

First Habib Modaraba

(An Islamic Financial Institution)



ANNUAL REPORT 2020

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



A Progressive Partnership

Based on True Sharing and Equality

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 Modaraba holding the loyalty and trust of all 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.

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

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

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

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.



A photograph of four hands, two in light-colored shirts and two in dark blue shirts, cupping a small green seedling with five leaves growing out of a mound of dark soil. The hands are positioned in a circle, with the fingers pointing towards the center where the plant is. The background is a neutral, light brown color.

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.

ENTITY RATINGS - BY PACRA



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Profile of 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 35 years of successful business operations within the Modaraba sector of Pakistan. With a track record of excellent performance of more than 3 decades is the success story of dedication and commitment to provide the investors a sound and continuous return. 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 rating. With a thrust to achieve operational excellence, FHM continue to improve operational processes, infrastructure and professional grooming of human resource in order to provide quality and reliable customer services including compliance of all regulatory and Shariah requirements.

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

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 NBF 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.860.0 billion with branch network of 399 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. Samad Bin Wasim	- 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 (Officiating Company Secretary)

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)

REGISTERED OFFICE

6th Floor, HBZ Plaza (Hirani Centre)
I.I. Chundrigar Road, Karachi.
Tel : 021-32635949-51
Fax : 021-32627373
UAN : 111-346-346
Web : www.habibmodaraba.com
Email : fhm@habibmodaraba.com

GEOGRAPHICAL PRESENCE - BRANCH OFFICES

Karachi Branch:

3rd Floor, Al-Manzoor Building,
Dr. Ziauddin Ahmed Road. Karachi.
Tel: 021-32635949-51, Fax: 021-32627373

Lahore Branch:

1st Floor, 5-Z Block, Phase III, Defence Housing Authority,
Lahore.
Tel: 042-35693074-76, Fax: 042-35693077

Islamabad Branch:

Office No. 508, 5th Floor, ISE Towers, Jinnah Avenue
Blue Area, Islamabad.
Tel: 051-28994571-73, Fax: 051-2894574

Multan Branch:

Mezzanine Floor, Abdali Tower,
Abdali Road, Multan.
Tel : 061-4500121-3, Fax : 061-4588810

Core Values



BUSINESS ETHICS



Code of Business Conduct and Ethics

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 abide by ethical standards and consider 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.

Therefore, for nurturing of ethical culture and adherence of Code of Conduct, employees of FHM shall:

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

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 stakeholder



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.

Updated Position of Awards & Achievements





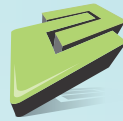
NBFI & Modaraba
Association of Pakistan

BEST PERFORMING MODARABA AWARD



The NBFI and Modaraba Association of Pakistan started giving Best performing Modaraba Award from the year 2000. The moto of this award to promote those entities within the NBFI and Modaraba sector who are performing well and also adhering to best corporate and governance culture.

Alhamdulillah, First Habib Modaraba (FHM) meets the said criteria almost in every year. So far FHM has received 19 awards as “Best Performing Modaraba Award” within last 21 years from said association.



NBFI & Modaraba

Association of Pakistan



2018



2017



2016



2015



2014



2013



2012



2011



2010



2009



2008



2007



2006



2005



2002



2001



2000



1999



CORPORATE EXCELLENCE AWARD



Management Association of Pakistan (MAP) has played a pivotal role for overall promotion of corporate excellence and committed for human capital development, creating awareness and recognizing best management practices to enhancing competitiveness.

Since last several years MAP put its efforts in recognizing and rewarding the best governed and managed companies in Pakistan by giving the Corporate Excellence Awards. The sole aim of award to recognizes and honor companies showing outstanding performance and demonstrating progress and enlightened management practices.

Alhamdulillah, First Habib Modaraba (FHM) has been successfully meeting criteria of Corporate Excellence award and securing awards from MAP since last several years. So far FHM has received 11 awards in last 12 years within financial category.

The recognition of Corporate Excellence Award from MAP acknowledges the strong commitment of FHM for promotion of best business practices, good governance and corporate excellence within FHM while maintaining financial discipline.



2019



2018



2017



2016



2015



2013



2012



2010



2011



2009



2008

BEST CORPORATE REPORT AWARD

The Joint Committee of the Institute of Chartered Accountants of Pakistan (ICAP) and the Institute of Cost & Management Accountants of Pakistan (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, Joint Committee of ICAP and ICMAP, comprising of prominent professionals working in prestigious organizations, evaluates and assess corporate reports in line with prescribed criteria. The criteria not only comprises 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.

Alhamdulillah, First Habib Modaraba is receiving Best Report Award from said joint committee since last ten consecutive years within the category of NBFIs sector. The category NBFIs is consisting on Insurance, Leasing Companies, Investment banks, Mutual Funds and Modarabas. By the grace of God, FHM is only Modaraba in entire Modaraba sector has been receiving this award since last several years.

Due to pandemic Covid 19, this year ceremony is delayed and not held till date, we are very much hopeful that we will win the award in upcoming ceremony.



Institute of
Chartered Accountants
of Pakistan



Institute of Cost &
Management Accountants
of Pakistan



2018



2017



2016



2015



2014



2009



2011



2012



2010



2013



BEST PRESENTED ANNUAL REPORT AWARD



PAKISTAN



AFGHANISTAN



BHUTAN



NEPAL



MALDIVES



SRILANKA



INDIA



BANGLADESH

South Asian Federation of Accountants (SAFA) in its award ceremony was held at Pune, India, awarded SAFA BPA “Certificate of Merit” award to First Habib Modaraba (FHM) from the category of “Financial Services Sector” for “Best Presented Annual Report Award” and “SAARC Anniversary Award for Corporate Governance Disclosures”.

FHM was selected from overall category of Financial Services Sector within the countries at SAARC level and Alhamdulillah, within Non-Banking Financial Sector of Pakistan i.e. Leasing, Investment Banks and Modarabas, FHM was only nominee for this award. By the grace of God, our Modaraba is securing this award for last 10 consecutive years and only Modaraba within the entire Modaraba sector.

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 in the region which have achieved excellence in presentation and disclosure.

Alhamdulillah, First Habib Modaraba is receiving Best Presented Annual Report Awards from said South Asian Federation of Accountants (SAFA) since last nine consecutive years within the category Financial Services sector. By the Grace of Allah, FHM is only Modaraba in entire Modaraba sector has been receiving this award since last several years.



2018



2017



2016



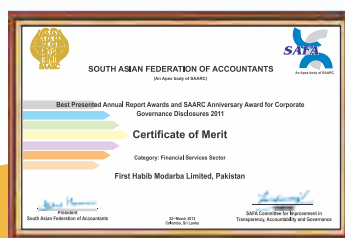
2015



2014



2013



2012



2011

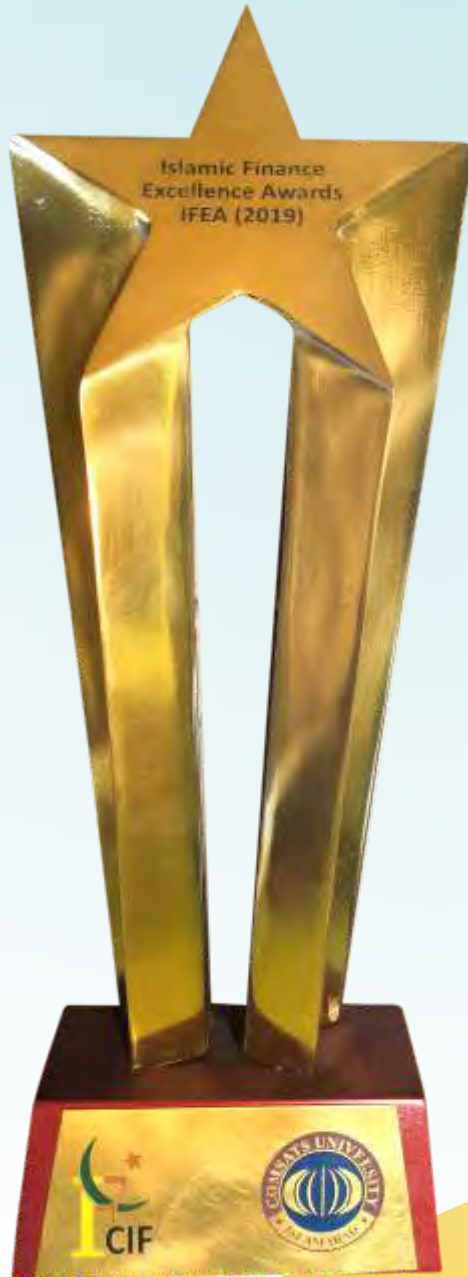


2010



Best Non-Bank Islamic Financial Institution Award

COMSATS Institute of Information Technology (CIIT) is serving the nation by providing quality education at undergraduate and graduate levels in various disciplines. In addition to sciences and business studies, CIIT is propelling towards Islamic Finance and has established Centre of Islamic Finance (CIF) for promotion and development of Islamic Banking and Finance. IF as part of Pakistan's leading public sector institution of COMSAT has given Islamic Finance Excellence Award (IFEA) to First Habib Modaraba as best Islamic Financial Institutions within the Non-Banking category.

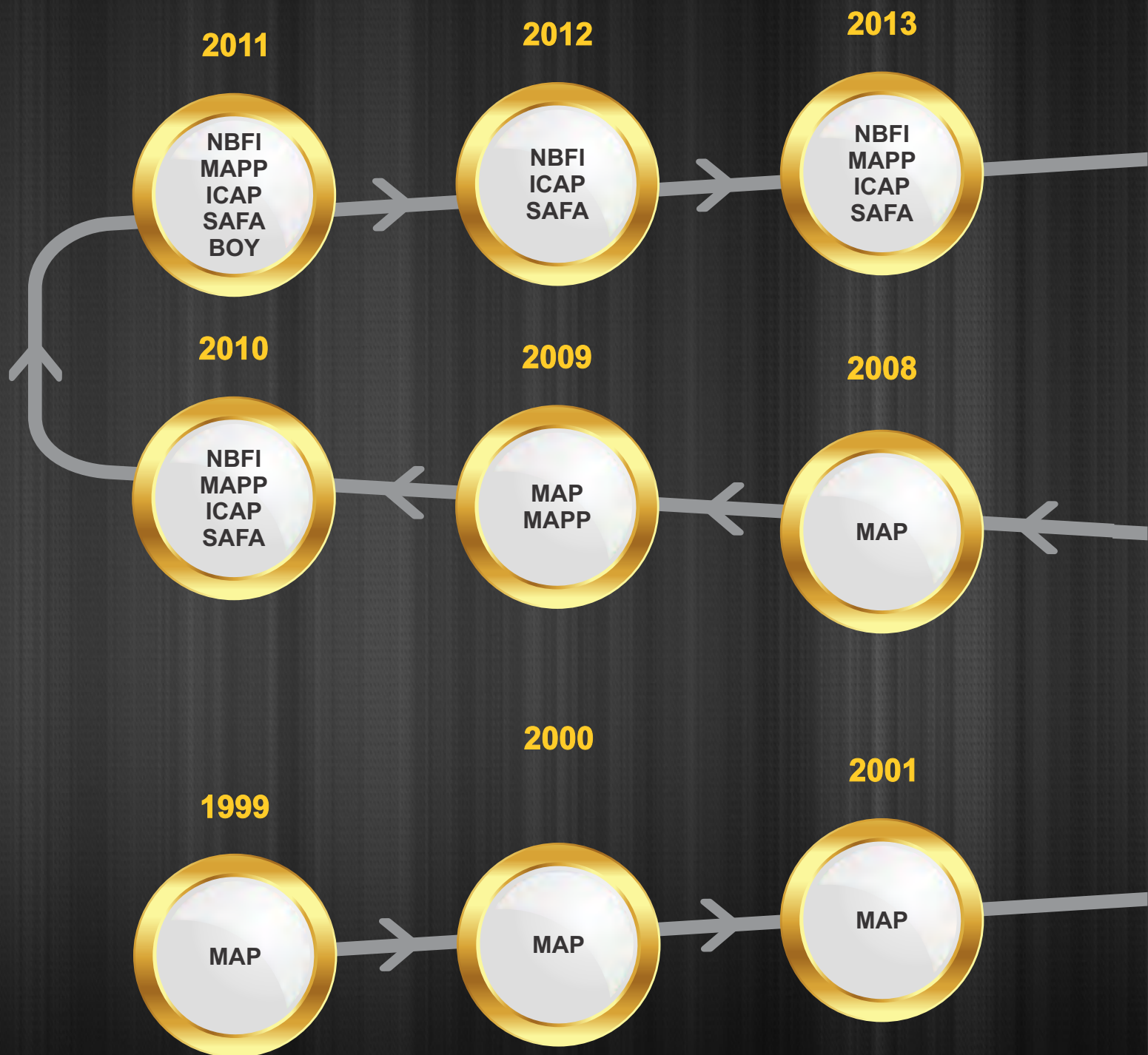


2019



2018

FHM Awards Calendar



2019



2018



2017



2014



2015



2016



2007



2006



2005



2002



2003



2004



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 Financing

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

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

Musharakah 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 certificate holders.



Competitive Landscape and Market Positioning

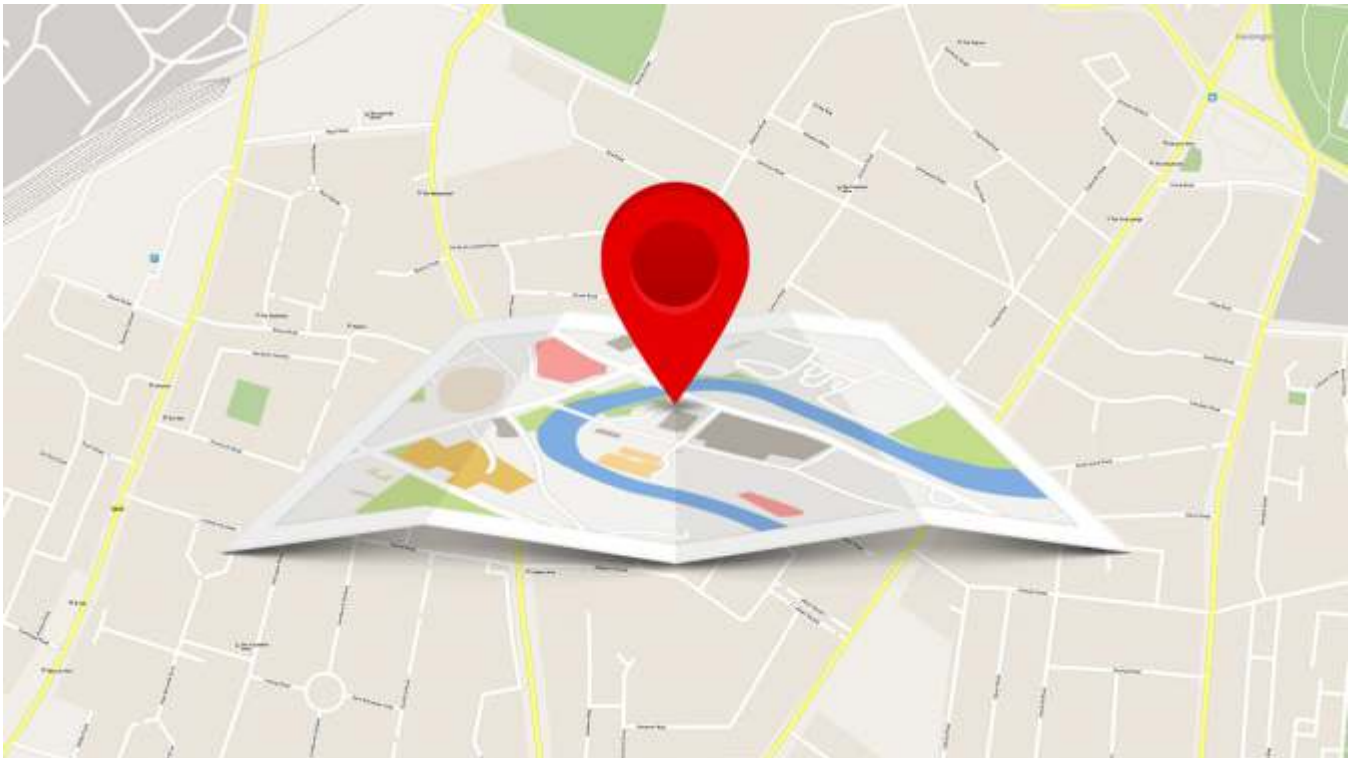
First Habib Modaraba multi-purpose modaraba floated and managed by Habib Metropolitan Modaraba Management Company (Private) Limited (the Modaraba Management Company). The Modaraba is engaged in the business of providing Islamic Financial Services and other related business. The registered office of the 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+ of long term and A1+ of Short Term and maintaining it since last 12 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, Faisalabad, Sialkot, Hyderabad and Peshawar. This vast network of FHM is providing Islamic Financial Services to prospective corporate and consumer clients.

Competition in the Industry

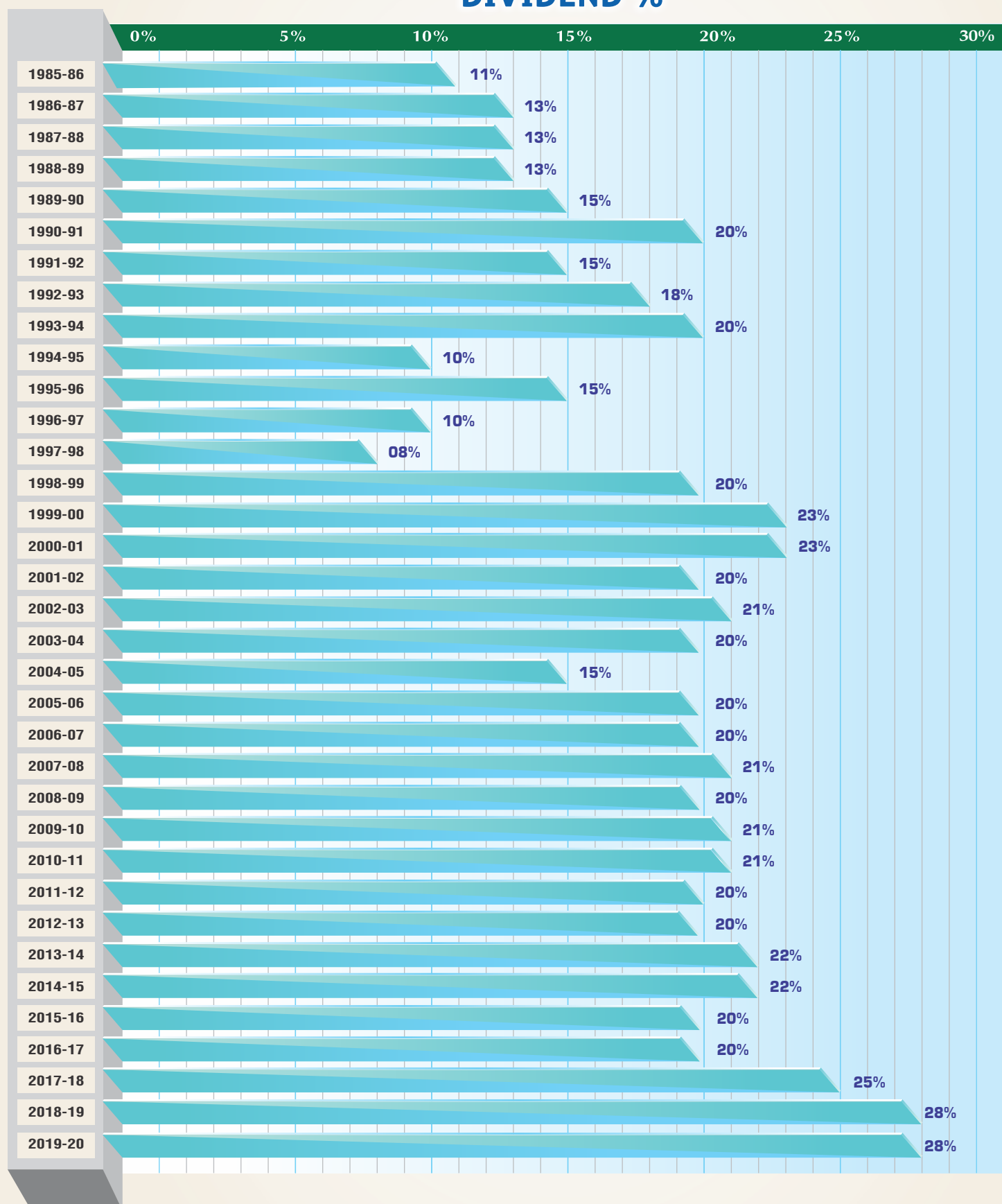
Landscape of Pakistan's Islamic Financial sector comprises of 26 modarabas offering various Islamic Financial products. Our competition within the Modaraba industry particularly with the financial category Modarabas.



Delivering 35 Years of unbroken dividend payout history

Average Dividend Payment 18.60% per annum

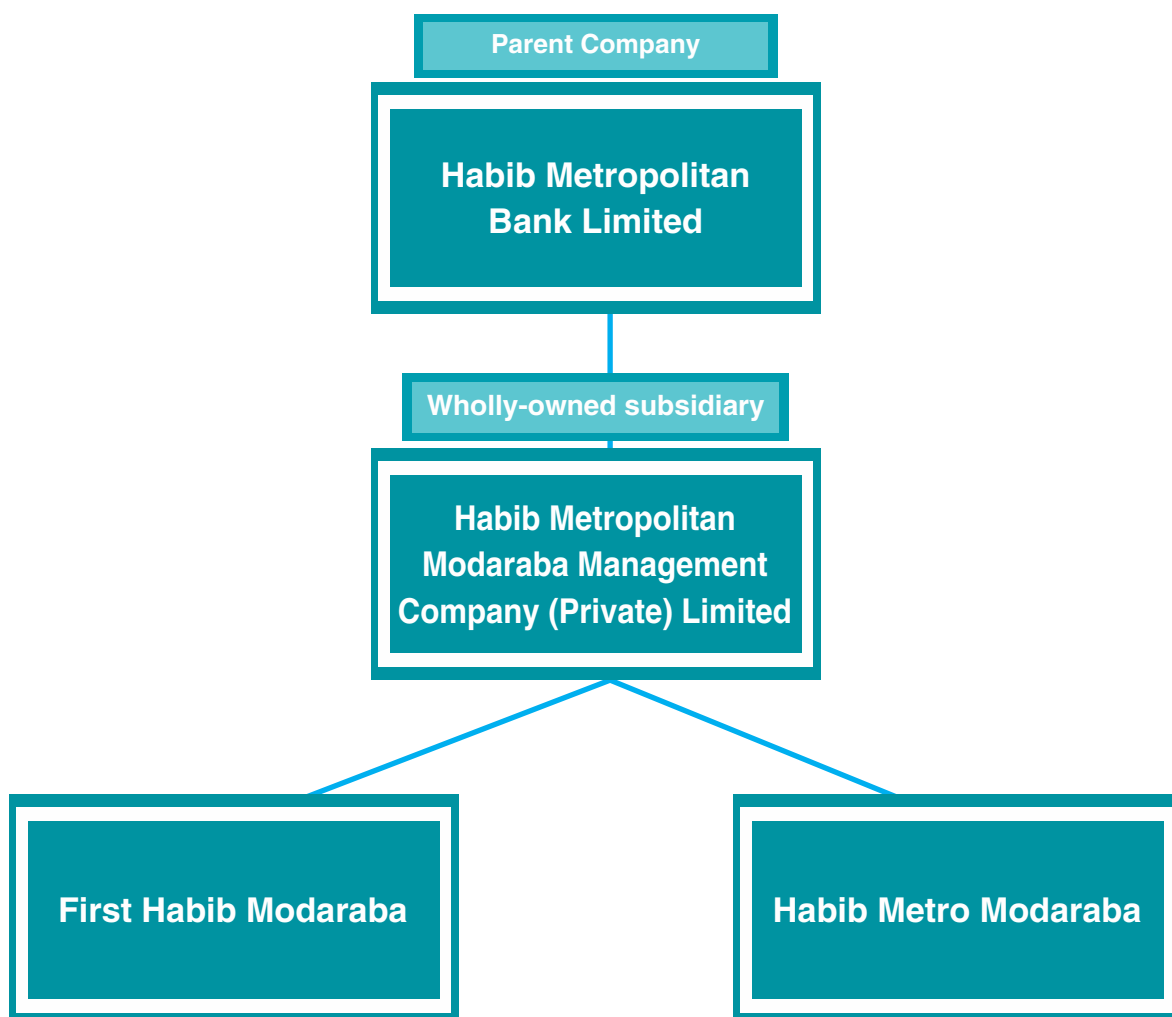
DIVIDEND %



First Habib Modaraba never skipped dividend since inception

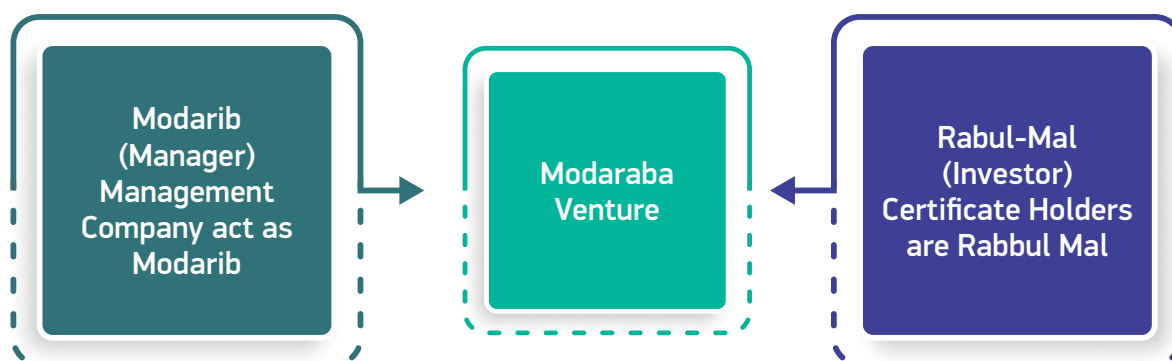
Group Structure

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 the business of leasing, Musharaka, Murabaha financing and other related business. The group comprises of Habib Metropolitan Bank Limited (The parent company), 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

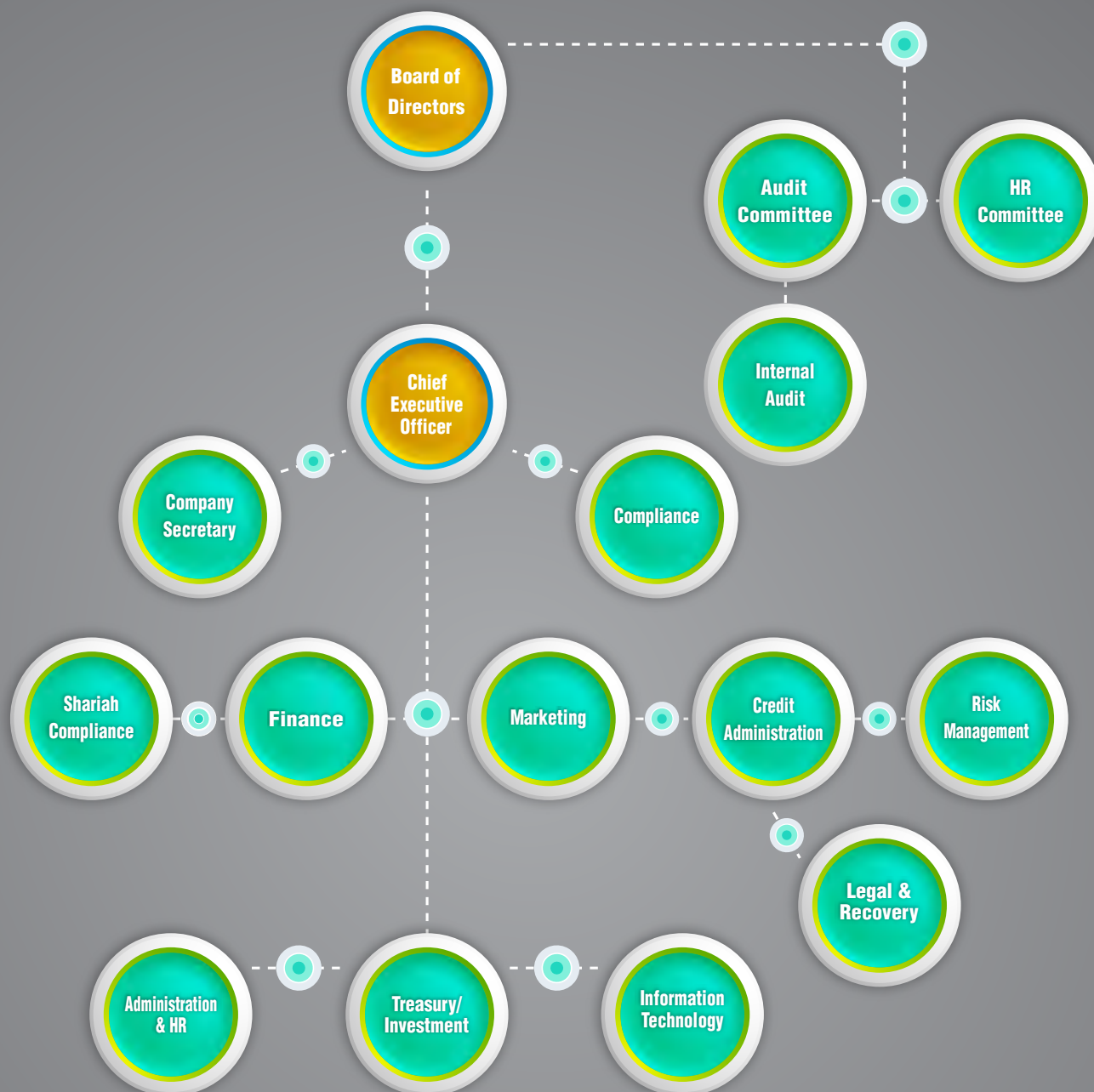
Output:

- 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 75 people in its operations including branches & head office at country level.

Disclosure of total & average number of employees has been made in note 45 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.

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 35 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 customer. 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 more than 3 decades is the success story which truly reflects of our strength and unpatrolled 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.



Risk Management Framework

Risk Management Framework

Effective Risk Management Framework comprised of identification, measurement, mitigation, reporting and monitoring, and governance. FHM management always strived towards effective risk management framework which may protect shareholders wealth without compromising business growth.

Management of FHM pursued proactive approach along with robust risk governance structure under precious guidance from Board of Directors. The governance of risk management begins with BOD and is linking around a strong management structure, sound information system and an effective risk-rating system. Management of FHM upholds a strong inter-departmental communication link on risk factors and encourage culture of collaboration in decision-making amongst all departments

Credit Risk Management

FHM is in continuous process of improving credit sanction and credit risk management practices, keeping align with changing economic environment. Our resilient credit approval process, credit control, audit and risk management processes and policies have helped us to maintain infection free financing portfolio. FHM is equally proactive with respect to scenario arise as a result of the COVID-19 pandemic.

Market Risk Management

FHM's Asset Liability Management Committee (ALCO) more frequently meets during COVID 19 pandemic scenario in order to assess market risks pro-actively. Our entire financing portfolio is linked with floating rate and review on quarterly/half yearly basis. During COVID 19 pandemic Government took special measures including hefty cut in policy rate to facilitate the economic activity.

Liquidity Risk Management

Liquidity requirements are managed on a regular basis by the treasury function which is also responsible to ensure that sufficient funds are available to meet short-term obligations, even in a crisis scenario and placement in financing assets. FHM ensure to maintain adequate liquidity during COVID 19 pandemic, and had access to funding to hedge against unexpected requirements.

Risk Management and Control Principles

FHM management ensure following areas in order to keep appropriate balance between risk and return.

- Effective interdepartmental communication.
- Ongoing monitoring of risk arises at different levels and its mitigation.
- Improved risk disclosure mechanism.

RISK MANAGEMENT PROCESS



- Independent control functions for risk appetite assessment
- Analyze effectiveness of the business's risk management capabilities
- Improved learning curve of FHM staff regarding updated industry practices on risk management.
- Place control mechanism for monitoring of customer's repayment behavior and devising strategies accordingly.

Effective risk management is vital part of any Financial Institution. FHM management always strived towards aligning the same in accordance with market best practices, need and requirement for smooth operation of businesses.

Any Pandemic is potentially troublesome situation for any organization at any time and to maintain the normal business process is part of risk management.

To create awareness of pandemic is a major challenge and need close eye on alerts and messages from Public Health organizations, media reports. The focus here is on the level of business disruption which could arise from a pandemic. The following two stages to mitigate the risk of business disruption:

Maintaining business continuity

We took some proactive measure to ensured Business Continuity Planning (BCP) before formal lockdown announcement. We took initiative before the lockdown starts and simultaneously ensured that the IT infrastructure and systems were in place, tested and checked.

Resumption of business operations

We resumed operations in a phased manner in line with government and local authorities' directives. The health and safety measures undertaken by us include issuing safety guidelines, conducting regular fumigation of office premises, conducting thermal screening of staff and customers visiting our offices country wide and providing masks and hand sanitizers at our offices and ensuring social distances.

Pandemic Statement & Recovery Plan

Regular risk assessments should be carried out to determine the needs of the outbreak.

Ensure that during pandemic situations FHM has pandemic plan which cover required human needs and critical resources, technical infrastructure, systems and networks, in accordance with key business activities

The epidemic plan should be periodically reviewed and tested in a virtual environment to ensure that plane is implementable in a real-world circumstance.

Management ensure that all staff should be aware of the said plan and their respective roles

Pandemic Recovery Plan

The plan should be up to date, with changing circumstances.

Pandemics are unpredictable and affect business processes as usual. With passing time now level of awareness of pandemic improved. Risk Management will act pre-emptive and assess the risks may face by business and people.

In case company employees affected with pandemic, the Business continuity plan implementation team (BCPIT) will assess the severity of situation and devise strategy. BCPIT will take appropriate steps like, engage medical facilitators, network service providers and other technology infrastructure etc. BCPIT will act to preserve and protect basic business operations and facilitate the resumption of normal operation. Further, BCPIT will remain in contact with individual departments to assess impact in absence of any employee, and arrange backup staff as per requirement. Based on staff return to work, estimate the continued duration of and need for the pandemic response plan.

BCPIT will communicate names and contact numbers of each employee in their departments in soft and hard copy. In addition, management team members will have a hard copy of the company's pandemic, disaster recovery and business continuity plans on file in their homes.

In order to keep connected and well-informed employees will be notified through fast connect means like WhatsApp and SMS etc.

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 policies 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 objective of internal control is as follows:

- Financial policies reviewed and updated .
- Effective reporting throughout organization.
- Effectiveness and efficiency of operations ensure adherence to its policies and 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 entire modaraba, compliance department fully equipped with desire resource for effective implementation of compliance function. The role of compliance function is aligned with First Habib Modaraba strategic core objective, the proactive mechanism inbuilt for smooth functioning of compliance function he department also ensures compliances of all regulatory 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 implementation on entire modaraba
- Processes and procedures further reviewed in line with requirements of parent bank for better control environment
- Shariah governance framework further strengthens. with added tool to safeguard against any risk related shariah transactions

OUR CORPORATE APPROACH

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.

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.

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 and compliance culture within the Modaraba is prime objective 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.

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 selecting since last eight consecutive years for best report award by ICAP and ICMAP.

Significant changes in objectives and strategies

Keeping in view of present economic and business circumstances due to COVID-19, we have devised our operational and business strategies by taking care of all impacts and distresses of Pandemic. Key points of our strategies would be as follows:

- Continuous adoption of prescribed health care measures for safety of staff members till the deadly virus completely out.
- Preserve liquidity to meet any business contingencies.
- Enhance technological advancement and broaden digital space for enhancement of operational efficiencies through virtual engagements of staff members.
- Frequent testing through unannounced drill of Business Continuity Plan and its further improvement.
- Further enhance tools of credit risk management, appraisals & evaluation of credit proposals.

Strategy To Overcome Liquidity Problem

Assets Liability Management Committee (ALCO) of FHM is responsible for formulation and management of overall liquidity position within FHM. FHM's liquidity risk governance structure is planned in such a way to ensure continued support for business requirements and backup for funds withdrawal in order to avoid any abrupt liquidity issue and reputational loss.

To keep reasonable liquidity within the system is also a most challenging part in present circumstances. Due to COVID-19 business conditions are very depressed and entities are facing severe cash flow and liquidity issues. The Asset and Liability Committee (ALCO) of the Modaraba was continuously monitoring the liquidity position and is taking due precautionary measures and maintaining sufficient liquidity to cater any adverse in cash flow maturity profile.

Our treasury department has successfully managed the liquidity issue within our system and kept sufficient liquidity available within our network for any abrupt and unscheduled withdrawals. During the period of last quarter we had received several premature redemption of our COM and same was immediately repaid on first call of respective counters. The gaps of such withdrawals were successfully managed through arrangement of funds from other counters. Presently, we are still keeping sufficient liquidity within our system in order to counter any future contingencies.

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



Key Performance Indicators

Key Performance Indicators (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 remained most difficult year in terms of various economic challenges along with an outbreak of COVID-19 which has changed all economic and businesses landscape globally. The country's economy demonstrated its worst performance posting a negative growth during the year. The drop in domestic and global demand compounded the strain on the economy.

The pandemic has terribly slowed down overall economic and businesses activities, due to said impact our assets financing particularly booking of financing assets were reduced, and disbursements of last quarter were the lowest of the whole year of disbursement. With monthly repayment of financing book and reduced assets booking, our balance sheet and assets size also reduced. However, we had managed to maintain our profitability due to high policy rate and better booking of financing assets.

The key performance indicators during year 2019-20 were as follows:

- 11% decline in Balance Sheet size
- 10% decline in total financing assets
- 14% decline in Certificate of Investment (Musharaka)

Strategic Objectives	Strategies to Meeting Objectives	KPIs	Future Relevance
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.	Low infected financing assets portfolio	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
Good quality financing assets portfolio	Add quality financing assets through strong credit appraisal and robust proposals evolution criterial	Low infected financing assets portfolio	The KPI shall remain relevant in future
To maintain strong equity base	Healthy profits and good retentions support for strong equity base	Strong equity base	The KPI shall remain relevant in future
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
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
Strengthening of Risk Management segment.	Work on existing manual or semi manual operational processes to convert in automations, further strengthen applications and procure latest equipment for state of art IT infrastructures	Technological advancement	The KPI shall remain relevant in future

Strategic Objectives	Strategies to Meeting Objectives	KPIs	Future Relevance
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 12 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 the highest in operational history of FHM.	The KPI shall remain relevant in future.

Strategies to be followed to further strengthen key performance indicators in 2020-21

- Continuous adoption of prescribed health care measures for safety of staff members till the deadly virus completely washed out.
- Preserve liquidity to meet any business contingencies.
- Enhance technological advancement and broaden digital space for enhancement of operational efficiencies through virtual engagements of staff members and remote working.
- Frequent testing through unannounced drill of Business Continuity Plan and its further improvement.
- Further enhance tools of credit risk management, appraisals & evaluation of credit proposals.
- Carefully move forward with our existing and new business engagements for new assets booking and financing.
- Further strengthen compliance culture particularly regulatory and AML/CFT related compliances.
- Enhance capacity building and improve professional grooming of our team members

Changes in performance indicators

Performance indicators and measures have changed over the period due to the factors as already discussed in directors' report.

Methods and assumptions used in compiling the indicators

Following assumptions/estimates have been used in compiling the indicators:

- Current issues of COVID-19 and its devastating impact on economy, businesses and human health and future assumptions of further damages.
- Impact of Pandemic on customers' businesses and its subsequent impact on paying ability of financial obligations.
- Historical experience and various other factors that are believed to be reasonable under the circumstances.
- Economic and overall business conditions future forecast.
- Market information
- Feedback from customers

However, 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 situation with the outbreak of the COVID-19 Pandemic and its ensuing uncertainty over the global economy. Actual results may differ from these estimates.

Strategy & Resource Allocation

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. It can be summarized in three basic segments i.e., how FHM will achieve its goals, meet the expectation of investors and how would focus on challenges arise through up down of economic and businesses situations and macroeconomic imbalances.

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

- Health safety of staff members from Pandemic impact.
- Promote remote working capabilities and capacities.
- Slow lending approach.
- Enhance efficiency, reduce cost and improve customer service.
- Further strengthen tools of risk management, appraisals & evaluation of credit proposals.
- Further strengthen compliance culture particularly regulatory and AML/CFT related compliances.

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

- Uphold the core values of institution.
- 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

While remaining within our core objective, we continuously raise our bar for growth and best performance through well-defined and focused corporate & business strategies. However, this year, due to pandemic the growth in balance sheet size and financing assets could not maintained.

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.

The digital evolution is now also emphasizing the importance of assessing and adjusting existing functional structures for better operational efficiencies. Pakistan's financial sector continued to encounter diverse challenges emanating from the current economic downturn, increasing regulatory compliances, emerging cyber security threats, rising risks to asset quality and thread of rising in non-performing loan. Under the challenging and competitive operating environment your Modaraba is well focused on its long term multi-pronged strategy driven towards strengthening risk management tools, optimizing operating efficiencies and continuous advancement in technology.

In current Pandemic situation, we are closely monitoring the situation in present difficult time. Our most important task is to ensure safety of health of our staff members and best possible services to our worthy customers. Keeping in view of present circumstances, we will move forward in prudent manner with cautious approach and gear up all available resources to counter any operational and business contingencies.

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

FHM has team of professional in their related respective fields for smooth business operations. Our HR department takes utmost care to ensure that our induction strategies, training and development methodologies, compensation strategies and performance appraisal systems remain robust and in line with best practices. It is our responsibility to ensure that our people are motivated, inspired & committed to delivering a consistently outstanding performance.

Natural Capital

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

Information Resources

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

Liquidity & Financing arrangement

Liquidity management and financing arrangement process being managed by Treasury function. The responsibility of treasury function is to monitor and manage liquidity and financing requirements on daily basis. During the period under review, Liquidity of Modaraba remained satisfactory.

Capital Structure

As at 30th June, 2020
(Rupees)

Capital	1,008,000,000
General Reserve	640,000,000
Statutory Reserve	1,135,308,260
Certificate Premium Account	378,000,000
Un-appropriated profit	385,375,652
Total Equity	<u>3,546,683,912</u>

Above capital structure is adequately maintained. Break-up value per Modaraba certificate is Rs.17.59 against the face value of Rs.5/-. Ratio of debt to equity is 60:40 and equity to asset is 36:64 which show strong capital structure and do not reflect any capital inadequacies.

Significant changes in Financial Position:

- 11% decline in Balance Sheet size
- 10% decline in total Financing Assets
- 14% decline in Certificate of Investment (Musharaka)

Analysis of the Financial and Non-Financial Performance

FINANCIAL INDICATORS:

Actual Results:

The COVID-19 has slowed down overall economic and businesses activities. Overall size of balance sheet was decreased from Rs.11.124 billion to Rs.9.913 billion. During the period, total financing of Rs.3.653 billion as compared to Rs.5.229 billion was made i.e., decreased by around 30%. However, we had managed to maintain our profitability due to high policy rate and better booking of financing assets.

	2020	2019
Balance sheet Size	9,913,057,271	11,124,024,230
Income from Financing Assets	1,209,205,634	913,676,939
Net Profit	316,683,071	319,685,162
Earning per Certificate	1.57	1.59

TARGETS FOR FINANCIAL AND NON – FINANCIAL MEASURES

FINANCIAL MEASURES – Various financial considerations are used to make the projections of modaraba. Following are the financial measures to determine the healthy prospectus of modaraba.

- Cautious approach while booking financing assets
- Growth in balance sheet size in prudent manner
- Diversification in customer segment
- Induction of quality earning assets
- Enhancement of financing assets portfolio
- Gradual enhancement in consumer auto finance segment
- Maintained profitability
- Control and minimize administration cost
- Add low cost deposit within deposit portfolio.
- Good dividend to Modaraba Certificate Holders

However, due to outbreak of COVID-19 all the projection and economic forecast completely changed at global level. Likewise the economy of Pakistan also demonstrated its worst performance posting a negative growth during the year. Due to impact Pandemic, we had also could not meet budgeted targets and few of the targets could not achieved except profitability.

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 tool

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 Planning (BCP) is a key activity that enables the organization to provide for the continued availability of priority services in the case of disruption but most prescient BCP planners could not have predicted COVID-19 and its impact on the business. In this crisis FHM is also offered the to work from home opportunity to their staff. First Habib Modaraba 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. This point of time 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)

DRP is the process which uses to recover software, data or application in any distress situations caused due to human error or through any natural disaster. 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 have 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. That's why our extensive internal business continuity plans are tested regularly. With our vast experience, 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. The arrangement incorporates recognizing business procedures of strategic importance and their conditions so as to survive a disastrous interruption. Disaster Recovery (DR) exercise also conduct for critical business applications from the DR site on regularly basis. These exercise 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 have already arranged third Party BCP/DR solution from M/s. Cube XS Weatherly (Pvt) Ltd and maintaining DR site 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.

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

Leasing Financing

Lease financing of Rs.610 million were made out of total financing of Rs.3,653 million as compared to financing of Rs.5,229 million last year. Leading sectors of disbursement was targeted during the year were Services, Pharmaceuticals, Refinery & Lubricant, Food & Allied, Chemicals, Logistic and Auto & Allied.

Diminishing Musharaka Financing

Financing in Diminishing Musharaka of Rs.3,043 million was made as compare to Rs.4,011 million of last year decrease by 24%. Keeping in view of our strategy on product diversification, we have been continuously concentrating on this mode of financing. Disbursement in this segment was 83% of total financing as compared to 77% of last year.

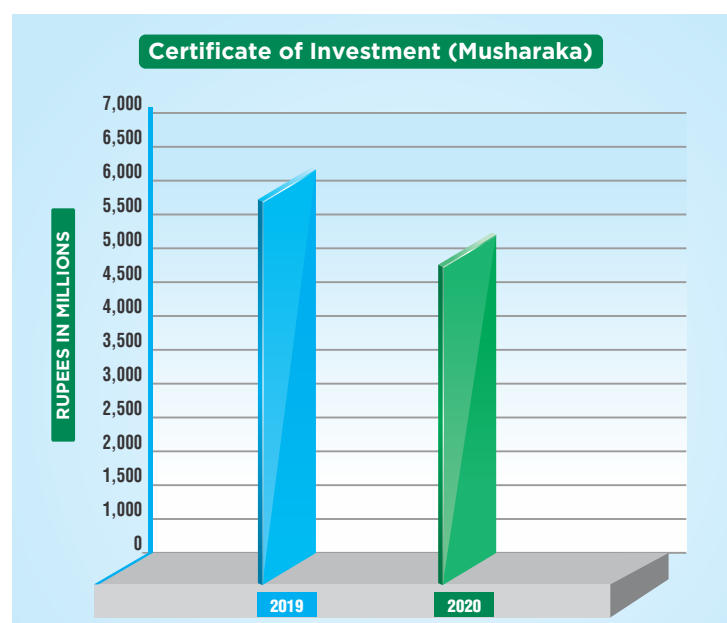
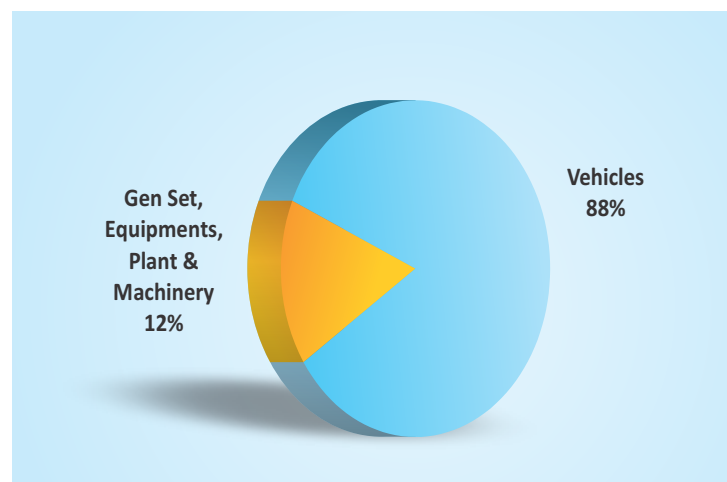
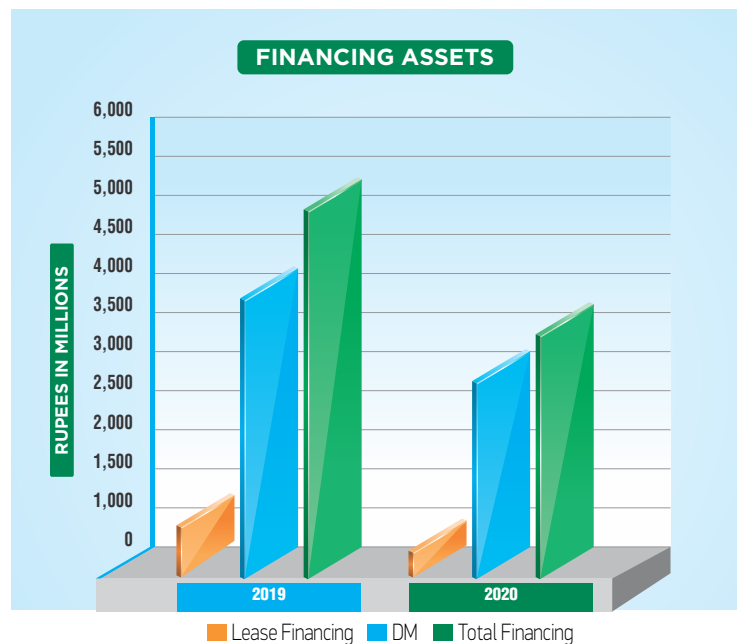
Our branches outside Karachi, i.e., Lahore, Islamabad and Multan have made significant contribution in assets booking as compared to corresponding period of last year. Moreover, good new corporate customers, commercial vehicle segment and consumer car financing segment had also been added by these branches 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. 88% 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.5,279 million at the end of year as compared to Rs.6,149 million of corresponding period of last year, decline by 14%. Our all branches particularly Karachi branch 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 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 possibilities 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 demonstrate 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 conserve 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 high 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 integral 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 improve 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.



Forward Looking Statement

In our director's report, we have discussed in details about present economic and business situations due to COVID-19. The outbreak of COVID-19 which started in later part of 3rd quarter had brought all business activities standstill with unparalleled and unforeseen impact in our lives, economies, our societies and livelihoods. It was completely unexpected and world never thought of such economic devastation and critical health impact on human life.

Economic outlook of Pakistan

The outbreak of COVID-19 has inflected an unprecedented global crisis taking a colossal impact on human lives and economic downturn particularly large impact on low income households. Consumption and services output were dropped noticeably due to lock down and restriction on mobility. The global trade activities were also contracted owing to weak consumer demand, downfall in cross border traveling and tourism including large disruption in supply chain at global level. Pakistan's economy, like global economy had also suffered and GDP growth was witnessed at very low level.

After the outbreak of COVID-19, The Government of Pakistan had also took bold initiative to fight with COVID-19 and announced fiscal stimulus packages to support the lower income group and manufacturing sector particularly export based entities. The Government had also announced incentive package and concession for the construction industries to generate employment and support housing related industries. State Bank of Pakistan (SBP) also took several measures to support various segment of the economy during crucial time of pandemic crises. The initiatives and reforms supported well to minimize huge trade and current account deficit, steadying of foreign reserves and successful completion of IMF program and improvement in credit rating profile of the Country. Due to said initiatives, swift turnarounds on the path of macroeconomic adjustments have been witnessed through a broad-based adoption of stabilization measures.

Future outlook of FHM

We expect that financial year 2020-21 will be also a challenging year due to after effects of pandemic on trade and industry and on overall businesses. The ultimate growth outcome will remain uncertain and largely dependent on the complete departure and wash out of deadly virus, favorable impact of policy measures adopted for combating the outbreak, improving financial conditions for stimulating market sentiment and attaining liquidity assistance through multilateral cooperation.

The drastic cut in policy rate i.e., 6.25% in last 3-4 months will also reduce our earning on financing portfolio. Furthermore, we also expect pressure on liquidity of customer and weak paying ability on their financial obligations. Currently, the economic activities are gradually picking up and we expect that reduced lending rate will support to stimulate business activity in coming months. The landmark incentive package for construction industry will also support and boost the allied industries and will generate employments.

In present circumstances, we will move forward in prudent manner with cautious approach and gear up all available resources to counter any operational and business contingencies and will produce satisfactory results.

Significant Plans and Decisions

The year under review remained most difficult year in terms of various economic challenges along with an outbreak of COVID-19 which has changed all economic and businesses landscape globally. The country's economy demonstrated its worst performance posting a negative growth during the year. The drop in domestic and global demand compounded the strain on the economy.

The pandemic has terribly slowed down overall economic and businesses activities, due to said impact our assets financing particularly booking of financing assets were reduced, and disbursements of last quarter were the lowest of the whole year of disbursement. With monthly repayment of financing book and reduced assets booking, our balance sheet and assets size also reduced. However, we had managed to maintain our profitability due to high policy rate and better booking of financing assets.

Our most important task is to ensure safety of health of our staff members and best possible services to our worthy customers. Keeping in view of present circumstances, we will move forward in prudent manner with cautious approach and gear up all available resources to counter any operational and business contingencies. Except as mentioned above there was no significant decision taken during the year.

Organization's Significant plans in responding to the critical challenges and uncertainties that are likely to arise

Therefore, keeping in view of present economic and business circumstances due to COVID-19, we have devised our operational and business strategies by taking care of all impacts and distresses of Pandemic. Key points of our strategies would be as follows:

Forward Looking Statement made in 2019	Performance made in 2020
<ul style="list-style-type: none"> • Open new branches / business desk for business expansion and enhancement of customer portfolio. • Add more Shairah compliant financial product within the financing portfolio. • To further improve and strengthen Shairah governance and Shariah Compliance culture • Improve IT application and IT infrastructure for enhancement of operational capacity • To further develop professional and operational capacity staff members through in house and outside trainings. • Enhance operational and risk management capacity in order to avoid unforeseen operational and business risk. 	<ul style="list-style-type: none"> • Operational efficiency was enhanced for improved customer service. • Sizeable improvement was made in SIRAT Auto financing • Further improvements made and it is on going process • ERP system migrates to highly available and ready to scale based environment through new version of .NET Framework • Effective training was made for professional grooming of staff member especially emphasis on AML / CFT area. • Risk Management processes were further improved

- Continuous adoption of prescribed health care measures for safety of staff members till the deadly virus completely washed out.
- Preserve liquidity to meet any business contingencies.
- Enhance technological advancement and broaden digital space for enhancement of operational efficiencies through virtual engagements of staff members.
- Frequent testing through unannounced drill of Business Continuity Plan and its further improvement.
- Further enhance tools of credit risk management, appraisals & evaluation of credit proposals.

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

- Re-occurrence of pandemic or any other diseases.
- Political and other disturbance within country.
- Change in any regulatory or taxation policies.
- Adverse move on economic front
- Any other force majeure.

Sources of Information and assumptions used for projections / forecasts

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 situation with the outbreak of the COVID-19 Pandemic and its ensuing uncertainty over the global economy.



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.

Risk and Opportunity Report

Type of Risk	Explanation	Strategies to Mitigate the Risk	Likelihood	Magnitude of risk
Shariah non-compliance Risk	The risk of operational lapses not in line with Shariah processes and guidelines.	Strong vigilance on Shariah processes and continuous training to relevant staff members	Not likely	Very low
Operational Risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or the risk of loss resulting from external causes.	Independent control and support functions that monitor operational risks on regular basis. The Internal Control department addresses operational risks and implements policies to encounter such risks. The department assesses operational risks across the Company as a whole and ensures that an appropriate framework exists to identify, assess and manage operational risks.	Likely	Low
Reputational Risk	Reputational risk is a threat or danger to the good name of the entity.	Reputational risk is managed through strong corporate governance, sound compliance culture and effective redressal of customers and employees grievances and support function	Rare	Very low
Credit Risk	The risk of counter party unable to meet its obligation and FHM may sustain losses.	Modaraba has strong credit risk management system through effective credit appraisal tools including internal credit risk rating system to ensure prudent and sound financing portfolio, which was witnessed with very low infection portfolio in current COVID 19 pandemic situation.	Likely	Very low
Liquidity Risk	The risk that FHM may be unable to meet its obligation when it falls due.	The ALCO is monitoring liquidity position and concern department has made responsible to make sure the continuous availability of liquidity through short term and long term deposits and credit lines.	Likely	Very low
Market Risk	Risk due to change in SBP policy rate and financing Spread.	Financing portfolio is linked with floating rate which review mostly on quarterly and half yearly basis. This rate review support for the management of financing in case of volatile rate in the market However, during COVID 19 period our monitoring of financing portfolio further stringent.	Likely	Low
Legal Risk	Risk due to weak legal documentation particularly in credit processes.	Documentation executive in accordance with set procedures prescribed by legal advisors and team of internal control.	Not likely	Very low
Technology Risk	Technology risk means any risk of financial or other loss due to some sort of failure of its information technology systems.	To take appropriate measures to protect Systems and keep update firewalls regularly and strong DRP system. Frequent update about cyber security risk and mitigation to stakeholders is ongoing process. During COVID 19 period this risk was very high due to work from home. However, our IT team closely monitor such risk and alhamdulillah we have managed without compromising the security.	Likely	Low
Regulatory & Compliance Risk	Risk of non-compliance with regulatory and change in regulatory policy requirements.	Strong compliance and internal control system are in placed to fulfil the regulatory requirements and close eye on changes in laws and regulations, particularly AML CFT regulations and their applicable rules and regulations which aim to improve compliance culture.	Likely	High

Opportunity Statement

In our director's report we discussed in detail the current economic and trade situation of the country due to COVID 19 which slows down the economic activities all over the world. According to current statistics, various local as well as international reports from different forums, the current fiscal year, i.e. 2020-21, would be a difficult year for the Pakistan economy. Economic growth in fiscal year 2021 is expected to remain weak, however due to government steps to activate the economics activities through substantial decline in policy rate, incentives to the business man and decline in inflation rates, government's current efforts on good governance, the focus on improving the tax base and resolving the main structural imbalances in the economy, we expect new opportunities to the investment of local and foreign investors.

Previous year financial results reflect, our performance which is remain satisfactory although we face lot of challenges. However, assets size slightly decline by 11% and the net profit is maintained. We have declared a cash dividend of 28% for the period ending June 30, 2020 to maintain our tradition. The above performance was achieved in a difficult operating environment particularly during the COVID 19 scenario and we hope that Insha'Allah, we will also be able to deliver satisfactory results in 2020-2021.

Key Source of Uncertainty

Modarab business operation carries various uncertainties due to the development of internal and external factors that may directly or indirectly affect Modarab's activities. During current COVID-19 pandemic our physical presence in the offices halted however we have managed through technical support of IT department. However, following are the other main key sources of uncertainties:

- Political uncertainty in the country.
- Amendments in regulatory or taxation policies.
- Fluctuation in policy rate of Central Bank.
- Economic slowdown.
- Other force majeure i.e. COVID-19 Pandemic etc.

Materiality Approach

In this approach we identify the key economic, environmental, and social issues that can have a directly significant impact on a company's performance and ultimately effect on stakeholder assessment and decision making. During COVID 19 pandemic FHM management faced difficulties to run the operation smoothly however, FHM management always be cautious and ready to respond the challenges when assessing the importance of its business activities and pays attention to the interests of certificate holders and other stakeholders.

Information about defaults in payment of any debt

FHM management always be careful about its obligations particularly financial obligation. Alhamdulillah, there were no events of single default during the year for any of FHM's financial obligations. FHM settled all its financial obligations in a timely manner without single day delays which includes credit lines from financial institutions / banks, investment certificates (Musharaka) and other debt obligations.

Inadequacy in the capital structure and plans to address such inadequacy

There is no regulatory requirement to meet capital adequacy on FHM. However, FHM has strong reserves which display the strong capital adequacy.

Sustainability

COVID-19 has posed an extreme shock to the global and national economy. In today's extremely uncertain economic, business and health circumstances due to COVID-19 pandemic, the need for sustainability and remain as going concern have become more critical and crucial.

The COVID-19 outbreak has been 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.

During the COVID and lockdown period, the health safety of our staff members remained most challenging area within our operations. To continue smooth operations under such circumstances was very difficult particularly by adopting all precautionary measures. However, with the support of technology the remote work capabilities were enabled for all key staff members and most of the discussion and meeting were arranged through video conferencing.

Business Continuity Plans was successfully tested during the pandemic period in all four cities where are branches are located. The Modaraba had significantly enhanced monitoring for all cyber security risks during these times from its information security protocols. The remote work capabilities were enabled for all staff and related risk and control measures were assessed to make sure that they are fully protected using virtual private network ("VPN") connections.

Regular awareness sessions including required hygiene stuff were put in place to safeguard all our branches. Our response has been proactive and timely as well. It is an ongoing process to show vigilance in following protective guidelines and update them promptly with the changing circumstances.

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.

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.



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.

Approach To Sustainability

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 investors and customers.
- 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

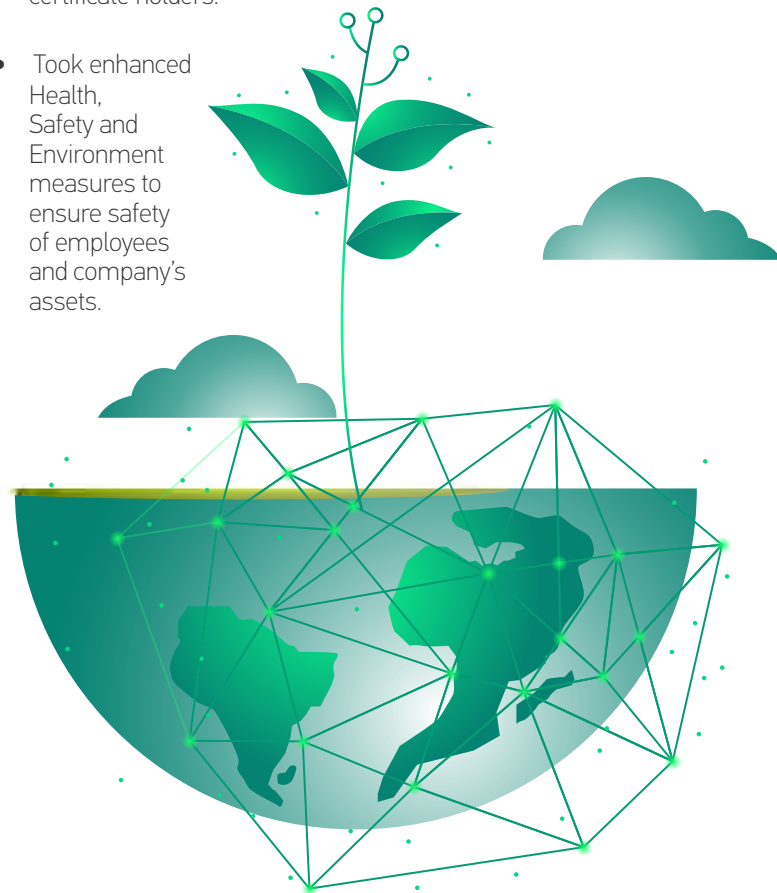
According tax laws, the income of Modaraba is exempt from income tax, if 90% of the profit distributes to Certificate Holders in shape of dividend. In order to pass on maximum profit to its Certificate Holders, FHM distribute 90% profits to its Certificate Holders. However, despite tax exemption, Modaraba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

Implementation of Governance Practices Exceeding Legal Requirement

The Management of FHM fully committed to follow not only the best governance practices to comply with all legal requirements but also goes ahead to voluntary adoption of best business practices in addition to the mandatory regulatory requirements that are in favour of the stake holders, employees and community.

Following are few of the governance practices exceeding legal requirements that have been adopted by the FHM:

- Best corporate reporting practices recommended by Institute of Chartered Accountants of Pakistan / Institute of Cost and Management Accountants of Pakistan & South Asian Federation of Accountants. Due to this practice FHM has been continuously awarded from the said institutions.
- Good Corporate Governance practices recommended by Management Association of Pakistan (MAP). Due to this practice FHM has been continuously awarded from the MAP.
- Various additional disclosures in the annual financial statement including financial analysis, graphical presentation and ratio analysis etc. to give better and transparent view to all the stakeholders including certificate holders.
- Took enhanced Health, Safety and Environment measures to ensure safety of employees and company's assets.



FHM's Response to the Critical Challenges and Uncertainties Likely to Arise

During the FY 2019-20 the biggest challenge was to address the COVID 19 pandemic situation. During COVID 19-year FHM had faced following challenges:

1-STAFF HEALTH: Staff health is the prime challenge for the management during the COVID 19 which was address through following measures:

- Reduce physical presence at work premises to ensure social distancing and provide work from home options with technological support
- Frequent disinfection and sanitization of offices all over Pakistan
- Relocate seating arrangements in order to ensure social distancing.
- Obey and adopt all precautionary measure to protect form Pandemic.

Continuity of Operation

During a COVID 19 pandemic the biggest challenge was to continue day to day operations at necessary level with limited resources, reassess and identifying the critical infrastructure and essential services with limited resources.

- Remote work options provided with restricted access to necessary data and system, which enables the staff to carry on operations from home.
- Divide staff in teams with alternate days, so that in case of any detection of disease in one team second team may take up operations without any gap.
- Arrange necessary equipment for the staff on need basis, to ensure continuity of operations from remote place.

Business Uncertainty

During a COVID 19 pandemic political uncertainty was there, especially regarding Government strategies on business operation and business restrictions.

- Keep close monitoring of Government directives regarding COVID 19 and ensure compliance.
- Follow the applicable rules and directives issued from Central and Provincial Governments and put maximum effort for continuation of operations with adherence of law of land.

Economic slowdown

Economic activity of the country are facing difficult time during the year and in 2nd half of the year it was further slow down due to outbreak of COVID 19 pandemic. On outbreak of



pandemic in Pakistan and announcement of lock down with allowing necessary operations following measures were taken.

- Immediately conduct sector analysis and identify our exposure towards high risk sectors
- Closely monitor the steps taken by regulatory authorities for extending relief to businesses and devise policies accordingly
- In line with regulatory directives allow deferment of principal repayments upon request from various customers

Therefore, keeping in view of present economic and business circumstances due to COVID-19, we have devised our operational and business strategies by taking care of all impacts and distresses of Pandemic. Key points of our strategies would be as follows:

- Continuous adoption of prescribed health care measures for safety of staff members till the deadly virus completely washed out.
- Preserve liquidity to meet any business contingencies.
- Enhance technological advancement and broaden digital space for enhancement of operational efficiencies through virtual engagements of staff members.
- Frequent testing through unannounced drill of Business Continuity Plan and its further improvement.
- Further enhance tools of credit risk management, appraisals & evaluation of credit proposals.

Key Financial Data for Six Years

KEY FINANCIAL DATA	Rupees in Million					
	2020	2019	2018	2017	2016	2015
Total Assets	9,913.06	11,124.02	10,279.25	8,366.65	7,160.75	6,393.29
Lease Financing Assets	1,719.65	2,739.37	2,902.83	2,440.98	2,725.21	3,072.31
Diminishing Musharaka Financing Asset	7,002.50	6,939.90	5,595.93	4,291.64	3,051.52	1,729.12
Lease Financing Asset Disbursement	610.00	1,218.43	1,689.22	1,052.48	1,124.23	1,742.09
Diminishing Musharaka Asset Disbursement	3,042.89	4,010.66	3,342.90	2,860.15	2,316.86	1,277.66
Current Assets	3,839.71	3,849.50	3,994.81	3,259.09	2,613.51	2,281.28
Current Liabilities	6,025.45	7,185.65	6,303.09	4,652.98	3,540.63	2,793.13
Total Liabilities	6,279.50	7,487.42	6,719.12	4,894.75	3,844.69	3,136.44
Paid-up Capital	1,008.00	1,008.00	1,008.00	1,008.00	1,008.00	1,008.00
Reserves	2,538.68	2,503.72	2,434.26	2,346.27	2,254.25	2,177.65
Certificate Holders' Equity	3,546.68	3,511.72	3,442.26	3,354.27	3,262.25	3,185.65
Gross Revenue	2,201.31	2,023.99	1,572.55	1,571.72	1,608.45	1,592.34
Net Profit	316.68	319.69	290.32	304.60	298.30	306.50
Earning Per Certificate - Rs.5/- each	1.57	1.59	1.44	1.46	1.48	1.52
Cash Dividend	28%	28%	25%	20%	20%	22%
Income from Lease Financing	192	179	193	218.09	286.09	250.63
Income from Diminishing Musharaka Financing	1,017.66	734.36	393.55	321.75	224.89	154.25
STAKEHOLDER INFORMATION	2020	2019	2018	2017	2016	2015
Profitability Ratios						
Profit after tax ratio (%)	14.39	15.79	18.46	19.38	18.55	19.25
Gross yield on earning assets (%)	23.19	18.75	16.12	19.57	23.70	27.52
Gross spread ratio (%)	6.68	9.30	11.25	12.83	12.03	11.25
Cost / Income ratio (%)	38.47	31.06	21.71	17.46	13.82	12.46
Return on equity (%)	8.93	9.10	8.43	9.08	9.14	9.62
Return on assets (%)	3.19	2.87	2.82	3.64	4.17	4.79
Return on capital employed (%)	9.57	9.59	8.92	9.58	9.68	10.21
Gross profit ratio (%)	46.68	42.03	34.79	32.24	27.76	25.61
Net profit to sale (%)	14.39	15.79	18.46	19.38	18.55	19.25
EBITDA margin to sale (%)	23.22	24.40	27.70	27.98	26.42	26.92
Income / Expense ratio	1.10	1.13	1.16	1.19	1.17	1.17
Liquidity Ratios						
Advance to deposit ratio	1.65	1.57	1.52	1.72	1.89	2.03
Current ratio	0.64	0.54	0.63	0.70	0.74	0.82
Cash to current liabilities	3%	1%	5%	4%	7%	17%
Cashflow from operations to sale	55%	-46%	-80%	-40%	-42%	-28%
Turnover ratio						
Total Asset Turnover Ratio (%)	23.92	19.38	16.40	20.02	23.93	26.90
Fixed Asset Turnover Ratio (%)	39.04	29.63	26.83	32.79	37.68	41.82
Investment / Market ratio						
Market Value Per Share	9.95	9.41	10.75	10.95	10.50	10.40
- High	10.89	11.46	11.69	11.85	11.13	10.59
- Low	9.31	9.31	9.25	9.71	9.50	8.70
EPS (Earning per share)	1.57	1.59	1.44	1.46	1.48	1.52
Price earning ratio	6.34	5.92	7.47	7.50	7.09	6.84
Price to book ratio	0.57	0.54	0.63	0.66	0.65	0.66
Dividend Yield ratio (%)	14.07	14.88	11.63	9.13	9.52	10.58
Dividend Payout ratio (%)	89.12	88.29	86.80	66.18	67.58	72.35
Dividend coverage ratio	1.12	1.14	1.15	1.46	1.48	1.38
Cash dividend (%)	28.0%	28.0%	25.0%	20.0%	20.0%	22.0%
Cash dividend per certificate/ share	1.40	1.40	1.25	1.00	1.00	1.10
Book Value Per certificate/ share	17.59	17.42	17.07	16.64	16.18	15.80
Dividend (in million rupees)	282	282	252	202	202	222
Profit Growth Ratio (%) [YoY]	(1)	10	(5)	2	(3)	7
Profit Growth Ratio (%) [base year 2015]	11	12	(1)	4	2	5
Capital Structure ratio						
Net assets per share	18.02	18.04	17.66	17.22	16.45	16.16
Earning asset to total asset ratio (%)	95.74	97.06	94.93	95.99	94.79	90.51

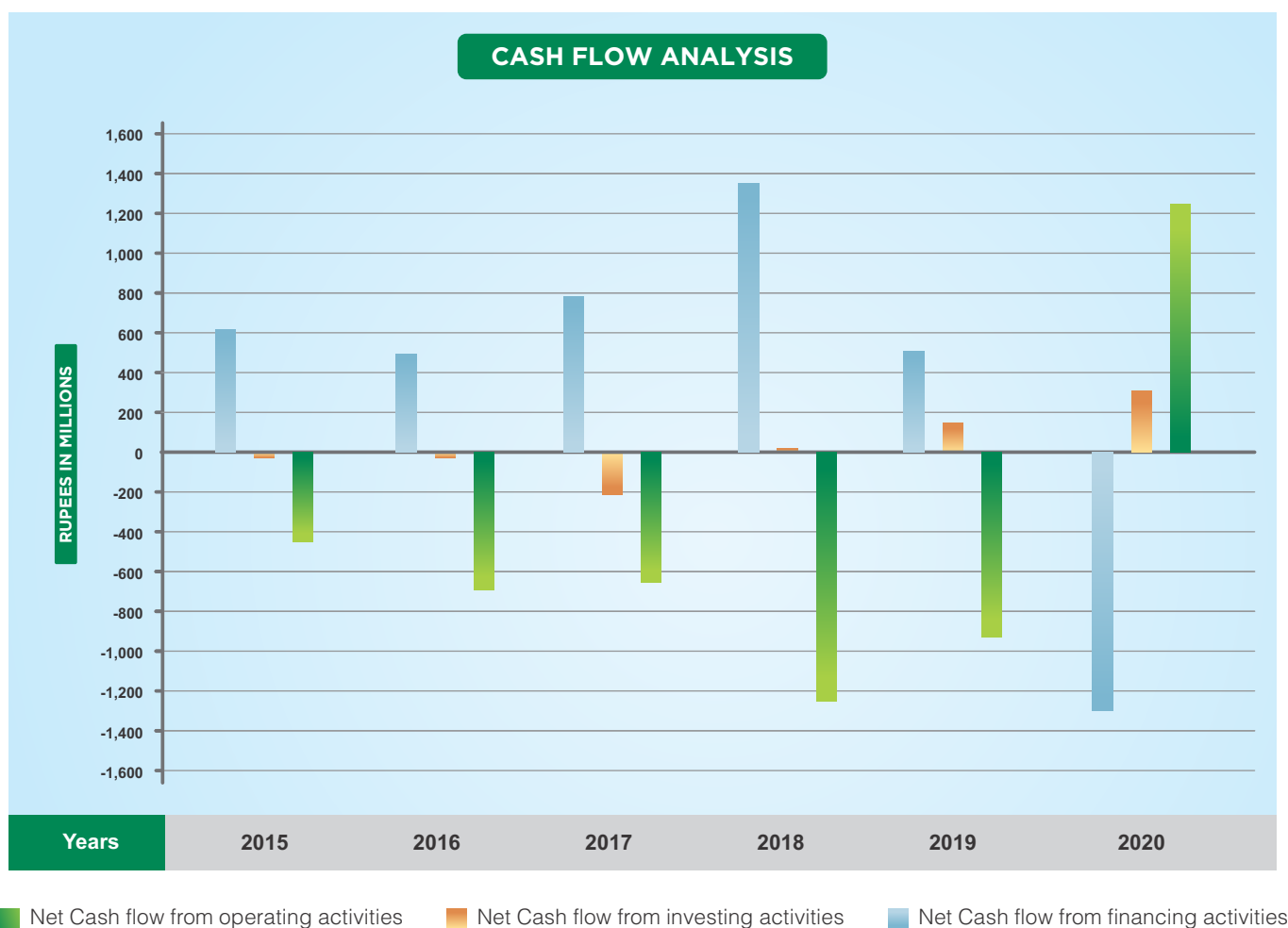
*Certificate of Rs. 5/- each

Free Cash Flows to Equity

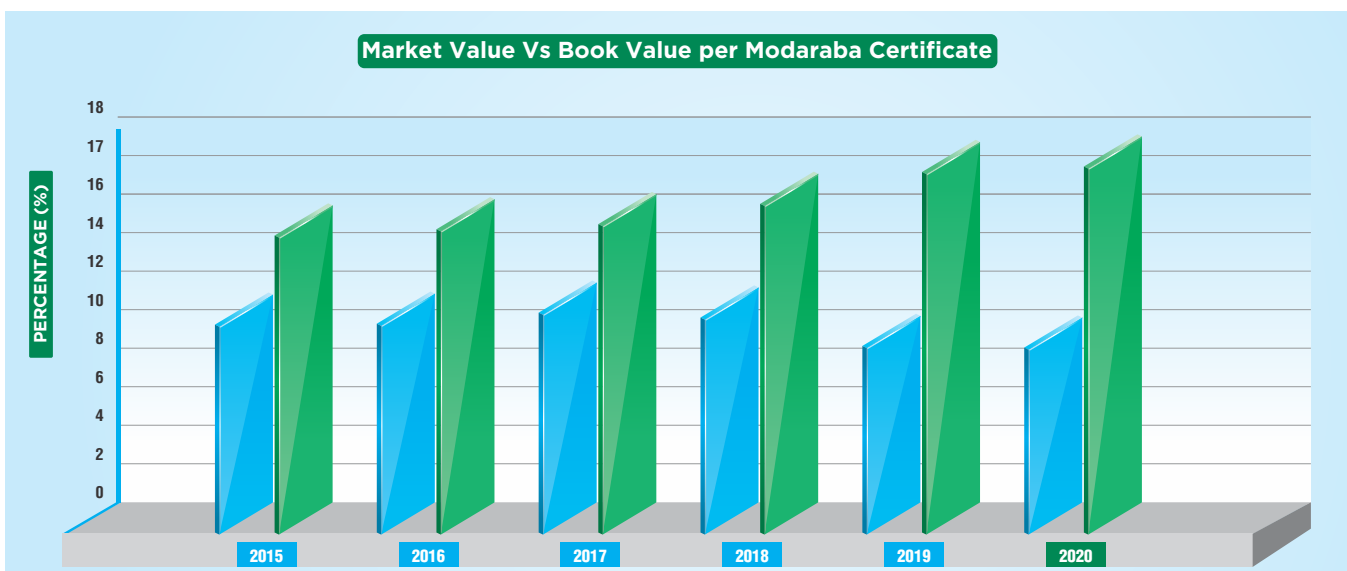
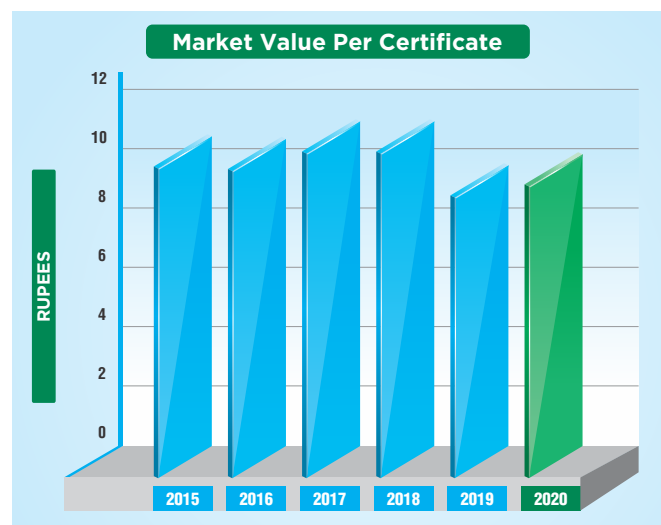
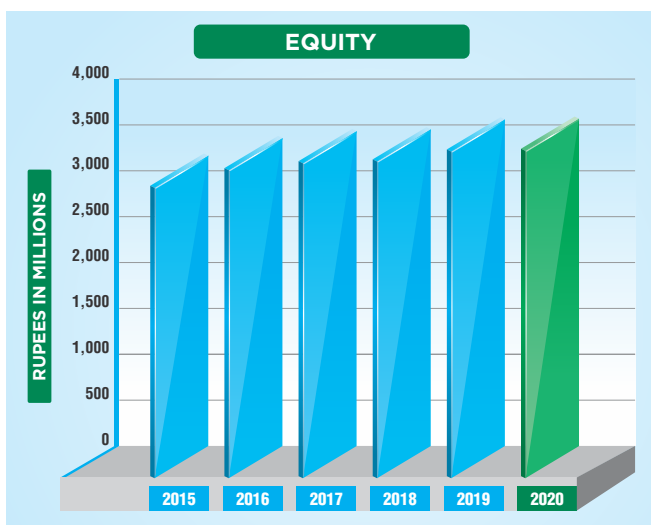
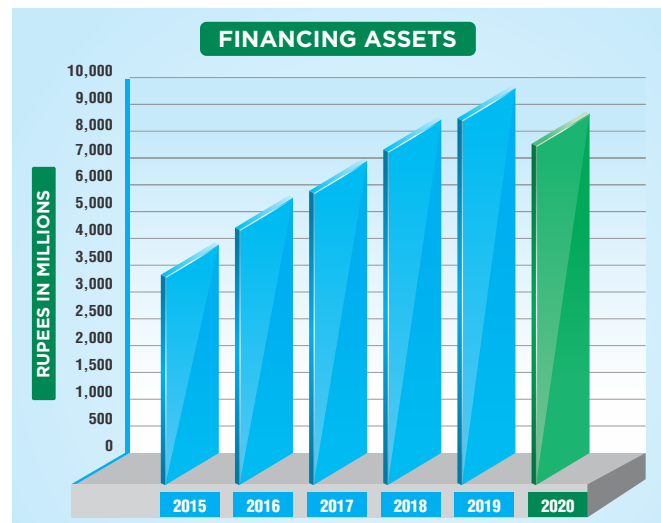
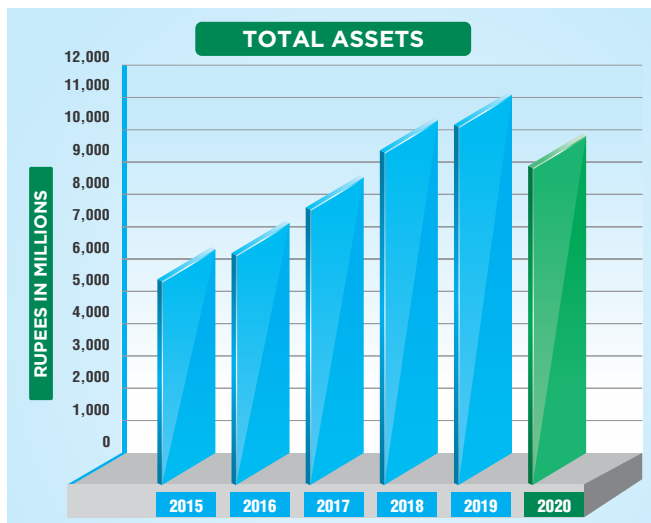
	Rupees			
	30-Jun-20 Annual	31-Mar-20 Nine monthly	31-Dec-19 Half yearly	30-Sep-19 Quarterly
Net cash flow from operating activity	1,212,388,060	562,911,829	435,576,115	226,764,425
Net cash generated from / (used in) investing activities	303,301,943	60,909,221	57,618,624	153,781,834
Net cash inflow from financing activities- excluding dividends	(1,397,704,957)	(393,103,199)	(325,255,691)	(359,260,342)
	117,985,046	230,717,851	167,939,048	21,285,917

Summary of Cash Flows

	Rupees in Million					
	2020	2019	2018	2017	2016	2015
Cash & cash equivalents at the beginning of the year	51	321	192	248	487	371
Net Cash flow from operating activities	1,212	(930)	(1,260)	(629)	(672)	(451)
Net Cash flow from investing activities	303	152	14	(216)	(39)	(39)
Net Cash flow from financing activities	(1,398)	507	1,375	789	472	607
Net increase/decrease in cash & cash equivalent	117	(271)	129	(56)	(239)	116
Cash & cash equivalents at the end of the year	168	50	321	192	248	487



Graphical Presentation of Financial Summary

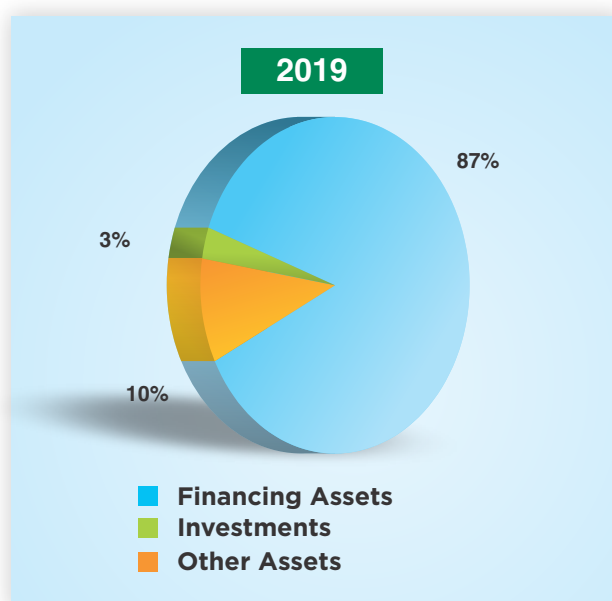
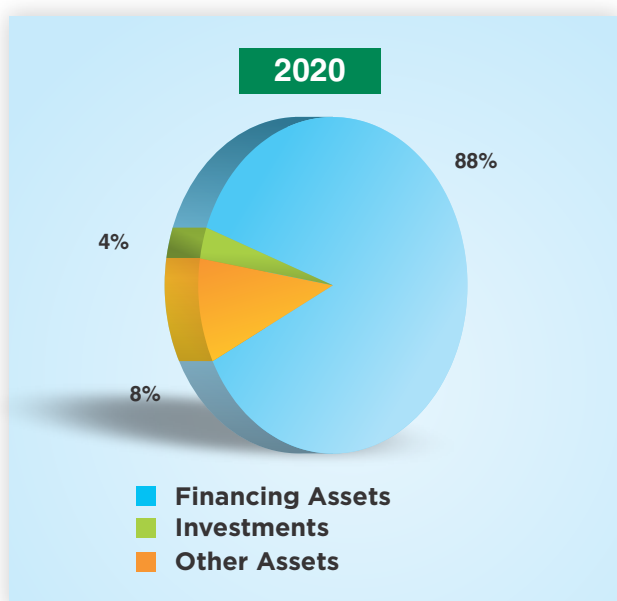
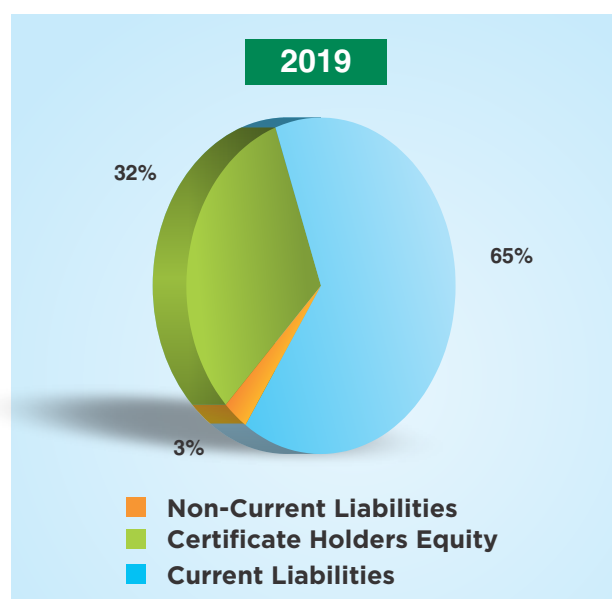
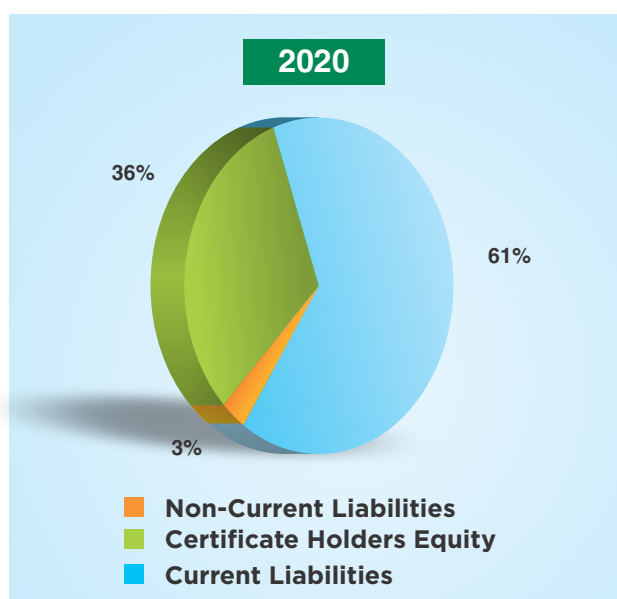


■ Market Value Per Modaraba Certificate

■ Book Value Per Modaraba Certificate

Balance Sheet Composition

Equity & Liabilities



Horizontal Analysis

BALANCE SHEET (%)

	2020	2019	2018	2017	2016	2015
ASSETS						
NON-CURRENT ASSETS						
Lease financing assets	(37.22)	(5.63)	18.92	(10.43)	(11.30)	7.10
Fixed assets in own use	57.98	45.83	145.16	42.91	(0.41)	(22.91)
Intangible assets	12.02	(42.30)	765.60	(88.45)	(53.50)	(55.91)
Diminishing musharaka financing	(4.61)	34.03	26.25	46.39	76.02	67.01
Long term advances and deposits	0.99	(0.74)	32.76	37.55	(3.14)	(42.71)
CURRENT ASSETS						
Investments	(31.23)	(11.24)	(3.07)	28.45	2.62	1.02
Current portion of diminishing musharaka financing	11.00	9.09	37.09	32.22	77.16	57.33
Lease financing installments receivables	(92.01)	487.31	99.06	21.90	(75.52)	(63.68)
Diminishing Musharaka financing installments receivables	(93.76)	1,065.07	876.87	(62.79)	25.80	
Advances and prepayments	13.70	(15.03)	(40.44)	(29.22)	205.30	(57.77)
Other receivables	(36.55)	(25.86)	41.69	37.97	(45.30)	(20.39)
Income tax refundable	12.17	20.54	27.73	11.99	34.29	89.00
Cash and bank balances	233.06	(84.22)	66.89	(22.52)	(49.10)	31.36
TOTAL ASSETS	(10.89)	8.22	22.86	16.84	12.00	18.55
EQUITY & LIABILITIES						
CAPITAL & RESERVES						
Authorized Certificate capital	0.00	0.00	0.00	0.00	0.00	0.00
Issued, subscribed & paid(up capital	0.00	0.00	0.00	0.00	0.00	0.00
Reserves	1.40	2.85	3.75	4.08	3.52	4.06
Certificate holders' equity	1.00	2.02	2.62	2.82	2.40	2.74
SURPLUS ON REVALUATION OF INVESTMENTS	(30.44)	5.94	0.21	118.62	(24.43)	(33.97)
NON(CURRENT LIABILITIES						
Security deposits against lease financing assets	(23.03)	(27.46)	72.08	(20.49)	(11.43)	18.34
CURRENT LIABILITIES						
Certificates of investment (musharaka)	(14.14)	9.94	42.91	28.28	29.27	53.88
Security deposits (current portion	(15.51)	144.33	(41.05)	8.67	24.84	(7.31)
Unearned lease financing and diminishing musharaka installments	(58.98)	(72.33)	158.94	133.90	(19.38)	226.70
Advance lease financing and diminishing musharaka installments	(52.94)	23.39	15.84	(1.14)	38.28	(49.12)
Trade and other payables	(1.68)	12.58	16.51	29.76	10.57	38.49
Unclaimed profit distributions	12.33	13.39	6.33	13.40	9.61	8.35
Proposed profit distribution	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL EQUITY & LIABILITIES	(10.89)	8.22	22.86	16.84	12.00	18.55

PROFIT & LOSS ACCOUNT (%)

	2020	2019	2018	2017	2016	2015
Lease financing income	6.82	(6.73)	(11.85)	(12.98)	(12.39)	(3.97)
Profit on diminishing musharaka	25.98	84.61	22.31	43.07	45.79	64.81
Profit on Murabaha finance	0.00	0.00	0.00	0.00	0.00	0.00
Administrative expenses	16.42	24.86	13.02	9.74	8.06	5.50
Other Income	29.01	15.88	10.15	(1.72)	(17.73)	2.58
Other charges	0.00	0.00	0.00	0.00	0.00	0.00
Financial charges	40.83	105.62	30.14	30.73	11.78	21.09
Modaraba company's management fee	(0.94)	10.40	(4.94)	2.00	(2.78)	7.26
Profit for the year	(0.94)	10.40	(4.94)	2.11	(2.67)	7.38

Vertical Analysis

BALANCE SHEET (%)

	2020	2019	2018	2017	2016	2015
ASSETS						
NON-CURRENT ASSETS						
Lease financing assets	17.35	24.63	28.24	29.18	38.06	48.06
Fixed assets in own use	0.70	0.40	0.29	0.15	0.12	0.14
Intangible assets	0.0020	0.0016	0.0030	0.0004	0.0043	0.0103
Diminishing musharaka financing	43.20	40.36	32.59	31.71	25.31	16.11
Long term advances and deposits	0.01	0.01	0.01	0.01	0.01	0.01
CURRENT ASSETS						
Investments	7.75	10.04	12.25	15.52	14.12	15.41
Current portion of diminishing musharaka financing	27.44	22.03	21.85	19.58	17.30	10.94
Lease financing installments receivables	0.01	0.11	0.02	0.01	0.01	0.06
Diminishing Musharaka financing installments receivables	0.03	0.40	0.04	0.00	0.01	0.01
Advances and prepayments	0.04	0.04	0.04	0.09	0.15	0.06
Other receivables	0.21	0.30	0.44	0.38	0.32	0.66
Income tax refundable	1.55	1.23	1.11	1.06	1.11	0.93
Cash and bank balances	1.70	0.46	3.12	2.30	3.47	7.63
TOTAL ASSETS	100.00	100.00	100.00	100.00	100.00	100.00
EQUITY & LIABILITIES						
CAPITAL & RESERVES						
Authorized Certificate capital	11.10	9.89	10.70	13.15	15.36	17.21
Issued, subscribed & paid-up capital	10.17	9.06	9.81	12.05	14.08	15.77
Reserves	25.61	22.51	23.68	28.04	31.48	34.06
Certificate holders' equity	35.78	31.57	33.49	40.09	45.56	49.83
SURPLUS ON REVALUATION OF INVESTMENTS	0.88	1.12	1.15	1.41	0.75	1.11
NON-CURRENT LIABILITIES						
Security deposits against lease financing assets	2.34	2.71	4.05	2.89	4.25	5.37
CURRENT LIABILITIES						
Certificates of investment (musharaka)	53.26	55.28	54.41	46.78	42.61	36.91
Security deposits - current portion	1.25	1.32	0.59	1.22	1.31	1.18
Unearned lease financing and diminishing musharaka installments	0.07	0.16	0.62	0.29	0.15	0.20
Advance lease financing and diminishing musharaka installments	0.15	0.29	0.25	0.27	0.32	0.26
Trade and other payables	5.60	5.07	4.88	5.14	4.63	4.69
Taxation	-	-	-	-	0.039	0.044
Unclaimed profit distributions	0.44	0.35	0.33	0.38	0.39	0.40
Profit payable on murabaha financing	-	0.11	0.00	0.05	-	-
Advance against murabaha	-	2.02	0.24	1.48	-	-
Total Current Liabilities	63.35	67.31	65.37	58.50	53.69	49.06
TOTAL EQUITY & LIABILITIES	100.00	100.00	100.00	100.00	100.00	100.00

PROFIT & LOSS ACCOUNT (%)

	2020	2019	2018	2017	2016	2015
Income from lease financing	15.01	17.29	27.49	33.93	43.19	50.40
Profit on diminishing musharaka financing	71.71	70.04	56.28	50.05	38.75	27.17
Other Income	13.28	12.67	16.22	16.02	18.05	22.43
Total Income	100.00	100.00	100.00	100.00	100.00	100.00
Administrative expenses	11.50	12.15	14.44	13.89	14.02	13.27
Other charges	-	-	0.12	-	-	-
Financial charges	59.96	52.39	37.80	31.59	26.77	24.48
Modaraba Management Company's remuneration	2.85	3.55	4.76	5.45	5.92	6.23
Sales tax on Modaraba Management Company's remuneration	0.37	0.46	0.62	0.71	0.83	0.93
Provision for Sindh Workers' Welfare Fund	0.51	0.63	0.85	0.97	1.05	1.10
Profit for the year	24.81	30.82	41.41	47.39	51.41	53.99
Total	100.00	100.00	100.00	100.00	100.00	100.00

Comments on Financial Ratios

Profitability Ratios

- Gross profit ratio is 46.68% which is improved as compared to last year.
- The profit after tax ratio is 14.39% as compared to 15.79% in prior year.
- Cost to income ratio is 38.47% which is increased as compared to previous years.
- Return on equity is 8.93% as compared to 9.10% in prior year.
- Gross spread ratio is increased than the previous years.
- Return on capital employed is slightly decreased than previous years.
- EBITDA margin to sale ratio is 23.22% as compared to 24.40% in prior year.
- Income to expense ratio is 1.10 as compared to 1.13 prior year.

Liquidity Ratios

- Cash to current liabilities is 3% in 2020 as compared to 1% in prior year.
- Advance to deposit ratio slightly increased.
- Current ratio is slightly decreased due to Certificate of Investment (Musharaka) has decreased.
- Cash flow from operations is -55% due to the limitation of presenting cash generated from deposit i.e. Certificate of Investment (Musharaka) in operating activities as stipulated by IFRS.

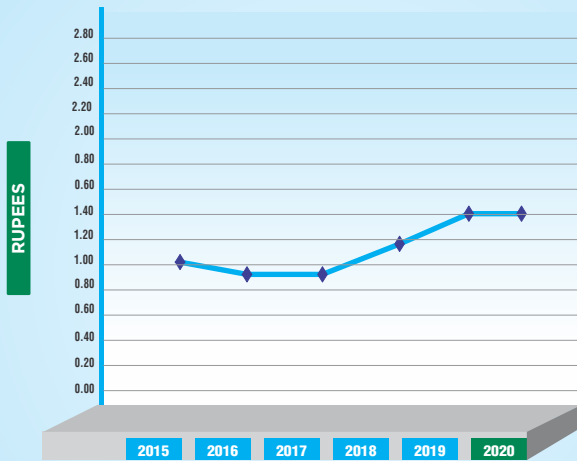
Activity / Turnover Ratios

- Total asset turnover ratio is 23.92% in 2020 as compared to 19.38% in prior year is mainly due to slightly increase assets of the Modaraba.
- Earning assets to total assets is 95.74% as compared to 97.06% in prior year due net addition in earning assets.

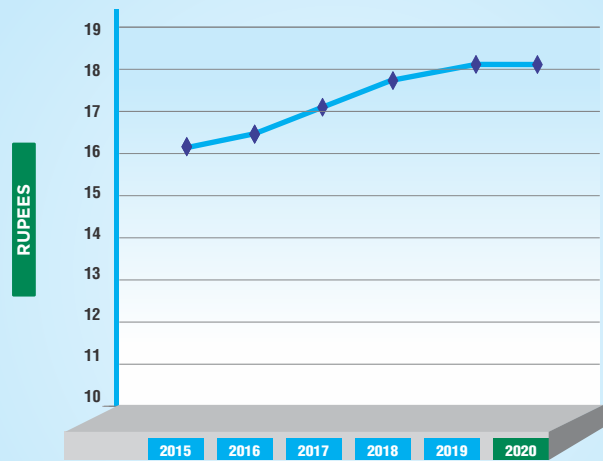
Investment / Market Ratios

- Earnings per share has slightly decreased from Rs. 1.59 to Rs. 1.57 in 2020 as a result of the decrease in net profit ratio.
- P/E ratio was reflected as 6.34 as compared to last year of 5.92 due to increase in market value and slightly decrease in earning per share.
- Dividend yield ratio declined from 14.88% to 14.07% this year due to increase in market value per certificate.
- Book value per certificate has increased from Rs.17.42 to Rs.17.59 in 2020 due to the increase in total equity.
- Dividend payout ratio and cash dividend per Modaraba certificate has been slightly increased due to decline in market value and slightly increase of dividend per share.
- Market value per certificate of Modaraba has been increased due to increasing trend in capital market.
- *Dividend coverage ratio has remained between 1.12 to 1.48 over the period of six years.

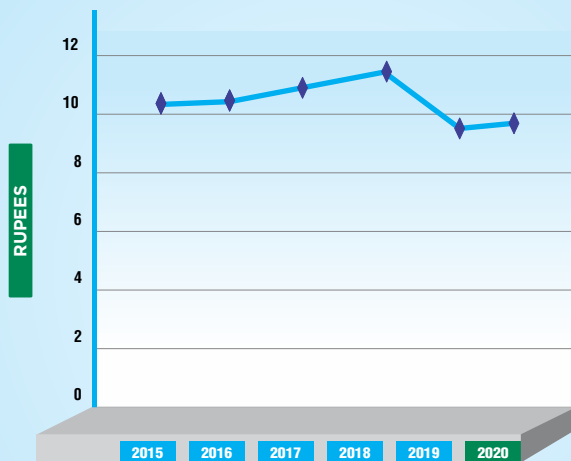
Dividend Per Certificate



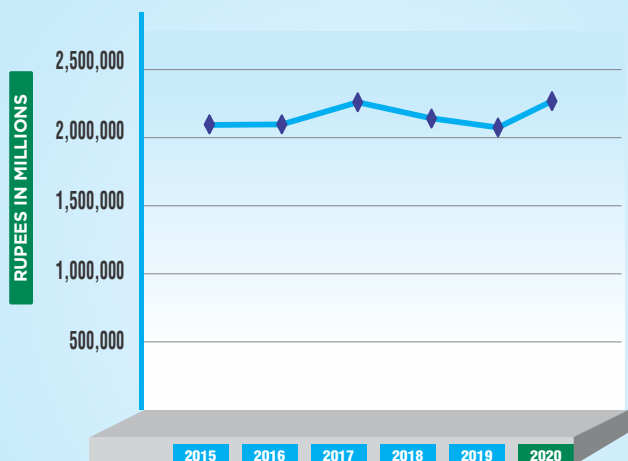
Net Asset Per Certificate



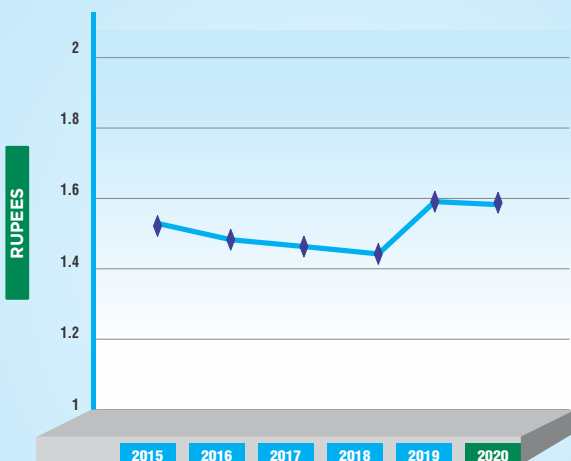
Market Value Per Certificate



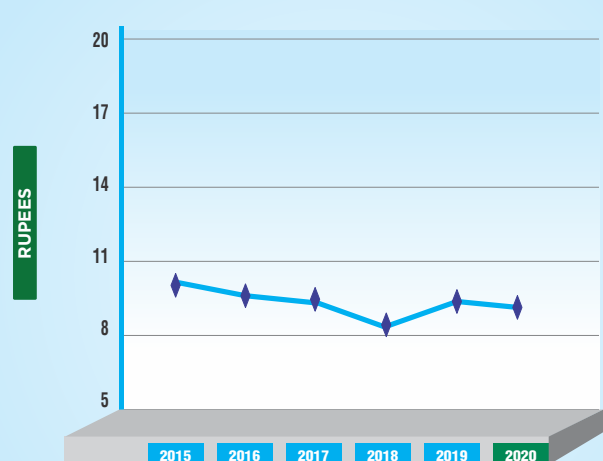
Market Capitalization



Earning per Certificate of Rs. 5/- each



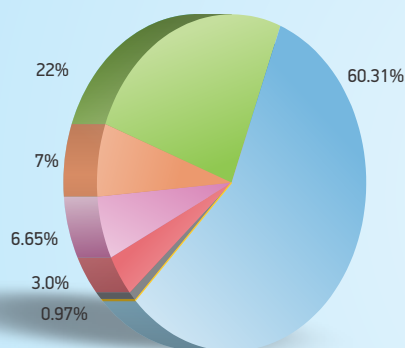
Return on Capital Employed



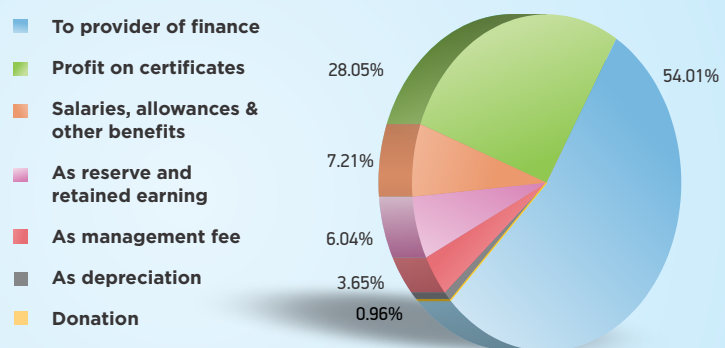
Statement of Value Added

	2020		2019	
	Rupees	(%)	Rupees	(%)
Value Added				
Revenue from operations	1,106,824,492		905,832,867	
Other income / charges	169,560,968		131,430,541	
Value added by financial services	1,276,385,460		1,037,263,408	
Operating expense	12,893,323		31,014,403	
	1,263,492,137	100	1,006,249,005	100
Value Allocated				
To Employees				
Salaries, allowances & other benefits	82,326,025	7%	72,451,042	7.21 %
To Provider of Finance				
As profit on Certificate of Investment (Musharaka) & Financial charges on Murabaha Financing	765,344,450	60.31%	543,465,072	54.01%
To Modarib				
As management fee	36,431,341	3%	36,776,702	3.65%
To certificate holders				
Profit on certificates	282,240,000	22%	282,240,000	28.05%
To Society				
Donation	840,000	0.07%	840,000	0.08%
To expansion & growth				
As Depreciation	12,302,304	0.97%	9,707,701	0.96%
As Reserve and Retained earning	84,008,017	6.65%	60,768,488	6.04%
	1,263,492,137	100%	1,006,249,005	100%

Value Allocated 2020



Value Allocated 2019



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

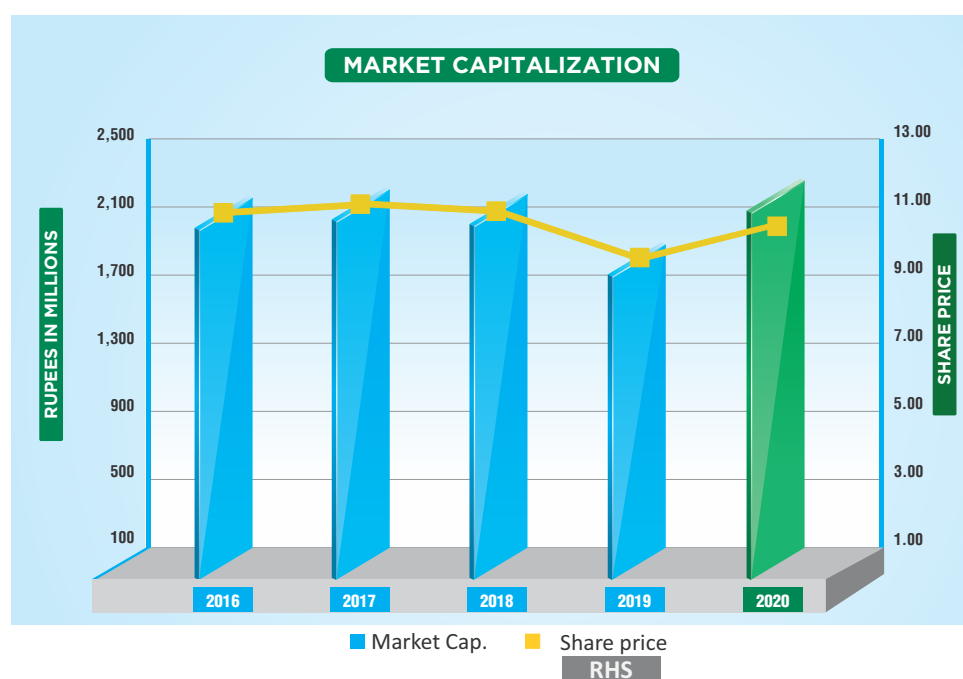
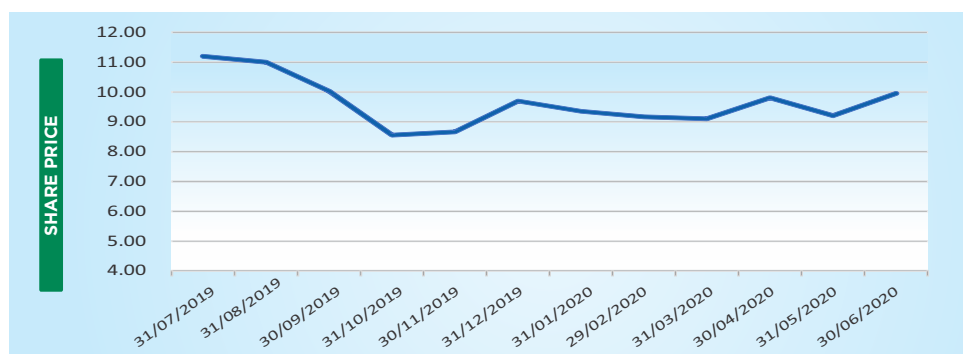
Government policies could be perceived as positive or negative for business. The policies may lead to changes in inflation & interest rates, which may affect stock prices.

Investor sentiments / confidence

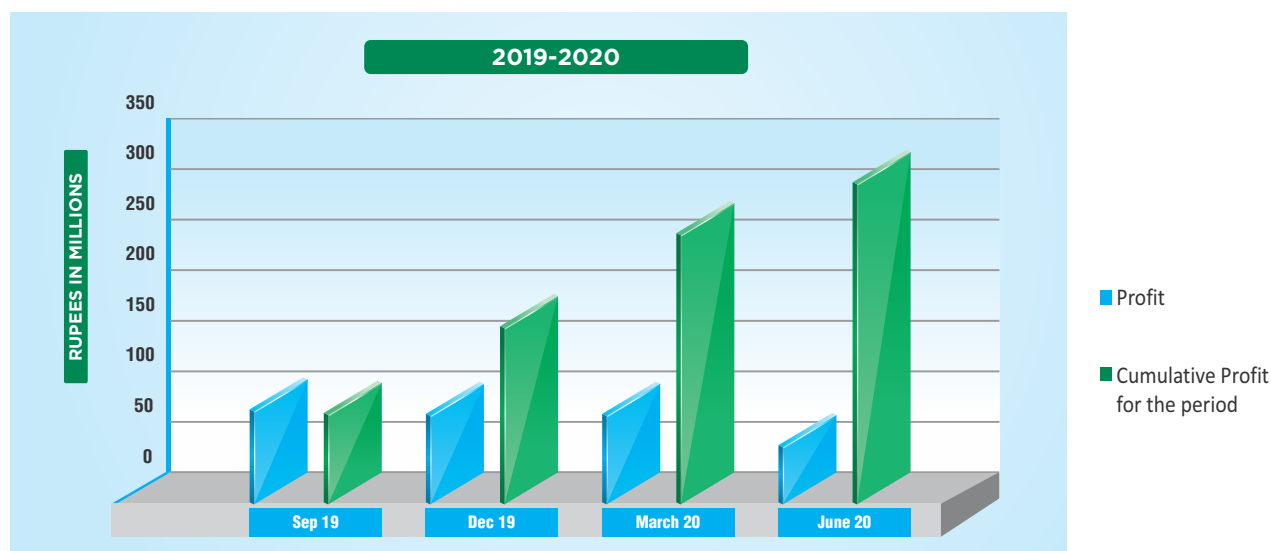
Positive economic reforms can attract investors.

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 2020 to June 2020	from April 2019 to June 2019	Variance	From Jan 2020 to Mar 2020	from Jan 2019 to Mar 2019	Variance
	Rupees			Rupees		
Income from lease financing	48,848,495	51,378,496	-4.92%	58,896,841	33,928,869	73.59%
Income on diminishing musharaka financing	156,129,556	219,093,159	-28.74%	251,310,230	214,939,412	16.92%
Administrative expenses	(37,353,099)	(30,516,392)	22.40%	(33,805,790)	(30,000,254)	12.69%
Other income	36,647,878	31,942,683	14.73%	53,090,045	39,489,160	34.44%
Financial charges	(145,637,327)	(170,945,273)	-14.80%	(224,069,959)	(155,266,651)	44.31%
Profit after taxation	50,969,497	80,935,581	-37.02%	91,638,578	89,612,481	2.26%

	from Oct 2019 to Dec 2019	from Oct 2018 to Dec 2018	Variance	From Jul 2019 to Sep 2019	from Jul 2018 to Sept 2018	Variance
	Rupees			Rupees		
Income from lease financing	36,783,731	49,538,898	-25.75%	47,016,007	44,466,506	5.73%
Income on diminishing musharaka financing	255,968,754	176,292,278	45.20%	242,923,234	124,039,321	95.84%
Administrative expenses	(40,974,598)	(36,256,398)	13.01%	(35,025,563)	(29,258,269)	19.71%
Other income	43,822,581	31,538,287	38.95%	36,000,464	28,460,411	26.49%
Financial charges	(203,033,133)	(125,684,427)	61.54%	(191,014,047)	(91,568,721)	108.60%
Profit after taxation	88,242,912	83,262,017	5.98%	86,839,156	66,184,803	31.21%

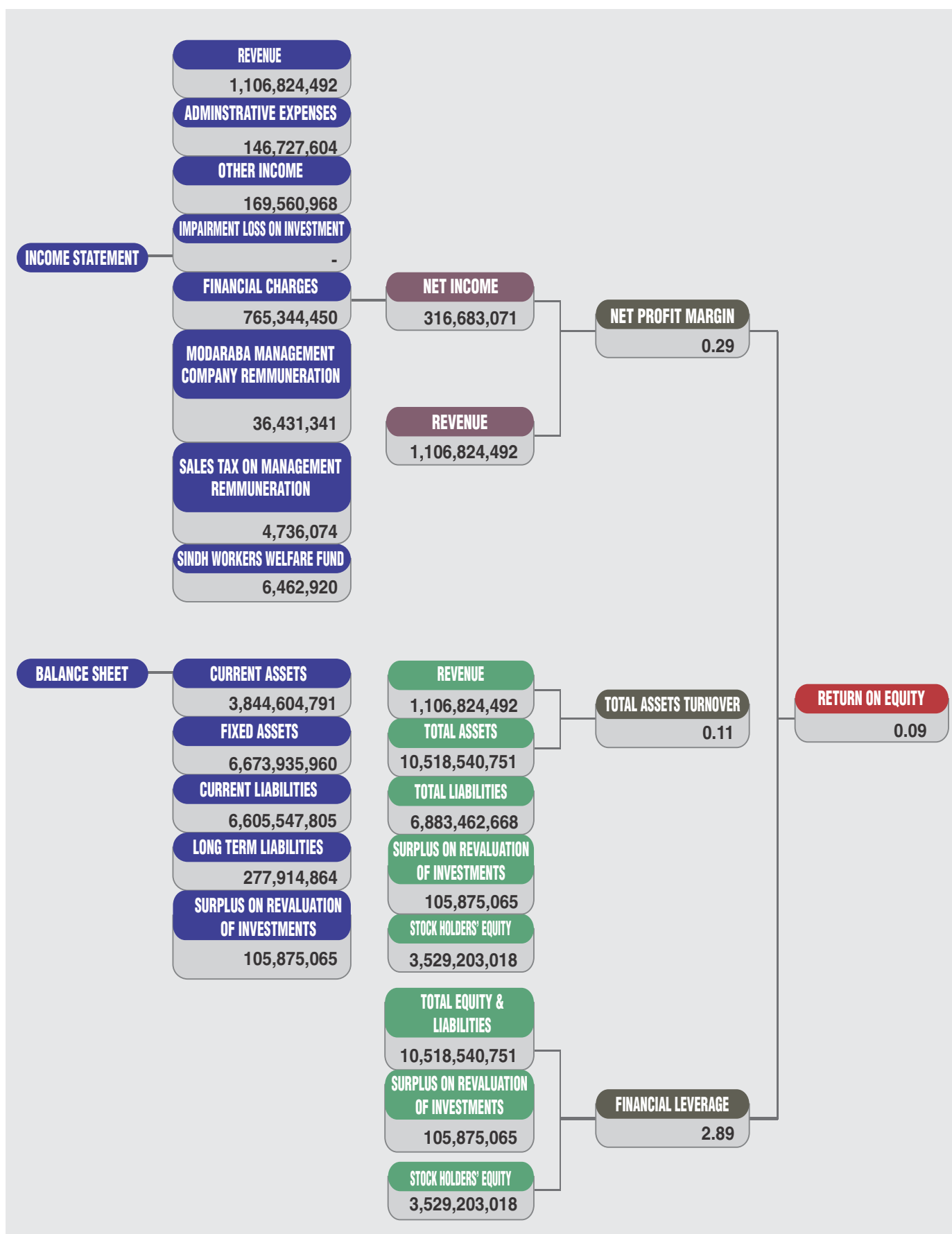
Explanation of Negative Change in the Performance Against Prior Years

- 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.
- 11% decline in Balance Sheet size due to low disbursement.
- 10% decline in total Financing Assets due to low disbursement.
- 14% decline in Certificate of Investment (Musharaka) due to repayments.

Rationale for major Capital Expenditure made during the year 2019-20

- During the year FHM has spent approximately Rs.5.3 million on the purchase of vehicles as per the staff entitlement policy.
- Organization is planning to set aside budget for investment in cloud computing and focused on the accelerating cloud related advancement.

Dupont Analysis



Statement of Cash Flows - Direct Method

	2020	2019
	-----Rupees-----	
CASH FLOW FROM OEPRATING ACTIVITIES		
Installments received against lease financing and Diminishing Musharaka Financing	5,151,185,946	4,889,159,098
Net payments made against lease financing and Diminishing Musharaka Financing	(3,090,663,751)	(5,229,098,004)
Working capital movement	(107,655,355)	(74,262,247)
Financial charges paid	(724,210,275)	(491,805,883)
Gratuity Paid	(2,202,973)	-
Tax paid	(14,065,533)	(23,629,561)
Net cash flow from operating activities	1,212,388,059	(929,636,597)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of assets in own use	(10,180,631)	(24,407,886)
Purchase of intangible assets	(141,250)	-
Purchase of investments	(5,000,000)	(880,549,388)
Payment of Lease rentals	(12,660,468)	
Proceeds from sale of assets in own use	258,820	1,433,382
Proceeds from sale / maturity of investments	315,847,897	1,040,144,417
Dividends received	15,177,576	15,420,791
Net cash generated from investing activities	303,301,944	152,041,316
CASH FLOW FROM FINANCING ACTIVITIES		
Profit distribution paid	(277,496,016)	(247,456,447)
Proceeds from murabaha financing	100,000,000	225,000,000
Profit paid on murabaha financing	(25,662,777)	(1,409,178)
Payment on maturity of murabaha financing	(325,000,000)	(25,000,000)
Certificates of investment (musharaka)	(869,546,164)	556,217,106
Net cash (outflow) / inflow from financing activities	(1,397,704,957)	507,351,481
 Net increase / (decrease) in cash and cash equivalents during the year	 117,985,046	 (270,243,800)
 Cash and cash equivalents at beginning of the year	 50,624,704	 320,868,504
 Cash and cash equivalents at end of the year	 168,609,750	 50,624,704

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 2020

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, 2020 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.
- Lease Financing Transactions were executed on the basis of Ijarah Muntahia Bittamleek as described and allowed by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIF) Shari'ah Standard No. 9.
- 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.
- The Modaraba leadership and the top management have a good knowledge about Islamic modes of finance and Modaraba. Moreover, orientation trainings for fresh employees and refresher workshops for entire staff are executed frequently. During the year interactive training sessions exclusively for staff members belonging to different cities were conducted. Due to Covid19 the one session was conducted on Zoom and the staff joined from their residences. The topics covered in these sessions were: Sources of Sharia and how the Islamic rulings are derived from them, Islamic business model, Concept of Modaraba, Legal status of a Modaraba company and how it works, Shari'ah compliance of financing products: DM and Leasing (Ijarah).

Observations & Recommendations

- It was observed that FHM has transferred over its assets portfolio from Conventional Insurance to Takaful up to 93% of total customer base. However, it is urged to further improve in order to ensure remaining portfolio be converted to Takaful to safeguard the risk of assets of the pool.
- It has been recommended as a continuous improvement approach to review and improve the current sharia checklists and SOPs and the Modaraba management has accepted it.
- It is also recommended that FHM should increase the frequency of the regular trainings of the staff of Main Office and branches related to Shari'ah compliance regarding financing and treasury functions.
- FHM is also required to improve the system based modules of DM and Ijarah to be intact with the changes and requirements of Shari'ah Standards.
- All investment were made in Shari'ah compliant shares however Dividend received from such 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 Jawreeeq to accomplish his cherished tasks, all good deeds are from Allah and weaknesses are from our side that need to be forgiven.

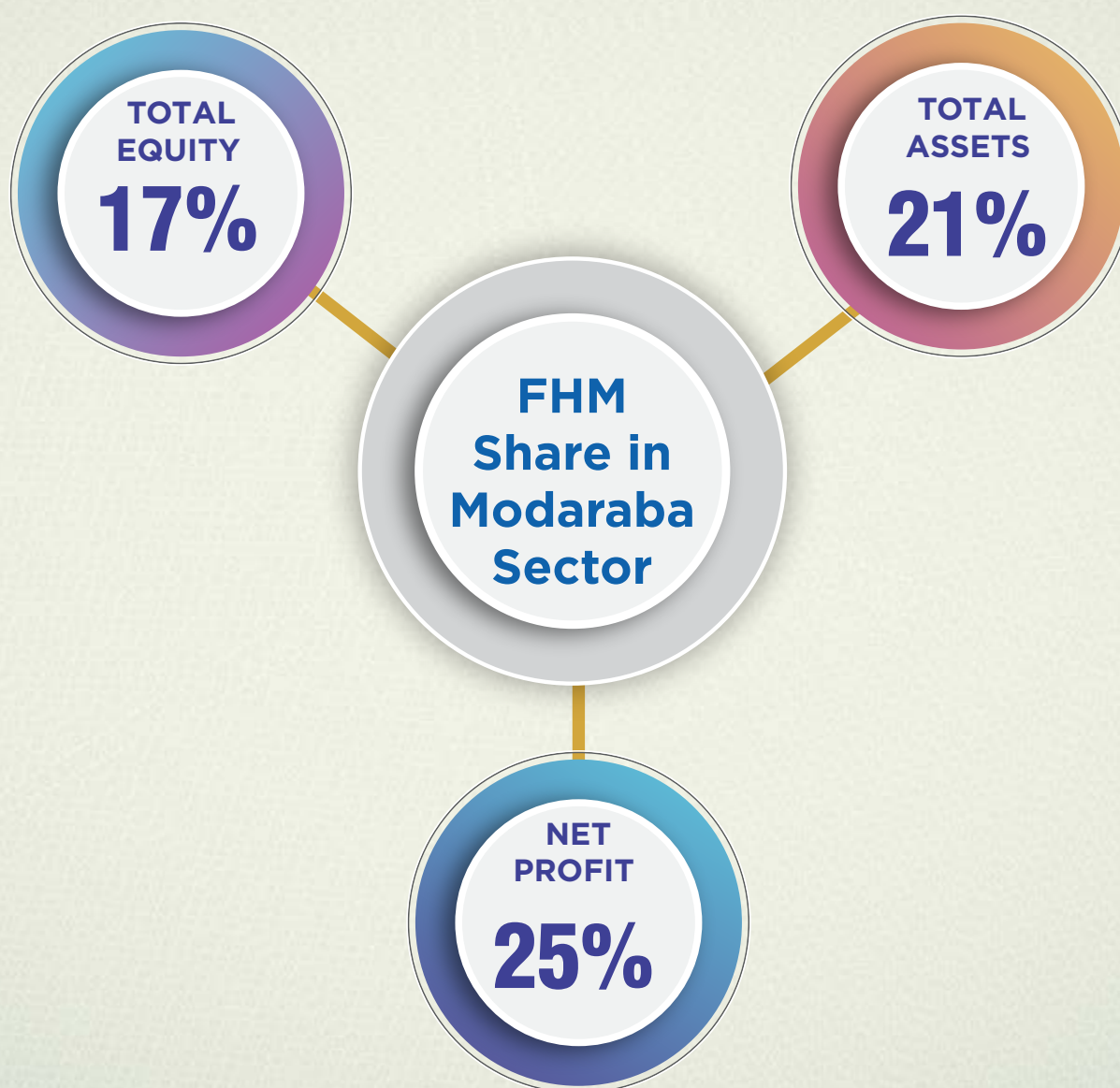
Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.



Mufti Faisal Ahmed
Shari'ah Advisor

Dated: 6th Muharram Ul Haram 1442 Hijri/ August 26, 2020

**SHARE OF FIRST HABIB MODARABA WITHIN THE
MODARABA SECTOR OF PAKISTAN
AS ON JUNE 2019**



SOURCE: Year Book of NBF1 & Modaraba Association of Pakistan of 2019

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE - YEAR ENDED JUNE 30, 2020

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

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

Male	5
Female	1

- The composition of board is as follows:

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

- The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this company.
- The company has prepared a Code of Conduct and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
- The board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. The Board has ensured that complete record of particulars of the significant policies along with their date of approval or updating is maintained by the company;
- All the powers of the board have been duly exercised and decisions on relevant matters have been taken by board/ shareholders as empowered by the relevant provisions of the Act and these Regulations.
- The meetings of the board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose. The board has complied with the requirements of Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of board.
- The board of directors have a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations.
- Directors status of compliance with necessary requirements of Directors Training program are as follows:

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

- 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.
- 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. Sarmad Bin Wasim

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

Muhammad Shoaib Ibrahim
Chief Executive Officer
Karachi; October 01, 2020

Syed Rasheed Akhtar
Chairman



Building a better
working world

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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 2020 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 Company's 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 Company's 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's statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Modaraba Company's corporate governance procedures and risks.

The Regulations require the Modaraba Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval, the Modaraba's 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 Company's compliance, in all material respects, with the requirements contained in the Regulations as applicable to the Modaraba for the year ended 30 June 2020.

Further, we highlight below instance of non-compliance with the requirement of the Listed Companies (Code of Corporate Governance) Regulations, 2019 as reflected in the paragraph reference where it is stated in the Statement of Compliance:

Reference	Description
18	The position of Chief Financial Officer and Company Secretary is currently held by the same individual.

EY Ford Rhodes
Chartered Accountants
Place: Karachi
Date: 01 October 2020

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 26, 2019 in order to review performance of FHM for the year ended June 30, 2019.

The following were present from FHM:

Mr. Muhammad Shoaib	-	Chief Executive Officer
Syed Rasheed Akhtar	-	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 2018-19 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 2019-2020 given in ARM	Achievement during 2019-2020
Enhance efficiency, reduce cost and improve customer service.	Measures have been taken by the management to enhance the efficiency and better customer services.
To add quality customer & enhance market outreach.	The client base has further strengthen by financial healthy entities with high liquidity ratio.
Use good located Bank's branches to enhance the financing portfolio.	In order to penetrate the FHM products into market.
Improved profitability and good dividend distribution in coming years.	Modaraba has declared 28% cash dividend which is highest dividend in the history of the Modaraba.

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, 2019.

Certificate Holders were raised following questions during the meeting.

- What will be the future profitability of Modaraba in current circumstances?
- Why the administrative expense exceed as compared to previous year?
- What are the major sectors of investment?
- How is association with Habib Metro Bank fruit full in expanding the business of modaraba?
- What is the average landing rate of FHM?
- 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. 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.

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, 2020.

The emergence of COVID-19 has caused major disruptions to economic activity around the world including Pakistan. The year 2020 has been a challenging year for the world. The COVID-19 pandemic which has spread rapidly brought severe shocks to global economy and human health. It created uncertainties on different economic front and is expected to have a lasting effect on the global economy. Presently, the economic growth has slowed down globally and it appears a moderate pace of expansion is unlikely to achieve in the near future. The pandemic has also taken a devastating blow on Pakistan's socioeconomic fabric and public health system. The country's economy demonstrated its worst performance posted negative growth in FY 2019-20.

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. I am proud to report that despite off very difficult operating environment and turbulent time which remain throughout the year, the FHM has performed reasonably well and produced better results. The first half of the year was marred with several economic and business challenges and 2nd half was scuffled with outbreak of pandemic. The pandemic and the ensuing lockdown impacted our operations and our overall performance for the year. Due to low disbursement in last quarter, the overall financing and assets size was slightly diluted. However, our competent team of FHM managed the profitability was remained similar to last year.

Our day-to-day operations were affected since the beginning of the lockdown in mid-March. Our operation had experienced slowdown in monthly recovery of financial facility and also felt pressure on our credit portfolios. During the said period Modaraba had received several requests on deferment and rescheduling of facility. Our relevant department and team members had gone through with merit of rescheduling requests and finalize the same after completing required formalities. Recovery of financing instalments remained most difficult area of business operation. Due to depressed business conditions and long period of lockdown, the liquidity and cash cycle of our customers were badly affected. However, with the dedicated efforts of our team the said critical segment was successfully managed and sufficient liquidity within the system was also maintained.

Resilience and positive attitude of team members coupled with agility to adapt to the "new normal" helped us to continue our operations without any interruptions in these challenges. Our priority was to ensure the health and safety of our committed workforce and our loyal customer-base that come from all segments of society. We implemented health and safety guidelines recommended by the relevant authorities and formulated a COVID-19 response guide outlining directive to follow when resuming operations in the lockdown period. Our branches and customer support officers ensured that our customers were not abandoned in their time of need. Our competent management and team members were able to be resilient during this crisis particularly owing to the strong foundations that is very much placed in within our system.

Due to sound financial base of FHM, rating agency of PACRA has again reaffirmed credit rating of AA+ for long term and A1+ for short term during the year. The AA+ rating of long term has been maintained by FHM since last 12 years. The continuous sound rating last more than a decade gives us great source of comfort and confidence. During the year, FHM has also secured different awards from reputable and prestigious forums. 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.

Allhamdulillah, Our Modaraba is proactively dealing with the current challenging business environment and also well focused on strategic changes to improve the future sustainability. During the difficult period, the Board remains fully responsive and has actively guided the Management. I am confident that the Management Insha'Allah, will further device necessary adjustments in the Modaraba's operations, financial management and growth strategy in current year. With

these spirited efforts, we hope that in the future it will allow us to deliver more value to our worthy customers and Modaraba Certificate Holders.

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 Akhtar

Chairman

September 23, 2020

چیرمین کا پیغام

محترم مضاربہ سرٹیفکیٹ ہولڈرز،

مجھے ۳۰ جون، ۲۰۲۰ کو ختم ہونے والے سال کے لئے فرسٹ حبیب مضاربہ (ایف ایچ ایم) کے امور کے بارے میں ہمارے قابل قدر سرٹیفکیٹ ہولڈرز کو رپورٹ پیش کرنے پر خوشی ہے۔

COVID-19 کے ظہور نے پاکستان سمیت دنیا بھر میں معاشی سرگرمیوں میں بڑی رکاوٹیں کھڑی کیں۔ سال ۲۰۲۰ دنیا کے لئے ایک چیلنجنگ / مشکل / کٹھن / دشوار سال رہا۔ COVID-19 وبائی بیماری جس نے تیزی سے پھیلتی ہوئی عالمی معیشت اور انسانی صحت کو شدید جھٹکے دیئے ہیں۔ اس نے مختلف معاشی محاذ پر غیر یقینی صورتحال پیدا کر دی اور توقع کی جاتی ہے کہ اس سے عالمی معیشت پر دیرپا اثر پڑے گا۔ اس وقت معاشی نمو عالمی سطح پر سست ہو گئی ہے اور ایسا لگتا ہے کہ مستقبل قریب میں اس میں وسعت کی ایک اعتدال کی رفتار کے حصول کا کوئی امکان نہیں ہے۔ اس وبائی مرض نے پاکستان کے معاشرتی تانے بانے اور صحت عامہ کے نظام پر بھی تباہ کن دھچکا لگا ہے۔ ملکی معیشت نے اپنی بدترین کارکردگی کا مظاہرہ کرتے ہوئے مالی سال ۲۰۱۹-۲۰۲۰ میں منفی بڑھوتری کی۔

اس قسم کے بحرانوں کے بارے میں فعال اور فیصلہ کن رد عمل ایک حقیقی قیادت کی عکاسی کرتے ہیں۔ ایف ایچ ایم نے مضاربہ سیکٹر میں طویل عرصے میں ایک اعلیٰ مقام حاصل کیا ہے اور غیر متوقع حالات میں مثالی کے طور پر رہنمائی کرنا ہماری ذمہ داری تھی۔ مجھے یہ بتانے پر فخر ہے کہ بہت سارے آپریٹنگ ماحول اور ہنگامہ خیز وقت کے باوجود جو سال بھر بانی رہا ہے، ایف ایچ ایم نے معقول کارکردگی کا مظاہرہ کیا ہے اور اس کے بہتر نتائج برآمد ہوئے ہیں۔ سال کے پہلے نصف حصے میں کئی معاشی اور کاروباری چیلنجوں کا سامنا کرنا پڑا تھا اور دوسرا نصف وبائی بیماری کے پھیل جانے کے ساتھ نمٹنا پڑا تھا۔ اس وبائی بیماری اور اس کے بعد آنے والے لاک ڈاؤن نے ہمارے آپریٹنگ سال بھر کی ہماری مجموعی کارکردگی کو متاثر کیا۔ پچھلی سہ ماہی میں کم ادائیگی کی وجہ سے، مجموعی طور پر مالی اعانت اور اثاثوں کا سائز قدرے کم ہو گیا تھا۔ تاہم، ایف ایچ ایم کی ہماری قابل ٹیم منافع بخش سال کی طرح برقرار رہی۔

مارچ کے وسط میں لاک ڈاؤن شروع ہونے کے بعد سے ہمارے روزمرہ کے آپریٹنگ متاثر ہوئے تھے۔ ہمارے آپریٹنگ میں مالی سہولت کی مابین بحالی میں سست روی کا سامنا کرنا پڑا تھا اور ہمارے کریڈٹ پورٹ فولیو پر بھی دباؤ محسوس کیا گیا تھا۔ مذکورہ مدت کے دوران مضاربہ کو موخر اور اس سہولت کی بحالی سے متعلق متعدد درخواستیں موصول ہوئیں۔ ہمارے متعلقہ حکم اور ٹیم کے ارکان نے ری شیڈول کی درخواستوں کو میرٹ سے گزرا چکے ہیں اور مطلوبہ رسمی کارروائیوں کو مکمل کرنے کے بعد اس کو حتمی شکل دیں گے۔ فنانسنگ قسطوں کی ریکوری کاروباری عمل کا سب سے مشکل کام رہا۔ خراب کاروباری حالات اور لاک ڈاؤن کے طویل عرصہ کی وجہ سے، ہمارے صارفین کی لیکویڈٹی اور کیش سائیکل بری طرح متاثر ہوئے تھے۔ تاہم، ہماری ٹیم کی سرشار کاوشوں کے ساتھ ہی یہ اہم طبقہ کامیابی کے ساتھ منتظم کیا گیا تھا اور اس نظام میں کافی لیکویڈٹی بھی برقرار رکھی گئی تھی۔

ٹیم کے ممبروں کی چلک اور مثبت رویہ کے ساتھ مل کر "نئے معمول" کو اپنانے کے ساتھ ہمیں ان چیلنجوں میں بغیر کسی مداخلت کے اپنے آپریٹنگ جاری رکھنے میں مدد ملی۔ ہماری ترجیح اور عزم تھا کہ ہم اپنے انفرادی قوت اور اپنے وفادار سٹریٹس کی صحت اور حفاظت کو یقینی بنائیں جو معاشرے کے تمام طبقات سے آئے ہیں۔ ہم نے متعلقہ حکام کی تجویز کردہ صحت اور حفاظت کے رہنما اصولوں پر عمل دیا۔ دیکھا اور لاک ڈاؤن کے دورانیے میں دوبارہ کام شروع کرتے وقت عمل پیرا ہونے کے لئے ایک COVID-19 جوابی گائیڈ تیار کیا۔ ہماری برانچز اور کسٹمر سپورٹ آفیسرز نے اس بات کو یقینی بنایا کہ ضرورت کے وقت ہمارے صارفین کو ترک نہیں کیا گیا۔ ہمارے قابل انتظامیہ اور ٹیم کے ممبران خاص طور پر مضبوط بنیادوں کی وجہ سے اس بحران کے دوران لچکدار بننے کے قابل تھے جو ہمارے نظام میں بہت زیادہ رکھی گئی ہیں۔

ایف ایچ ایم کی مستحکم مالی بنیاد کی وجہ سے، درجہ بندی کرنے والی ایجنسی پی اے سی آر اے (PACRA) (نئے سال کے دوران ایک بار پھر AA + اور مختصر مدت کے لئے A1 + کی کریڈٹ ریٹنگ کی تصدیق کر دی ہے۔ طویل مدتی کی AA + درجہ بندی گذشتہ ۱۲ سالوں سے ایف ایچ ایم نے برقرار رکھی ہے۔ ایک دہائی سے زیادہ عرصہ تک اس درجہ بندی کو برقرار رکھنا ہمیں سکون اور اعتماد کا بہت بڑا ذریعہ فراہم کرتی ہے۔ ایک سال کے دوران، ایف ایچ ایم نے معروف اور معتبر فورموں سے بھی مختلف ایوارڈز حاصل کیے ہیں۔ اب تک، ایف ایچ ایم نے بہترین کارکردگی، بہترین کارپوریٹ رپورٹ، بہترین کارپوریٹ انکشاف اور کارپوریٹ کی شان جیسے این بی ایف آئی اور مضاربہ ایسوسی ایشن، آئی سی اے پی اور آئی سی ایم اے پی، مینجمنٹ ایسوسی ایشن آف پاکستان، اور سیفا جو سارک کا ایک اعلیٰ ادارہ ہے سے متعدد ایوارڈ / تعریف اسناد حاصل کی ہیں۔

الحمد للہ، ہمارا مضاربہ موجودہ کٹھن کاروباری ماحول کے ساتھ فعال طور پر منہمک رہا ہے اور مستقبل کی پابنداری کو بہتر بنانے کے لئے حکمت عملی کی تبدیلیوں پر بھی پوری توجہ مرکوز کر رہی ہے۔ مشکل دور کے دوران، بورڈ مکمل طور پر جوہر رہتا ہے اور اس نے انتظامیہ کو فعال طور پر رہنمائی کی ہے۔ مجھے یقین ہے کہ انتظامیہ انشاء اللہ، موجودہ سال میں مضاربہ کے آپریٹنگ، مالی نظم و نسق اور بڑھوتری کی حکمت عملی میں ضروری سلجھاؤ کا سامان کرے گی۔ ان پر جوش کاوشوں کے ساتھ، ہم امید کرتے ہیں کہ مستقبل میں یہ ہمارے قابل صارفین اور مضاربہ سرٹیفکیٹ ہولڈرز کو زیادہ ویلیو فراہم کرنے کی سہولت فراہم کرے گا۔

آخر میں، میں اس مشکل وقت میں بورڈ آف ڈائریکٹرز کی مستقل حمایت، اسٹریٹجک رہنمائی اور حکمت عملی اور بے مثال شراکت کا اعتراف کرنا چاہتا ہوں۔ میں بورڈ کے ہر ممبر کی رہنمائی، قیمتی ان پٹ اور بورڈ کے اجلاسوں کے لئے اپنا قیمتی وقت دینے پر ان کا شکریہ بھی ادا کرتا ہوں۔

میں اپنے چیف ایگزیکٹو آفیسر، سینئر ایگزیکٹوز اور ایف ایچ ایم کے دیگر تمام عملے کے ممبروں کو بھی ان کی سخت محنت، لگن اور مرکوز کوششوں کے ذریعے بحرانوں کے اثرات کو مؤثر طریقے سے سنبھالنے اور ایف ایچ ایم کے تسلی بخش نتائج پیدا کرنے کے لئے ان کی تعریف کرنا چاہتا ہوں۔ میں ہمارے سرٹیفکیٹ ہولڈرز، کاروباری شراکت داروں اور دوسرے تمام قابل قدر اسٹیک ہولڈرز کی ان کی یقین اور ہماری تنظیم میں اعتماد کے لئے اپنی مخلصانہ تعریف کرتا ہوں۔ میں مضاربہ، سیکیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان، اسٹیٹ بینک آف پاکستان، پاکستان اسٹاک ایکسچینج، اور دیگر متعلقہ ریگولیٹری اداروں کے رجسٹرار کو ان کی مسلسل رہنمائی اور مدد کے لئے ان کا شکریہ ادا کرتا ہوں۔

تاریخ: ۲۳ ستمبر، ۲۰۲۰

سید رشید اختر

چیرمین

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, 2020.

	(Rupees)
Profit before management fee	364,313,406
Modaraba Management Company's remuneration	(36,431,341)
Services Sales Tax on Management Company's remuneration	(4,736,074)
Workers Welfare Fund	(6,462,920)
Profit before taxation	316,683,071
Taxation	-
Profit for the year	316,683,071
Unappropriated Profit b/f	84,299,217
Shortfall transferred to unappropriated profit during the year	(96,327)
Profit available for appropriation	400,885,961
Earning per Certificate of Rs. 5/- each	1.57

APPROPRIATIONS

Cash Dividend @28% (Re.1.40/- per certificate of Rs.5/- each)	282,240,000
Transfer to statutory reserve @5% of profit	15,834,154
Unappropriated profit c/f	102,811,807
	400,885,961

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, 2020.

Economic Review

The economy of Pakistan had passed through with very difficult time during the period of July-19 to June-20. At the beginning of the fiscal year there were several economic challenges which in fact had started at the start of calendar of 2019. The key issues were high trade and current account deficit, high inflation and rising interest rates, weakening of Pak rupees. In the 3rd quarter of year i.e., in January, 2020, the businesses were started picking up due to some positive news from economic front. With the controlled twin deficits, encouraging progress on FATF, stable outlook from the credit rating agencies and confidence provided by the IMF program, these were all positive news supporting in stabilizing of ailing economy in above period.

However, outbreak of COVID-19 which started in later part of 3rd quarter had brought all business activities standstill with unparalleled and unforeseen impact in our lives, economies, our societies and livelihoods.

The outbreak of COVID-19 has inflected an unprecedented global crisis taking a colossal impact on human lives and economic downturn particularly large impact on low income households. Consumption and services output were dropped noticeably due to lock down and restriction on mobility. The global trade activities were also contracted owing to weak consumer demand, downfall in cross border traveling and tourism including large disruption in supply chain at global level. Pakistan's economy, like global economy had also suffered and GDP was witnessed at negative 0.4% as compared to an earlier projected growth of 1.9%.

After the outbreak of COVID-19, The Government of Pakistan had also taken bold initiative to fight with COVID-19 and announced fiscal stimulus package of Rs.1.2 trillion to support the lower income group and manufacturing sector particularly export-based entities. The Government had also announced incentive package and concession for the construction industries to generate employment and support housing related industries. State Bank of Pakistan (SBP) also took several measures to support various segment of the economy during crucial time of pandemic dieses. These initiatives were rescheduling and deferment of borrowed facilities, reduction in policy rates from 13.25% to 7.25% and

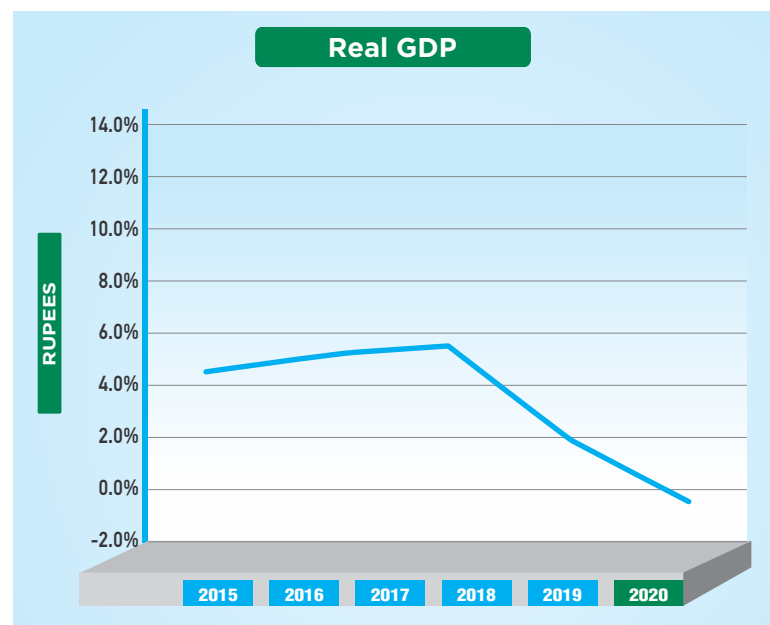
new concessional refinance facility for salary payments, funding to hospitals and for setting up new industrial units etc.,

The swift turnarounds on the path of macroeconomic adjustments have been witnessed through a broad-based adoption of stabilization measures and economic revival strategies and policies along with its timely implementation and required actions.

The initiatives and reforms supported well to minimize huge trade and current account deficit, steadying of foreign reserves and successful completion of IMF program and improvement in credit rating profile of the Country. Moreover, inflows received from multilateral sources during June also helped to reduce some of the pressure on the external account. Another development that lent support to the economy under these unprecedented times was the debt relief initiative taken by the G-20 countries. The inflation remained in manageable limit and reported around 8.20% in the month of August, after touching a high of 14.60%.

Despite positive indicators on economic front, the ultimate growth outcome will remain uncertain and largely dependent on the completely departure and wash out of deadly virus, favorable impact of policy measures adopted for combating the outbreak, improving financial conditions for stimulating market sentiment and attaining liquidity assistance through multilateral cooperation.

Pakistan's GDP growth outlook also remains in under pressure in the short term for FY2020-21. IMF forecasting the economic output to remain range bound at the upper limit of 1% for the FY 2021. Expected recovery in domestic investment witnessed due to reduction in discount rate, better move in global supply chain rebalancing and diversification of manufacturing together with improved consumer demand and inflation within the manageable boundaries are expected to provide much needed impulse to the economic growth.



Business Review of FHM

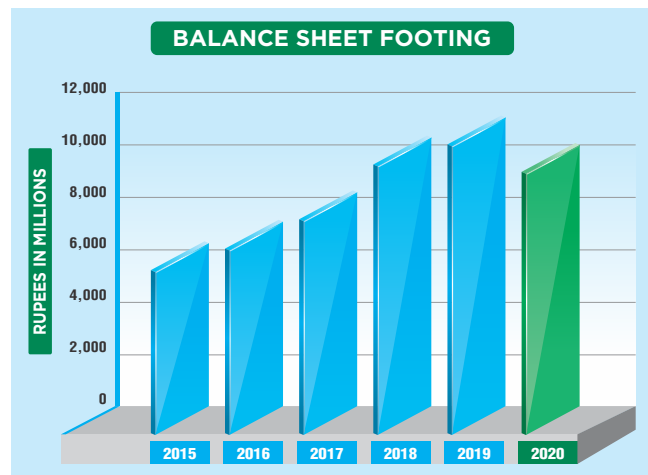
The year under review remained most difficult year in terms of various economic challenges along with an outbreak of COVID-19 which have changed all economic and businesses landscape globally. The country's economy demonstrated its worst performance posting a negative growth of 0.40% in FY 2019-20. The drop in domestic and global demand compounded the strain on the economy.

The pandemic has terribly slowed down overall economic and businesses activities, due to said impact, booking of financing assets were reduced, and disbursements of last quarter were the lowest of the whole year of disbursement. With monthly repayment of financing book and reduced assets booking, our balance sheet and assets size also reduced. Overall size of balance sheet was decreased from Rs.11.124 billion to Rs.9.913 billion. During the period, total financing of Rs.3.653 billion as compared to Rs.5.229 billion was made i.e., decreased by around 30%. However, we had managed to maintain our profitability due to high policy rate and better booking of financing assets.

Out of total financing, around 83% disbursement was made in Diminishing Musharakah financing as compared to 73% of last year. Percentage of our vehicle financing portfolio was 87% of total disbursements made during the year. This was also in line with our credit risk strategy for sound and quality assets portfolio.

Due to COVID-19, business conditions were remained very depressed and entities had faced severe cash flow and liquidity issues. This situation also diluted timely repayment of borrowed facilities by the businesses and we had also experienced issues of repayment of such facilities within our existing financing portfolio. After the issuance of circular of SBP & SECP regarding acceptance of deferment/rescheduling request of customer, we had received several requests of rescheduling of long-term financing facility in last quarter of year under review. Our credit department had gone through with these requests, made necessary assessment of merit of such requests and finalized processes with approval of Credit Committee and board of directors.

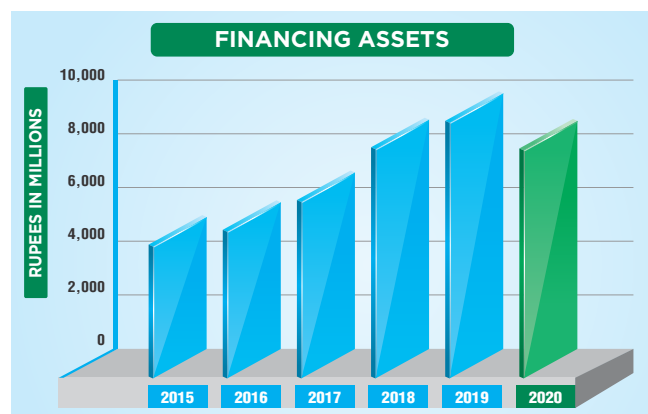
During the COVID and lockdown period, the health safety of our staff members remained most challenging area within our operations. During said period, we had implemented all required health safety measures and meticulously observed the same at our entire network. To continue smooth operations under such circumstances was very difficult particularly by adopting all precautionary measures. However, with the support of technology the remote work capabilities were enabled for all key staff members and most of the discussion and meeting were arranged through video conferencing. Business Continuity Plans was successfully tested during the pandemic period in all four cities where are branches are located. The Modaraba had significantly enhanced monitoring for all cyber security risks during these



times from its information security protocols. The remote work capabilities were enabled for all staff and related risk and control measures were assessed to make sure that they are fully protected using virtual private network ("VPN") connections.

Recovery of financing instalments remained most difficult area of our business operation during last quarter of financial year. Due to depressed business conditions and long period of lockdown, the liquidity and cash cycle of our customers were badly affected. Several customers of our financing portfolio were not able to settle their monthly payment of financing instalments on time during the lockdown period. However, our recovery team has made their hard efforts for collection of monthly repayments and successfully managed said recovery segments except from few customers who had severe liquidity issues within their businesses. We were quick to learn and adjust the change environment with the New Normal by making well informed, critical and timely operational decisions. COVID-19 has severely impacted almost every sector of economy. The persistent lockdown and continuous closure of several segment of economy have badly disturbed domestic supply chain which is having significant impact on trade and businesses.

We expect that financial year 2020-21 will be also a challenging year due to after effects of pandemic on trade and industry and on overall businesses. Furthermore, the drastic



cut in policy rate i.e., 6.25% in last 3-4 months will also reduce our earning on financing portfolio. Currently, the economic activities are now gradually picking up and according market statistics the sale of auto mobile and sale of products of other major sectors such as Cement, Steel and other allied products are also increasing. We expect that reduced lending rate will support to stimulate business activity in coming months. The landmark incentive package for construction industry will also support and boosts the allied industries and will generate employments.

The digital evolution is now also emphasizing the importance of assessing and adjusting existing functional structures for better operational efficiencies. Pakistan's financial sector continued to encounter diverse challenges emanating from the current economic downturn, increasing regulatory compliances, emerging cyber security threats, rising risks to asset quality and thread of rising in non-performing loan. Under the challenging and competitive operating environment your Modaraba is well focused on its long term multi-pronged strategy driven towards strengthening risk management tools, optimizing operating efficiencies and continuous advancement in technology.

In conclusion, we are closely monitoring the situation in present difficult time. Our most important task is to ensure safety of health of our staff members and best possible services to our worthy customers. Keeping in view of present circumstances, we will move forward in prudent manner with cautious approach and gear up all available resources to counter any operational and business contingencies.

Business Outlook & Future Strategy

The outbreak of COVID-19 has inflected an unprecedented global crisis taking a colossal impact on human lives and economic downturn particularly large impact on low income households. Consumption and services output were dropped noticeably due to lock down and restriction on mobility. The global trade activities were also contracted owing to weak consumer demand, downfall in cross border traveling and tourism including large disruption in supply chain at global level. Pakistan's economy, like global economy had also suffered and GDP growth was witnessed at very low level.

After the outbreak of COVID-19, The Government of Pakistan had also took bold initiative to fight with COVID-19 and announced fiscal stimulus packages to support the lower income group and manufacturing sector particularly export based entities. The Government had also announced incentive package and concession for the construction industries to

generate employment and support housing related industries.

State Bank of Pakistan (SBP) also took several measures to support various segment of the economy during crucial time of pandemic dieses. The initiatives and reforms supported well to minimize huge trade and current account deficit, steadying of foreign reserves and successful completion of IMF program and improvement in credit rating profile of the Country. Due to said initiatives, swift turnarounds on the path of macroeconomic adjustments have been witnessed through a broad-based adoption of stabilization measures.

We expect that financial year 2020-21 will be also a challenging year due to after effects of pandemic on trade and industry and on overall businesses. The ultimate growth outcome will remain uncertain and largely dependent on the completely departure and wash out of deadly virus, favorable impact of policy measures adopted for combating the outbreak, improving financial conditions for stimulating market sentiment and attaining liquidity assistance through multilateral cooperation.

The drastic cut in policy rate i.e., 6.25% in last 3-4 months will also reduce our earning on financing portfolio. Furthermore, we also expect pressure on liquidity of customer and weak paying ability on their financial obligations. Currently, the economic activities are gradually picking up and we expect that reduced lending rate will support to stimulate business activity in coming months. The landmark incentive package for construction industry will also support and boosts the allied industries and will generate employments.

Therefore, keeping in view of present economic and business circumstances due to COVID-19, we have devised our operational and business strategies by taking care of all impacts and distresses of Pandemic. Key points of our strategies would be as follows:

- Continuous adoption of prescribed health care measures for safety of staff members till the deadly virus completely washed out.
- Preserve liquidity to meet any business contingencies.
- Enhance technological advancement and broaden digital space for enhancement of operational efficiencies through virtual engagements of staff members.
- Frequent testing through unannounced drill of Business Continuity Plan and its further improvement.
- Further enhance tools of credit risk management, appraisals & evaluation of credit proposals.

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 contracts in financial transactions that provide for different risks and return profile.

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.

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

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, 2020 is also attached with annual report.

Corporate Social Responsibility

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.

The Board of Directors and Audit Committee

The following changes have been taken place within Board of Directors of the Habib Metropolitan Modaraba Management Company (Private) Limited (the Company), the management Company of First Habib Modaraba since the Directors' report for the year ended June 30, 2019.

- Mr. Wazir Mumtaz Ahmed has resigned from the Board of Directors and the Audit Committee.
- Two new directors have been appointed within the Board i.e. Mr. Usman Nurul Abedin and Ms. Irum Saba.
- Mr. Saeed ud din Khan has become member of the Audit Committee.
- The new directors are having very diversified and rich experience of financial local and international market particularly Islamic Banking, Trade Finance and Investment Banking. The Board welcome all new directors and hopeful that FHM will be greatly benefited with professional experience and expertise of newly inducted directors.
- In order to comply the mandatory requirement of Code of Corporate Governance 2019, Ms. Irum Saba has been appointment as Female Director on the Board.

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, 2020 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.
- 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.
- 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.
- 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, except those mentioned in the statement of compliance with code of corporate governance.

- 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, 2020 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, 2019 are Rs. 57.709 million and Rs.27.627 million respectively.

Composition of the Board

The composition of the Board of Directors of the Company as on June 30, 2020 is as follows:

- The total number of Directors are Six as per the following:
 - ◆ Male: 5
 - ◆ Female: 1
- 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, Five 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	5	4	1
Mr. Muhammad Shoaib Ibrahim	5	NA	NA
Mr. Wazir Mumtaz Ahmed	2	1	1
Mr. Mohammad Shams Izhar	5	4	1
Mr. Saeed uddin Khan	5	3	NA
Mr. Usman Nurul Abedin	2	NA	NA
Ms. Irum Saba	-	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, 2021, 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 23, 2020

Syed Rasheed Akhtar
Director

حاضری برائے بورڈ میٹنگز

سال کے دوران، بورڈ کے پانچ اجلاس، آڈٹ کمیٹی کے چار اجلاس اور ایک ہیومن ریسورس کمیٹی کا اجلاس ہوا۔ ہر ڈائریکٹر کی حاضری کچھ درج ذیل تھی: ڈائریکٹرز کے نام بورڈ کے ڈائریکٹر آڈٹ کمیٹی آرمیڈسید رشید اختر ۵۴۱ جناب محمد شعیب ابراہیم ۵۴۵ NANA جناب وزیر ممتاز احمد ۲۱۱ جناب محمد شمس اظہار ۵۴۱ جناب سعید الدین خان ۵۳۳ NANA جناب عثمان نورا لعابدین ۲۲۲ NANA محترمہ ارم صبا-NANA آڈیٹر:

موجودہ آڈیٹر میسرز ای وائے فورڈ رھوڈز، چارٹرڈ اکاؤنٹنٹ، اس اہل ہیں کہ وہ دوبارہ سے آڈیٹر برائے مالی سال اختتام ۳۰ جون، ۲۰۲۱ تک کیلئے اپنے آپ کو پیش کر سکیں، جو کہ رجسٹرار مضاربہ کمپنیز سے منظوری سے مشروط ہیں۔

اظہار تشکر

بورڈ شکر گزار ہے کہ جو تعاون اور مدد اُسے سیکورٹیز 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 پرفیومنس، سخت محنت اور انتھک جذبے کو سراہتا ہے جن کی وجہ سے ہمیں یہ بہترین نتائج حاصل ہوئے ہیں۔

سید رشید اختر

ڈائریکٹر

محمد شعیب ابراہیم

چیف ایگزیکٹو آفیسر

کراچی: بتاریخ ۲۳ ستمبر، ۲۰۲۰

ادارہ جاتی اور مالیاتی رپورٹنگ کا ڈھانچہ

ڈائریکٹر 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 منجمنٹ 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۔
- مضاربہ کے مناسب طور پر کھاتے مرتب کئے جائیں گے۔
- مالیاتی اسٹیٹمنٹ کی تیاری میں مناسب اکاؤنٹنگ پالیسیوں کو لاگو کیا جائے گا۔ کھاتوں کا تخمینہ بہتر تجربے اور صحیح وجہ کی بنیاد پر لگایا جائے گا۔
- 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۔
- اندرونی انتظام کو مؤثر 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۔
- 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 آپرٹنگ اور ۶ سال کے مالی اعداد و شمار اس سالانہ رپورٹ میں خلاصہ کی شکل میں پیش کئے گئے ہیں۔
- ۳۰ جون ۲۰۲۰ 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:

پروویڈنٹ فنڈ اور گریجویٹی کی سرمایہ کاری کی قیمت ۳۱ دسمبر ۲۰۱۹ تک آڈٹ شدہ کھاتوں پر مبنی ہے۔ جو بالترتیب ۵۷۷.۰۹ ملین اور ۶۲۷.۷۲ ملین روپے ہے۔

بورڈ کی تشکیل

۳۰ جون ۲۰۲۰ کو کمپنی کے بورڈ آف ڈائریکٹرز کی تشکیل مندرجہ ذیل ہے۔

1. مندرجہ ذیل کے مطابق ڈائریکٹرز کی کل تعداد چھ ہیں۔

۵	مرد:
۱	خاتون:
2. متعلقہ زمرے کے تحت ہدایت کاروں کی تعداد مندرجہ ذیل ہے۔

۲	آزاد ڈائریکٹر:
۲	غیر ایگزیکٹو ڈائریکٹر:
۱	ایگزیکٹو ڈائریکٹر:
۱	خاتون ڈائریکٹر:

فرسٹ حبیب مضاربہ ایک ذمہ دار سپورٹ ادارہ ہونے کے ناطے، ہمارا کام یہ ہے کہ ہم کمیونٹی ڈویلپمنٹ میں مسلسل اپنا حصہ شامل کرتے رہیں۔ اور یہ ہمارا بنیادی عزم ہے کہ اس بات کو یقینی بنائیں یہ عمل مسلسل جاری و ساری رہے۔

فرسٹ حبیب مضاربہ معاشرے کے مراعات یافتہ ممبران کے تحت بچوں، صحت اور تعلیم پر توجہ دینے والے پروگراموں اور منصوبوں کی حوصلہ افزائی کرتا ہے۔ فرسٹ حبیب مضاربہ مستقل طور پر اعتماد اور اعتماد کو فروغ دینے کی کوشش کرتا ہے اور تمام رشتوں میں انسانی وقار اور حقوق کے احترام کا مظاہرہ کرتا ہے، جس میں ثقافتوں، رسم و رواج اور افراد اور گروہوں کے اقدار کا احترام شامل ہے۔

بورڈ آف ڈائریکٹرز اور آؤٹ کمیٹی:

حبیب میٹروپولیٹن مضاربہ منیجمنٹ کمپنی (پرائیوٹ) لمیٹڈ (کمپنی) کے بورڈ آف ڈائریکٹرز کے اندر، ۳۰ جون، ۲۰۱۹ کو ختم ہونے والی سال کے ڈائریکٹرز کی رپورٹ کے بعد سے مندرجہ ذیل تبدیلیاں، سب سے پہلے حبیب مضاربہ کی انتظامیہ کی کمپنی کے تحت لائی گئیں۔

- جناب وزیر ممتاز احمد نے بورڈ آف ڈائریکٹرز اور آؤٹ کمیٹی سے استعفیٰ دے دیا ہے۔
- بورڈ کے اندر دو نئے ڈائریکٹرز کا تقرر کیا گیا ہے جو کہ جناب عثمان نور العابدین اور محترمہ ارم صبا ہیں۔
- جناب سعید الدین خان آؤٹ کمیٹی کے ممبر بن گئے ہیں۔
- نئے ڈائریکٹرز مالی مقامی اور بین الاقوامی مارکیٹ خصوصاً اسلامی بینکاری، تجارتی مالیات اور سرمایہ کاری بینکاری کا بہت متنوع اور بھرپور تجربہ کر رہے ہیں۔ بورڈ نے تمام نئے ہدایت کاروں کا خیر مقدم کیا ہے اور امید ہے کہ ایف ایچ ایم کو نئے شامل ڈائریکٹرز کے پیشہ ورانہ تجربہ اور مہارت سے بہت فائدہ ہوگا۔
- کوڈ آف کارپوریٹ گورننس ۲۰۱۹ کی لازمی ضرورت کی تعمیل کرنے کے لئے، محترمہ ارم صبا کو بورڈ میں بطور خاتون ڈائریکٹر کی تقرری کی گئی ہے۔

ڈائریکٹرز کی ٹریننگ اور تعارف

زیادہ تر ڈائریکٹرز انسٹی ٹیوٹ آف چارٹرڈ اکاؤنٹنٹس آف پاکستان (آئی سی ایم اے پی) اور انسٹی ٹیوٹ آف بزنس ایڈمنسٹریشن (آئی بی اے) میں ڈائریکٹرز ٹریننگ سرٹیفکیٹ حاصل کرنے کے پابند ہیں۔

ڈائریکٹرز کی میٹنگ میں شرکت کی فیس

چیزیں، غیر ایگزیکٹو ڈائریکٹرز اور آزاد ڈائریکٹرز صرف اور صرف مضاربہ منیجمنٹ کمپنی کی میٹنگ اٹینڈ کرنے کی فیس کے حق دار ہیں۔ معاوضے کا تعین مناسب اور ذمہ داری کی سطح کے مطابق اور کمپنی کو کامیابی کے ساتھ چلانے کے لئے اور مہارت کے مطابق اور دیگر لوازمات میں اضافے کے مطابق ہیں۔ مزید یہ کہ مضاربہ منیجمنٹ کمپنی کے ایگزیکٹو ڈائریکٹر کسی بھی دوسرے ادارے سے نان ایگزیکٹو ڈائریکٹر کی اہلیت میں ان کی فراہم کردہ خدمات کے عوض کوئی تقرری فیس وصول نہیں کرتے ہیں۔

پاکستان سے باہر بورڈ میٹنگ

ایک سال کے دوران، بورڈ میں تمام بورڈ میٹنگز کا انتظام کراچی میں منیجمنٹ 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۔

غیر ملکی ڈائریکٹر:

کوئی غیر ملکی ڈائریکٹر مضاربہ منیجمنٹ کمپنی میں موجود نہیں ہے۔

سرٹیفکیٹ رکھنے والوں کا نمونہ:

اس رپورٹ میں ایک اسٹیٹمنٹ جو کہ ۳۰ جون، ۲۰۲۰ کو مضاربہ کے سرٹیفکیٹ ہولڈنگ کا نمونہ اور اضافی معلومات شامل ہے۔

اچھی طرح سے مدد کی۔ ان اقدامات کی وجہ سے، استحکام کے اقدامات کو وسیع پیمانے پر اپنانے کے ذریعے معاشی نظام میں ایڈجسٹمنٹ کی راہ میں تیزی سے ردوبدل دیکھنے میں آئے ہیں۔

ہم توقع کر رہے ہیں کہ مالی سال ۲۰۲۰-۲۱ وبائی مرض کے اثرات جو کہ صنعت، تجارت اور مجموعی طور پر سارے کاروبار پر پڑے ہیں کہ وجہ سے ایک مشکل / دشوار / کٹھن رہے گا۔ حتیٰ بڑھوتری کا نتیجہ غیر یقینی رہے گا اور اس کا انحصار مکمل طور پر جان لیوا وائرس کے ختم اور دور دور ہو جانے پر ہوگا، وباء سے نمٹنے کے لئے اختیار کردہ پالیسی اقدامات کا سزا گار اثر، منڈی کے معاملات کو کثیر الجہتی تعاون کے ذریعے متحرک کرنے اور لیکویڈیٹی امداد کے حصول کے لئے مالی حالات کو بہتر بنانا ہوگا۔

پالیسی کی شرح میں زبردست کمی یعنی گزشتہ ۳-۴ مہینوں میں ۶.۲۵ فیصد بھی مالی اعانت والے پورٹ فولیو پر ہماری آمدنی کو کم کر دے گی۔ مزید برآں یہ کہ، اقتصادی سرگرمیاں اب آہستہ آہستہ بڑھ رہی ہیں اور ہم توقع کرتے ہیں کہ قرضے کی کم شرح آنے والے مہینوں میں کاروباری سرگرمیوں کو تیز کرنے میں مدد دے گی۔ تعمیراتی صنعت کے لئے اہم ترغیبی پیکیج سے وابستہ صنعتوں کو مدد اور فروغ ملے گا اور روزگار پیدا ہوگا۔

جس کی وجہ سے، کوویڈ-۱۹ کی وجہ سے موجودہ معاشی اور کاروباری سرگرمیوں کو مد نظر رکھتے ہوئے، اس وباء کے اثرات اور پریشانیوں کو دھیان میں رکھتے ہوئے ہم نے آپریشنل اور کاروباری حکمت عملی بنائی ہے۔ ہماری حکمت عملی کے چیدہ چیدہ نکات درج ذیل ہیں۔

- اس موڈی وائرس کے مکمل خاتمے تک ہمیں صحت کی حفاظت کیلئے بتائے گئے اصولوں / ہدایات کو اپنانا ہوگا تاکہ ہم اپنے اسٹاف ممبرز / کام کرنے والے ارکان کی حفاظت کر سکیں۔
- کسی بھی قسم کے کاروباری نقصان / دھچکے سے نمٹنے کیلئے لیکویڈیٹی کو محفوظ کرنا۔
- ٹیکنالوجی کی صلاحیتوں کو بڑھانا اور ڈیجیٹل اسپیس کو وسیع کرنا تاکہ اسٹاف ممبران کے درچونل مصروفیت کے دوران آپریشنل صلاحیتوں کو بڑھانا۔
- کاروباری تسلسل کی منصوبہ بندی کو برقرار رکھنے اور مزید تصحیحات کیلئے غیر اعلان شدہ ڈول سے اپنی آزمائش کرنا۔
- کریڈٹ رسک مینجمنٹ، کریڈٹ تجاویز کی تشخیص اور تخمینہ کے آلات / صلاحیتوں کو بڑھانا۔

شریعہ کمپلائنس 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 فنانشل ٹرانزیکشن کی رسک اور ریٹرن پر وفاق کی صورت میں آتی ہے۔

شرعی اصولوں کے زیر نگرانی ایسے مختلف معاہدے کسی اسلامی مالیاتی ٹرانزیکشنز کی حرمت اور درستی 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۔

کارپوریٹ سماجی ذمہ داری

ہماری کاروباری لائحہ عمل اسٹیک ہولڈرز کیلئے مضبوط اخلاقی بنیادوں اور پائیدار کاروبار کے تصور کو زیادہ سے زیادہ قیمتی بنانے پر ہے۔ اسی یقین کو ہم ایک پائیدار ماڈل کی شکل میں اپنے ارگرد کے افراد، اداروں اور دنیا کے دوسروں کو لوگوں کے پیش کرنا چاہتے ہیں۔

لہٰذا، ہم اپنی کارپوریٹ سماجی ذمہ داری (CSR) کو فروغ دینے کیلئے مختلف اقدامات اور کمیونٹی کو طاقتور بناتے ہوئے اور پائیدار طریقے سے ذمہ دار مینجمنٹ کا ماحول بنانے کیلئے پُر عزم ہیں۔

کرنے کی متعدد درخواستیں موصول ہوئیں۔ ہمارا محکمہ کریڈٹ ان درخواستوں کو دیکھ رہا ہے، کریڈٹ کمیٹی اور بورڈ آف ڈائریکٹرز کی منظوری سے اس طرح کی درخواستوں کے میرٹ کا لازمی جائزہ لیتے ہیں اور عمل کو حتمی شکل دیتے ہیں۔

کوویڈ اور لاک ڈاؤن کے دورانیے کے دوران، ہمارے عملے کے ارکان کی صحت کی حفاظت ہمارے کاموں میں سب سے مشکل خطرہ ہے۔ اس مدت کے دوران، ہم نے صحت کے تمام مطلوبہ حفاظتی اقدامات پر عمل درآمد کیا تھا اور اپنے پورے نیٹ ورک پر احتیاط سے یہی مشاہدہ کیا تھا۔ ایسے حالات میں ہموار آپریشن جاری رکھنا خاصا احتیاطی تدابیر اپناتے ہوئے بہت مشکل تھا۔ تاہم، ٹیکنالوجی کی مدد سے عملے کے تمام اہم ممبروں کے لئے ریوٹ کام کی صلاحیتوں کو قابل بنایا گیا اور زیادہ تر گفتگو اور ملاقات ویڈیو کانفرنسنگ کے ذریعہ ترتیب دی گئی۔ بزنس تسلسل کے منصوبوں کا وہاں میں موجود چاروں شہروں میں وبائی امراض کے دوران کامیابی کے ساتھ تجربہ کیا گیا۔ مضاربہ نے انفارمیشن سیکورٹی پروٹوکولز سے ان اوقات کے دوران سائبر سیکورٹی کے تمام خطرات کی نگرانی میں نمایاں اضافہ کیا تھا۔ ریوٹ کام کی صلاحیتوں کو تمام عملے کے لئے فعال کیا گیا تھا اور اس سے متعلق خطرے اور کنٹرول کے اقدامات کا اندازہ اس بات کو یقینی بنایا گیا تھا کہ وہ وچرچل پر ایسٹ نیٹ ورک ("VPN") کے استعمال سے مکمل طور پر محفوظ رہیں۔

مالی سال کی آخری سہ ماہی کے دوران ہمارے کاروباری عمل کا فنانسنگ قسطوں کی بازیافت کا سب سے مشکل علاقہ رہا۔ مایوس کن کاروباری حالات اور طویل عرصہ لاک ڈاؤن کے کی وجہ سے، ہمارے صارفین کی لیکویڈیٹی اور کیش سائیکل بری طرح متاثر ہوئے تھے۔ ہمارے فنانسنگ پورٹ فولیو کے متعدد صارفین لاک ڈاؤن مدت کے دوران مالی معاوضوں کی قسطوں کی مابانہ ادائیگی وقت پر طے نہیں کر سکے تھے۔ تاہم، ہماری ریکوری ٹیم نے مابانہ ادائیگیوں کے جمع کرنے کے لئے اپنی بھرپور کوششیں کیں اور کامیابی کے ساتھ کہا کہ بحالی طبقات ان چند گراہوں کے علاوہ جن کے اپنے کاروبار میں لیکویڈیٹی کے شدید مسائل ہیں۔ ہم اچھی طرح سے باخبر، تنقیدی اور بروقت آپریشنل فیصلے کر کے تبدیلی کے ماحول کو نئی عام کے ساتھ سیکھنے اور جلدی ایڈجسٹ کرنے میں تھے۔ کوویڈ-۱۹ نے معیشت کے تقریباً ہر شعبے کو بری طرح متاثر کیا ہے۔ معیشت کے کئی حصوں کی مستقل لاک ڈاؤن اور مسلسل بندش نے گھریلو سپلائی چین کو بری طرح پریشان کر دیا ہے جس کا تجارت اور کاروبار پر خاص اثر پڑ رہا ہے۔

ہم یہ توقع کر رہے ہیں کہ مالی سال ۲۰۲۰-۲۱ بھی وبائی مرض کی وجہ سے کٹھن / چیلنجنگ رہے گا اور اس کا اثر تجارت، صنعت اور مجموعی طور پر تمام کاروبار پر رہے گا۔ مزید برآں، پالیسی کی شرح میں زبردست کمی یعنی گذشتہ ۳-۴ مہینوں میں ۶.۲۵ فیصد بھی مالی اعانت والے پورٹ فولیو پر ہماری آمدنی کو کم کر دے گی۔ فی الحال، اقتصادی سرگرمیاں اب آہستہ آہستہ بڑھ رہی ہیں اور مارکیٹ کے اعداد و شمار کے مطابق آٹوموبائل کی فروخت اور دوسرے بڑے شعبوں جیسے سیمنٹ، اسٹیل اور دیگر وابستہ مصنوعات کی فروخت میں بھی اضافہ ہو رہا ہے۔ ہم توقع کرتے ہیں کہ قرضے کی کم شرح آنے والے مہینوں میں کاروباری سرگرمیوں کو تیز کرنے میں مدد دے گی۔ تعمیراتی صنعت کے لئے اہم ترغیبی پیکیج سے وابستہ صنعتوں کو مدد اور فروغ ملے گا اور روزگار پیدا ہوگا۔

ڈیجیٹل ارتقاء اب ہمیں بہتر آپریشنل اہلیت کے لئے موجودہ فنانشل ڈھانچے کا اندازہ اور ایڈجسٹ کرنے کی اہمیت پر بھی زور دے رہا ہے۔ پاکستان کے مالیاتی شعبے کو موجودہ معاشی بد حالی سے پیدا ہونے والے متعدد چیلنجز / مشکلات کا سامنا کرنا پڑ رہا ہے، انضباطی تعمیل میں اضافہ، سائبر سیکورٹی کے ابھرتے ہوئے خطرات، اثاثہ جات کے معیار کے بڑھتے ہوئے خطرات اور عدم ادائیگی والے قرض میں اضافے کا سلسلہ۔ چیلنجنگ اور مسابقتی آپریشننگ ماحول کے تحت آپ کا مضاربہ اپنی طویل مدتی کثیر الجہتی حکمت عملی پر مرکوز ہے جس نے رسک مینجمنٹ ٹولز کو مضبوط بنانے، آپریٹنگ افادیت کو بہتر بنانے اور ٹیکنالوجی میں مسلسل ترقی کی طرف راغب کیا ہے۔

آخر میں، ہم موجودہ مشکل وقت میں صورتحال پر گہری نگاہ رکھتے ہوئے ہیں۔ ہمارا سب سے اہم کام ہمارے عملے کے ممبروں کی صحت کی حفاظت اور ہمارے قابل صارفین کو بہترین ممکنہ خدمات کو یقینی بنانا ہے۔ موجودہ حالات کو مد نظر رکھتے ہوئے، ہم محتاط انداز کے ساتھ ہوشیار انداز میں آگے بڑھیں گے اور کسی بھی آپریشنل اور کاروباری ہنگامی صورتحال کا مقابلہ کرنے کے لئے تمام دستیاب وسائل کو تیار کریں گے۔

کاروباری جائزہ اور مستقبل کی حکمت عملی

COVID-19 کے پھیلنے نے ایک غیر معمولی عالمی بحران پیدا کیا ہے جس نے انسانی زندگیوں اور معاشی بد حالی پر خاص اثر ڈالا ہے اور خاص طور پر کم آمدنی والے گھرانوں پر اس کا بڑا اثر پڑا ہے۔ لاک ڈاؤن اور نقل و حرکت پر پابندی کی وجہ سے کھپت اور سروسز کی پیداوار کو نمایاں طور پر چھوڑ دیا گیا تھا۔ عالمی سطح پر تجارتی سرگرمیاں بھی صارفین کی طلب میں کمی کی وجہ سے ماند پڑ گئیں، غیر ملکی سفر میں کمی اور سیاحت سمیت عالمی سطح پر سپلائی چین میں بڑی رکاوٹ ہو گئیں۔ پاکستان کی معیشت کو بھیجیے ویسے ہی نقصان اٹھانا پڑا جیسے عالمی معیشت نے نقصان اٹھایا ہے اور سب سے کم ترین جی ڈی پی بڑھوتری کا شاہد / گواہ رہا۔

COVID-19 کے وباء کے بعد، حکومت پاکستان نے بھی COVID-19 کے ساتھ لڑنے کے لئے جرات مندانہ اقدام اٹھایا تھا اور چلی آمدنی والے گروپ اور مینوفیکچرنگ سیکٹر خصوصاً برآمدی بنیادوں پر تعاون کرنے کے لئے مالی امدادی پیکیج کا اعلان کیا تھا۔ حکومت نے تعمیراتی صنعتوں کو روزگار پیدا کرنے اور رہائش سے متعلقہ صنعتوں کی مدد کے لئے مراعات پیکیج اور مراعات کا بھی اعلان کیا تھا۔

اسٹیٹ بینک آف پاکستان (ایس بی پی) نے وبائی اموات کے اہم وقت کے دوران معیشت کے مختلف طبقات کی مدد کے لئے بھی متعدد اقدامات کیے۔ ان اقدامات اور اصلاحات نے بڑے پیمانے پر تجارتی اور کرٹ اکاؤنٹ خسارے کو کم کرنے، غیر ملکی ذخائر کو مستحکم کرنے اور آئی ایم ایف پروگرام کی کامیابی سے تکمیل اور ملک کے کریڈٹ ریٹنگ پروفائل میں بہتری کے لئے

تاہم، COVID-19 کے پھیلنے کا جو سلسلہ جو تیسری سہ ماہی کے آخر میں شروع ہوا تھا اس نے تمام کاروباری سرگرمیاں ہماری زندگیوں، معیشتوں، معاشروں اور معاشیات میں بے مثال اور غیر متوقع اثرات کے ساتھ روک دیں۔

COVID-19 کے پھیلنے نے ایک غیر معمولی عالمی بحران پیدا کیا ہے جس نے انسانی زندگیوں اور معاشی بد حالی پر خاص اثر ڈالا ہے اور خاص طور پر کم آمدنی والے گھرانوں پر اس کا بڑا اثر پڑا ہے۔ لاک ڈاؤن اور نقل و حرکت پر پابندی کی وجہ سے کھیت اور سروسز کی پیداوار کو نمایاں طور پر چھوڑ دیا گیا تھا۔ عالمی سطح پر تجارتی سرگرمیاں بھی صارفین کی طلب میں کمی کی وجہ سے ماند پڑ گئیں، غیر ملکی سفر میں کمی اور سیاحت سمیت عالمی سطح پر سپلائی چین میں بڑی رکاوٹ ہو گئیں۔ پاکستان کی معیشت کو بھی ویسے ہی نقصان اٹھانا پڑا جیسے عالمی معیشت نے نقصان اٹھایا ہے اور جی ڈی پی میں ۲۰ فیصد منفی دیکھا گیا تھا جبکہ اس سے پہلے کی پیش گوئی کی گئی ۹ فیصد ترقی تھی۔

COVID-19 کے دہانے کے بعد، حکومت پاکستان نے بھی COVID-19 کے ساتھ لڑنے کے لئے جرات مندانہ اقدام اٹھایا تھا اور نچلی آمدنی والے گروپ اور مینوفیکچرنگ سیکٹر خصوصاً برآمدی بنیادوں پر تعاون کرنے کے لئے ایک ارب ٹریلین روپے کے مالی امدادی پیکیج کا اعلان کیا تھا۔ حکومت نے تعمیراتی صنعتوں کو روزگار پیدا کرنے اور رہائش سے متعلقہ صنعتوں کی مدد کے لئے مراعات پیکیج اور مراعات کا بھی اعلان کیا تھا۔ اسٹیٹ بینک آف پاکستان (ایس بی پی) نے وبائی اموات کے اہم وقت کے دوران معیشت کے مختلف طبقات کی مدد کے لئے بھی متعدد اقدامات کیے۔ ان اقدامات میں قرضے لینے والی سہولیات کی بحالی اور التوا، پالیسیوں کے نرخوں میں ۲۵ فیصد سے ۱۳ فیصد تک کمی اور تنخواہوں کی ادائیگی، اسپتالوں کو فنڈز دینے اور نئے صنعتی یونٹوں کے قیام کے لئے نئی رعایتی ری فنانسنگ کی سہولت وغیرہ شامل تھے۔

استحکام کے لئے اقدامات اور معاشی بحالی کی حکمت عملیوں کے ساتھ ساتھ بروقت عمل درآمد اور مطلوبہ اقدامات کے ساتھ میکرو اکنامک ایڈجسٹمنٹ کی راہ پر تیزی سے ردوبدل دیکھنے میں آئے ہیں۔

ان اقدامات اور اصلاحات نے ہماری تجارت اور کرنٹ اکاؤنٹ خسارے کو کم کرنے، غیر ملکی ذخائر کو مستحکم کرنے اور آئی ایم ایف پروگرام کی کامیابی سے تکمیل اور ملک کے کریڈٹ ریٹنگ پروفائل میں بہتری لانے کے لئے اچھی طرح سے مدد کی۔ مزید یہ کہ، جون کے دوران کثیر الجہتی ذرائع سے موصولہ آمدنی نے بیرونی اکاؤنٹ پر کچھ دباؤ کو کم کرنے میں بھی مدد کی۔ ایک اور ترقی جس نے ان بینظیر اوقات میں معیشت کو تعاون فراہم کیا وہ تھاجی ۲۰ ممالک کی جانب سے اٹھائے گئے قرض سے نجات کا اقدام۔ مہنگائی قابل انتظام حد تک برقرار رہی اور اگست کے مہینے میں ۱۴.۶۰ فیصد کی بلند سطح کو چھونے کے بعد اس نے ۸.۲۰ فیصد کے لگ بھگ اطلاع دی۔

معاشی محاذ پر مثبت اشارے کے باوجود، حتیٰ بڑھوتری کا نتیجہ غیر یقینی رہے گا اور اس کا انحصار مکمل طور پر جان لیوا وائرس کے ختم اور دور ہو جانے پر ہو گا، وباء سے نمٹنے کے لئے اختیار کردہ پالیسی اقدامات کا سرازگار اثر، منڈی کے معاملات کو کثیر الجہتی تعاون کے ذریعے متحرک کرنے اور لیکویڈیٹی امداد کے حصول کے لئے مالی حالات کو بہتر بنانا ہو گا۔

مالی سال ۲۰۲۰-۲۱ کے لئے مختصر مدت میں پاکستان کا جی ڈی پی گروتھ آؤٹ لک بھی دباؤ میں ہے۔ آئی ایم ایف نے پیش گوئی کی ہے کہ اقتصادی پیداوار میں مالی سال ۲۰۲۱ کے لئے ۲۰ فیصد کی بالائی حد تک پابندی رہے گی۔ ڈسکونٹ ریٹ میں کمی، عالمی سپلائی چین میں توازن میں بہتر پیشرفت اور مینوفیکچرنگ کی تنوع کے ساتھ مل کر بہتر مانگ کی طلب کے ساتھ گھریلو سرمایہ کاری میں متوقع بحالی کی گنجائش ہے۔ اور انتظامی حدود میں مہنگائی سے معاشی بڑھوتری کو کافی حد تک بڑھنے کی توقع کی جا رہی ہے۔

ایف ایچ ایم کا کاروباری جائزہ

مختلف معاشی چیلنجوں کے ساتھ ساتھ نظر ثانی والا سال سب سے مشکل سال رہا، اس کے ساتھ ہی COVID-19 کے وباء نے عالمی سطح پر تمام معاشی اور کاروباری نظارے کو تبدیل کر دیا ہے۔ مالی سال ۲۰۱۹-۲۰ میں ۲۰ فیصد کی منفی بڑھوتری کے بعد ملک کی معیشت نے اپنی بدترین کارکردگی کا مظاہرہ کیا۔ ملکی اور عالمی طلب میں کمی نے معیشت پر تناؤ / دباؤ کو مزید پیچیدہ کر دیا۔

وبائی امراض نے مجموعی معاشی اور کاروباری سرگرمیوں کو بہت سست کر دیا ہے، اس اثر کے سبب، فنانسنگ اثاثوں کی بلنگ کم ہو گئی، اور گزشتہ سہ ماہی کی ادائیگی پورے سال میں سب سے کم رہی۔ فنانسنگ بک کی ماہانہ ادائیگی اور اثاثوں کی بلنگ میں کمی کے ساتھ، ہماری بیلنس شیٹ اور اثاثوں کا سائز بھی کم ہوا۔ بیلنس شیٹ کا مجموعی سائز ۱۱.۱۲ ارب روپے سے گھٹ / کم ہو کر ۹.۹۱۳ بلین روپے رہا۔ اس مدت کے دوران، ۲۲.۹ ارب روپے کے مقابلے میں کل 3.653 ارب روپے کی مالی اعانت ہوئی، یعنی تقریباً ۳۰ فیصد کی کمی واقع ہوئی۔ تاہم، اعلیٰ پالیسی ریٹ اور فنانسنگ اثاثوں کی بہتر بلنگ کی وجہ سے ہم اپنا منافع برقرار رکھنے میں کامیاب ہو گئے ہیں۔

گزشتہ سال کے ۳ فیصد کے مقابلے میں، کل مالی اعانت میں سے، تقریباً ۸۳ فیصد ادائیگی تخفیف ہوتی ہوئی مشارقہ فنانسنگ میں کی گئی تھی۔ ہمارے گاڑیوں کے فنانسنگ پورٹ فولیو کی فی صد سال کے دوران کی جانے والی کل ترسیلات کا ۸۷ فیصد تھی۔ یہ ہمارے بہترین اور معیاری اثاثوں کے پورٹ فولیو کے لئے کریڈٹ رسک اسٹریٹجی کے مطابق بھی تھا۔

کوویڈ ۱۹ کی وجہ سے، کاروباری حالات بہت مایوس کن رہے اور اداروں کو نقد رقم کی روانی اور لیکویڈیٹی کے مسائل کا سامنا کرنا پڑا۔ اس صورتحال نے کاروباری اداروں کے ذریعہ قرضوں سے لی جانے والی سہولیت کی بروقت ادائیگی کو بھی گھٹا دیا اور ہمیں اپنے موجودہ فنانسنگ پورٹ فولیو کے اندر ایسی سہولیات کی ادائیگی کے معاملات کا بھی سامنا کرنا پڑا۔ کسٹمرز کی التوا / بحالی کی درخواست کو قبول کرنے کے سلسلے میں اسٹیٹ بینک اور ایس ای سی پی کے سرکلر کے اجراء کے بعد، ہمیں جائزہ کے تحت سال کی آخری سہ ماہی میں طویل مدتی فنانسنگ کی سہولت کو بحال

ڈائریکٹر رپورٹ

بورڈ آف ڈائریکٹر کی جناب سے ۳۰ جون، ۲۰۲۰ کو ختم ہونے والے سال کیلئے مضاربہ کے آڈٹ شدہ / محتسب شدہ اکاؤنٹس پیش کرنا ہمارے لئے باعث مسرت ہے۔

(پاکستانی روپے)	میںجمنٹ فیس سے قبل منافع
۳۶۴،۳۱۳،۴۰۶	مضاربہ میںجمنٹ کمپنی کی فیس
(۳۶،۴۳۱،۳۴۱)	میںجمنٹ کمپنی کے معاوضے پر سروسز سیلز ٹیکس
(۴،۷۳۶،۰۷۴)	سندھ ورکرز ویلفیئر فنڈ
(۶،۴۶۲،۹۲۰)	منافع قابل از ٹیکس
۳۱۶،۶۸۳،۰۷۱	ٹیکس
-	سال کا منافع
۳۱۶،۶۸۳،۰۷۱	پچھلے سالوں کا غیر منقسم شدہ منافع
۸۴،۲۹۹،۲۱۷	سال کے دوران غیر منقسم منافع میں اضافی رقم کی منتقلی
(۹۶،۳۲۷)	قابل تقسیم منافع
۴۰۰،۸۸۵،۹۶۱	(۵ روپے فی سٹیک / شیر پر منافع)

قابل تقسیم منافع:

۲۸۲،۲۴۰،۰۰۰	۲۸ فیصد کے حساب سے نقد منافع برائے تقسیم (۵ روپے کے سٹیک ہولڈر پر ۱۴ روپے نقد منافع فی سٹیک)
۱۵،۸۳۳،۱۵۴	(Statutory Reserve) میں منافع کی ۵ فیصد شرح سے منتقلی
۱۰۲،۸۱۱،۸۰۷	غیر منقسم شدہ منافع
۴۰۰،۸۸۵،۹۶۱	

منافع کی ادائیگی

بورڈ آف ڈائریکٹر ز انتہائی مسرت کے ساتھ ۳۰ جون، ۲۰۲۰ پر ختم ہونے والے سال کیلئے ۲۸ فیصد (۵ روپے کے سٹیک ہولڈر پر ۱۴ روپے کے حساب سے) نقد منافع دینے کا اعلان کیا ہے۔

معاشی جائزہ:

۱۹ جولائی تا جون ۲۰ کے دوران پاکستان کی معیشت بہت مشکل وقت سے گزر رہی تھی۔ مالی سال کے آغاز میں متعدد معاشی چیلنجز درپیش تھے جو در حقیقت ۲۰۱۹ کے آغاز پر شروع ہوئے تھے۔ اہم معاملات اعلیٰ تجارت اور کرنٹ اکاؤنٹ خسارہ، اونچی افراط زر اور بڑھتی ہوئی سود کی شرح، پاک روپے کی کمزوری تھی۔ سال کے تیسری سہ ماہی میں، یعنی جنوری، ۲۰۲۰ میں، اقتصادی محاذ کی طرف سے کچھ مثبت خبروں کی وجہ سے کاروبار شروع ہونا شروع ہو گئے۔ کنٹرولڈ جڑواں خسارے، ایف اے ٹی ایف پر حوصلہ افزاء پیش رفت، کریڈٹ ریٹنگ ایجنسیوں کا مستحکم نقطہ نظر اور آئی ایم ایف پروگرام کے ذریعہ فراہم کردہ اعتماد، یہ ساری مثبت خبریں تھیں جو مذکورہ مدت میں بیمار معیشت کے استحکام میں معاون ہیں۔

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.

Categories of Certificate Holders

As at 30th June, 2020

Categories of Certificate Holders	Certificate Holders	Certificate Held	Percentage
Directors and their spouse(s) and minor children	-	-	-
Associated Companies, undertakings and related parties			
Habib Metropolitan Modaraba Management Company (Pvt.) Ltd	1	20,160,000	10.00
Executives	1	2	0.00
Public Sector Companies and Corporations	4	1,841,644	0.91
Banks, development finance institutions, non-banking finance companies, insurance companies, takaful, modarabas and pension funds	7	4,164,876	2.07
Mutual Funds			
CDC - Trustee National Investment (Unit) Trust	1	1,269,570	0.63
CDC - Trustee AKD Index Tracker Fund	1	39,000	0.02
General Public			
a. Local	3,779	54,463,200	27.02
b. Foreign	779	2,380,586	1.18
Foreign Companies	10	1,727,552	0.86
Others	56	115,553,570	57.32
Totals	4,639	201,600,000	100

Certificate holders holding 5% or more	Certificate Held	Percentage
Habib Management (Private) Limited	108,875,672	54.01
Habib Metropolitan Modaraba Management Company (Private) Limited	20,160,000	10

Pattern of Certificate Holding

As at 30th June, 2020

Number of Certificate Holders	Certificate Holdings		Total Certificate Held
698	1	to 100	33,485
1007	101	to 500	319,502
627	501	to 1000	480,186
1310	1001	to 5000	3,078,664
346	5001	to 10000	2,573,107
126	10001	to 15000	1,546,644
85	15001	to 20000	1,555,001
66	20001	to 25000	1,513,662
39	25001	to 30000	1,101,535
24	30001	to 35000	777,148
28	35001	to 40000	1,086,076
19	40001	to 45000	798,186
32	45001	to 50000	1,559,342
12	50001	to 55000	632,609
11	55001	to 60000	637,693
14	60001	to 65000	883,652
3	65001	to 70000	205,052
8	70001	to 75000	584,996
5	75001	to 80000	389,500
7	80001	to 85000	572,912
2	85001	to 90000	174,536
6	90001	to 95000	547,708
21	95001	to 100000	2,083,899
7	100001	to 105000	715,902
6	105001	to 110000	653,500
1	110001	to 115000	111,000
5	115001	to 120000	591,420
4	120001	to 125000	488,460
2	125001	to 130000	255,176
6	130001	to 135000	789,588
3	135001	to 140000	409,008
5	140001	to 145000	712,157
4	145001	to 150000	595,152
2	150001	to 155000	302,400
2	155001	to 160000	316,500
6	160001	to 165000	977,340
2	165001	to 170000	337,292
5	170001	to 175000	865,860
1	175001	to 180000	177,000
3	180001	to 185000	554,000
3	185001	to 190000	569,000
2	190001	to 195000	383,000
4	195001	to 200000	800,000
4	200001	to 205000	812,100
1	205001	to 210000	206,600
2	210001	to 215000	426,560
2	215001	to 220000	435,120
3	225001	to 230000	684,300
1	230001	to 235000	233,000
1	235001	to 240000	237,891
2	240001	to 245000	486,320
2	245001	to 250000	500,000
1	255001	to 260000	259,500
3	260001	to 265000	781,341
2	265001	to 270000	538,000
2	270001	to 275000	546,500
2	275001	to 280000	553,984
1	280001	to 285000	282,240
2	295001	to 300000	595,778
1	320001	to 325000	322,560
2	345001	to 350000	700,000
1	380001	to 385000	382,880
1	395001	to 400000	400,000
2	400001	to 405000	800,800
1	410001	to 415000	413,500
1	425001	to 430000	425,344
1	445001	to 450000	450,000
1	455001	to 460000	459,328
1	460001	to 465000	462,000
1	475001	to 480000	477,500
1	485001	to 490000	486,000
2	495001	to 500000	996,000
2	500001	to 505000	1,004,938
1	590001	to 595000	592,600
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	1715001	to 1720000	1,720,000
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	108875001	to 108880000	108,875,672
4639			201,600,000

Board Committees

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 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)	3
Syed Rasheed Akhtar Non Executive Independent	4
Mr. Wazir Mumtaz Ahmed Non Executive (Member)	1
Mr. Mohammad Shams Izhar Non Executive (Member)	4
Mr. Shakeel Ahmed Mangrora Secretary to Audit Committee	3
Mr. Sarmad bin Wasim 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
Syed Rasheed Akhtar Chairman	1
Mr. Wazir Mumtaz Ahmed Member	1
Mr. Mohammad Shams Izhar Member	1
Mr. Tehsin Abbas Secretary	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 (Private) Ltd. He is very seasoned banker and carrying diversified banking experience of local and international 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 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.

- 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 Company 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?
- What has been the Board's contribution in ensuring robust and effective risk management?
- Has the Board ensured that internal control is robust with automated internal control as far feasible and the audit function are conducted in an effective manner?
- Has the Board ensured timely and accurate disclosure on all material information?
- Is the Board as a whole, up-to-date with latest developments in the regulatory environment?
- Are the Board procedures conducive to effective performance and flexible enough to deal with all eventualities?
- Is the Board effective in adherence to the code of conduct?
- Does the Board have a Chairman, who play his role in ensuring adequate and constructive discourse and debate on important matters, conflict resolution, leadership qualities etc.?

- Has board ensured that key operational lapses and reputational risk events are immediately reported to the Board Chairman and relevant Committee's Chairman.
- How effective are the Does the Board ensure that Board Committees Chairmen update the Board appropriately of the discussion & decisions taken?
- Has the attendance of Directors, quality of contribution and preparedness for agendas been adequate?

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:

- were the financial/business targets set by the board achieved;
- does he possess leadership qualities i.e. correct anticipation of business trends, opportunities and priorities affecting the Company's prosperity and operations;
- has he developed clear mission statement, policies, and strategic plans that harmoniously balance the needs of all the stakeholders;
- does he ensure that Company's resources and budgets are aligned with the implementation of the Company's strategic plan;
- does he establish an effective organization structure to ensure management's focus on key functions;
- 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?

Few business targets were not achieved due to adverse economic situation because of outbreak of pandemic which was presented before board. CEO submitted reasons of missing few targets i.e., size of balance sheet and booking of financing assets. The board had shown their satisfaction that keeping in view economical and business challenges, the performance of FHM remained satisfactory.

Board has shown their satisfaction on performance evaluation of the CEO which covers quantitative as well as qualitative aspects conducted on said parameters.

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 improperness 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:

- 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.

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 2019-2020
- 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, 2020.
- 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, 2021, on terms approved by the Board of Directors.

The Audit Committee approves the audited accounts of FHM for the period year ended 30th June, 2020 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

First Habib Modaraba prioritizes customer trust. The security of our client information is one of our most important priorities.. That is why we keep it private and safe.

First Habib Modaraba has large number of customers in all over country. Our customers entrust us with large amounts of sensitive 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:

- **Trust:** First Habib Modaraba ensuring the complete and due performance of our contractual and statutory duties and 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 features for effectively protect information. We do not access or use customer content for any purpose other than providing, maintaining and improving the FHM services and as otherwise required by law.
- **Data Security:** FHM online backup service lets us secure our data in advance of a disaster. cloud provides a viable backup option,FHM use sound security practices like cloud, it provides an ideal solution for backing up our data. FHM have daily weekly and monthly data backup policies, it consist of daily upload data to DR side, The company has two data save-in sites located in Karachi and Lahore, data back-ups are take on monthly basis.

The company has installed latest state of the art Fire Suppression and Detection System to protect its data center. Additionally, we have strengthened our DR Plan with use of Data Guard and Online Transfer of Data to DR Site using Fiber Optic Technology.

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:

Trust: 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 features for effectively protect information. We do not access or use customer content for any purpose other than providing, maintaining and improving the FHM services and as otherwise required by law.

Data Security: FHM online backup service lets us secure our data in advance of a disaster. Offsite, online backups help us recover irreplaceable data and eliminate errors associated with traditional tape backup. FHM have daily weekly and monthly data backup policies, it consist of daily upload data to DR side, The company has two data save-in sites located in Karachi and Lahore, data back-ups are take on monthly basis.

The company has installed latest state of the art Fire Suppression and Detection System to protect its data center. Additionally, we have strengthened our DR Plan with use of Data Guard and Online Transfer of Data to DR 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 unauthorised person, lost or stolen.

IT Governance Policy

Information technology is one of the important aspects of governance organizations as a whole. 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.

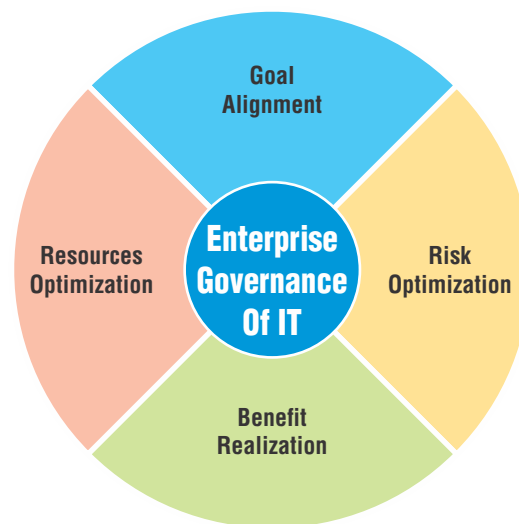
The Enterprise Governance of Information Technology Framework at FHM is set up to guarantee that IT activities are lined up with business objectives and that stakeholder needs of risk optimization, resources optimization and benefit realization are met.

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 as a 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.

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

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

- Strong internal controls are one of the main corporate objectives. FHM promote sound ethical practices within the staff members with Risk & Reward concept.
- Contribution on social community projects by staff members which are indeed a catalyst for any good corporate institution.
- Encourage staff members for avoiding of unnecessary wastage of resources such as excessive consumption of energy and paper printing etc.
- Motivate staff members for participation in activities which are beneficial for better environment at large.
- In order to keep customers' interest safe, FHM, from time to time address their grievances through 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.

Organisation 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 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.

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.

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.

Management's steps to encourage Minority Certificate Holders to attend ARM

Management has always make sure that basic right of Modaraba Certificate Holders are well protected. The minority Certificate Holders always encourages to attend annual review meeting and Modaraba extend its full courtesies and facilitations.

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 fundamental 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.

First Habib Modaraba (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.
- Disclosures made anonymously are not entertained
- 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.

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
Fax: 021-32627373
Web: www.habibmodaraba.com
Email: fhm@habibmodaraba.com

Share Registrar Office:

CDC Share Registrar Services Limited
Share Registrar Department
CDC House, 99-B, Block "B", S.M.C.H.S
Main Shahrah-e-Faisal, Karachi
Ph: 021-111-111-500
Fax: 021-34326031

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 4,639 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, Officiating 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
Officiating 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, 2020.

Book Closure Dates

The Certificate Transfer Book of the Modaraba will remain close from 21-10-2020 to 31-10-2020 (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.

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 24, 2020 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, 2020.

The certificate holders whose names appear in the register of certificate holders of FHM as on October 20, 2020 will be eligible to attend the Annual Review Meeting.

By order of the Board

Tehsin Abbas
Officiating Company Secretary
Karachi: October 02, 2020

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.

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.



Incorporation of the Modaraba	1985
1st Best performing Modaraba Award from The Modaraba Association of Pakistan	1999
Reached Rupees One billion asset size	2001
Reached Rupees One billion Lease Rental	2005
Paid up Capital doubled from Rs. 252 million to Rs.504 million through	
100% right issue along with 50% premium	2005
Crossed Rupees Five billion asset size	2007
Paid up Capital doubled from Rs.504 million to Rs.1008 million through 100% right issue along with 50% premium	2008
Paid up Capital reached to Rs.1.00 billion mark	2008
Corporate Excellence Trophy received from The Management Association of Pakistan	2009
Best Corporate Report Award received from The Joint Committee of ICAP and ICMAP	2010
Best Presented Accounts and Corporate Disclosure Award received from SAFA	2010
Celebrated Silver Jubilee of successful business operations	2010
Inaugurated full fledged Lahore Branch	2010
Equity reached Rupees Three billion mark	2011
Received Brand of the Year Award from The Brand Foundation of Pakistan	2011
Inaugurated full fledged Islamabad Branch	2011
Inaugurated full fledged Multan Branch	2012
Inaugurated full fledged Karachi Branch	2017
Shifting of Head Office to 6th Floor, HBZ Plaza, I.I. Chundrigar Road, Karachi.	2018

Major Event During the Year

July 2019 - June 2020

QUARTER 01

- The Joint Committee of ICAP and ICMAP in their ceremony held on 20th August 2019 have awarded First Position - Best Corporate Report Award 2018” to our Modaraba under the category of MUTUAL FUNDS AND MODARBA comprising Leasing Companies & Modarabas, Investment Banks and Mutual Funds
- Board of Directors meeting for the year ended June 30, 2019 was held on August 29, 2019
- PACRA Maintains Entity Rating of First Habib Modaraba on September 26, 2019

QUARTER 02

- Board of Directors meeting for the Quarter ended September 30, 2020 was held on October 24, 2020
- Annual Review Meeting of the Modaraba for the year ended June 30, 2019 was held on October 26, 2019
- Credit of Final Cash Dividend for the Year ended June 30, 2019 on November 08, 2019
- Received Merit Certificate in the Financial Services Category of SAFA Awards 2018 on 30th November 2019

QUARTER 03

- Board of Directors meeting for the Half Year ended December 31, 2019 was held on February 26, 2020
- Received 35th Corporate Excellency Report from Management Association of Pakistan on March 09, 2020

QUARTER 04

- Board of Directors meeting for the Quarter ended March 31, 2020 was held on April 23, 2020
- Received Best Performance Award (2nd Position) from NBFI & Modaraba Association of Pakistan on June 25, 2020.





Financial Statements

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Building a better
working world

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ey.khi@pk.ey.com
ey.com/pk

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of First Habib Modaraba (the Modaraba) as at 30 June 2020 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 2020 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 01, 2020
Karachi

Balance Sheet

AS AT JUNE 30, 2020

	Note	June 30, 2020	June 30, 2019
ASSETS			
NON-CURRENT ASSETS			
Lease financing assets	5	1,719,650,990	2,739,371,749
Fixed assets in own use	6	69,428,828	43,948,839
Intangible assets	7	198,711	177,386
Diminishing musharaka financing	8	4,282,849,332	4,489,820,384
Long term deposits	9	1,218,850	1,206,850
		6,073,346,711	7,274,525,208
CURRENT ASSETS			
Investments	10	768,406,670	1,117,360,806
Current portion of diminishing musharaka financing	8	2,719,651,582	2,450,084,489
Lease financing installments receivable	11	1,003,375	12,564,068
Diminishing Musharaka financing installments receivable	12	2,785,509	44,672,084
Advances and prepayments	13	4,440,028	3,905,163
Other receivables	14	21,102,159	33,255,784
Income tax refundable	15	153,711,487	137,031,924
Cash and bank balances	16	168,609,750	50,624,704
		3,839,710,560	3,849,499,022
TOTAL ASSETS		9,913,057,271	11,124,024,230
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Authorized certificate capital 220,000,000 (June 30, 2019: 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	2,538,683,912	2,503,722,123
Certificate holders' equity		3,546,683,912	3,511,722,123
SURPLUS ON REVALUATION OF INVESTMENTS	19	86,870,111	124,880,019
NON-CURRENT LIABILITIES			
Security deposits against lease financing assets	20	232,284,208	301,774,323
Liability against right of use assets	21	21,771,196	-
		254,055,404	301,774,323
CURRENT LIABILITIES			
Certificates of investment (musharaka)	22	5,279,731,965	6,149,278,129
Security deposits - current portion	20	124,155,383	146,941,089
Current maturity of liability against right of use assets		1,095,504	-
Unearned lease financing and diminishing musharaka installments		7,204,778	17,566,187
Advance lease financing and diminishing musharaka installments		15,193,649	32,284,117
Trade and other payables	23	419,261,414	452,085,462
Profit payable on certificates of investment (musharaka)		135,580,868	112,261,524
Advance against murabaha	24	-	225,000,000
Profit payable on murabaha financing		-	11,750,958
Unclaimed profit distributions		43,224,283	38,480,299
		6,025,447,844	7,185,647,765
TOTAL EQUITY AND LIABILITIES		9,913,057,271	11,124,024,230
CONTINGENCIES AND COMMITMENTS			
	25		

The annexed notes from 1 to 48 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, 2020

	Note	June 30, 2020	June 30, 2019
		-----Rupees-----	
Income from lease financing	26	191,545,074	179,312,769
Income from diminishing musharaka financing		1,017,660,560	734,364,170
Provision in respect of diminishing musharaka	27	(102,381,142)	(7,844,072)
Administrative expenses	28	(146,727,604)	(126,031,313)
		960,096,888	779,801,554
Other income	29	169,560,968	131,430,541
		1,129,657,856	911,232,095
Financial charges	30	(765,344,450)	(543,465,072)
Modaraba Management Company's remuneration	23.4	(36,431,341)	(36,776,702)
Sales tax on Modaraba Management Company's remuneration	23.5	(4,736,074)	(4,780,972)
Provision for Sindh Workers' Welfare Fund	23.3	(6,462,920)	(6,524,187)
Profit before taxation		316,683,071	319,685,162
Taxation	31	-	-
Profit for the year		316,683,071	319,685,162
Earning per certificate - basic and diluted	41	1.57	1.59

The annexed notes from 1 to 48 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, 2020

	Note	June 30, 2020	June 30, 2019
-----Rupees-----			
Profit for the year		316,683,071	319,685,162
Components of other comprehensive income reflected in equity			
Items that will not be reclassified subsequently to profit and loss account			
Actuarial gain / (loss) on defined benefit plan	23.7(g)	615,045	(376,685)
Total comprehensive income for the year transferred to unappropriated profit		317,298,116	319,308,477
Components of other comprehensive income reflected below equity			
Items that will not be reclassified subsequently to profit and loss account			
Deficit / surplus on revaluation of investments classified as 'at fair value through other comprehensive income' - net	19	(38,106,235)	7,002,127
Total comprehensive income for the year		279,191,881	326,310,604

The annexed notes from 1 to 48 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, 2020

	Note	June 30, 2020	June 30, 2019
-----Rupees-----			
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	43	2,166,429,259	1,899,057,129
Disbursement of lease financing assets		(610,813,503)	(1,218,432,985)
Proceeds from transfer of lease financing assets		552,134,946	278,667,464
Diminishing musharaka financing - net		(62,596,041)	(1,343,972,699)
Long term deposits		(12,000)	9,000
Security deposits against lease financing assets		(92,275,821)	(27,454,062)
Financial charges paid		(724,210,275)	(491,805,883)
Gratuity paid		(2,202,973)	(2,075,000)
Tax paid		(14,065,533)	(23,629,561)
Net cash inflow/ (outflow) from operating activities		1,212,388,059	(929,636,597)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets in own use		(10,180,631)	(24,407,886)
Purchase of intangible assets		(141,250)	-
Purchase of investments		(5,000,000)	(880,549,388)
Payments of lease rentals	21	(12,660,468)	-
Proceeds from sale of fixed assets in own use		258,820	1,433,382
Proceeds from sale / maturity of investments		315,847,897	1,040,144,417
Dividends received		15,177,576	15,420,791
Net cash generated from investing activities		303,301,944	152,041,316
CASH FLOW FROM FINANCING ACTIVITIES			
Profit distribution paid		(277,496,016)	(247,456,447)
Proceeds from murabaha financing		100,000,000	225,000,000
Profit paid on murabaha financing		(25,662,777)	(1,409,178)
Payment on maturity of murabaha financing		(325,000,000)	(25,000,000)
Certificates of investment (musharaka)		(869,546,164)	556,217,106
Net cash (outflow)/ inflow from financing activities		(1,397,704,957)	507,351,481
Net increase / (decrease) in cash and cash equivalents during the year		117,985,046	(270,243,800)
Cash and cash equivalents at beginning of the year		50,624,704	320,868,504
Cash and cash equivalents at end of the year	16	168,609,750	50,624,704

The annexed notes from 1 to 48 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, 2020

	Certificate capital	Capital reserves		Revenue reserves		Total equity
		Certificate premium	Statutory reserves*	General reserves	Unappropriated profit	
	(Rupees)					
Balance as at July 01, 2018	1,008,000,000	378,000,000	1,103,489,848	640,000,000	312,768,488	3,442,258,336
Profit distribution for the year ended						
June 30, 2019 at Re. 1.25 per certificate	-	-	-	-	(252,000,000)	(252,000,000)
Total comprehensive income for the year	-	-	-	-	319,308,477	319,308,477
Surplus transferred to unappropriated profit during the year	-	-	-	-	2,155,310	2,155,310
Transfer to statutory reserve	-	-	15,984,258	-	(15,984,258)	-
Balance as at June 30, 2019	<u>1,008,000,000</u>	<u>378,000,000</u>	<u>1,119,474,106</u>	<u>640,000,000</u>	<u>366,248,017</u>	<u>3,511,722,123</u>
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, 2020						
at Rs. 1.40 per certificate	-	-	-	-	(282,240,000)	(282,240,000)
Total comprehensive income for the year	-	-	-	-	317,298,116	317,298,116
Deficit transferred to unappropriated profit during the year	-	-	-	-	(96,327)	(96,327)
Transfer to statutory reserve	-	-	15,834,154	-	(15,834,154)	-
Balance as at June 30, 2020	<u>1,008,000,000</u>	<u>378,000,000</u>	<u>1,135,308,260</u>	<u>640,000,000</u>	<u>385,375,652</u>	<u>3,546,683,912</u>

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

The annexed notes from 1 to 48 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, 2020

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

IMPACT OF COVID-19 ON FINANCIAL STATEMENTS

During the year, the COVID – 19 pandemic has taken a toll on all economies and emerged as a contagion risk around the globe, including Pakistan. The World Health Organization has declared COVID-19 a global pandemic. To reduce the impact on businesses and economies in general, regulators / governments across the globe have introduced a host of measures on both the fiscal and economic fronts.

COVID-19 has adversely impacted modaraba on a number of fronts including increase in overall credit risk pertaining to the Islamic financing, disruption in growth due to slowdown in economic activity, continuity of business operations and managing cybersecurity threat as a significant number of the modaraba's staff is working from home.

Due to overall uncertain situation about the impacts and duration for which such a situation will continue, the overall impact on the modaraba's financial position and financial performance cannot be predicted with reasonable certainty. The management continues to monitor the developing situation and would proactively manage any risk arising thereof. Refer note 35.1 of these financial statements.

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 Prudential Regulations for Modarabas (hereinafter referred to as the relevant laws).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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

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

2.2 Basis of measurement

These financial statements have been prepared on the historical cost basis except for the measurement at fair value of certain financial instruments in accordance with the requirements of IAS- 39 'Financial Instruments: Recognition and Measurement', 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 22.7 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 Prudential Regulations issued by the SECP. In particular, judgment by management is required in the

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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

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.

The SECP has deferred the applicability of IFRS 9 for provision against Islamic financings made by Modaraba in the financial statements for the year ended June 30, 2019 and required the Modaraba to follow all other requirements of IFRS 9. Accordingly the Modaraba adopted all requirements of IFRS 9 but determined the provision in respect of financings as per the requirements of the Prudential Regulations in June 30, 2019.

The SECP has deferred the applicability of IFRS-9 for Modarabas upto June 30, 2021 via SRO 131(I) / 2019 dated February 24, 2020. However, as mentioned above the Modaraba had already adopted all other requirements of IFRS 9 except for provision against Islamic financings. Therefore, the Modaraba has continued same practice during the current year as well. The provision against financing has been determined in accordance with requirement of the Prudential Regulations.

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:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

Standard or Interpretation	Effective date (annual periods beginning on or after)
Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' - Definition of Material	January 01, 2020
Amendment to IFRS 3 'Business Combinations' - Definition of a Business	January 01, 2020
Amendment to IFRS 3 'Business Combinations' - Reference to the Conceptual Framework	January 01, 2022
Amendment to IAS 39/IFRS 9 'Financial Instruments: Recognition and Measurement' - Interest Rate Benchmark Reform	January 01, 2020
Amendments to IAS 1 'Presentation of Financial Statements' - Classification of Liabilities as Current or Non-current	January 01, 2022*
Amendments to IAS 16 'Property Plant and Equipment' - Proceeds before Intended Use	January 01, 2022
Amendments to IAS 37 'Provision contingent Assets and contingent Liability - Onerous Contracts - Costs of Fulfilling a Contract'	January 01, 2022

*The IASB has issued an exposure draft proposing to defer the effective date of the Amendments.

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.

Improvement to Accounting Standards Issued by the IASB (2018-2020 cycle)

IFRS 9 - Financial Instruments - Fees in the '10 percent' test for derecognition of financial	January 01, 2022
IAS 41 - Agriculture - Taxation in fair value measurements	January 01, 2022

The IASB has also issued the revised Conceptual Framework for Financial Reporting (the Conceptual Framework) in March 2018 which is effective for annual periods beginning on or after January 01, 2020 for preparers of financial statements who develop accounting policies based on the Conceptual Framework. The revised Conceptual Framework is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist IASB in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standards	IASB Effective date (annual periods beginning on or after)
IFRS 1 - First time adoption of IFRSs	January 01, 2004
IFRS 17 - Insurance Contracts	January 01, 2021

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

3.2 New / Revised Standards, Interpretations and Amendments

The Modaraba has adopted the following accounting standard and the amendments and interpretation of IFRSs which became effective for the current year:

IFRS 14 – Regulatory Deferral Accounts

IFRIC 23 - Uncertainty over Income Tax Treatments

IFRS 16 - Leases

IFRS 16 - COVID 19 Related Rent Concessions (Amendments)

Amendment to IAS 28 - Investments in Associates and Joint Ventures - Long Term Interests in Associates and Joint Ventures

Amendments to IAS 19 - Employee Benefits - Plan Amendment, Curtailment or Settlement

Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangement
- IAS 12 Income Taxes
- IAS 23 Borrowing Costs

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any effect on the financial statements except as described in note 3.3.

3.3 IFRS 16 - 'Leases'

During the current year, the Modaraba has adopted IFRS 16 as issued by the International Accounting Standards Board (IASB) in January 2016.

The Modaraba has lease contracts for various properties. Before the adoption of IFRS 16, the Modaraba has classified each of its leases (as lessee) at the inception date as an operating lease.

IFRS 16 supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Modaraba is the lessor.

As permitted by the transitional provisions of IFRS 16, the Modaraba elected not to restate the comparative figures and not to adjust the opening unappropriated profit as Modaraba elects to apply modified retrospective approach. Accordingly, the Modaraba recognized a lease liability for the obligation to make lease payments and a right-of-use (RoU) asset for the right to use the underlying asset for the lease term against a consideration. The lease liability is measured at the present value of the consideration (lease payments) to be made over the lease term. The lease payments are discounted using the interest rate implicit in the lease, unless it is not readily determinable, in which case the lessee may use the incremental rate of borrowing. The RoU asset is initially measured at the present value of lease liability, adjusted for lease prepayments and borrowing costs and initial direct cost if any.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

The effect of adoption of IFRS 16 as at July 01, 2019 is as follows:

Impact on Balance Sheet

Increase in fixed assets in own use - right-of-use assets

Decrease in long term deposits and prepayments

Decrease in advances and prepayments

Net increase in total assets

Increase in liability against right of use asset

Net increase in total liabilities

Impact on Profit and Loss Account

Administrative expenses

Decrease in rent expense

Increase in depreciation expense on right of use asset

Increase in financial charges on lease liability

Net impact on profit or loss account

Incremental borrowing rate as at January 01, 2019

The lease liability as at July 01, 2019 can be reconciled to the operating lease commitments as of July 01, 2019:

Undiscounted operating lease commitments as at July 01, 2019

Impact of discounting

Discounted operating lease commitments as at July 01, 2019

Add: Lease payments relating to renewal periods not included in operating lease commitments as at June 30, 2019

Lease liabilities as at July 01, 2019

The Modaraba also applied the available practical expedient of using a single discount rate to a portfolio of leases with reasonably similar characteristics.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial years except as described in note 4.18.

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.

As at July 01,
2019

33,419,015

(2,874,385)

(4,170,989)

26,373,641

32,876,629

32,876,629

For The Year
Ended June 30,
2020

(6,157,482)

5,097,125

3,292,359

2,232,002

13.97%

40,456,074

(10,297,305)

30,158,769

2,717,860

32,876,629

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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 Mumtaha 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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 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

A financial asset is measured at fair value through profit or loss 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 OCI

Debt instrument

The Modaraba measures debt instruments at fair value through OCI 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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

and profit on the principal amount outstanding.

For debt instruments at fair value through OCI, 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 OCI. Upon derecognition, the cumulative fair value change recognised in OCI 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 fair value through OCI 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 OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Impairment of financial assets

Provision for non-performing Islamic financing is made in accordance with the Prudential Regulation for modarabas issued by SECP vide Circular No. 25 of 2004 dated July 5, 2004 and subsequent amendments made therein, and is charged to profit and loss account. (see note 3.1)

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 the 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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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 legally enforceable right to set-off the recognized amounts and the Modaraba intends to either settle on 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 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 Prudential Regulations for Modarabas. Bad debts are written-off when identified.

4.7 Deposits, advances, prepayments and other receivables

Deposits, advances, prepayments and other receivables are stated initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

4.8 Cash and cash equivalents

Cash and cash equivalents are carried at cost.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash in hand, balances at banks in current and deposit accounts and stamps in hand.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

period of service. Gratuity is based on employees' last drawn salary. Provisions are made to cover the obligations under the scheme on the basis of actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. Actuarial gain or loss (remeasurements) are immediately recognised in 'Other Comprehensive Income' as they occur. The amount recognised in the statement of financial position represents the present value of defined benefit obligations as reduced by the fair value of the plan assets. Current service costs and any past service costs together with net interest cost are charged to profit or loss.

(b) Provident fund

The Modaraba also operates an approved funded contributory provident fund scheme for all its employees who are eligible under the scheme. Equal monthly contributions at the rate of 10 percent of basic salary are made by both Modaraba and its employees.

Compensated absences

The Modaraba accounts for these benefits in the period in which the absences are earned.

4.11 Taxation

Current

Provision for current taxation is made on taxable income at the prevailing rates of tax after taking into account tax credits available, if any. Under clause 100 of Part - I of the Second Schedule to the Income Tax Ordinance, 2001, the income of non-trading modarabas is exempt from tax provided that not less than 90 percent of their profits are distributed to the certificate holders.

Deferred

The Modaraba accounts for deferred taxation on all material temporary differences using the balance sheet method arising between the amounts attributed to assets and liabilities for financial reporting purposes and tax base used for taxation purposes. However, deferred tax has not been provided in these financial statements as the management believes that the future income of Modaraba will not be taxable in the foreseeable future due to the fact that the Modaraba intends to continue availing the tax exemption through profit distribution to the extent of 90 percent of distributable profit.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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

4.16 Segment reporting

Segment reporting is based on the operating (business) segments of the Modaraba. An operating segment is a component of the Modaraba that engages in business activities from which it may earn revenue and incur expenses. An operating segment's operating results are reviewed regularly by the Management Committee of the Modaraba to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the BoM includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The business segments are engaged in providing products or services which are subject to risk and rewards which differ from the risk and rewards of other segments. These 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	Parent Company	Common Management and Control
Habib Bank AG Zurich*	Ultimate parent	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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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

Registered Address: Weinbergstrasse 59, PO Box 225, 8042 Zurich, Switzerland

Country of Incorporation: Switzerland

Aggregate percentage of shareholding: 5.1% (Indirect holding)

Chief Executive Officer: Mohamedali R. Habib

Operational Status: Multinational Commercial Bank

The financial statements of Habib Bank AG Zurich for the year ended December 31, 2019, were audited by KPMG AG, who expressed an unmodified opinion on those financial statements on April 29, 2020.

4.18 Leases

Right-of-use assets

"The Modaraba recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Modaraba is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. The right of use assets are included in fixed assets in own use.

Lease liabilities

At the commencement date of the lease, the Modaraba recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Modaraba uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Modaraba applies the short-term lease recognition exemption to its short-term leases of property and equipment (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, 2020	June 30, 2019
-----Rupees-----			
5. LEASE FINANCING ASSETS			
Lease financing assets	5.1	1,691,512,990	2,582,968,016
Advance against lease financing assets	5.2	28,138,000	156,403,733
		1,719,650,990	2,739,371,749

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

5.1 Lease financing assets

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		
	(Rupees)							
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	

June 30, 2019								
Particulars	COST			ACCUMULATED DEPRECIATION			Written down value as at end of the year	Rate of depreciation %
	As at beginning of the year	Additions / (disposals) during the year	As at end of the year	As at beginning of the year	Charge / (adjustments) for the year	As at end of the year		
	(Rupees)							
Plant, machinery and equipment*	703,554,089	264,471,579 (79,619,466)	888,406,202	451,426,014	174,976,947 (66,095,904)	560,307,057	328,099,145	8.33 to 50
Vehicles	3,866,952,960	1,294,453,545 (1,011,168,267)	4,150,238,238	1,713,148,346	943,180,160 (760,959,139)	1,895,369,367	2,254,868,871	15 to 33.33
	4,570,507,049	1,558,925,124 (1,090,787,733)	5,038,644,440	2,164,574,360	1,118,157,107 (827,055,043)	2,455,676,424	2,582,968,016	

* The cost has been adjusted with impairment amounting to Rs.8.028 (2019: Rs.8.028) million.

5.2 Advances against lease financing assets

As at beginning of the year
Add: Disbursements during the year

Less: Transfers to lease financing assets
As at end of the year

6. FIXED ASSETS IN OWN USE

Assets in own use
Capital work-in-progress
Right-of-use assets

6.1 Assets in own use

Assets in own use

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		
	(Rupees)							
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, 2020

June 30, 2019

-----Rupees-----

156,403,733	496,895,872
578,191,767	1,218,432,985
734,595,500	1,715,328,857
(706,457,500)	(1,558,925,124)
28,138,000	156,403,733

6.1	41,012,823	42,733,150
6.2	756,769	1,215,689
6.3	27,659,236	-
	69,428,828	43,948,839

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

June 30, 2019								
Particulars	COST			ACCUMULATED DEPRECIATION			Written down value as at end of the year	Rate of depreciation %
	As at beginning of the year	Additions / (disposals) during the year	As at end of the year	As at beginning of the year	Charge / (adjustments) for the year	As at end of the year		
	(Rupees)							
Office equipment	18,368,257	3,697,940 (150,000)	21,916,197	14,035,341	2,381,930 (149,999)	16,267,272	5,648,925	25 to 33.33
Furniture and fixture	13,620,126	796,200 (75,000)	14,341,326	7,204,006	1,763,001 (74,999)	8,892,008	5,449,318	20 to 25
Vehicles	9,510,128	18,483,943 (4,770,500)	23,223,571	4,785,932	2,350,127 (3,751,784)	3,384,275	19,839,296	16.67
Leasehold improvements	14,657,804	1,442,714	16,100,518	1,222,329	3,082,578	4,304,907	11,795,611	20
		-			-			
	56,156,315	24,420,797 (4,995,500)	75,581,612	27,247,608	9,577,636 (3,976,782)	32,848,462	42,733,150	

6.1.1 Detail of disposal of assets in own use is as follows:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain	Mode of disposal	Particulars of purchaser	Relationship of purchaser with the Modaraba
(Rupees)								
Assets with Individual book value exceeding rupees 500,000	-	-	-	-	-	-	-	-
Aggregate of other items of asset in own use with individual book value not exceeding Rupees 500,000	3,742,028	3,564,529	177,499	258,819	81,320			
Total as at June 30, 2020	3,742,028	3,564,529	177,499	258,819	81,320			
Total as at June 30, 2019	4,995,500	3,976,782	1,018,718	1,433,382	414,664			

	Note	June 30, 2020	June 30, 2019
(Rupees)			
6.2 Capital work-in-progress			
As at the beginning of the year		1,215,689	1,228,600
Add: Addition to capital work-in-progress		756,769	1,215,689
		1,972,458	2,444,289
Less: Transfers to assets in own use		(1,215,689)	(1,228,600)
As at end of the year		756,769	1,215,689
6.3 Right-of-use assets			
As at June 30, 2019		-	-
Impact of adoption of IFRS 16	3.3	33,419,015	-
As at July 01, 2019		33,419,015	-
Depreciation Expense	28	(5,097,125)	-
Terminated during the year		(662,654)	-
As at June 30, 2020		27,659,236	-
7. INTANGIBLE ASSETS			
Intangible assets	7.1	57,461	177,386
Capital work-in-progress	7.2	141,250	-
		198,711	177,386

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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		
<div>(Rupees)</div>								
Computer software - June 30, 2020	3,807,214	-	3,807,214	3,629,828	119,925	3,749,753	57,461	33.33
Computer software - June 30, 2019	3,807,214	-	3,807,214	3,499,763	130,065	3,629,828	177,386	33.33

	Note	June 30, 2020	June 30, 2019
(Rupees)			
7.2 Capital work-in-progress			
As at the beginning of the year		-	-
Add: Addition to capital work-in-progress		141,250	-
		141,250	-
8. DIMINISHING MUSHARAKA FINANCING			
Secured			
Diminishing musharaka financing	8.1	6,789,058,938	6,508,601,566
Less: Provision in respect of diminishing musharaka	8.2	(109,665,216)	(7,844,072)
	8.3	6,679,393,722	6,500,757,494
Less: Current portion shown in current assets		(2,719,651,582)	(2,450,084,489)
		3,959,742,140	4,050,673,005
Add: Advance against diminishing musharaka financing		323,107,192	439,147,379
		4,282,849,332	4,489,820,384
8.1 This represents diminishing musharaka financing for a term of 1 to 10 years.			
8.2 Movement of provision in respect of diminishing musharaka			
Opening balance		7,844,072	-
Charge for the year		102,381,142	7,844,072
Reversal for the year		(559,998)	-
		101,821,144	7,844,072
		109,665,216	7,844,072
8.3 Aging of diminishing musharaka financing			
Classification	Aging		
Considered good	1 to 179 days	6,535,009,166	6,366,229,538
Portfolio classified as non-performing as per the requirement of the Prudential Regulations for Modarabas:			
Other asset especially mentioned (OAEM)	180 days to 1 year	152,073,516	135,675,603
Substandard	1 year or more	3,634,503	2,529,726
Doubtful	2 years or more	3,854,770	2,986,676
Loss	3 years or more	94,486,983	1,180,023
	8.3.1	254,049,772	142,372,028
		6,789,058,938	6,508,601,566

8.3.1 This includes classification into various categories based on subjective evaluation of borrowers.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

	Note	June 30, 2020	June 30, 2019
9. LONG TERM DEPOSITS			
Security deposit to Central Depository Company of Pakistan Limited		150,000	150,000
Security deposit of branch offices		846,800	846,800
Security deposit to Habib Metropolitan Bank for locker		130,000	130,000
Miscellaneous deposits		92,050	80,050
		1,218,850	1,206,850
10. INVESTMENTS			
At fair value through OCI			
Investment in shares	10.1	188,406,670	242,360,806
Investment in sukuk	10.2	80,000,000	75,000,000
		268,406,670	317,360,806
At Ammortised Cost			
Loans and Receivables			
Investment in Term Deposit Musharakas (TDMs)	10.3	500,000,000	800,000,000
		768,406,670	1,117,360,806

10.1 INVESTMENT IN SHARES

Shares of listed companies

		30 June, 2020		30 June, 2019	
Number of shares	Name of Investee Company	Average Cost	Market Value	Average Cost	Market Value
		(Rupees)			
2020	2019				
Banks					
1,826,550	1,826,550	Meezan Bank Limited	35,209,591	125,757,968	35,209,591
Food Producers					
1,510,668	1,510,668	Habib Sugar Mills Limited	47,301,563	44,564,702	47,301,567
Oil and Gas					
-	132,250	Pakistan Petroleum Limited	-	-	15,944,224
Fertilizer					
300,000	300,000	Engro Fertilizer Limited	19,025,405	18,084,000	19,025,405
		101,536,559	188,406,670	117,480,787	242,360,806

10.2 This represents investment in AA- rated, privately placed, perpetual, unsecured, subordinated, non-cumulative, and contingent convertible shariah compliant sukuk of Meezan Bank Limited, having face value of Rs.1,000,000 per certificate and carries profit at the rate of 3 Months KIBOR + 1.75% per annum.

10.3 This represents investment in A- rated, privately placed, perpetual, unsecured, subordinated, non-cumulative, and contingent convertible shariah compliant sukuk of Bank Islami Limited, having face value of Rs. 5,000 per certificate and carries profit at the rate of 3 Months KIBOR + 2.75% per annum.

10.4 These carry profit at rates ranging from 6.25% to 13.00% (2019: 9.20% to 12.00%) per annum having maturity from 3 months to 6 months.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

	Note	June 30, 2020	June 30, 2019
-----Rupees-----			
11. LEASE FINANCING INSTALLMENTS RECEIVABLE			
Secured - considered good			
Lease financing installments due		2,204,007	12,674,326
Less: Provision against lease financing installments receivable		(1,200,632)	(110,258)
	11.1	1,003,375	12,564,068
11.1 Aging of lease financing installments receivable			
Classification	Aging		
Considered good	1 to 179 days	1,003,375	12,564,068
Portfolio classified as non-performing as per the requirement of the Prudential Regulations for Modarabas:			
Other asset especially mentioned (OAEM)	180 days to 1 year	1,200,632	110,258
Substandard	1 year or more	-	-
Doubtful	2 years or more	-	-
Loss	3 years or more	-	-
	11.1.1	1,200,632	110,258
		2,204,007	12,674,326
11.1.1	This also includes provision on subjective basis.		
12. DIMINISHING MUSHARAKA FINANCING INSTALLMENTS RECEIVABLE			
Secured - considered good			
Diminishing Musharaka financing installments receivable		26,657,874	48,694,833
Less: Provision against Diminishing Musharaka financing installments receivable		(23,872,365)	(4,022,749)
	12.1	2,785,509	44,672,084
12.1 Aging of Diminishing Musharaka financing installments receivable			
Classification	Aging		
Considered good	1 to 179 days	2,785,509	44,672,084
Portfolio classified as non-performing as per the requirement of the Prudential Regulations for Modarabas:			
Other asset especially mentioned (OAEM)	180 days to 1 year	22,521,315	3,839,700
Substandard	1 year or more	1,169,559	183,049
Doubtful	2 years or more	181,491	-
Loss	3 years or more	-	-
	12.1.1	23,872,365	4,022,749
		26,657,874	48,694,833
12.1.1	This also includes provision on subjective basis.		
13. ADVANCES AND PREPAYMENTS			
Advances		2,043,244	941,527
Prepayments		2,396,784	2,963,636
		4,440,028	3,905,163

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

	Note	June 30, 2020	June 30, 2019
14. OTHER RECEIVABLES			
Unsecured - considered good			
Profit receivable on modaraba deposit accounts		5,692,186	1,164,564
Profit receivable on Term Deposit Musharakas (TDMs)		-	7,301,416
Stamp in hands receivable		118,200	-
Profit receivable on sukuk		673,233	792,740
Advance tax		14,425,520	23,997,064
Other receivables		193,020	-
		21,102,159	33,255,784
15. INCOME TAX REFUNDABLE			
Income tax refund	15.1	153,711,487	137,031,924
15.1 This represents the advance tax deducted by the various withholding agents under various sections of the Income Tax Ordinance, 2001. The management has claimed the tax deducted in return for the Tax Year 2019, since the management is confident that the same shall be refunded.			

	Note	June 30, 2020	June 30, 2019
16. CASH AND BANK BALANCES			
Stamps in hand		95,800	554,950
At banks			
Current accounts			
State Bank of Pakistan		253,980	253,130
With other banks		2,176,850	12,114,823
Profit bearing accounts			
Modaraba deposit account with Habib Metropolitan Bank Limited (Islamic branch) - a related party	16.1	165,958,016	33,601,380
Modaraba deposit account with other financial institutions	16.2	125,104	4,100,421
		166,083,120	37,701,801
		168,609,750	50,624,704

16.1 The profit on the above modaraba deposit accounts ranges between 6.25% to 10.80% (2019: 3.84% to 9.30%) per annum.

16.2 The profit on the above modaraba deposit accounts ranges between 3.75% to 6.26% (2019: 2.60% to 6.26%) per annum.

		June 30, 2020	June 30, 2019
17. ISSUED, SUBSCRIBED AND PAID-UP CERTIFICATE CAPITAL			
2020 2019			
----- (Number of certificates) -----			
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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

	Note	June 30, 2020	June 30, 2019
-----Rupees-----			
18. RESERVES			
Capital reserves			
Premium on issuance of certificates		378,000,000	378,000,000
Statutory reserves	18.1	1,135,308,260	1,119,474,106
		1,513,308,260	1,497,474,106
Revenue reserves			
General		640,000,000	640,000,000
Unappropriated profit		385,375,652	366,248,017
		1,025,375,652	1,006,248,017
		2,538,683,912	2,503,722,123

18.1 This represents profit set aside to comply with requirement of Prudential Regulations for Modarabas issued by SECP, which is not available for distribution, except for distribution in form of bonus shares.

	Note	June 30, 2020	June 30, 2019
-----Rupees-----			
19. SURPLUS ON REVALUATION OF INVESTMENTS			
Market value of investments		268,406,670	317,360,806
Less: Cost of investments		(181,536,559)	(192,480,787)
		86,870,111	124,880,019
Surplus on revaluation at beginning of the year		124,880,019	117,877,892
Surplus / (Deficit) transferred to unappropriated profit during the year		96,327	(2,155,310)
(Deficit) / Surplus on revaluation during the year		(38,106,235)	9,157,437
		(38,009,908)	7,002,127
		86,870,111	124,880,019

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.

	Note	June 30, 2020	June 30, 2019
-----Rupees-----			
20. SECURITY DEPOSITS AGAINST LEASE FINANCING ASSETS			
Lease security deposits	20.1	356,439,591	448,715,412
Less: Current portion shown under current liabilities		(124,155,383)	(146,941,089)
		232,284,208	301,774,323
20.1 These represent deposits from lease without any remuneration.			
21. LIABILITY AGAINST RIGHT OF USE ASSETS			
As at June 30, 2019		-	-
impact of adoption of IFRS 16	3.3	32,876,629	-
As at July 01, 2019		32,876,629	-
Finance cost for the year	30	3,292,359	-
Payments made during the year		(12,660,469)	-
Terminated during the year		(641,820)	-
As at June 30, 2020		22,866,700	-
Less: Current maturity		(1,095,504)	-
		21,771,196	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

	Note	June 30, 2020	June 30, 2019
22. CERTIFICATES OF INVESTMENT (MUSHARAKA)			
Unsecured			
Certificates of Investment (musharaka)		5,279,731,965	6,149,278,129
22.1 Movement in Certificates of Investment (musharaka)			
As at beginning of the year		6,149,278,129	5,593,061,023
Add: Certificates issued during the year	22.1.1	25,042,159,205	19,728,360,733
		31,191,437,334	25,321,421,756
Less: Encashment during the year		(25,911,705,369)	(19,172,143,627)
As at end of the year		5,279,731,965	6,149,278,129

22.1.1 The rollover amount of Rs.4,075,752,457 (2019: Rs.3,209,819,520) has been excluded from the certificate issued during the year.

22.2 The estimated share of profit paid / payable on the above unsecured certificates of investments (musharaka) ranges between 6.55% to 13.90% (2019: 5.60% to 12.30%) per annum having maturity from 3 months to 1 year.

	Note	June 30, 2020	June 30, 2019
23. TRADE AND OTHER PAYABLES			
Accrued liabilities	23.1	91,056,838	104,696,571
Adjustable against lease financing contracts	23.2	199,332,949	195,852,949
Advance against sale of diminishing musharaka units		9,918,529	22,420,159
Lease financing payable		-	29,943
Diminishing musharaka financing payable		-	49,500
Diminishing musharaka customer contribution		1,654,400	8,570,293
Workers' Welfare Fund	23.3	23,811,020	30,992,908
Management fee payable	23.4	36,431,341	36,776,702
Sales tax on management fee payable	23.5	18,402,919	13,666,845
Sales tax on management fee payable to previous management company	23.6	38,653,418	38,653,418
Gratuity payable	23.7	-	376,174
		419,261,414	452,085,462

23.1 This includes charity payable amounting to Rs.4.050 (2019: Rs.0.239) million. The reconciliation is as follows:

Balance as at beginning of the year	238,907	133,958
Addition during the year	8,995,135	1,188,899
Less: Paid to recognized charitable organisations	(5,183,745)	(1,083,950)
Balance as at end of the year	4,050,297	238,907

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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, 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. 13,644,808 on June 19, 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 upto a maximum of 10% per annum of the net annual profits of the Modaraba. The fee for the year ended June 30, 2020 has been recognized at 10% of profit for the year. (2019: 10%).

23.5 Sindh sales tax levied by Sindh Government on remuneration of Modaraba Management Company has been charged at the rate of 13% (2019:13%).

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 challenge 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 upto 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.

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, 2020 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, 2020	June 30, 2019
		-----Number-----	
Gratuity fund		71	54

c. Principal actuarial assumptions

The actuarial valuations were carried out as at 30 June 2020 using the following significant assumptions:

	Note	June 30, 2020	June 30, 2019
		-----Per annum-----	
Discount rate		9.25%	14.50%
Expected rate of return on plan assets		9.25%	14.50%
Expected rate of salary increase		9.25%	14.50%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

	Note	June 30, 2020	June 30, 2019
-----Rupees-----			
d. Reconciliation of payable to defined benefit plan			
Present value of defined benefit obligation		28,796,625	29,800,925
Fair value of plan assets		(28,796,625)	(29,424,751)
Net defined liability / (assets)		-	376,174
e. Movement in defined benefit obligations			
Obligations at the beginning of the year		29,800,925	26,013,336
Current service cost		2,390,870	2,074,489
Interest cost		4,408,972	2,519,503
Benefits paid by the Modaraba		(4,803,527)	(322,088)
Re-measurement (gain)		(3,000,615)	(484,315)
Obligations at the end of the year		28,796,625	29,800,925
f. Movement in fair value of plan assets			
Fair value at the beginning of the year		29,424,751	26,013,336
Interest income on plan assets		4,357,998	2,519,503
Contribution by the Modaraba-net		2,202,973	2,075,000
Actual benefits paid by the Fund during the year		(4,803,527)	(322,088)
Re-measurements: Net return on plan assets over interest income (loss)		(2,385,570)	(861,000)
Fair value at the end of the year		28,796,625	29,424,751
g. Movement in payable under defined benefit scheme			
Opening balance		376,174	-
Charge for the year		2,441,844	2,074,489
Contribution by the Modaraba - net		(2,202,973)	(2,075,000)
Re-measurement (gain) recognised in OCI during the year		(615,045)	376,685
Closing balance		-	376,174
h. Charge for defined benefit plan			
i. Cost recognised in profit and loss			
Current service cost		2,390,870	2,074,489
Net interest on defined benefit asset / liability		50,974	-
		2,441,844	2,074,489
j. Re-measurements recognised in OCI during the year			
(Gain) on obligation			
Financial assumptions		(3,000,615)	(484,315)
Return on plan assets over interest income		2,385,570	861,000
Total re-measurements recognised in OCI		(615,045)	376,685

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	Note	June 30, 2020	June 30, 2019
-----Rupees-----			
k. Components of plan assets			
Cash and cash equivalents - net		5,926,436	3,804,751
Non-Government Debt Securities		22,870,189	25,620,000
		28,796,625	29,424,751
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.		
m. Sensitivity analysis			
0.5% increase in discount rate			27,258,680
0.5% decrease in discount rate			30,456,844
0.5 % increase in expected rate of salary increase			30,448,986
0.5 % decrease in expected rate of salary increase			27,251,875
n. Expected charge / (reversal) for the next financial year			2,708,000
o. Maturity profile			
The weighted average duration of the obligation (in years)			11.09
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:		
Asset volatility	The risk that the actual mortality experience is different. The effect depends on the beneficiaries' service/age distribution and the benefit.		
Changes in bond yields	The risk of investment underperforming and being not sufficient to meet the liabilities.		
Life expectancy / Withdrawal rate	The risk of higher or lower withdrawal experience than assumed. The final effect could go either way depending on the beneficiaries' service/age distribution and the benefit.		
Final salary risk	The risk that the final salary at the time of cessation of service is greater than what we assumed. Since the benefit is calculated on the final salary, the benefit amount increases		

23.8 Provident Fund related disclosures

The following information is based on the latest un-audited financial statements of the fund:

	Note	June 30, 2020	June 30, 2019
-----Rupees-----			
Size of the fund - total assets		61,807,533	63,148,310
Cost of investments made		42,496,028	42,472,881
Fair value of investments	22.8.1 & 22.8.2	42,016,162	41,969,268
Percentage of investments made		68%	66%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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

	2020		2019	
	Percentage of the size of the fund	Rupees	Percentage of the size of the fund	Rupees
Investment in listed debt securities	0.00%	-	0.20%	125,000
Investment in unlisted debt securities	0.12%	75,000	25.65%	16,200,000
Investment in listed equity securities	4.24%	2,623,332	3.62%	2,284,980
Bank balances	63.61%	39,317,830	36.99%	23,359,288
	68%	42,016,162	66%	41,969,268

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. ADVANCE AGAINST MURABAHA

Murabaha financing facility of Rs.Nil (2019: Rs.225) million has been agreed with an Islamic bank at profit rate of Nil (2019: deposit rate + 1.00%) per annum, for financing of vehicles to be leased.

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, 2020.

25.2 Commitments

Commitments in respect of financing transactions amounted to Rs.136 (2019: Rs.338) million.

	Note	June 30, 2020	June 30, 2019
26. INCOME FROM LEASE FINANCING			
Lease financing installments	26.1	1,286,029,242	1,297,469,876
Less: Depreciation on lease financing assets		(1,094,484,168)	(1,118,157,107)
		191,545,074	179,312,769

26.1 This comprises of principal and profit components.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

	Note	June 30, 2020	June 30, 2019
27. Provision in respect of diminishing musharaka			
-----Rupees-----			
Provision for DM financing	8.2	101,821,144	7,844,072
Write off during the year		559,998	-
		102,381,142	7,844,072
28. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits	28.1	82,326,025	72,451,042
Printing, stationery and advertising		3,194,184	3,946,086
Travelling and conveyance		661,793	1,541,761
Insurance / takaful charges		657,982	522,654
Utilities		3,732,400	4,075,801
Postage		811,109	1,181,506
Newspapers and periodicals		31,875	34,513
Repairs and maintenance		2,846,520	2,634,237
Telecommunication		1,035,558	1,106,253
Fees and subscriptions		4,513,852	4,553,516
Legal and professional charges		6,950,975	5,209,812
Donations	28.2	840,000	840,000
Depreciation on fixed assets in own use	6.1	12,182,379	9,577,636
Depreciation Expense on Lease Assets	6.3	5,097,125	-
Amortization on intangible assets	7.1	119,925	130,065
Auditors' remuneration	28.3	2,758,308	2,818,595
Certificate registrar expenses		1,174,024	1,479,378
Vehicle running expenses		2,051,850	1,891,717
Office expense		2,748,525	2,230,354
Staff training and workshop		248,092	317,669
Staff hajj expenses		700,000	916,152
Rent expense		813,182	5,272,537
Information technology expenses		3,482,534	2,925,983
Commission expense - HMB		1,078,415	320,005
Miscellaneous		6,670,972	54,041
		146,727,604	126,031,313

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:

	2020			2019		
	Officers*	Other employees	Total	Officers*	Other employees	Total
	----- (Rupees) -----			----- (Rupees) -----		
Salaries	11,333,432	24,723,013	36,056,445	18,470,249	14,647,232	33,117,481
House rent	1,341,900	3,617,550	4,959,450	2,224,800	2,323,560	4,548,360
Other allowances	7,374,068	25,982,906	33,356,974	10,072,283	18,060,373	28,132,656
Insurance	454,762	2,168,091	2,622,853	849,971	1,042,778	1,892,749
Gratuity fund	1,426,338	1,015,506	2,441,844	1,424,103	650,386	2,074,489
Provident fund	908,341	1,980,118	2,888,459	1,485,312	1,199,995	2,685,307
	22,838,841	59,487,184	82,326,025	34,526,718	37,924,324	72,451,042
Number of employees	4	83	87	10	70	66

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

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 (2019: nil)

28.1.3 This includes contribution to staff provident fund amounting to Rs.2.888 (2019: Rs.2.685) million.

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, 2020	June 30, 2019
28.3 Auditors' remuneration:			
EY Ford Rhodes			
Audit fee		600,000	550,000
Special audit		500,000	450,000
Fee for half yearly review and code of corporate governance		240,000	220,000
Taxation and other services		928,046	1,134,384
Out of pocket expenses		308,818	275,860
		2,576,864	2,630,244
Sales tax		181,444	188,351
		2,758,308	2,818,595
29. OTHER INCOME			
Dividend on shares	29.1	15,177,576	14,460,791
Gain on transfer of lease financing assets		16,084,852	14,934,774
Gain on sale of owned fixed assets - net		81,320	414,664
Profit on modaraba's deposit accounts		32,653,590	12,797,933
Profit on Term Deposit Musharakas (TDMs)		78,983,794	47,447,137
Profit on Ijarah GOP sukuk bonds		-	26,787,247
Profit on sukuk		11,185,737	8,008,110
Loss on termination of lease contract		(20,834)	-
Premature income on termination of diminishing musharaka		10,952,737	4,711,657
Miscellaneous income		4,462,196	1,868,228
		169,560,968	131,430,541
29.1 Dividend on shares			
Meezan Bank Limited		7,306,200	6,553,875
Habib Sugar Mills Limited		4,154,337	4,154,337
Pakistan Petroleum Limited		-	172,500
Engro Fertilizers Limited		3,900,000	2,750,000
The Hub Power Company Limited		-	280,000
Dawood Hercules Corporation Limited		-	750,000
Fauji Cement Company Limited		-	50,000
		15,360,537	14,710,712
Less: Charity expense		(182,961)	(249,921)
		15,177,576	14,460,791
30. FINANCIAL CHARGES			
Profit on certificates of investment (musharaka)		747,529,622	529,734,534
Profit on modaraba financing		13,911,819	13,150,150
Financial charges on liability against right of use asset	21	3,292,359	-
Bank commission and charges		610,650	580,389
		765,344,450	543,465,072

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

31. TAXATION

As per the current tax law, Income of non-trading modarabas is exempt from income tax provided that they distribute ninety percent cash profit to certificate holders out of current year's total profit after appropriating to statutory reserves. As the management is intending to follow the aforesaid policy for profit distribution for the current year, no provision with respect to current and deferred taxation has been made in these financial statements.

32. CONTRACTUAL LEASE FINANCING INSTALLMENTS RECEIVABLE - LEASE CONTRACTS

	2020				2019			
	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	759,895,573	959,755,417	-	1,719,650,990	1,191,698,961	1,634,340,600	-	2,826,039,561

33. TRANSACTIONS WITH RELATED PARTIES

The related parties and associated undertakings comprise the Management Company (Habib Metropolitan Modaraba Management Company (Private) Limited), Habib Metropolitan Bank Limited, Habib Bank AG Zurich, Habib Metro Modaraba, Habib Metropolitan Financial Services Limited, First Habib Modaraba Employees' Provident Fund, First Habib Modaraba Employees' Gratuity Fund and key management personnel. Transactions and balances outstanding with related parties and associated undertakings are as follows:

			June 30, 2020	June 30, 2019
			Rupees	
Balances held				
Related party	Related party relationship	Nature of balances		
Habib Metropolitan Bank Limited	Holding Company	Bank Balances	167,733,693	45,314,995
		Investment in HMB	100,000,000	-
		Certificates of investment (musharaka)	700,000,000	4,950,000,000
		Profit receivable	3,855,200	1,163,848
		Financial charges payable	13,024,658	74,258,904
		Prepaid Utility charges	1,845,689	1,675,682
		Prepaid Rent	344,556	313,236
		Security deposit	130,000	130,000
		Lease financing assets*	-	2,941,523
Habib Bank AG Zurich	Ultimate Parent	Lease financing assets*	121,821	561,863
Habib Metropolitan Modaraba Management Company (Private) Limited	Management Company	Management fee payable	36,431,341	36,776,651
		Sale tax on management fee payable	18,402,912	13,666,838
Habib Metropolitan Financial Services Limited	Associate	Lease financing assets*	-	19,770
Provident Fund	Associate	Certificates of investment (musharaka)	-	1,200,000

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

			June 30, 2020	June 30, 2019
			Rupees	
Transactions during the year	Related party relationship	Nature of transactions		
Habib Metropolitan Bank Limited	Parent Company	Profit on bank accounts	31,875,107	11,991,302
		Bank charges	682,186	563,191
		Utility charges	4,158,282	4,264,846
		Financial charges	459,288,219	386,695,215
		Lease financing installments received*	2,508,277	21,169,756
		Termination cost received	-	1,934,033
Habib Bank AG Zurich	Ultimate Parent	Lease financing installments received*	641,797	1,078,231
Habib Metropolitan Modaraba Management Company (Private) Limited	Management Company	Management fee	36,431,341	36,776,702
		Sale tax on management fee	4,736,074	4,780,972
		Management fee paid	33,834,566	33,311,460
		Dividend paid	28,224,000	25,200,000
Habib Metropolitan Financial Services Limited	Associate	Brokerage commission	13,225	29,695
		Purchase of securities	-	5,549,388
		Sale of securities	15,847,897	40,144,418
Staff Retirement Benefit Fund	Associate	Gratuity fund	2,441,844	2,074,489
		Contribution made	2,202,973	2,075,000
Provident Fund	Associate	Contribution made	2,888,459	2,685,307

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

33.2 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, 2020, further the lease financing outstanding was originally disbursed before March 31, 2017 when these were not associated undertakings (related party) of the Modaraba.

34. 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.

35. FINANCIAL INSTRUMENTS

35.1 Risk management policies

The Modaraba's objective in managing risks is the creation and protection of Certificate holders' value. Risk is inherent in the Modaraba's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Modaraba's continuing profitability. The Modaraba is exposed to market risk (which includes profit rate risk and price risk), credit risk and liquidity risk arising from the financial instruments it holds.

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:

NOTES TO THE FINANCIAL STATEMENTS

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- Credit Risk
- Liquidity Risk
- Market Risk.

COVID-19 have impacted the modaraba on a number of fronts as explained in note 1 of these financial statements. To reduce the impact on businesses and economies in general, regulators / governments across the globe have introduced a host of measures on both the fiscal and economic fronts. Accordingly, the State Bank of Pakistan has responded to the crises by cutting the Policy Rate by 625 basis point. SECP has also given regulatory relief to corporate sector which includes extension of holding Annual General Meeting, alternatives to disseminate information to certificate holders through post, relaxation for filing of interim financial statements, relaxation to hold BOD meeting once in each quarter and instructions to prioritize safety of employees in COVID-19 outbreak. The Modaraba's Risk management risk function continues to monitor the developing situation and would proactively manage any risk arising thereof.

35.2 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 potofoilo as at June 30 2020 and none of it's customers require further downgrading on subjective bases.

Exposure to Credit Risk

The maximum exposure to credit risk before any credit enhancements at June 30, 2020 is the carrying amount of the financial assets as set out below:

[illegible]

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

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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 40 to the financial statements.

Impaired Assets

Refer note 4.2(d) and 5.1 to the financial statements for details on impairment of assets.

The Risk Management function is regularly conducting detailed analysis on Sectors/Industries and identify the degree by which the modaraba's customers and their businesses have impacted amid COVID-19. Keeping in view short term and long term outlook of each sector, management has taken into consideration the factors while carrying out subjective evaluation of the customers for provision purpose.

35.3 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 37 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.

Due to COVID-19 outbreak Modaraba's customers and their businesses has been adversely impacted. The management is continuously monitoring the liquidity position and is taking necessary precautionary measures where needed.

35.4 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.

NOTES TO THE FINANCIAL STATEMENTS

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As at June 30, 2020, the fair value of equity and debt securities exposed to price risk was as follows:

Particulars	Average Cost 2020	Fair Value 2020	Average Cost 2019	Fair Value 2019
	(Rupees)			
Shares of listed companies	101,536,559	188,406,670	117,480,787	242,360,806
Sukuk	80,000,000	80,000,000	75,000,000	75,000,000
Risk Management	181,536,559	268,406,670	192,480,787	317,360,806

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 benchmark. The Modaraba reviews KIBOR on lease financing portfolio on quarterly / six monthly basis.

As at June 30, 2020, the profile of the Modaraba's variable value financial instruments were as follows:

Note	June 30, 2020	June 30, 2019
	Rupees	
Variable rate instruments		
Assets		
Sukuk	80,000,000	75,000,000
Diminishing musharaka financing	6,789,058,938	6,508,601,566
Bank deposits	166,083,120	37,701,801
Liabilities		
Certificate of Investment (Musharaka)	(5,279,731,965)	(6,149,278,129)
Advance against murabaha financing	-	(225,000,000)
	1,755,410,093	247,025,238

Fair value sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates would have increased / decreased the profit and loss by the amounts shown below. Reduction in interest rates by 100 basis points would have a vice versa impact. This analysis assumes that all variables remain constant. The analysis is performed on the same basis for the comparative period.

Asset / liability class (Having variable interest rates)	(Increase / Decrease) (+/-)	Changes in profit / (loss) ------(Rupees)-----
Assets		
Sukuk	100 basis points	800,000
Diminishing musharaka financing	100 basis points	67,890,589
Bank deposits	100 basis points	1,660,831
Liability		
Certificate of Investment (Musharaka)	100 basis points	(52,797,320)
Advance against murabaha financing	100 basis points	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

Above sensitivities are calculated on the assumption that all factors remain constant except interest rates and resulting variation in fair values of the subjugated investments and impact on the profit and loss.

Risk Management / Mitigation

The Modaraba monitors the interest rate environment on a regular basis and alters the portfolio mix of fixed and floating rate securities.

The Modaraba's policy requires the Modaraba management to manage this risk by measuring the mismatch of the interest rate sensitivity gap of financial assets and liabilities and calculating the average duration of the portfolio of fixed interest securities.

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.

35.5 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 behaviour. 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.

COVID-19 pandemic has created an unprecedented challenge for modaraba in terms of Business Continuity Management. The management is closely monitoring the situation and has invoked required actions to ensure the safety and security of modaraba's staff and uninterrupted service to customers.

Business Continuity Plans for respective areas are in place and tested. Work-from-Home capabilities have been enabled for staff where required, while ensuring adequate controls to ensure that modaraba's information assets are adequately protected from emerging cyber threats.

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36. FAIR VALUE OF FINANCIAL AND NON-FINANCIAL ASSETS

IFRS 13 - 'Fair Value Measurement' establishes a single source of guidance under IFRS for all fair value measurements and disclosures about fair value measurement where such measurements are required as permitted by other IFRSs. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the statement of assets and liabilities date. The estimated fair value of all other financial assets and financial liabilities is considered not significantly different from book value.

The following table shows financial instruments recognised at fair value, analysed 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).

	2020							
	Carrying amount				Fair value			
	At fair value through OCI	At fair value through profit or loss	At amortised cost	Total	Level 1	Level 2	Level 3	Total
	(Rupees)				(Rupees)			
Financial assets measured at fair value								
Shares of listed companies	188,406,670	-	-	188,406,670	188,406,670	-	-	188,406,670
Sukuk (note 36.1)	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>
Financial assets not measured at fair value (note 36.2)								
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
	(Rupees)		
Financial liabilities			
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>

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FOR THE YEAR ENDED JUNE 30, 2020

	2019				2019			
	Carrying amount				Fair value			
	Investments	Loans and other receivables	Cash and cash equivalents	Total	Level 1	Level 2	Level 3	Total
	(Rupees)				(Rupees)			
Financial assets measured at fair value								
'Available-for-sale'								
Shares of listed companies	242,360,806	-	-	242,360,806	242,360,806	-	-	242,360,806
Ijarah GOP sukuk bonds	75,000,000	-	-	75,000,000	-	75,000,000	-	75,000,000
	<u>317,360,806</u>	<u>-</u>	<u>-</u>	<u>317,360,806</u>	<u>242,360,806</u>	<u>75,000,000</u>	<u>-</u>	<u>317,360,806</u>
Financial assets not measured at fair value								
Investment in Term Deposit Musharaka (TDMs)	-	-	800,000,000	800,000,000				
Diminishing musharaka financing	-	-	6,939,904,873	6,939,904,873				
Long term deposits	-	-	1,206,850	1,206,850				
Lease financing installments receivables	-	-	12,564,068	12,564,068				
Diminishing musharaka financing installments receivables	-	-	44,672,084	44,672,084				
Advances	-	-	941,527	941,527				
Other receivables	-	-	9,258,720	9,258,720				
Cash and bank balances	-	-	50,624,704	50,624,704				
	<u>-</u>	<u>-</u>	<u>7,859,172,826</u>	<u>7,859,172,826</u>				

During the year ended June 30, 2019, 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.

	2019		
	Other financial		
	At fair value	liabilities	Total
	(Rupees)		
Financial liabilities			
Security deposits against lease financing assets	-	448,715,412	448,715,412
Certificates of investment (musharaka)	-	6,149,278,129	6,149,278,129
Unearned lease financing and diminishing musharaka installments	-	17,566,187	17,566,187
Advance lease financing and diminishing musharaka installments	-	32,284,117	32,284,117
Trade and other payables	-	368,772,291	368,772,291
Profit payable on certificates of investment (musharaka)	-	112,261,524	112,261,524
Advance against murabaha	-	225,000,000	225,000,000
Profit payable on murabaha financing	-	11,750,958	11,750,958
Unclaimed profit distributions	-	38,480,299	38,480,299
	<u>-</u>	<u>7,404,108,917</u>	<u>7,404,108,917</u>

36.1 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).

36.2 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.

37. MATURITIES OF ASSETS AND LIABILITIES

Liquidity risk is the risk that the Modaraba will be unable to meet its net funding requirements. To guard against this risk, the Modaraba has adequate funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of working capital.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

2020									
Total	Upto 1 month	Over 1 month to 3 month	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 year	Over 2 year to 3 year	Over 3 year to 5 year	Over 5 year to 10 year	Over 10 year
(Rupees)									
Assets									
Lease financing assets	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
Liabilities									
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
Difference	3,633,554,023								
Represented by:									
Issued, subscribed and paid-up certificate capital	1,008,000,000								
Reserves	2,538,683,912								
Total Equity	3,546,683,912								
Surplus on revaluation of investments	86,870,111								
	3,633,554,023								

2019									
Total	Upto 1 month	Over 1 month to 3 month	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 year	Over 2 year to 3 year	Over 3 year to 5 year	Over 5 year to 10 year	Over 10 year
(Rupees)									
Assets									
Lease financing assets	2,739,371,749	90,898,593	166,461,249	240,001,028	447,058,064	699,108,763	427,307,417	668,536,635	-
Fixed assets in own use	43,948,839	977,023	1,943,762	2,842,972	5,450,647	10,411,876	8,824,083	9,839,078	3,659,398
Intangible assets	177,386	10,839	21,678	29,981	57,428	-	-	-	-
Diminishing musharaka financing	6,939,904,873	252,880,427	433,570,384	640,409,438	1,231,738,534	2,084,934,598	1,361,463,904	921,748,456	13,159,132
Investments	1,117,360,806	-	-	800,000,000	317,360,806	-	-	-	-
Lease financing installments receivable	12,564,068	12,564,068	-	-	-	-	-	-	-
Diminishing musharaka financing installments receivable	44,672,084	44,672,084	-	-	-	-	-	-	-
Advances, deposits and prepayments	5,112,013	631,481	779,140	208,071	129,255	3,364,066	-	-	-
Other receivables	33,255,784	9,258,720	-	-	23,997,064	-	-	-	-
Income tax refundable	137,031,924	-	-	-	137,031,924	-	-	-	-
Cash and bank balances	50,624,704	50,624,704	-	-	-	-	-	-	-
	11,124,024,230	462,517,939	602,776,213	1,683,491,490	2,162,823,722	2,797,876,763	1,797,595,404	1,600,124,169	16,818,530
Liabilities									
Security deposits against lease financing assets	448,715,412	50,110,826	11,050,920	11,625,257	74,048,942	88,553,669	128,696,285	84,629,513	-
Certificates of investment (musharaka)	6,149,278,129	2,550,085,548	3,447,106,678	73,200,000	78,885,903	-	-	-	-
Unearned lease financing and diminishing musharaka installments	17,566,187	-	-	-	17,566,187	-	-	-	-
Advance lease financing and diminishing musharaka installments	32,284,117	-	-	-	32,284,117	-	-	-	-
Trade and other payables	452,085,462	103,885,286	51,710,449	-	265,496,819	30,992,908	-	-	-
Profit payable on certificates of investment (musharaka)	112,261,524	46,554,487	62,930,549	1,336,343	1,440,145	-	-	-	-
Advance against murabaha financing	225,000,000	-	225,000,000	-	-	-	-	-	-
Profit payable on murabaha financing	11,750,958	-	11,750,958	-	-	-	-	-	-
Unclaimed profit distributions	38,480,299	38,480,299	-	-	-	-	-	-	-
	7,487,422,088	2,789,116,446	3,809,549,554	86,161,600	469,722,113	119,546,577	128,696,285	84,629,513	-
Difference	3,636,602,142								
Represented by:									
Issued, subscribed and paid-up certificate capital	1,008,000,000								
Reserves	2,503,722,123								
Total Equity	3,511,722,123								
Surplus on revaluation of investments	124,880,019								
	3,636,602,142								

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38. FINANCIAL ASSETS AND LIABILITIES

	2020					
	Profit bearing			Non-profit bearing		
	Maturity after		Sub-total	Maturity after		Total
	Maturity upto	one year		Maturity upto	one year and	
	one year	upto five years		one year	upto five years	
	(Rupees)					
Financial assets						
Cash and bank balances	166,083,120	-	166,083,120	2,526,630	-	168,609,750
Other receivables	-	-	-	6,676,639	-	6,676,639
Investments	500,000,000	80,000,000	580,000,000	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
Advances	-	-	-	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	7,953,244,951

Financial liabilities						
Security deposits against lease financing assets	-	-	-	124,155,383	232,284,208	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
Profit payable on certificates of investment (musharaka)	-	-	-	135,580,868	-	135,580,868
Unclaimed profit distribution	-	-	-	43,224,283	-	43,224,283
	5,302,130,392	-	5,302,130,392	641,354,591	232,284,208	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)	1,777,475,760
Lease financing assets	759,895,573	959,755,417	1,719,650,990	-	-	1,719,650,990

	2019					
	Profit bearing			Non-profit bearing		
	Maturity after		Sub-total	Maturity after		Total
	Maturity upto	one year		Maturity upto	one year and	
	one year	upto five years		one year	upto five years	
	(Rupees)					
Financial assets						
Cash and bank balances	37,701,801	-	37,701,801	12,922,903	-	50,624,704
Other receivables	-	-	-	9,258,720	-	9,258,720
Investments	800,000,000	75,000,000	875,000,000	242,360,806	-	1,117,360,806
Lease financing installments receivables	12,564,068	-	12,564,068	-	-	12,564,068
Diminishing musharaka financing installments receivable	44,672,084	-	44,672,084	-	1,206,850	45,878,934
Long term advances and deposits	-	-	-	941,527	-	941,527
Diminishing musharaka financing	2,450,084,489	4,489,820,384	6,939,904,873	-	-	6,939,904,873
	3,345,022,442	4,564,820,384	7,909,842,826	265,483,956	1,206,850	8,176,533,632

Financial liabilities						
Security deposits against lease financing assets	-	-	-	146,941,089	301,774,323	448,715,412
Certificates of investment (musharaka)	6,149,278,129	-	6,149,278,129	-	-	6,149,278,129
Unearned lease financing and diminishing musharaka installments	17,566,187	-	17,566,187	-	-	17,566,187
Advance lease financing and diminishing musharaka installments	32,284,117	-	32,284,117	-	-	32,284,117
Advance against murabaha	225,000,000	-	225,000,000	-	-	225,000,000
Profit payable on murabaha financing	-	-	-	11,750,958	-	11,750,958
Trade and other payables	-	-	-	368,772,291	-	368,772,291
Profit payable on certificates of investment (musharaka)	-	-	-	112,261,524	-	112,261,524
Unclaimed profit distribution	-	-	-	38,480,299	-	38,480,299
	6,424,128,433	-	6,424,128,433	678,206,161	301,774,323	7,404,108,917
On balance sheet gap	(3,079,105,991)	4,564,820,384	1,485,714,393	(412,722,205)	(300,567,473)	772,424,715
Lease financing assets	944,418,934	1,794,952,815	2,739,371,749	-	-	2,739,371,749

* 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.

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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.

39. SEGMENT BY CLASS OF BUSINESS OF FINANCING ASSETS

	2020		2019	
	Rupees	%	Rupees	%
Auto and allied	335,381,430	3.85	414,778,567	4.29
Cable and electric goods	226,520,128	2.60	279,917,995	2.89
Cargo, courier and logistic services	351,372,656	4.03	442,493,304	4.57
Cement	84,043,184	0.96	87,410,159	0.90
Chemical	620,901,316	7.12	661,847,623	6.84
Construction	87,475,331	1.00	159,943,915	1.65
Education	202,466,630	2.32	272,219,049	2.81
Fertilizer	113,468,245	1.30	207,034,654	2.14
Financial institutions	123,911,429	1.42	154,828,405	1.60
Food and allied	950,871,566	10.90	778,163,994	8.04
Fuel, power and energy	27,525,915	0.32	25,602,010	0.26
Glass and ceramics	27,503,107	0.32	54,336,317	0.56
Health care	154,649,926	1.77	174,860,471	1.81
Individuals	544,122,732	6.24	575,464,904	5.95
Information technology	251,601,582	2.88	286,498,264	2.96
Leather and tanneries	5,082,238	0.06	15,180,401	0.16
Oil and gas exploration	52,669,480	0.60	91,376,302	0.94
Paper and board	50,631,975	0.58	45,486,114	0.47
Pharmaceutical	1,768,581,837	20.28	1,677,465,684	17.33
Refinery, lubricant, oil and gas marketing	399,562,916	4.58	596,813,151	6.17
Services	1,588,996,931	18.22	1,807,116,764	18.67
Steel and engineering	154,810,770	1.77	336,558,392	3.48
Sugar and allied	206,736,211	2.37	139,310,550	1.44
Textile	359,967,319	4.13	352,101,567	3.64
Others	33,297,050	0.38	42,468,066	0.44
	8,722,151,904	100.00	9,679,276,622	100.00

39.1 Modaraba's operations are restricted to Pakistan only.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

40. 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:

	2020				2019			
	Advances, deposits, prepayments	Diminishing musharaka financing	Diminishing musharaka financing installment receivables	Lease financing installments receivables	Advances, deposits, prepayments	Diminishing musharaka financing	Diminishing musharaka financing installment receivables	Lease financing installments receivables
	(Rupees)				(Rupees)			
Segment by class of business								
Auto and allied	195,736	304,931,483	1,406,673	2,736	-	388,582,427	3,005,706	241,074
Cable and electric goods		208,541,628	974,997	180,622	-	195,595,212	711,226	249,202
Cargo, courier and logistic services		256,414,061	6,204,399	253,268	-	267,685,449	2,155,437	222,552
Cement	21,874	84,043,184	144,816	-	-	87,410,159	439,962	-
Chemical	103,904	401,306,247	1,545,520	483,061	-	410,634,293	3,803,515	1,068,208
Construction		87,475,331	1,038,477	24,988	-	136,845,176	2,289,561	689,292
Education		107,091,784	175,554	-	-	145,101,088	438,839	195,166
Fertilizer		66,316,718	7,202	-	-	107,767,177	547,587	32,530
Financial institutions	494,500	81,092,033	-	-	2,621,418	100,635,168	174,866	245,561
Food and allied	3,550	950,871,566	2,421,151	20,472	-	761,102,828	3,276,360	-
Fuel, power and energy	1,571,274	27,525,915	3,389	618	-	23,810,899	153,224	8,688
Glass and ceramics		27,503,107	184,629	-	-	51,992,982	508,912	279,875
Health care		141,742,626	396,414	54,280	-	151,261,124	1,808,476	274,607
Individuals	1,029,429	544,122,732	2,814,971	-	-	571,628,296	2,161,270	61,225
Information technology	161,661	245,093,237	343,865	241,309	231,330	246,964,188	660,662	124,135
Leather and tanneries		5,082,238	9,726	9,969	-	11,821,101	104,432	26,157
Oil and gas exploration		52,669,480	337,176	-	-	73,158,295	785,005	-
Paper and board		28,993,512	527,901	43,714	-	39,031,556	376,344	48,340
Pharmaceutical	945,219	1,169,479,159	1,742,172	747,076	-	32,589,698	339,541	185,431
Refinery, lubricant, oil and gas marketing		355,040,246	79,948	-	-	898,429,536	6,565,573	1,544,051
Services	1,071,731	1,159,243,232	2,828,499	98,307	-	510,823,611	3,541,409	39,560
Steel and engineering		154,810,770	2,554,158	15,754	2,259,265	974,219,567	6,305,183	5,442,025
Sugar and allied		175,690,308	144,246	-	-	329,151,425	1,972,874	524,223
Textile		335,780,367	739,433	12,498	-	101,708,136	133,428	1,005,734
Others	60,000	31,639,950	32,558	15,335	-	321,955,482	2,412,692	56,432
	5,658,878	7,002,500,914	26,657,874	2,204,007	5,112,013	6,939,904,873	44,672,084	12,564,068

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

41. EARNINGS PER CERTIFICATE

41.1 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, 2020	June 30, 2019
		-----Rupees-----	
Profit for the year		316,683,071	319,685,162
Weighted average number of certificates of Rs. 5/- each		201,600,000	201,600,000
Earnings per certificate		1.57	1.59

41.2 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.

42. SEGMENT INFORMATION

As per IFRS 8 - 'Operating Segments', operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision maker. The chief executive officer of the management company has been identified as the chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments.

The Chief Executive Officer is responsible for Modaraba's entire product portfolio and consider business to have a two operating segments. The Modaraba's assets allocation decisions are based on a single integrated investment strategy and the Modaraba's performance is evaluated on basis of two operating segments.

The internal reporting provided to the chief executive officer for the Modaraba's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of approved accounting standards as applicable in Pakistan.

The Modaraba's is domiciled in Pakistan. All of the Modaraba's income is from the investments in entities incorporated in Pakistan.

Details of segment revenues, costs, profit, assets and liabilities are as follows:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

	Lease financing assets		Diminishing musharaka financing		Total	
	2020	2019	2020	2019	2020	2019
Segment revenues and (losses) / profits						
Revenue - net of depreciation, where applicable	191,545,074	179,312,769	1,017,660,560	734,364,170	1,209,205,634	913,676,939
Costs	(694,202,701)	(258,419,568)	(71,141,749)	(285,045,504)	(765,344,450)	(543,465,072)
Reportable segment (loss) / profit	(502,657,627)	(79,106,799)	946,518,811	449,318,666	443,861,184	370,211,867
Segment assets and liabilities						
Reportable segment assets						
Lease financing asset	1,719,650,990	2,739,371,749	-	-	1,719,650,990	2,739,371,749
Diminishing musharaka financing	-	-	4,282,849,332	4,489,820,384	4,282,849,332	4,489,820,384
Current portion of diminishing musharaka financing	-	-	2,719,651,582	2,450,084,489	2,719,651,582	2,450,084,489
Lease financing installments receivable	1,003,375	12,564,068	-	-	1,003,375	12,564,068
Diminishing musharaka financing installments receivable	-	-	2,785,509	44,672,084	2,785,509	44,672,084
	1,720,654,365	2,751,935,817	7,005,286,423	6,984,576,957	8,725,940,788	9,736,512,774
Reportable segment liabilities						
Security deposits against lease financing assets	232,284,208	301,774,323	-	-	232,284,208	301,774,323
Certificates of investment (musharaka)	4,788,960,307	2,924,003,546	490,771,658	3,225,274,583	5,279,731,965	6,149,278,129
Security deposits - current portion	124,155,383	146,941,089	-	-	124,155,383	146,941,089
Unearned lease financing and diminishing musharaka installments	1,055,896	7,799,685	6,148,882	9,766,502	7,204,778	17,566,187
Advance lease financing and diminishing musharaka installments	13,520,811	28,967,486	1,672,838	3,316,631	15,193,649	32,284,117
Adjustable against lease financing contracts	199,332,949	195,852,949	-	-	199,332,949	195,852,949
Lease financing payable	-	29,943	-	-	-	29,943
Advance against sale of diminishing musharaka	-	-	9,918,529	22,420,159	9,918,529	22,420,159
Diminishing musharaka financing payable	-	-	-	49,500	-	49,500
Diminishing musharaka customer contribution	-	-	1,654,400	8,570,293	1,654,400	8,570,293
	5,359,309,554	3,605,369,021	510,166,307	3,269,397,668	5,869,475,861	6,874,766,689

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

Revenues

Revenue classified in segment reported

Profit

Profit classified in segment reported

Provision in respect of diminishing musharaka	-	-
Administrative expenses	(146,727,604)	(126,031,313)
Other income	169,560,968	131,430,541
Impairment loss on investment in equity security classified as 'available-for-sale'	-	-
Modaraba Management Company's remuneration	(36,431,341)	(36,776,702)
Sales tax on Modaraba Management Company's remuneration	(4,736,074)	(4,780,972)
Provision for Sindh Workers' Welfare Fund	(6,462,920)	(6,524,187)
Taxation	-	-

Assets

Assets classified in segment reported

Assets in own use	8,725,940,788	9,736,512,774
Intangible assets	69,428,828	43,948,839
Long term deposits	198,711	177,386
Investments	1,218,850	1,206,850
Advances and prepayments	768,406,670	1,117,360,806
Other receivables	4,440,028	3,905,163
Income tax refundable	21,102,159	33,255,784
Cash and bank balances	153,711,487	137,031,924
	168,609,750	50,624,704
	9,913,057,271	11,124,024,230

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

Liabilities

Liability classified in segment reported

Trade and other payables
Profit payable on certificates of investment (musharaka)
Profit payable on murabaha financing
Advance against murabaha financing
Unclaimed profit distribution

2020	2019
Rupees	
5,869,475,861	6,874,766,689
208,355,536	225,162,618
135,580,868	112,261,524
-	11,750,958
-	225,000,000
43,224,283	38,480,299
6,256,636,548	7,487,422,088

	Note	June 30, 2020	June 30, 2019
Rupees			
43. CASH GENERATED FROM OPERATIONS			
Profit for the year		316,683,071	319,685,162
Adjustment for:			
Gain on disposal of assets:			
Lease financing assets	29	(16,084,852)	(14,934,774)
Assets in own use	29	(81,320)	(414,664)
Loss on Termination of lease contract		20,834	
Depreciation on fixed assets:			
Lease financing assets	26	1,094,484,168	1,118,157,107
Assets in own use	28	12,182,379	9,577,636
Right of use Assets	28	5,097,125	-
Amortization of intangible assets	28	119,925	130,065
Amortization of sukuk		-	2,776,390
Impairment loss on investment in equity security classified as 'available-for-sale'		-	-
Provision in respect of diminishing musharaka		109,665,216	7,844,072
Provision for gratuity		2,441,844	2,074,489
Dividend income		(15,177,576)	(14,460,791)
Financial charges		764,733,800	542,884,684
Movement in working capital	43.1	(107,655,354)	(74,262,247)
		2,166,429,260	1,899,057,129

43.1 Movement in working capital

(Decrease) / Increase in current assets:

Lease financing installments receivable	11,560,693	(10,424,821)
Diminishing Musharaka financing installments receivable	(67,778,641)	(48,681,871)
Advances and prepayments	(534,865)	690,788
Income tax refundable	(16,679,563)	(23,348,813)
Other receivables	26,219,158	22,553,207
	(47,213,218)	(59,211,510)

Increase / (decrease) in current liabilities:

Advance lease financing and diminishing musharaka installments	(17,090,468)	6,120,212
Unearned lease financing and diminishing musharaka installments	(10,361,409)	(45,923,285)
Trade and other payables	(32,990,260)	24,752,336
	(60,442,137)	(15,050,737)
	(107,655,355)	(74,262,247)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

44. PROFIT DISTRIBUTION AND APPROPRIATION

Subsequent to the year ended June 30, 2020, 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 (2019: Rs.1.40 per certificate, amounting to total profit distribution of Rs.282 million) in its meeting held on September 23, 2020.

45. NUMBER OF EMPLOYEES

Total number of employees at end of the year

Average number of employees for the year

June 30, 2020	June 30, 2019
Rupees	
75	71
73	64

46. 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.

47. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 23, 2020 by the Board of Directors of the Modaraba Management Company.

48. GENERAL

Figures have been rounded off to the nearest rupee.

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

Chief Executive Officer

Chief Financial Officer

Director

Director

GLOSSARY

AML

Anti Money Laundering

CEO

Chief Executive Officer

CFO

Chief Financial Officer

FHM

First Habib Modaraba

Companies Ordinance

Companies Ordinance 1984

CSR

Corporate Social Responsibility

Earning per share (EPS)

Calculated by dividing the profit after interest, tax by the weighted average number of Ordinary Shares in issue.

IASB

International Accounting Standards Board

IFRS

International Financial Reporting Standards

ITO

Income Tax Ordinance, 2001

KIBOR

Karachi Inter Bank Offer Rate

KYC

Know your Customer

WWF

Workers Welfare Fund

EOBI

Employees Old Age Benefits Institution

SRO

Statutory Regulatory Order

IFAC

International Federation of Accountants

CCG

Code of Corporate Governance

IFAS

Islamic Financial Accounting Standard

SAFA

South Asian Federation of Accountants

SAARC

South Asian Association of Regional Cooperation

NBFI & Modaraba

NBFI & Modaraba Association of Pakistan

MAP

Management Association of Pakistan

MAP

Modaraba Association of Pakistan

MAP

Marketing Association of Pakistan

PACRA

Pakistan Credit Rating Agency Limited

ICF

Internal Control Framework

ERP

Enterprise Resource Program

IFSB

Islamic Financial Services Board

IIFM

International Islamic Financial Market

IBP

Institute of Bankers of Pakistan

