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FABM

# HBL

## First Habib Bank Modaraba



HABIB BANK FINANCIAL SERVICES  
حبيب بھيٽڪ فنانشل سروسز



### ANNUAL REPORT 2009



# Table of Contents

Corporate Information	3
Directors' Report	4
Statement of Compliance	7
Review Report to the Members	9
Auditors' Report to the Certificate Holders	10
Balance Sheet	11
Profit and Loss Account	12
Cash Flow Statement	13
Statement of Changes in Equity	14
Notes to the Accounts	15
Pattern of Certificate Holding	36
Pattern of Shareholding	37
Financial Highlights	38
Notice of Annual Review Meeting	38

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## ■ Vision

Enabling people to advance with confidence and success.

## ■ Mission

To make our customers prosper, our staff excel and create value for stakeholders.

## ■ Our Values

Our values are based upon the fundamental principles that define our culture and are brought to life in our attitude and behaviour. It is our values that make us unique and stem from five basic principles:

### ▶ Excellence

The markets in which we operate are becoming increasingly competitive and our customers now have an abundance of choice. Only through being the very best - in terms of the service we offer, our products and premises - can we hope to be successful and grow.

### ▶ Integrity

We are the leading bank in Pakistan, and our success depends upon trust. Our customers and society in general expect us to possess and steadfastly adhere to high moral principles and professional standards.

### ▶ Customers focus

We need to understand fully the needs of our customers and to adapt our products and services to meet these. We must strive always to put the satisfaction of our customers first.

### ▶ Meritocracy

We believe in giving opportunities and advantages to our employees on the basis of their ability. We believe in rewarding achievement and in providing first class career opportunities for all.

### ▶ Progressiveness

We believe in the advancement of society through the adoption of enlightened working practices, innovative new products and processes and a spirit of enterprise.

# Corporate Information

## Board of Directors

**R. Zakir Mahmood**  
Chairman

**Sohail Malik**  
Director

**Sima Kamil**  
Director

**S. Anvaar Rasool**  
Chief Executive

## Company Secretary

**Muhammad Amin Chhotani**

## Chief Financial Officer

**Atif Aziz**

## Audit Committee

**Sohail Malik**  
Chairman

**Sima Kamil**  
Member

**Ayaz Ahmed**  
Member

**Muhammad Amin Chhotani**  
Secretary

## Auditors

**M/s. KPMG Taseer Hadi & Co.**  
(Chartered Accountants)

## Legal Advisor

**Muhammad Akram**  
Senior Legal Counsel

## Share Registrar

**M/s. T. H. K. Associates (Pvt) Ltd.**  
Ground Floor, State Life Building-3  
Dr. Ziauddin Ahmed Road, Karachi-75530  
Tel : 5589021 - 5685681  
UAN : 111-000-322, Fax : 5655595

## Registered Office

**7th Floor - Habib Bank Annexe,**  
Hasrat Mohani Road, Karachi-75650  
Tel: 2276836 - 2276839  
PABX: 2276818, 2276809  
Fax: 2276840

## Web Address

**[www.hbl.com](http://www.hbl.com)**

# Report of the Directors of Modaraba Company

FOR THE YEAR ENDED JUNE 30, 2009

**As Salamo Alaikum Wa Rahmatullahe Wa Barakatohu,**

On behalf of the Board of Directors of Habib Bank Financial Services (Private) Limited, the "mudarib / management company" of First Habib Bank Modaraba (FHBM) I am pleased to present the eighteenth Directors' report of FHBM, together with the audited accounts for the year ended June 30, 2009.

Our main business continues to be Ijarah / Leasing. During the year, Operating Income increased from Rs 489.7 Million in 2008 to Rs 496.8 Million in 2009 while Net Lease Income increased from Rs 106.2 Million in 2008 to Rs 129.8 Million in 2009. Financial charges were reduced from Rs 46.3 Million in 2008 to Rs 40.4M in 2009 due to continued strict control. Administration Expenses was limited to Rs 9 Million as opposed to Rs 9.1 Million in the previous year. The global slowdown of economic activity has led to deterioration in repayment capacity of a lot of our customers. As a result, our customers continue to suffer from inability to meet their financial obligations to the Modaraba on time. Therefore, in line with our prudent credit strategy with emphasis on long-term sustainable growth, Modaraba has made the required provisions against non-performing loans in line with Securities and Exchange Commission of Pakistan's Prudential Regulations. Provisions against doubtful lease rentals and diminution in value of investments for the year at Rs 60.5 Million reflects the conservative risk management policy of the Modaraba. This will go a long way towards strengthening your Modaraba's Balance Sheet in the future. Despite the difficult operating environment, Net Profit for the year was Rs 19.8 Million as opposed to Rs 21 Million during the previous year.



## FINANCIAL RESULTS

Financial results for the year 2009 are summarized below: -

	(Rupees in Million)	
	Year ended June 30, 2009	Year ended June 30, 2008
Lease Rentals	496.8	489.7
Depreciation on assets leased out	168.6	184.1
Loss on impairment of assets given on lease	198.4	199.4
Net Lease Income	129.8	106.2
Provision for doubtful lease rentals	49.2	43.9
Financial Charges	40.4	46.3
Profit from Lease Operations	40.2	16.0
Other Income	2.6	16.6
Provision against diminution in value of investments	11.3	-
Administrative Expenses	9.0	9.1
Management Fee	2.2	2.3
Net Profit for the Year	19.8	21.0
Earnings per Certificate	0.50	0.53

## Report of the Directors of Modaraba Company

### **APPROPRIATIONS / PROFIT DISTRIBUTION**

During the year, 20% of the profit amounting to Rs 4 Million was set aside as statutory reserve under the Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan. The Board is pleased to announce a profit distribution of % to the Modaraba Certificate holders for the year ended June 30th 2009 subject to deduction of Zakat and withholding tax, wherever applicable.

### **FUTURE OUTLOOK**

The Government and State Bank of Pakistan continue to take initiatives to support and grow the economy. The Management of your Modaraba is proactive in its approach at meeting the challenges that are associated with doing business in today's environment.

### **MODARABA ENTITY RATING**

During the year JCR-VIS maintained FHBM medium to long-term entity rating of AA-/A-1+ (Double A Minus/A-1 Plus) with a "Stable" outlook. Ratings have been affirmed based on support available from Habib Bank and Modaraba's sound capitalization levels.

### **CORPORATE AND FINANCIAL REPORTING FRAMEWORK**

We are pleased to report that your Modaraba being managed by Habib Bank Financial Services (Private) Limited as a private limited company has taken the necessary steps to comply with all applicable and relevant provisions of the Code of Corporate Governance in its material respect as incorporated in the Listing Rules of the Stock Exchanges. In conformity with the requirements of the Code of Corporate Governance the Board of Directors report as under: -

- The financial statements prepared by the management present fairly the state of affairs of the Modaraba, the results of its operations, cash flows and changes in equity.
- Proper books of accounts of the Modaraba have been maintained.
- Accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- The system of internal controls is sound in design and is continuously reviewed by internal audit, compliance and risk review procedures.
- There are no doubts about the Modaraba's ability to continue as a going concern.
- There is no material departure from the best practices of corporate governance.
- The holding of certificates by the certificate holders is annexed to this annual report.
- Key operating and financial data for the last six years in summarized form is annexed to the audited accounts.

## Report of the Directors of Modaraba Company

- During the year, four (4) meetings of the Board of Directors were held. Attendance by each director is as follows: -

<b>Name of Directors</b>	<b>Meetings held during tenure</b>	<b>Attendance</b>
Mr. R. Zakir Mahmood	4	4
Mr. Sohail Malik	4	4
Ms. Sima Kamil	4	4
Mr. S. Anvaar Rasool	4	4

### **BOARD OF DIRECTORS**

During the year, there was no change in the Board of Directors.

### **Pattern of Certificate - holding**

The pattern of certificate holding as on June 30, 2009 along with disclosures as required under the Code is annexed.

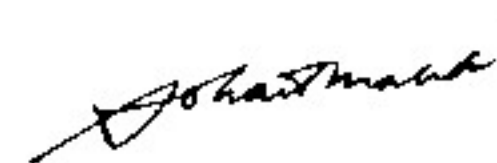
### **AUDITORS**

The present auditors Messrs. KPMG Taseer Hadi & Co, Chartered Accountants are due for retirement and being eligible have offered themselves for re-appointment. The Board has confirmed their re-appointment for the year ending June 30, 2010 subject to the approval by the Registrar of Modaraba Companies & Modarabas.

### **ACKNOWLEDGEMENT**

The Board would like to place on record its thanks for the continued support and guidance provided by Securities & Exchange Commission of Pakistan, Registrar Modaraba Companies, State Bank of Pakistan, Modaraba Association of Pakistan and Leasing Association of Pakistan. The Board also extends its appreciation and gratitude to the Certificate holders who have remained committed to FHBM. Finally, the Board appreciates the dedication and hard work put in by the Management and all staff members of FHBM and HBFSL.

On behalf of the Board



**SOHAIL MALIK**  
Director

September 30th, 2009

# Statement of Compliance

## WITH THE BEST PRACTICES OF CORPORATE GOVERNANCE TO THE CERTIFICATE HOLLDERS OF FIRST HABIB BANK MODARABA

This statement is being presented to comply with the Code of Corporate Governance (the Code) in accordance with the requirements of Regulation No. 35, Chapter XI of listing regulations of Karachi, Lahore and Regulation No. 37, Chapter XI of listing regulation Islamabad Stock Exchanges respectively for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

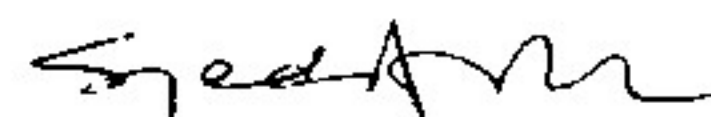
The Modaraba has applied principles contained in the Code in the following manner:

1. The Chairman of the Board of the management company is the President and CEO of Habib Bank Limited (HBL) and all the other directors are senior executives of HBL. The Chief Executive of the Modaraba although an employee of HBL, is responsible for its day-to-day running on a whole time basis. The roles of the Chairman and Chief Executive are independent of each other. The directors have a wide range of skills and experience and each one contributes in an independent manner and brings considerable knowledge to the Board.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the management company.
3. All the directors of the management company are registered as tax payers, none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange has been declared as a defaulter by that stock exchange.
4. There was no casual vacancy in the Board during 2009 .
5. A 'Statement of Ethics and Business Practices' has been adopted by the Modaraba, which has been duly signed by all the directors of the Management Company and employees of the Modaraba.
6. The Board has adopted a vision / mission statement . The Modaraba maintains a complete record of the manuals and significant policies, procedures, which are being reviewed for updating by outside consultants.
7. All the powers of the Board have been duly exercised and decisions on all material transactions have been taken by the Board. The terms of appointment and remuneration of the CEO and directors are not approved by the Board as they are nominees of Habib Bank Limited.
8. 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 and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated atleast seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated.
9. No formal orientation course was arranged by the Modaraba for the directors. However, the directors are fully aware of the relevant laws applicable to the Modaraba, its policies and procedures Prospectus of the Modaraba and Memorandum and Articles of Association of the modaraba management company to manage the affairs of the Modaraba on behalf of the certificateholders.
10. No new appointments of Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit have been made during the year.
11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.



## Statement of Compliance

12. The financial statements of the Modaraba were duly endorsed by the CEO and CFO before approval of the Board.
13. The CEO, directors and executives do not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of certificate holding.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises three members, of whom two are non-executive directors of the management company including the Chairman of the Committee. In order to meet the objectives of the Code vis-à-vis the Audit Committee in letter and spirit, the said Committee also includes the CFO of Habib Bank Group as the third member.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Audit BRR & Investigation Group of Habib Bank Limited carries out periodical internal audits of the Modaraba according to the audit plans approved by the Audit Committee of the Board of Directors of HBL. Last Internal Audit was carried out in 2008.
18. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied.
21. Modaraba has complied KSE listing regulation No. 35 Clause (xiii a) (previously regulation No. 37) regarding Related Party Transactions.



**S. Anvaar Rasool**  
Chief Executive of Modaraba

Dated: September 30, 2009

# Review Report to the Members

## ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Habib Bank Financial Services (Private) Limited in respect of First Habib Bank Modaraba to comply with the listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges where the Modaraba is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Modaraba Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Modaraba's compliance with the provision of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Modaraba Management Company personnel and review of various documents prepared by the Modaraba Management Company to comply with the Code.

As part of our audit of financial statement 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Boards statement on internal control covers all controls and the effectiveness of such internal controls.

Further, sub-regulation (xiii a) of Listing Regulations No. 35 (previously Regulation No.37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Modaraba to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevailed in arm's length transactions and transaction which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transaction before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance.



**KPMG Taseer Hadi & Co.**  
Chartered Accountants

**KARACHI: September 30, 2009**

# Auditors' Report to the Certificate Holders

We have audited the annexed balance sheet of **First Habib Bank Modaraba (the Modaraba)** as at June 30, 2009 and the related profit and loss account, 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 purposes of our audit.

These financial statements are the Modaraba Company's [Habib Bank Financial Services (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 accounts have been kept by the Modaraba Company in respect of First Habib Bank Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the 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 accounts and are further in accordance with the 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, investments 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 the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and 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 June 30, 2009 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.

**Date: September 30, 2009**  
**KARACHI:**

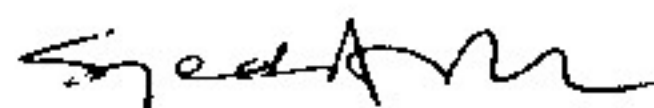
*KPMG Taseer Hadi & Co.*  
**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
Syed Iftikhar Anjum

# Balance Sheet

AS AT JUNE 30, 2009

	Note	2009 Rupees	2008 Rupees
<b>ASSETS</b>			
<b>NON - CURRENT ASSETS</b>			
Operating fixed assets	3	757,915,377	1,048,756,112
Long-term investments	4	-	8,125,000
Long-term deposits		152,500	152,500
		<b>758,067,877</b>	<b>1,057,033,612</b>
<b>CURRENT ASSETS</b>			
Current portion of long term investment	4	-	1,875,000
Lease rentals receivable	5	56,674,734	70,933,780
Short term investments	6	7,924,902	9,396,862
Advances, prepayments and other receivables	7	424,148	340,426
Bank balances	8	4,073,220	9,514,492
		<b>69,097,004</b>	<b>92,060,560</b>
<b>TOTAL ASSETS</b>		<b>827,164,881</b>	<b>1,149,094,172</b>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
<b>Certificate Capital</b>			
Authorised 50,000,000 (2008: 50,000,000) Certificates of Rs. 10 each		500,000,000	500,000,000
Issued, subscribed and paid-up Reserves	9	397,072,000 224,154,393 621,226,393	397,072,000 223,732,017 620,804,017
<b>NON CURRENT LIABILITIES</b>			
Long-term murabaha - secured	10	16,666,667	116,666,666
Security deposits against assets leased out	11	68,667,514	64,197,088
		<b>85,334,181</b>	<b>180,863,754</b>
<b>CURRENT LIABILITIES</b>			
Current portion of long term murabaha	10	67,500,000	133,333,335
Short term murabaha	12	8,029,667	166,009,179
Current portion of security deposits against assets leased out	11	16,832,902	10,153,325
Accrued and other liabilities	13	15,357,352	25,323,611
Taxation - net		3,193,041	3,193,041
Unclaimed profit distribution		9,691,345	9,413,910
		<b>120,604,307</b>	<b>347,426,401</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>827,164,881</b>	<b>1,149,094,172</b>

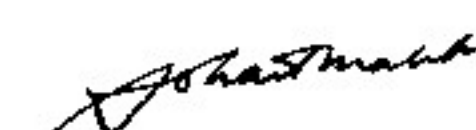
The annexed notes 1 to 24 form an integral part of these financial statements.



Chief Executive



Director



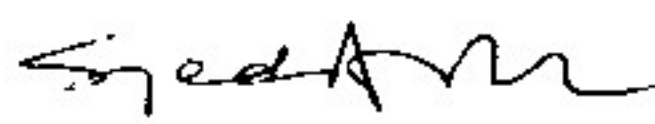
Director

# Profit and Loss Account

FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009 Rupees	2008 Rupees
<b>OPERATING INCOME</b>	14	<b>497,327,017</b>	494,439,672
<b>OPERATING COSTS</b>			
Depreciation on assets given on lease	3	167,609,091	184,102,502
Loss on impairment of assets given on lease		199,386,460	199,411,728
Provision for doubtful lease rentals	5.2	49,200,392	43,949,813
Administrative expenses	15	9,522,359	9,137,203
Impairment of short term investments	6	1,968,484	-
Provision against diminution in the value of investments	4	9,375,000	-
		<b>437,061,786</b>	436,601,246
		<b>60,265,231</b>	57,838,426
Other income	16	2,139,288	11,889,374
		<b>62,404,519</b>	69,727,800
Financial charges	17	40,427,350	46,381,083
		<b>21,977,169</b>	23,346,717
Modaraba company's management fee		2,197,717	2,334,672
<b>PROFIT FOR THE YEAR</b>		<b>19,779,452</b>	21,012,045
<b>EARNING PER CERTIFICATE - Basic and diluted</b>	18	<b>0.50</b>	0.53

The annexed notes 1 to 24 form an integral part of these financial statements.



Chief Executive



Director



Director

# Cash Flow Statement

FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009 Rupees	2008 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	19	400,210,132	473,598,892
Purchase of assets given on lease		(113,471,000)	(545,898,222)
Sale proceeds of assets given on lease		37,096,182	90,363,681
Security deposits - net		11,150,003	23,589,940
Net cash generated from operating activities		<b>334,985,317</b>	41,654,291
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investments encashed		625,000	30,370,000
Proceeds from disposal of investments		-	10,772,500
Dividend received		866,480	2,599,436
Profit received on MTFs / Sukuk certificates		510,436	4,682,704
Profit received on bank deposits		1,109,317	430,959
Purchase of assets in own use		(151,811)	(218,029)
Sale proceeds of assets in own use		3,000	-
Net cash generated from investing activities		<b>2,962,422</b>	48,637,570
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Murabaha financing repaid - net		(323,812,846)	(35,598,359)
Musharaka financing repaid - net		-	(12,500,000)
Profit distribution paid		(19,576,165)	(51,064,238)
Net cash used in financing activities		<b>(343,389,011)</b>	(99,162,597)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(5,441,272)</b>	(8,870,736)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>9,514,492</b>	18,385,228
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>4,073,220</b>	9,514,492

The annexed notes 1 to 24 form an integral part of these financial statements.

  
Chief Executive

  
Director

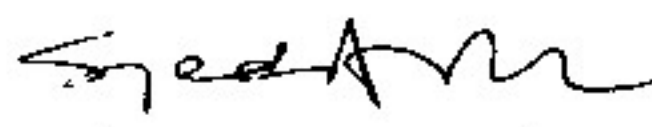
  
Director

# Statement of Changes in Equity

FOR THE YEAR ENDED JUNE 30, 2009

	RESERVES				Total Equity	
	Certificate capital	Statutory reserve	REVENUE RESERVES			
			Net unrealized gain / (loss) on available-for-sale investments	Unappropriated profit		Total Reserve
Rupees						
Balance as at July 01, 2007	397,072,000	182,765,909	15,545,185	68,083,868	266,394,962	663,466,962
Profit distribution for the year ended June 30, 2007 @ Rs. 1.3 per certificate	-	-	-	(51,619,360)	(51,619,360)	(51,619,360)
Realized during the year	-	-	(9,631,476)	-	(9,631,476)	(9,631,476)
Unrealized loss on revaluation of available-for-sale investments	-	-	(2,424,154)	-	(2,424,154)	(2,424,154)
Profit for the year	-	-	-	21,012,045	21,012,045	21,012,045
Transferred to statutory reserve @ 20%	-	4,202,409	-	(4,202,409)	-	-
<b>Balance as at June 30, 2008</b>	<b>397,072,000</b>	<b>186,968,318</b>	<b>3,489,555</b>	<b>33,274,144</b>	<b>223,732,017</b>	<b>620,804,017</b>
Profit distribution for the year ended June 30, 2008 @ Rs.0.50 per certificate	-	-	-	(19,853,600)	(19,853,600)	(19,853,600)
Impairment loss transferred to profit and loss account	-	-	1,968,484	-	1,968,484	1,968,484
Profit for the year	-	-	-	19,779,452	19,779,452	19,779,452
Unrealized loss on revaluation of available-for-sale investments	-	-	(1,471,960)	-	(1,471,960)	(1,471,960)
Transferred to statutory reserve @ 20%	-	3,955,890	-	(3,955,890)	-	-
<b>Balance as at June 30, 2009</b>	<b>397,072,000</b>	<b>190,924,208</b>	<b>3,986,079</b>	<b>29,244,106</b>	<b>224,154,393</b>	<b>621,226,393</b>

The annexed notes 1 to 24 form an integral part of these financial statements.



Chief Executive



Director



Director

# Notes to the Financial Statements

FOR THE YEAR ENDED JUNE 30, 2009

## 1. LEGAL STATUS AND OPERATIONS

First Habib Bank Modaraba (the Modaraba) is a multi-purpose, perpetual modaraba floated in Pakistan in 1991 under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, and Modaraba Companies and Modaraba Rules, 1981. It is managed by Habib Bank Financial Services (Private) Limited, a wholly owned subsidiary of Habib Bank Limited. It is currently engaged in the business of leasing, Murabaha, Musharaka financing and other related business. It is listed on the Karachi, Lahore and Islamabad Stock Exchanges. The registered office of the Modaraba is situated at 7th Floor, Habib Bank Annexe, Hasrat Mohani Road, Karachi.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with Approved Accounting Standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board and Islamic Financial Accounting Standards issued by the Institute of Chartered Accountants of Pakistan as notified under the Companies Ordinance, 1984, provisions of and directives issued under Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Companies Ordinance, 1984. In case requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984, Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Modaraba Companies and Modaraba Rules, 1981 shall prevail.

The SECP, Specialized Companies Division, vide Circular No. 10 of 2004 dated February 13, 2004 deferred the applicability of IAS – 17 "Leases" to Modarabas till further orders. Accordingly, the requirements of the said IAS have not been considered in the preparation of these financial statements. The accounting framework defined in IFAS - 2 (Ijarah) has been used.

### 2.2 Basis of preparation

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 and Musharaka have been used by the Modaraba. In line with the similar industry practices, the accounting and presentation of the same are in line with the substance of the transaction and their accounting is limited to the extent of actual amount of facility utilized and mutually agreed mark-up / profit thereon. Accordingly, purchase, sales and Musharaka profits / reserves are not reflected in these financial statements.

### 2.3 Initial application of a standard or an interpretation

The following standards/interpretations became applicable for the first time during the year:

- IFRS 7 – Financial Instruments: Disclosures (effective for annual periods beginning on or after 28 April 2008) supersedes IAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements of IAS 32 – Financial Instruments: Disclosure and Presentation. The application of the standard did not have significant impact on the Modaraba's financial statements other than increase in disclosures.



## Notes to the Financial Statements

- The other Standard/Interpretations that became effective during the period but did not affect the Modaraba's financial statements are as follows:
- IAS 29 – Financial Reporting in Hyperinflationary Economies
- IFRIC 13 – Customer Loyalty Programmes
- IFRIC 14 – IAS 19- The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction

### **2.4 New accounting standards and IFRIC interpretations that are not yet effective**

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after 1 July 2009:

- Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income.
- Revised IAS 23 - Borrowing costs (effective for annual periods beginning on or after 1 January 2009) removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The application of the standard is not likely to have an effect on the Modaraba's financial statements.
- Amendments to IAS 32 - Financial instruments: Presentation and IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009) – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which require retrospective application, are not expected to have any impact on the Modaraba's financial statements.
- Amendment to IFRS 2 - Share-based Payment – Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009) clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The application of this standard is not likely to have any effect on the Modaraba's financial statements.
- Revised IFRS 3 - Business Combinations (applicable for annual periods beginning on or after 1 July 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognized in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by- transaction basis. The application of this standard will not effect the Modaraba's financial statements.

## Notes to the Financial Statements

- Amended IAS 27 - Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of this standard is not likely to have an effect on the Modaraba's financial statements.
- IFRS 8 - Operating Segments (effective for annual periods beginning on or after 1 January 2009) introduces the "management approach" to segment reporting. IFRS 8 will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Modaraba's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Since the Modaraba's operations are limited to one segment only, the application of this standard will not have any effect on the Modaraba's financial statements.
- IFRIC 15- Agreement for the Construction of Real Estate (effective for annual periods beginning on or after 1 October 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The IFRIC is not relevant to the Modaraba's operations.
- IFRIC 16 - Hedge of Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008) clarifies that net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation, the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged and that on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss. The interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. The amendment is not relevant to the Modaraba's operations.
- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Modaraba's 2010 financial statements. These amendments are unlikely to have an impact on the Modaraba's financial statements.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible hedged Items (effective for annual periods beginning on or after 1 July 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment is not likely to have an effect on the Modaraba's financial statements.
- IAS 27 'Consolidated and separate financial statements' (effective for annual periods beginning on or after 1 January 2009). The amendment removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment is not likely to have an effect on Modaraba's financial statements.
- IFRIC – 17 Distribution of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009) states that when a Modaraba distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognised in equity. When the non cash asset is distributed, the difference between the carrying amount and fair value is recognised in the income statement. As the Modaraba does not distribute non-cash assets to its certificate holders, this interpretation has no impact on the Modaraba's financial statements.

## Notes to the Financial Statements

- IFRIC 18 Transfers of Assets from Customers (to be applied prospectively to transfers of assets from customers received on or after 01 July 2009). This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). The interpretation is not relevant to the Modaraba's operations.
- IFRS 4 - Insurance Contracts (effective for annual periods beginning on or after 1 January 2009). The IFRS makes limited improvements to accounting for insurance contracts until the Board completes the second phase of its project on insurance contracts. The standard also requires that an entity issuing insurance contracts (an insurer) to disclose information about those contracts. The standard is not applicable to the Modaraba's operations.
- Amendment to IFRS 7 - Improving disclosures about Financial Instruments (effective for annual periods beginning on or after 1 January 2009). These amendments have been made to bring the disclosure requirements of IFRS 7 more closely in line with US standards. The amendments introduce a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements. The amendment is not likely to have an effect on Modaraba's financial statements.
- Amendments to IAS 39 and IFRIC 9 - Embedded derivatives (effective for annual periods beginning on or after 1 January 2009). Amendments require entities to assess whether they need to separate an embedded derivative from a hybrid (combined) financial instrument when financial assets are reclassified out of the fair value. The amendments are not likely to have an effect on Modaraba's financial statements.
- The International Accounting Standards Board made certain amendments to existing standards as part of its Second annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Modaraba's 2011 financial statements. These amendments are unlikely to have an impact on the Modaraba's financial statements.
- Amendment to IFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). Currently effective IFRSs requires attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements.

### 2.5 Significant accounting estimates and judgements

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 judgement in the process of applying the Modaraba's accounting policies. Estimates and judgements 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. In the process of applying the accounting policies, management has made certain estimates and judgements as explained in note 2.7 and 2.8 to the financial statements.

## 2.6 Revenue recognition

Lease rentals are recognized as income on an accrual basis as and when rentals become due. Profit on Musharaka Term Finance Certificates (MTFCs) and Sukuk Certificates is recognized on accrual basis and additional profit and loss, if any, is recognized on declaration by the investee company, in accordance with the terms of issue.

Dividend income is recognized when the right to receive the dividend is established.

Return on deposit accounts is recognized on accrual basis.

## 2.7 Tangible fixed assets

### *Assets given on lease*

Assets given on lease, after taking into account the estimated residual value, are depreciated using straight line method over the lease period. Impairment evaluation of loss on sale expected from the unilateral commitment given by the customer to purchase the asset at the expiry of the lease term and the Modaraba's policy to accept the offer is carried out by comparing the Written Down Value to the Net Present Value of the expected cash flows at the balance sheet date. Impairment losses evaluated, are booked in the Profit and Loss as and when occurred. The residual value of the lease asset is the estimated amount that Modaraba could obtain from disposal of assets as defined in para 6 of IAS 16 - Property, Plant and Equipment. This has been estimated on the basis that all assets given on lease have an economic life of ten years and if the assets were depreciated over this life the written down value at end of lease term would represent the residual value.

### *Assets in own use*

These are stated at cost less accumulated depreciation. Depreciation is charged using straight line method over the useful life of the asset. In respect of additions and deletions 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 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.

An item of fixed assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses arising on derecognition of the assets (calculated as difference between the net disposal proceeds and the carrying amount of the assets) is included in the profit and loss account.

The assets' residual values, useful lives and methods are reviewed, and adjusted if appropriate at each year end.

## 2.8 Investments and other financial assets

Financial assets in the scope of IAS 39, are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Modaraba determines the classification of its financial assets after initial recognition and where allowed and appropriate, re-evaluates this designation at each financial year-end.

### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category "Financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognized in income.

### *Held to maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Modaraba has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments, that are intended to be held to maturity, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization, using the effective interest method, of a difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction cost and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

### *Loans and receivables*

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivatives financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains and losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gains or losses previously reported in equity are included in the profit and loss account.

The fair value of investments that are actively traded in organized financial market is determined by reference to quoted market bid price at the close of business on the balance sheet date. For investments where there is no active market, value is determined using valuation techniques.

### *Trade and settlement date accounting*

All "regular way" purchases and sales of quoted equity securities are recognized on the "settlement date", i.e., the date the securities are transferred to / from the Modaraba. Regular way purchases or sales of quoted equity securities require delivery within two working days after the transaction date as per the Stock Exchange Regulations.

## **2.9 Lease rentals receivable**

Lease rentals receivable are stated net of provision for doubtful receivables. Provision is recognized for lease rentals receivables, in accordance with the Prudential Regulations for Modarabas. Bad debts are written-off when identified.

### **2.10 Cash and cash equivalents**

Cash and cash equivalents are carried in balance sheet at cost. For the purpose of cash flow statement cash and cash equivalents include cash and balances with banks in current and deposit accounts.

### **2.11 Offsetting**

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set-off the recognized amount and the Modaraba intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

### **2.12 Impairment**

The carrying amounts of the assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If any such indication exists, the recoverable amount of that asset is estimated and impairment loss is recognized in the profit and loss account.

### **2.13 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. The income of non-trading Modarabas is exempt from tax provided that not less than ninety percent of their profits are distributed to the certificate holders. The Modaraba has decided to continue availing the tax exemption and hence no provision has been made in these financial statements for tax liability for the current year.

#### *Deferred*

The Modaraba accounts for deferred taxation on all material temporary differences using the liability method arising between the amounts attributed to assets and liabilities for financial reporting purposes and those used for taxation purposes. However, deferred tax liability has not been provided in these accounts as the management believes that the timing differences will not reverse 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 ninety percent of distributable profit.

### **2.14 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.

### **2.15 Profit distributions and appropriations**

Profit distribution are recognised as a liability in the financial statements in the period in which these are approved. Transfers to statutory reserve and the mandatory appropriations as may be required by law are recognised in the period to which these relate.

## Notes to the Financial Statements

	<b>Note</b>	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<b>3. ASSETS GIVEN ON LEASE</b>			
Capital work-in-progress Advance against computer software		<b>750,000</b>	600,000
Tangible fixed assets			
Assets given on lease	3.1	<b>756,340,272</b>	1,046,961,005
Assets in own use	3.2	<b>825,105</b>	1,195,107
		<u><b>757,915,377</b></u>	<u>1,048,756,112</u>

### 3.1 Assets given on lease

	2009										
	COST		ACCUMULATED DEPRECIATION			ACCUMULATED IMPAIRMENT			Book value as at 30 June 2009	Useful life	
	As at 01 July 2008	Additions / (deletions)	As at 30 June 2009	As at 01 July 2008	Charge for the year / (accumulated depreciation on deletions)	As at 30 June 2009	As at 01 July 2008	Charge for the year			As at 30 June 2009
	(Rupees)										
<b>Plant and machinery</b>	1,301,971,758	44,397,000 (217,240,757)	1,129,128,001	444,741,531	123,497,317 (156,878,249)	411,360,599	128,671,012	143,139,810 (45,791,242)	226,019,580	491,747,822	Lease term
<b>Motor vehicles</b>	447,370,989	69,074,000 (73,863,659)	442,581,330	84,833,439	44,111,774 (36,847,469)	92,097,744	44,135,760	56,746,650 (14,491,274)	85,801,136	264,592,450	Lease term
	<u>1,749,342,747</u>	<u>113,471,000</u> <u>(291,104,416)</u>	<u>1,571,709,331</u>	<u>529,574,970</u>	<u>167,609,091</u> <u>(193,725,718)</u>	<u>503,458,343</u>	<u>172,806,772</u>	<u>199,386,460</u> <u>(60,282,516)</u>	<u>311,910,716</u>	<u>755,340,272</u>	

	2008										
	COST		ACCUMULATED DEPRECIATION			ACCUMULATED IMPAIRMENT			Book value as at 30 June 2008	Useful life	
	As at 01 July 2007	Additions / (deletions)	As at 30 June 2008	As at 01 July 2007	Charge for the year / (accumulated depreciation on deletions)	As at 30 June 2008	As at 01 July 2007	Charge for the year			As at 30 June 2008
	(Rupees)										
<b>Plant and machinery</b>	1,371,899,110	321,373,256 (391,300,608)	1,301,971,758	616,783,644	143,417,916 (315,460,029)	444,741,531	-	145,733,271 (17,062,259)	128,671,012	728,559,215	Lease term
<b>Motor vehicles</b>	338,933,516	224,524,966 (116,087,493)	447,370,989	121,150,293	40,684,586 (77,001,440)	84,833,439	-	53,678,457 (9,542,697)	44,135,760	316,401,790	Lease term
	<u>1,710,832,626</u>	<u>545,898,222</u> <u>(507,388,101)</u>	<u>1,749,342,747</u>	<u>737,933,937</u>	<u>184,102,502</u> <u>(392,461,469)</u>	<u>529,574,970</u>	<u>-</u>	<u>199,411,728</u> <u>(26,604,956)</u>	<u>172,806,772</u>	<u>1,046,961,005</u>	

3.1.1 Impairment policy has been disclosed in note 2.7 of the financial statements.

## Notes to the Financial Statements

### 3.2 ASSETS IN OWN USE

Description	2009							
	COST			ACCUMULATED DEPRECIATION				Useful life
	As at July 01, 2008	Additions / (deletions)	As at June 30, 2009	As at July 01, 2008	Charge for the year	As at June 30, 2009	Book Value as at June 30, 2009	
Rupees								
Furniture and fixtures	524,984	-	524,984	274,325	100,471	374,796	150,188	5
Office equipment	493,861	26,000 (37,000)	482,861	301,830	90,747 (37,000)	355,577	127,284	4
Computers	2,033,212	125,811	2,159,023	1,280,795	330,595	1,611,390	547,633	4
	3,052,057	151,811 (37,000)	3,166,868	1,856,950	521,813 (37,000)	2,341,763	825,105	

Description	2008							
	COST			ACCUMULATED DEPRECIATION				Useful life
	As at July 01, 2007	Additions	As at June 30, 2008	As at July 01, 2007	Charge for the year	As at June 30, 2008	Book Value as at June 30, 2008	
Rupees								
Furniture and fixtures	429,364	95,619	524,983	232,432	41,893	274,325	250,558	5
Office equipment	481,361	12,500	493,861	226,442	75,388	301,830	192,031	4
Computers	1,923,303	109,910	2,033,213	1,027,862	252,933	1,280,795	752,418	4
	2,834,028	218,029	3,052,057	1,486,736	370,214	1,856,950	1,195,107	

<b>Note</b>	<b>2009</b>	<b>2008</b>
	<b>Rupees</b>	<b>Rupees</b>

#### 4 LONG TERM INVESTMENTS - Held to maturity

Sukuk Certificates	4.1	<b>9,375,000</b>	10,000,000
Current portion		-	(1,875,000)
Provision for impairment of investment		<b>(9,375,000)</b>	-
		<u>-</u>	<u>8,125,000</u>



## Notes to the Financial Statements

- 4.1** This represents 32,000 Sukuk Certificates of New Allied Industries Limited having a face value of Rs. 312.50 each. The rental is payable through quarterly payments and the principal will be redeemed in ten quarterly instalments. These Certificates are based on mechanism of profit and loss sharing. In case of profit, the rate of provisional profit is based on three month's KIBOR. In addition, incremental rental is receivable based on actual projected output. The company defaulted on instalment due on 25 January 2009. In view of financial difficulties of the borrower, full provision has been made against the value of investment.

	Note	2009 Rupees	2008 Rupees
<b>5. LEASE RENTALS RECEIVABLE</b>			
Lease rentals receivable		<b>154,521,042</b>	119,579,696
Provision against doubtful receivables	5.1	<b>(97,846,308)</b>	(48,645,916)
		<b><u>56,674,734</u></b>	<u>70,933,780</u>

- 5.1** The leases with total exposure of Rs. 187.425 million (2008: 189.416 million) have been placed under non performing status as follows:

	2009				
	Lease Rentals receivable	WDV of assets given on lease	Total	Provision required and held	Net
	Rupees				
Other assets especially mentioned	<b>20,313,157</b>	<b>64,577,455</b>	<b>84,890,612</b>	<b>6,754,095</b>	<b>78,136,517</b>
Loss	<b>76,950,318</b>	<b>25,583,644</b>	<b>102,533,962</b>	<b>91,092,213</b>	<b>11,441,749</b>
	<b><u>97,263,475</u></b>	<b><u>90,161,099</u></b>	<b><u>187,424,574</u></b>	<b><u>97,846,308</u></b>	<b><u>89,578,266</u></b>
	2008				
	Lease Rentals receivable	WDV of assets given on lease	Total	Provision required and held	Net
	Rupees				
Other assets especially mentioned	10,619,385	61,979,482	72,598,867	-	72,598,867
Loss	77,471,739	39,345,477	116,817,216	48,645,916	68,171,300
	<b><u>88,091,124</u></b>	<b><u>101,324,959</u></b>	<b><u>189,416,083</u></b>	<b><u>48,645,916</u></b>	<b><u>140,770,167</u></b>

	2009 Rupees	2008 Rupees
<b>5.2 Particulars of provision held against doubtful receivable</b>		
Opening balance	<b>48,645,916</b>	5,978,728
Charge during the year	<b>49,200,392</b>	43,949,813
Reversals	<b>-</b>	(1,282,625)
	<b><u>49,200,392</u></b>	<u>42,667,188</u>
Closing balance	<b><u>97,846,308</u></b>	<u>48,645,916</u>
<b>5.3 Contractual rentals receivable</b>		
Not later than one year	<b>388,215,039</b>	485,039,764
Later than one year and not later than five years	<b>523,678,574</b>	937,364,235
Total future ijarah payments receivable	<b><u>911,893,613</u></b>	<u>1,422,403,999</u>

Notes to the Financial Statements

6. SHORT TERM INVESTMENTS - Available for sale - Quoted securities

Number of shares			2009		2008	
2009	2008		Cost	Carrying value (Market value)	Cost	Carrying value (Market value)
			(Rupees)			
		<b>National Investment Trust</b>				
42,920	42,920	National Investment Trust Units	416,324	1,152,402	416,324	2,246,862
		<b>Shares</b>				
250,000	250,000	Hub Power Company Limited	5,490,983	6,772,500	5,490,983	7,150,000
		Impairment in the value of investments	(1,968,484)	-	-	-
		Net short term investments	<u>3,938,823</u>	<u>7,924,902</u>	<u>5,907,307</u>	<u>9,396,862</u>

2009  
Rupees

2008  
Rupees

7. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

Prepayments	151,250	47,625
Profit accrued on		
- MTFC's /SUKUK	-	231,633
- PLS saving accounts	102,664	44,173
	102,664	275,806
Other receivables	170,234	16,995
	<u>424,148</u>	<u>340,426</u>

8. BANK BALANCES

In deposit accounts	4,068,800	9,513,407
In current accounts	-	400
With State Bank of Pakistan	4,420	685
	<u>4,073,220</u>	<u>9,514,492</u>

## Notes to the Financial Statements

	<b>Note</b>	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<b>9. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL</b>			
30,000,000 (2008: 30,000,000) Certificates of Rs.10 each fully paid in cash		<b>300,000,000</b>	300,000,000
9,707,200 (2008: 9,707,200) Certificates of Rs.10 each issued as fully paid bonus certificates		<b>97,072,000</b>	97,072,000
		<b><u>397,072,000</u></b>	<u>397,072,000</u>
The certificate capital held by related parties are as follows:			
		<b>(Number of certificate)</b>	
Habib Bank Financial Services (Private) Limited		<b><u>3,970,720</u></b>	<u>3,970,720</u>
HBL Employees Welfare Fund		<b><u>7,941,440</u></b>	<u>7,941,440</u>
Habib Bank Limited		<b><u>593</u></b>	<u>593</u>
<b>10. LONG TERM MURABAHA</b>			
		<b>(Rupees)</b>	
From banks	10.1	<b>66,666,667</b>	150,000,001
From the parent of management company	10.2	<b>17,500,000</b>	100,000,000
Current portion		<b>(67,500,000)</b>	(133,333,335)
		<b><u>16,666,667</u></b>	<u>116,666,666</u>
<b>10.1</b> This comprises Murabaha agreements from commercial banks for Rs. 350 million. The sale price is secured by way of hypothecation of the Modaraba's specific assets and assignment of lease rentals and is repayable in half yearly instalments by December 2010.			
<b>10.2</b> This represents Murabaha arrangements from the parent of management company for Rs. 150 million, repayable in quarterly instalments by March 2010. The sale price is secured by hypothecation of Modaraba's specific assets and assignment of lease rentals.			
<b>11. SECURITY DEPOSITS AGAINST ASSETS LEASED OUT</b>			
Security deposits against assets leased out		<b>85,500,416</b>	74,350,413
Current portion		<b>(16,832,902)</b>	(10,153,325)
		<b><u>68,667,514</u></b>	<u>64,197,088</u>
<b>12. SHORT TERM MURABAHA</b>			
From bank		<b>29,667</b>	25,038,537
From the parent of management company		<b>8,000,000</b>	140,970,642
		<b><u>8,029,667</u></b>	<u>166,009,179</u>

## Notes to the Financial Statements

**12.1** These represents short term finance facilities under Murabaha arrangements with a bank and the parent of management company, available upto Rs. 100 million and Rs. 150 million, respectively. They are secured by way of hypothecation of assets given on lease. The rate of return ranges from 11.01% to 16.24% per annum. The facility from the parent of management company includes overdrawn amount of Rs. 5.583 million in respect of unrepresented cheques.

	<b>Note</b>	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<b>13. ACCRUED AND OTHER LIABILITIES</b>			
Management fee payable		2,197,717	8,154,321
Penalty for delayed payments		628,301	377,934
Rentals received in advance		9,048,259	9,090,744
Profit payable on murabaha		6,324	1,137,951
Payable to the parent of management company		2,415,933	4,471,730
Others		1,060,818	2,090,931
		<b>15,357,352</b>	<b>25,323,611</b>
<b>14. OPERATING INCOME</b>			
Lease income		496,816,581	489,756,968
Profit on Sukuk certificates and MTFs		510,436	4,682,704
		<b>497,327,017</b>	<b>494,439,672</b>
<b>15. ADMINISTRATIVE EXPENSES</b>			
Salaries and allowances	15.1	4,638,633	4,606,730
Subscription		579,458	653,537
Registrar services		581,318	587,554
Printing and stationery		655,504	612,111
Communication		626,832	681,707
Legal and professional charges		540,128	274,075
Auditors' remuneration	15.2	502,500	470,410
Depreciation on assets in own use		521,813	370,214
Workers Welfare Fund	15.3	448,514	-
Travelling and conveyance		115,449	368,385
Professional tax		100,000	100,000
Entertainment		102,448	100,350
Advertising		5,000	-
Repairs and maintenance		36,940	37,200
Training		11,500	23,000
Zakat		-	187,500
Others		56,322	64,430
		<b>9,522,359</b>	<b>9,137,203</b>
<b>15.1 Salaries and allowances</b>			

All employees are working for the Modaraba in accordance with the deputation arrangements with Habib Bank Limited, the parent of management company, and the above mentioned amount represents reimbursement made to Habib Bank Limited during the year.

Notes to the Financial Statements

	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<b>15.2 Auditors' remuneration</b>		
Statutory audit	<b>300,000</b>	250,000
Half yearly review	<b>88,000</b>	88,000
Review of compliance with Code of Corporate Governance	<b>49,500</b>	44,000
Other certifications	<b>25,000</b>	53,160
Out of pocket expenses	<b>40,000</b>	35,250
	<b><u>502,500</u></b>	<u>470,410</u>
<b>15.3</b> The Worker's Welfare Ordinance, 1971 has been amended vide Finance Act, 2008 by virtue of which Workers Welfare Fund (WWF) is payable @ 2% on the higher of the profit before tax as per financial statements or return of income. The management is examining the legal position as to whether it is liable to pay WWF when its income is exempt from tax as explained in note 2.13. However, on a prudent basis a provision for the potential liability has been made.		
<b>16. OTHER INCOME</b>	<b>2009 Rupees</b>	<b>2008 Rupees</b>
Dividend income	<b>866,480</b>	2,599,436
Profit on deposit accounts	<b>1,167,808</b>	430,959
Capital gain on sale of shares	-	6,153,976
Legal documentation charges	<b>67,000</b>	374,498
Gain on disposal of assets given on lease	-	2,042,005
Gain on disposal of assets in own use	<b>3,000</b>	-
Miscellaneous income	<b>35,000</b>	288,500
	<b><u>2,139,288</u></b>	<u>11,889,374</u>
<b>17. FINANCIAL CHARGES</b>		
Profit / Mark-up on long term:		
- Murabaha arrangement	<b>40,142,926</b>	45,665,779
- Musharika arrangement	-	339,014
Mark-up on short term murabaha	<b>6,324</b>	-
Bank charges	<b>278,100</b>	376,290
	<b><u>40,427,350</u></b>	<u>46,381,083</u>
<b>18. EARNINGS PER CERTIFICATE - Basic and diluted</b>		
Profit for the year	<b><u>19,779,452</u></b>	<u>21,012,045</u>
	<b>(Number)</b>	
Weighted average number of certificates outstanding during the year	<b><u>39,707,200</u></b>	<u>39,707,200</u>
	<b>(Rupees)</b>	
Earnings per certificate - Basic and diluted	<b><u>0.50</u></b>	<u>0.53</u>

## Notes to the Financial Statements

	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<b>19. CASH GENERATED FROM OPERATIONS</b>		
Profit for the year	19,779,452	21,012,045
Adjustments for:		
Depreciation / impairment on assets	367,517,364	383,884,444
Provision against lease rentals	49,200,392	43,949,813
Provision against diminution in the value of investments	11,343,484	-
Dividend income	(866,480)	(2,599,436)
Return on MTFCs	(510,436)	(4,682,704)
Return on bank deposits	(1,167,808)	(430,959)
Gain on disposal of investments	-	(6,153,976)
Gain on sale of assets	(3,000)	-
	57,996,152	30,082,738
Operating profit before working capital changes	445,292,968	432,937,222
Working capital changes		
(Increase) / decrease in advance against computer software	(150,000)	(200,000)
(Increase) / decrease in lease rentals receivable	(34,941,346)	16,804,135
(Increase) / decrease in advances, prepayments and other receivables	(25,231)	17,442,818
	(35,116,577)	34,046,953
(Decrease)/increase in accrued and other liabilities	(9,966,259)	6,614,717
	400,210,132	473,598,892

## 20. TRANSACTIONS WITH RELATED PARTIES

Related parties of the Modaraba comprise the Modaraba management company [Habib Bank Financial Services (Private) Limited], parent of management company [Habib Bank Limited (HBL)] and their directors and executives / officers. Details of transactions with related parties are given below:

Relationship	Nature of transaction	Note	2009 Rupees	2008 Rupees
<b>Balance outstanding as at year end</b>				
Parent of management company	a. Long term Murabaha	10.2	17,500,000	100,000,000
	b. Short term Murabaha	12	8,000,000	140,970,642
	c. Deposit accounts	8	4,068,800	9,513,407
	d. Accrued liabilities	13	2,415,933	4,471,730
Management company	e. Management fee payable	13	2,197,717	8,154,321

## Notes to the Financial Statements

Relationship	Nature of transaction	Note	2009 Rupees	2008 Rupees
<b>Profit / expense for the year</b>				
Parent of management company	a. Profit on Murabaha		19,754,594	4,279,060
	b. Profit on Musharika		-	339,014
	c. Profit on deposit accounts		1,167,808	430,959
	d. Bank charges		278,100	376,290
	e. Reimbursement of various expenses		6,690,292	4,606,730
Management company	f. Management fee		2,197,717	2,334,672
<b>Payments made during the year</b>				
Parent of management company	a. Long term Murabaha		82,500,000	12,500,000

## 21. FINANCIAL INSTRUMENTS

The modaraba is exposed to the following risks in respect of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of modaraba's risk management framework. The modaraba's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance.

### 21.1 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the modaraba by failing to discharge an obligation. The risk is generally limited to outstanding rentals. The modaraba's policy is to enter into financial contracts in accordance with the risk management framework of the Habib Bank Group and the requirements of the Modaraba rules and regulations.

The carrying amount of these financial assets represents the maximum credit exposure at the reporting date already due and those are to become due.

	Note	2009 Rupees	2008 Rupees
Assets given on lease - net of security deposits held		670,839,856	972,610,592
Long term deposit		152,500	152,500
Lease rentals receivable	5	56,674,734	70,933,780
Other receivables	7	424,148	340,426
Bank balances	8	4,073,220	9,514,492
		<u>732,164,458</u>	<u>1,053,551,790</u>

21.1.1 *Description of Collateral held*

The modaraba in addition to the possession of title of the lease out asset, in certain cases also holds additional security in the form of mortgage over other assets.

In order to recover the amount outstanding from non-performing customers the modaraba repossesses the lease assets. Once repossessed, the assets are valued and advertisements for its sale are published in the print media.

21.1.2 *Concentration*

The modaraba manages credit risk and its concentration through diversification of activities to avoid undue concentration of risks with individuals, groups or specific industry segments. For this purpose, the modaraba has established exposure limits for individuals and industrial sectors.

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly effected by the changes in economic, political or other conditions. The Modaraba believes that it is not exposed to major concentration of credit risk.

Details of the industrial sector analysis of lease portfolio (excluding residual value) are as follows:

	2009		2008	
	Assets given on lease		Assets given on lease	
	(Rupees)	%	(Rupees)	%
Textile	168,778,608	25.16	238,109,247	24.48
Services	82,565,346	12.31	93,453,459	9.61
Sugar	19,182,106	2.86	43,874,418	4.51
Allied and engineering	33,958,584	5.06	35,672,844	3.67
Food and beverages	46,500,720	6.93	59,575,256	6.13
Health care	3,071,278	0.46	12,382,106	1.27
Communication	72,644,385	10.83	86,101,906	8.85
Oil and gas	50,998,296	7.60	77,247,098	7.94
Education	-	-	4,130,471	0.42
Chemical industry	70,271,686	10.48	85,309,076	8.77
Synthetic/Rayon and carpet industry	9,008,077	1.34	27,785,803	2.86
Others	113,860,770	16.97	208,968,904	21.49
	<b>670,839,856</b>	<b>100.00</b>	<b>972,610,588</b>	<b>100.00</b>

Modaraba's operations are restricted to Pakistan only.



## Notes to the Financial Statements

### 21.1.3 Aging Analysis of assets given on lease - net and lease rental receivable

	2009			2008		
	Carrying Amount		Provision held	Carrying Amount		Provision held
	Not impaired	Impaired		Not impaired	Impaired	
	Rupees					
0 days	555,089,122	82,847,202	-	818,286,695	84,487,506	-
91 days-1 year	-	84,890,612	6,754,095	-	72,598,867	-
More than 3 years	-	102,533,962	91,092,213	-	116,817,216	48,645,916
Total	<u>555,089,122</u>	<u>270,271,776</u>	<u>97,846,308</u>	<u>818,286,695</u>	<u>273,903,589</u>	<u>48,645,916</u>

Provision is recognised by the Modaraba as per the requirement given under Modaraba Prudential Regulation and subjective evaluation of lease portfolio carried out by the Modaraba on an ongoing basis.

### 21.2 Liquidity risk

Liquidity risk is the risk that the modaraba will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the modaraba could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Modaraba's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Modaraba's reputation. Modaraba manages liquidity risk by monitoring future cash flows on a day-to-day basis.

The following are the contractual maturities of financial liabilities, including mark-up payments:

	2009			
	Carrying Amount	Contractual cash flows	Maturity upto one year	Maturity after one year and upto three years
Murabaha finance	92,196,334	92,196,334	75,529,667	16,666,667
Accrued and other liabilities	15,351,774	15,351,774	15,351,774	-
Unclaimed profit distribution	9,691,345	9,691,345	9,691,345	-
	<u>117,239,453</u>	<u>117,239,453</u>	<u>100,572,786</u>	<u>16,666,667</u>

	2008			
	Carrying Amount	Contractual cash flows	Maturity upto one year	Maturity after one year and upto three years
Murabaha finance	416,009,180	416,009,180	299,342,514	116,666,666
Accrued and other liabilities	25,323,611	25,323,611	25,323,611	-
Unclaimed profit distribution	9,413,910	9,413,910	9,413,910	-
	<u>450,746,701</u>	<u>450,746,701</u>	<u>334,080,035</u>	<u>116,666,666</u>

### 21.3 Market risk

Market risk means that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices such as foreign exchange rates, interest rates and equity prices. The objective is to manage and control market risk exposures within acceptable parameters, while optimising the return. The market risks associated with the Modaraba's business activities are discussed as under:

#### 21.3.1 Mark-up rate risk

Mark-up rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market yield. The modaraba has adopted appropriate policies to minimise its exposure to this risk. At the reporting date the interest rate profile of the modaraba's significant mark-up bearing financial instruments was as follows:

June 30, 2009									
Effective yield / profit rates	Carrying amount	Upto one month	Upto one to 3 months	Over three months to six months	Over six months to one year	Over one year to three years	Over three to 5 years	Over five years	Not exposed to mark-up rate risk
<b>Financial assets</b>									
Assets given on lease - net	6.50% - 20.76%	670,839,856	3,700,706	3,798,524	31,813,940	82,093,302	377,768,053	171,665,331	-
Deposit	152,500	-	-	-	-	-	-	-	152,500
Investments	7,924,902	-	-	-	-	-	-	-	7,924,902
Lease rentals receivable	56,674,734	-	-	-	-	-	-	-	56,674,734
Other receivables	424,148	102,664	-	-	170,234	-	-	-	151,250
Bank balances	3% - 5%	4,073,220	-	4,073,220	-	-	-	-	-
		<u>740,089,360</u>	<u>7,876,590</u>	<u>3,798,524</u>	<u>31,813,940</u>	<u>82,263,536</u>	<u>377,768,053</u>	<u>171,665,331</u>	<u>64,903,386</u>
<b>Financial liabilities</b>									
Murabaha finance	3 months KIBOR plus 0.92 to 1.25	92,196,334	25,500,000	8,363,000	16,666,667	25,000,000	16,666,667	-	-
Accrued and other liabilities	15,357,352	-	6,324	-	-	-	-	-	15,351,028
Unclaimed profit distribution	3% - 5%	9,691,345	-	-	-	9,691,345	-	-	-
		<u>117,245,031</u>	<u>25,500,000</u>	<u>8,369,324</u>	<u>16,666,667</u>	<u>34,691,345</u>	<u>16,666,667</u>	<u>-</u>	<u>15,351,028</u>
<b>On balance sheet gap - 2009</b>		<u>622,844,329</u>	<u>(17,623,410)</u>	<u>(4,570,800)</u>	<u>15,147,273</u>	<u>47,572,191</u>	<u>361,101,386</u>	<u>171,665,331</u>	<u>49,552,358</u>

June 30, 2008									
Effective yield / profit rates	Carrying amount	Upto one month	Upto one to 3 months	Over three months to six months	Over six months to one year	Over one year to three years	Over three to 5 years	Over five years	Not exposed to mark-up rate risk
<b>Financial assets</b>									
Assets given on lease - net	6% - 18.5%	972,610,592	5,246,821	3,791,492	9,575,969	43,284,052	576,889,057	333,823,201	-
Deposit	152,500	-	-	-	-	-	-	-	152,500
Investments	12% - 16%	19,396,862	-	-	-	10,000,000	-	-	9,396,862
Lease rentals receivable	70,933,780	-	-	-	-	-	-	-	70,933,780
Other receivables	340,426	44,173	231,633	-	16,995	-	-	-	47,625
Bank balances	1.25% - 3.25%	9,514,492	9,514,492	-	-	-	-	-	-
		<u>100,338,060</u>	<u>9,558,665</u>	<u>231,633</u>	<u>10,016,995</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,530,767</u>
<b>Financial liabilities</b>									
Murabaha finance	3 months KIBOR plus 0.92 to 1.25	416,009,180	166,009,179	62,500,000	29,166,667	141,666,667	16,666,667	-	-
Accrued and other liabilities	25,323,611	1,137,951	-	-	-	-	-	-	24,185,660
Unclaimed profit distribution	1.25% - 3.25%	9,413,910	-	-	-	9,413,910	-	-	-
		<u>450,746,701</u>	<u>167,147,130</u>	<u>62,500,000</u>	<u>29,166,667</u>	<u>151,080,577</u>	<u>16,666,667</u>	<u>-</u>	<u>24,185,660</u>
<b>On balance sheet gap - 2008</b>		<u>(350,408,641)</u>	<u>(157,588,465)</u>	<u>(62,268,367)</u>	<u>(29,166,667)</u>	<u>(141,063,582)</u>	<u>(16,666,667)</u>	<u>-</u>	<u>56,345,107</u>

## Notes to the Financial Statements

### *Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates at the reporting date would have (decreased) / increased profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The following information summarizes the estimated effects of hypothetical increases and decreases in interest rates on cash flows from financial assets and liabilities that are subject to interest rate risk.

	<b>Profit and loss 100 bp</b>	
	<b>Increase</b>	<b>Decrease</b>
	<b>(Rupees)</b>	
<b>As at June 30, 2009</b>		
Cash flow sensitivity-Variable rate financial liabilities	<b>2,636,554</b>	(2,636,554)
Cash flow sensitivity-Variable rate financial assets	<b>8,285,191</b>	(8,285,191)
Net effect	<b>5,648,637</b>	(5,648,637)
<b>As at June 30, 2008</b>		
Cash flow sensitivity-Variable rate financial liabilities	<b>4,491,947</b>	(4,491,947)
Cash flow sensitivity-Variable rate financial assets	<b>9,815,093</b>	(9,815,093)
Net effect	<b>5,323,146</b>	(5,323,146)

### **21.3.2 Price risk**

Equity price risk is the risk of unfavourable changes in the fair value of equity securities as a result of changes in the levels of KSE-Index and the value of individual shares. The equity price risk exposure arises from the modaraba's investments in equity securities for which prices in the future are uncertain. The modaraba policy is to manage price risk through selection of blue chip securities within specified limits set by the requirements of Modaraba regulations.

The modaraba is exposed to equity price risk since it has investments in quoted equity securities amounting to Rs.7.92 million (2008: Rs.9.34 million) at the balance sheet date. The carrying value of investments subject to equity price risk are, in almost all instances, based on quoted market prices as of the balance sheet date. Market prices are subject to fluctuation. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions.

As the entire investment portfolio has been classified in the AFS category, a 10% increase / decrease in redemption value and share prices at year end would have increased / decreased surplus on revaluation of investments and impairment loss of investment recognised in profit and loss account as follows:

	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<i>Effect of Increase in share price</i>		
Effect on profit or loss (impairment loss)	-	
Effect on equity	<b>866,088</b>	1,773,394
Effect on investments	<b>866,088</b>	1,773,394
<i>Effect of Decrease in share price</i>		
Effect on profit or loss (impairment loss)	<b>(866,088)</b>	(1,773,394)
Effect on equity	-	
Effect on investments	<b>(866,088)</b>	(1,773,394)

**21.3.3 Currency risk**

Currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Modaraba is not exposed to currency risk as it does not have any foreign currency financial instrument.

**21.4 Fair value of financial assets and liabilities**

Fair value is an amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in arm's length transaction.

As at June 30, 2009 the carrying value of all financial instruments reflected in the financial statements, except for leases approximate their fair value.

**21.5 Capital risk management**

The Modaraba's objective when managing capital is to safe guard its ability to continue as a going concern so that it can continue to provide returns for certificate holders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its business.

The Modaraba manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Modaraba may adjust the amount of dividend paid to certificate holders or issue new certificates.

**22. REMUNERATION OF OFFICERS**

No disclosure is made in the financial statements of the aggregate amount charged in respect of fees, remuneration or allowances of the executives by the Modaraba as there are no executives whose basic salary exceeds five hundred thousand rupees in the financial year.

**23. PROFIT DISTRIBUTION AND APPROPRIATION**

Subsequent to the year ended June 30, 2009 the Board of Directors of the management company have proposed a final profit distribution of Rs. 0.50/- per share, amounting to total profit distribution of Rs. 19.854 million (2008: Rs. 0.50 per certificate amounting to total profit distribution of Rs. 19.854 million) in their meeting held on 30-09-2009.

**24. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue by the Board of Directors of the Management of Modaraba on 30-09-2009.

  
\_\_\_\_\_  
Chief Executive

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

# Pattern of Certificate Holding

BY THE CERTIFICATE-HOLDERS AS AT JUNE 30, 2009 .

Categories of Shareholders	Number	Shares held	Percentage
<b>Associated Companies, Undertakings and Related Parties</b>			
Habib Bank Financial Services (Pvt) Ltd.	1	3,970,720	10.00%
HBL Employees Welfare Fund	1	7,941,440	20.00%
HBL (LSE Br.)	1	396	0.00%
<b>NIT and ICP</b>	3	5,038,747	12.69%
<b>Directores, CEO and their spouses and minor children</b>			
<b>Banks, DFIs Non Banking Financial Institutions.</b>	11	131,345	0.33%
<b>Insurance Companies</b>	4	2,409,070	6.07%
<b>Modarabas and Mutual Funds</b>	9	5,300,261	13.35%
<b>Certificateholders holding 10% or more (Other than those not reported above)</b>	0		
<b>General Public (Local)</b>	4179	13,057,365	32.88%
<b>General Public (Foreign)</b>	174	543,626	1.37%
<b>Others</b>	69	1,314,230	3.31%
<b>Total</b>	<b>4452</b>	<b>39,707,200</b>	<b>100.00%</b>

# Pattern of Shareholding

AS OF 30 JUNE 2009

No. of Shareholder	Having Shares		Shares Held	Percentage
	From	To		
828	1	100	40808	.1027
1063	101	500	309888	.7804
1093	501	1000	958789	2.4146
1007	1001	5000	2556938	6.4394
219	5001	10000	1745712	4.3964
62	10001	15000	775661	1.9534
54	15001	20000	973740	2.4523
32	20001	25000	727098	1.8311
16	25001	30000	445060	1.1208
8	30001	35000	257448	.6483
9	35001	40000	342765	.8632
1	40001	45000	43500	.1095
11	45001	50000	543734	1.3693
6	50001	55000	314480	.7919
4	55001	60000	229097	.5769
3	60001	65000	183307	.4616
1	65001	70000	65050	.1638
3	70001	75000	222500	.5603
4	75001	80000	307867	.7753
2	90001	95000	186000	.4684
2	95001	100000	200000	.5036
2	100001	105000	201005	.5062
3	115001	120000	358500	.9028
1	120001	125000	124000	.3122
1	125001	130000	125500	.3160
3	130001	135000	396775	.9992
2	135001	140000	276832	.6971
1	165001	170000	167500	.4218
1	170001	175000	174500	.4394
2	195001	200000	398000	1.0023
1	290001	295000	295000	.7429
1	400001	405000	403500	1.0161
1	1000001	1005000	1004919	2.5308
1	2215001	2220000	2216565	5.5822
1	3970001	3975000	3970720	10.0000
1	5035001	5040000	5035756	12.6822
1	5185001	5190000	5187246	13.0637
1	7940001	7945000	7941440	20.0000
4452			39707200	100.0000

# Financial Highlights

FOR THE LAST SIX YEARS AT A GLANCE

PKR in million

	2004	2005	2006	2007	2008	2009
Paid up Capital	397.07	397.07	397.07	397.07	397.07	397.07
Reserve	189.37	210.06	253.57	266.39	223.73	224.16
Total Equity	586.44	607.14	650.64	663.46	620.80	621.23
Total Assets	819.90	1215.24	1216.43	1209.09	1149.09	827.16
Total Income	252.32	383.16	499.46	570.52	506.33	499.47
Total Expenditure	164.95	315.66	449.09	518.14	485.32	479.28
Pre-Taxation	87.37	67.50	50.37	52.38	21.01	19.79
Taxation	-	-	-	-	-	-
Net Profit	87.37	67.50	50.37	52.38	21.01	19.79
Dividend Per Share (Rs)	1.60	1.30	1.20	1.30	0.50	0.50

## Notice of Annual Review Meeting

Notice is hereby given that the 10th Annual Review Meeting of Certificate Holders of First Habib Bank Modaraba will be held on Monday, 26th October, 2009 at 3:30 p.m. at 23rd Floor, Habib Bank Plaza, I.I. Chundrigar Road, Karachi, to review the performance of the Modaraba for the year ended June 30, 2009 in terms of Clause 20 of Prudential Regulations for Modarabas issued vide Circular No.5/2000 of Registrar, Modaraba Companies & Modarabas.

The Certificate Transfer Book will remain closed from 21st October, 2009 to 27th October, 2009 (both days inclusive) for the purpose of entitlement of dividend and attending Annual Review Meeting. All transfers received in order, upto close of business on 20th October, 2009 at our Registrar's Office, M/s T.H.K. Associates (Pvt) Limited, Ground Floor State Life Building-3, Dr. Zia Uddin Road, Karachi, will be considered in time.

By Order of the Board



**Muhammad Amin Chhotani**  
Company Secretary

Karachi: September 30<sup>th</sup> 2009