (loss) / profit	115,933,273	(502,657,627)	387,274,691	946,518,811	503,207,964	443,861,184
<b>Segment assets and liabilities</b>						
<b>Reportable segment assets</b>						
Lease financing asset	861,522,931	1,719,650,990	-	-	861,522,931	1,719,650,990
Diminishing musharaka financing	-	-	6,217,547,845	4,282,849,332	6,217,547,845	4,282,849,332
Current portion of diminishing musharaka financing	-	-	3,696,264,542	2,719,651,582	3,696,264,542	2,719,651,582
Lease financing installments receivable	385,597	1,003,375	-	-	385,597	1,003,375
Diminishing musharaka financing installments receivable	-	-	155,806	2,785,509	155,806	2,785,509
	861,908,528	1,720,654,365	9,913,968,193	7,005,286,423	10,775,876,721	8,725,940,788
<b>Reportable segment liabilities</b>						
Security deposits against lease financing assets	130,913,803	232,284,208	-	-	130,913,803	232,284,208
Certificates of investment (musharaka)	238,319,028	4,788,960,307	7,052,220,396	490,771,658	7,290,539,424	5,279,731,965
Security deposits - current portion	70,898,081	124,155,383	-	-	70,898,081	124,155,383
Unearned lease financing and diminishing musharaka installments	247,969	1,055,896	17,602,285	6,148,882	17,850,254	7,204,778
Advance lease financing and diminishing musharaka installments	8,688,396	13,520,811	1,319,517	1,672,838	10,007,913	15,193,649
Adjustable against lease financing contracts	215,160,449	199,332,949	-	-	215,160,449	199,332,949
Lease financing payable	-	-	-	-	-	-
Advance against sale of diminishing musharaka	-	-	49,623,345	9,918,529	49,623,345	9,918,529
Diminishing musharaka financing payable	-	-	-	-	-	-
Diminishing musharaka customer contribution	-	-	11,939,350	1,654,400	11,939,350	1,654,400
	664,227,726	5,359,309,554	7,132,704,893	510,166,307	7,796,932,619	5,869,475,861

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities, is as follow:

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

	Note	June 30, 2021	June 30, 2020
		-----Rupees-----	
<b>Revenues</b>			
Revenue classified in segment reported		926,226,308	1,209,205,634
<b>Profit</b>			
Profit classified in segment reported		503,207,964	443,861,184
Provision in respect of diminishing musharaka		-	-
Administrative expenses		(147,593,647)	(146,727,604)
Other income		103,525,925	169,560,968
Impairment loss on investment in equity security classified as 'available-for-sale'		-	-
Modaraba Management Company's remuneration		(41,776,705)	(36,431,341)
Sales tax on Modaraba Management Company's remuneration		(5,430,972)	(4,736,074)
Provision for Sindh Workers' Welfare Fund		(7,411,187)	(6,462,920)
Taxation		-	-
		404,521,378	419,064,213
<b>Assets</b>			
Assets classified in segment reported		10,775,876,721	8,725,940,788
Assets in own use		54,298,927	69,428,828
Intangible assets		141,250	198,711
Long term deposits		1,147,800	1,218,850
Investments		872,463,162	768,406,670
Advances and prepayments		9,813,533	4,440,028
Other receivables		25,613,009	21,102,159
Income tax refundable		167,077,010	153,711,487
Cash and bank balances		216,102,298	168,609,750
		12,122,533,710	9,913,057,271
<b>Liabilities</b>			
Liability classified in segment reported		7,796,932,619	5,869,475,861
Trade and other payables		269,823,692	208,355,536
Profit payable on certificates of investment (musharaka)		107,487,595	135,580,868
Unclaimed profit distribution		46,248,316	43,224,283
		8,220,492,222	6,256,636,548
<b>44. CASH GENERATED FROM OPERATIONS</b>			
Profit for the year		363,148,152	316,683,071
Adjustment for:			
Gain on disposal of assets:			
Lease financing assets	29	(22,758,280)	(16,084,852)
Assets in own use	29	(1,108,318)	(81,320)
Loss on Termination of lease contract		-	20,834
Depreciation on fixed assets:			
Lease financing assets	26	660,300,294	1,094,484,168
Assets in own use	28	12,853,034	12,182,379
Right of use Assets	28	5,077,044	5,097,125
Amortization of intangible assets	28	57,461	119,925
Provision in respect of diminishing musharaka		41,373,226	109,665,216
Provision for gratuity		2,708,144	2,441,844
Dividend income		(21,884,171)	(15,177,576)
Financial charges		422,368,598	764,733,800
Movement in working capital	44.1	90,608,410	(107,655,355)
		1,552,743,594	2,166,429,259

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

	Note	June 30, 2021	June 30, 2020
<b>44.1 Movement in working capital</b>			
		Rupees	
<b>(Decrease) / Increase in current assets:</b>			
Lease financing installments receivable		617,778	11,560,693
Diminishing Musharaka financing installments receivable		(38,743,523)	(67,778,641)
Advances and prepayments		(5,373,505)	(534,865)
Income tax refundable		(13,365,523)	(16,679,563)
Other receivables		14,728,021	26,219,158
		<b>(42,136,752)</b>	<b>(47,213,218)</b>
<b>(Decrease) / increase in current liabilities:</b>			
Advance lease financing and diminishing musharaka installments		(5,185,736)	(17,090,468)
Unearned lease financing and diminishing musharaka installments		10,645,476	(10,361,409)
Trade and other payables		127,285,422	(32,990,260)
		<b>132,745,162</b>	<b>(60,442,137)</b>
		<b>90,608,410</b>	<b>(107,655,355)</b>

### 45. PROFIT DISTRIBUTION AND APPROPRIATION

Subsequent to the year ended June 30, 2021, the Board of Directors of the Modaraba Management Company has declared a final distribution of Rs.1.40 per certificate, amounting to total profit distribution of Rs. 282 million (2020: Rs.1.40 per certificate, amounting to total profit distribution of Rs. 282 million) in its meeting held on 30 September 2021.

	Note	June 30, 2021	June 30, 2020
<b>46. NUMBER OF EMPLOYEES</b>			
Total number of employees at end of the year		74	75
Average number of employees for the year		70	73

### 47. 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.

### 48. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 30 September 2021 by the Board of Directors of the Modaraba Management Company.

### 49. 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



## 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
Loans/advances obtained as per Islamic mode	Refer Note 22 and 24
Shariah compliant bank deposits/bank balances;	Refer Note 10.2, 10.3 and 16.1
Profit earned from shariah compliant bank deposits/bank balances	Refer Note 29
Revenue earned from a shariah compliant business segment	Refer Note 26 and 43
Gain/loss or dividend earned from shariah compliant investments	Refer Note 29
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
Relationship with shariah compliant banks	Not applicable
Profits earned or interest paid on any conventional loan or advance	Not applicable

## 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 27, 2021 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, 2021.

The certificate holders whose names appear in the register of certificate holders of FHM as on October 15, 2021 will be eligible to attend the Annual Review Meeting.

By order of the Board

Tehsin Abbas  
Company Secretary  
Karachi: October 06, 2021

### 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.

## CATEGORIES OF CERTIFICATE HOLDERS

As at 30th June, 2021

Categories of Certificate Holders	Certificate Holders	Certificate Held	Percentage
<b>Directors and their spouse(s) and minor children</b>	-	-	-
<b>Associated Companies, undertakings and related parties</b>			
HABIB METROPOLITAN MODARABA MANAGEMENT COMPANY (PVT.) LTD	1	20,160,000	10.00
<b>NIT and ICP</b>	1	5,460	0.00
<b>Banks Development Financial Institutions, Non-Banking Financial Institutions</b>	2	8,184	0.00
<b>Insurance Companies</b>	4	5,843,020	2.90
<b>Mutual Funds</b>	6	1,458,426	0.72
<b>General Public</b>			
a. Local	3785	54,748,168	27.16
b. Foreign	791	2,452,618	1.22
<b>Foreign Companies</b>	9	1,727,536	0.86
<b>Others</b>	54	115,196,588	57.14
<b>Totals</b>	4653	201,600,000	100.00

Certificate holders holding 10% or more	Certificate Held	Percentage
HABIB MANAGEMENT (PRIVATE) LIMITED	109,347,172	54.24
HABIB METROPOLITAN MODARABA MANAGEMENT COMPANY (PVT.) LTD	20,160,000	10.00



## PATTERN OF CERTIFICATE HOLDING

As at 30th June, 2020

Number of Certificate Holders	Certificate Holdings			Total Certificate Held
682	1	to	100	32,690
1001	101	to	500	319,296
640	501	to	1000	491,183
1314	1001	to	5000	3,099,497
356	5001	to	10000	2,680,227
132	10001	to	15000	1,629,035
80	15001	to	20000	1,470,151
65	20001	to	25000	1,490,370
48	25001	to	30000	1,342,901
23	30001	to	35000	739,647
32	35001	to	40000	1,237,066
20	40001	to	45000	838,550
34	45001	to	50000	1,668,092
17	50001	to	55000	888,813
7	55001	to	60000	405,176
11	60001	to	65000	701,652
3	65001	to	70000	201,960
8	70001	to	75000	582,496
5	75001	to	80000	391,000
7	80001	to	85000	566,819
3	85001	to	90000	261,036
7	90001	to	95000	641,208
17	95001	to	100000	1,683,899
9	100001	to	105000	928,902
7	105001	to	110000	761,500
4	115001	to	120000	472,420
3	120001	to	125000	363,460
4	125001	to	130000	510,176
6	130001	to	135000	791,088
4	135001	to	140000	549,008
6	140001	to	145000	854,157
5	145001	to	150000	745,152
3	150001	to	155000	457,400
1	155001	to	160000	160,000
4	160001	to	165000	648,840
1	165001	to	170000	167,292
6	170001	to	175000	1,041,360
1	175001	to	180000	177,000
3	180001	to	185000	554,000
1	185001	to	190000	190,000
2	190001	to	195000	383,500
1	195001	to	200000	200,000
4	200001	to	205000	812,100
1	205001	to	210000	206,600
2	210001	to	215000	426,560
1	215001	to	220000	215,120
1	225001	to	230000	226,800
1	230001	to	235000	233,000
2	235001	to	240000	477,391
1	240001	to	245000	241,320
3	245001	to	250000	747,278
2	255001	to	260000	514,880
2	260001	to	265000	520,796
3	265001	to	270000	808,000
2	270001	to	275000	545,175
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
2	395001	to	400000	800,000
2	400001	to	405000	800,800
1	410001	to	415000	413,500
2	415001	to	420000	835,500
1	425001	to	430000	425,344
1	445001	to	450000	450,000
1	455001	to	460000	459,328
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	1800001	to	1805000	1,805,000
1	1825001	to	1830000	1,828,000
1	1995001	to	2000000	2,000,000
1	2010001	to	2015000	2,015,000
1	2125001	to	2130000	2,130,000
1	20155001	to	20160000	20,160,000
1	109345001	to	109350000	109,347,172
4,653				201,600,000

## 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

