



IN THE NAME OF ALLAH THE MOST BENEFICENT  
AND MERCIFUL

الحمد لله الذي هدانا لهذا  
الذي كنا لنهتدي لولا أن هدانا الله

We bow our heads before Almighty Allah  
in gratitude and for His continued Blessings.

## CONTENTS

Vision	1
Mission	2
25 years of FHM	3
Corporate Social Responsibility	5
Corporate Values	7
Directors' Profile	9
Corporate Information	10
Board Committee	11
Value Added Statement	12
Key Financial Data	13
Summary of Cash Flow	14
Financial Summary at a glance	15
Balance Sheet Composition	16
Horizontal Analysis	17
Vertical Analysis	18
Certificate Holder's Information	19
Pattern of Certificate Holding	21
Customer Satisfaction	23
Staff Activities	24
Edge & Achievement	25
Recognition & Awards	26
Product Range	31
Message from the Chairman	33
Directors' Report to the Members	34
Notice of Annual Review Meeting	40
Statement of Compliance	43
Auditors' Review Report to the Certificate Holders	47
Auditors' Report to the Certificate Holders	48
Balance Sheet	49
Profit & Loss Account	50
Statement of Comprehensive Income	51
Cash Flow Statement	52
Statement of Changes in Equity	53
Notes to the Accounts	54



# Our Vision

To be the leading  
Islamic Financial  
Institution within  
Modaraba sector  
by providing the  
best innovative  
Sharia'h Compliant  
financial solutions  
at optimum  
satisfaction of  
customers.







# **Our Mission**

**To become 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.**





# 25 YEARS OF FIRST HABIB MODARABA

Alhamdulillah, all praise and thanks be to Allah (SWT)

First Habib Modaraba (FHM) has completed its successful 25 years of business operations. The twenty five years in the life of an institution may not be a longtime, but it is certainly an important milestone.

We thank Almighty Allah for His continued blessing during our existence of 25 years and we pray that He continues to shower His blessing in future as well.

Silver Jubilee has a special significance in the life of any institution as it signifies a coming of age and maturity. It is a celebrative milestone in the journey of our corporate objectives.

FHM is well on its way to realizing its vision of "To be a leading Islamic Financial Institution within the Modaraba sector" and its mission "To become an institution built on trust, integrity, Good Governance with commitment to add value to all stakeholders".

FHM always remain best performing Modaraba within the Modaraba sector. The management of FHM is heir of rich tradition of trading and banking and finance. Business Operations of FHM have always been backed by valuable expertise in the field of fund management.

FHM commenced its business operation in 1985 with initial capital of Rs.25.0 million only. However, continuing with solid, dynamic and prudent approach now Alhamdulillah, FHM has a total equity base of around Rs.2,800 billion.

FHM being pioneer in the Modaraba and Non-Banking Islamic Financial sector played a very vital role for promotion of Islamic Finance in Pakistan's Islamic Financial Market

FHM is much stronger today in terms of the healthy size of equity, strong balance sheet footing and sound profitability with good management talent and vibrant human resource. FHM draw its success by complying with highest ethical and moral standards and always try to make efforts to enhance professional competencies.

The main components of success of FHM was excellent team work across all levels of the

organization. Due to hard and dedicated work of all staff members made FHM the premier Modaraba in the Modaraba sector.

Following achievements remained hallmarks during the 25 years operations of FHM

- Unbroken history of payment of dividend to Certificate holder every year.
- Remained a profitable venture throughout the business operations.
- Maintained "A" category rating since last 11 years.
- Leading Modaraba in terms of size of assets, equity and profitability.
- Recipient of trophy of "Corporate Excellence Award" from Management Association of Pakistan.
- Recipient of best performing Modaraba awards for last several years for Modaraba Association of Pakistan.

FHM's marketing strategy is meant to reach such clients and make them aware of range of innovative Islamic products and services. Thus, FHM has been penetrating a sizable volume in current market and providing various Islamic Financials products.

Achieving excellent results year after year becomes an ever greater challenge, particularly, in today's competitive financial markets. However, the management of FHM is well poised on its path for growth and expansion. We remain firmly committed to our present well-defined and focused strategy. While remaining in core business of Islamic finance, we will continue to leverage innovative Shariah compliant business models that add value for our customers and certificate holders.

By the grace of God, the FHM remained a vibrant and prudent Islamic financial institution within the non banking financial sector and we are confident that FHM will Insha'Allah maintain its leadership position within the Modaraba sector.

May Allah grant us more success in our future endeavours.



# Corporate Social Responsibility



Corporate social Responsibility (CSR) is undertaking the role of “Corporate Citizen”. It ensures that business values and policies are align in such a way to balance between improving and developing the wealth of business and contributing for betterment of society in a effective manner.

With the growth of our business, we have assumed an even greater responsibility for our society and stakeholders, including employees, their families, our business partners etc.

FHM is committed to both sustainable business practices and its responsibilities as a corporate citizen. We believe that Corporate Social Responsibility is primarily about conducting our business in a transparent and ethical way that enhances value for all of our stakeholders but also by giving support to events that enhance the wellbeing of the community.

Corporate social responsibility and guidelines for corporate governance are steps in positive directions. Customer relationship management is strategic business philosophy and processes are rooted through ethical practices.

FHM continues to encourage events and projects which focus on children, health and education in under privileged members of society. Besides, staff is also encouraged to take part in activities to support the community. During the year FHM has supported various trust and philanthropist institutions who are engaged in various community service projects such as:-

- Educational support to needy students and loan for higher studies.
- Medical facilities to poor people of the society
- Feeding of Poor , clothing aids and monthly ration to poor families
- Support to Orphans and Widows, and marriage aid to needy parents of girls.

FHM also supports a clean environment and motivate its customers for this cause. FHM also try its level best that business activities of customers must be environmental friendly and should not hazardous to the Society.



# UNBROKEN DIVIDEND PAYOUT OF FHM 1986-2010





**QUALITY  
SERVICE**

**CUSTOMER  
FIRST**

**INTEGRITY**

**CORPORATE  
GOVERNANCE**

**TEAMWORK**

**RESPONSIVE**



# Corporate Values

Our Corporate values are to build and sustain a high performance culture, with a continuous improvement through effective implementation of Vision, Mission, and Corporate objectives. The intrinsic values, which are the corner stones of our corporate behavior are:-

## Customer First

Our corporate objective shall be customer oriented when assessing, designing and introducing new products, services and technology.

## Integrity

Integrity means speaking and acting honestly and sincerely. Our unwavering belief in integrity is what allows our customer to entrust their business to us.

## Team Work

It is essence of our ability to succeed as a trusted and preferred financial institution to our clients. With common goals and team spirit, we will uphold our values and achieve our corporate goals.

## 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.

## Responsive

How we respond to our customers will influence their belief in our commitment to them. A proactive response is often unexpected and more effective for that. It clearly demonstrates our willingness to go beyond the expected.

## Quality Service

Our core value is to develop customer service oriented culture with special emphasis on customer care and convenience. The essence of quality service is embodied through every interaction that we have, within ourselves and with our customer.



## DIRECTOR'S PROFILE

### Wazir Mumtaz Ahmed – Chairman

Mr. Wazir Mumtaz Ahmed is a seasoned banker. His banking career span over a period of 46 years of committed and dedicated services. He started his banking career in 1961 and carried diversified experience on several senior positions. After completion of his Masters in Economics he got International Certifications in Commercial Law & Economics from London Chamber of Commerce. His career is a perfect combination of Integrity and Commitment which gave him additional advantage to reached upto the position of Senior Executive Vice President in the Bank.

### Muhammad Shoaib Ibrahim – Managing Director & CEO

Mr. Muhammad Shoaib, is associate with First Habib Modaraba since very long time. His extensive working experience in Non-Banking Islamic Financial institutions for more than two decades 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 of Business Administration (MBA) in Finance. He has completed Post Graduate Diploma (PGD) in Islamic Banking and Finance from Centre of Islamic Economics (Darul Ulum), Karachi, Pakistan. He is also Certified Islamic banker from Professional's Institute of Excellence who are academic partner of University of Marathon U.S.A. and Pakistan Institute of Banking Studies, Pakistan.

On number of occasions he remained as an Executive Member of Modaraba Association of Pakistan and at present he is the Chairman of Modaraba Association of Pakistan.

### Wazir Husain Jafree – Director

Mr. Wazir Husain Jafree is a seasoned banker, his banking career spans over more than 46 years. He carries a diversified experience of working on various senior positions in Pakistan and abroad. He has worked with Habib Bank Limited (HBL), Bank of Credit & Commerce International (BCCI) & Bank AL Habib Limited (BAHL). He also served as Member Executive Committee of Modaraba Association of Pakistan.

### Abbasali Muhammad – Director

Mr. Abbas Ali Muhammad started his career from Bombay (India). He joined Habib Investment Company in the year 1951 as a "Trainee Officer". In 1971, became the Chief Executive of Habib Investment Company. This executive position also involved business management of several reputed companies as a Director. Mr. Abbas Ali Muhammad has over 52 years of experience in financial management.





Silver Jubilee

## CORPORATE INFORMATION

### Board of Directors

Mr. Wazir Mumtaz Ahmed - Chairman

Mr. Muhammad Shoaib Ibrahim - Managing Director & CEO

Mr. Wazir Husain Jafree

Mr. Abbasali Muhammad

### AUDITORS

BDO Ebrahim & Company  
Chartered Accountants

### LEGAL ADVISOR

Mohsin Tayebaly & Company

### AUDIT COMMITTEE

Mr. Wazir Mumtaz Ahmed - Chairman  
Mr. Abbas Ali Muhammad - Member  
Mr. Wazir Husain Jafree - Member  
Mr. Shakeel Ahmed - Secretary

### COMPANY SECRETARY

Mr. Adnan Thanwey

### BANKERS

Habib Metropolitan Bank Limited (Islamic Banking)  
Bank Al Falah Limited (Islamic Banking)  
Dawood Islamic Bank Limited  
Emirates Global Islamic Bank

### REGISTRAR:

Noble Computer Services (Pvt.) Limited  
Mezzanine Floor, House of Habib Building  
(Siddiqsons Tower),  
3-Jinnah Cooperative Housing Society,  
Main Shahrah-e-Faisal, Karachi, Pakistan.  
Tel: 021-34325482-87

### REGISTERED OFFICE

5<sup>th</sup> Floor, HBZ Plaza (Hirani Centre)  
I.I. Chundrigar Road, Karachi.

### WEB ADDRESS

Web: [www.habibmodaraba.com](http://www.habibmodaraba.com)

### CONTACT

Tel: 021-32635949-51  
Fax: 021-32627373  
Email: [fhm@habibmodaraba.com](mailto:fhm@habibmodaraba.com)



## BOARD COMMITTEE

### Audit Committee

#### Term of reference

In line with the best practices, the Board of Directors has established the audit committee. The Terms of Reference of the committee have been developed on the lines as laid down in the Code of Corporate Governance and approved by the Board.

These include:

- i. To recommend to the Board of Directors the appointment of external auditors by the Modaraba's Certificate holders and consider any questions of resignation or removal of external auditors, audit fees and provision by external auditors of any service to the Modaraba in addition to audit of its financial statements;
- ii. To review the quarterly, half-yearly and annual financial statements of the Modaraba, prior to their approval by the Board of Directors;
- iii. To facilitate 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;
- iv. To review the management letter issued by external auditors and management's response thereto;
- v. To ensure coordination between the internal and external auditors of the Modaraba;
- vi. To review the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the Modaraba;
- vii. To consider the major findings of internal investigation and management's response thereto;
- viii. To ascertain that the internal control system including financial and operational control, accounting system and reporting structure are adequate and effective;
- ix. To determine compliance with relevant statutory requirements; and
- x. To monitor compliance with the best practices of corporate governance and identification of significant violation thereof;

The audit committee comprises of the following members:

Mr. Wazir Mumtaz Ahmed  
Non Executive (Chairman)

Mr. Abbasali Muhammad  
Non Executive (Member)

Mr. Wazir Husain Jafree  
Non Executive (Member)

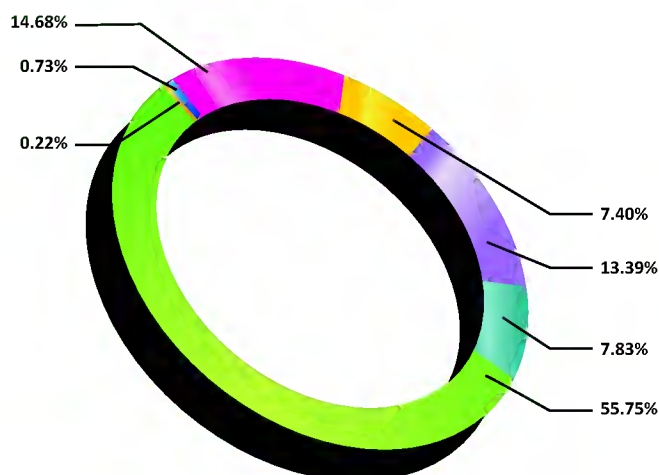
Mr. Shakeel Ahmed Mangroria  
Internal Auditor & Secretary to the Committee



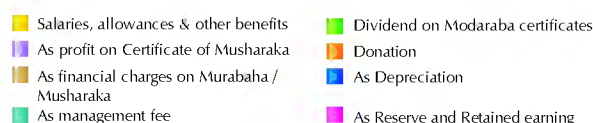
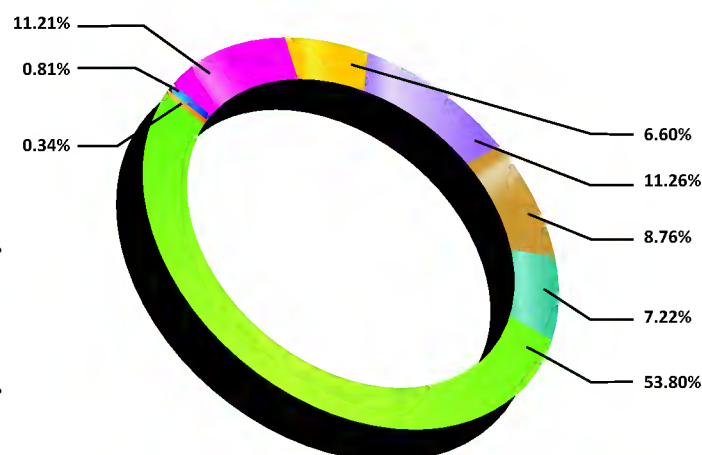
## VALUE ADDED STATEMENT

	2010		2009	
	Rs.	(%)	Rs.	(%)
<b>Value Added</b>				
Revenue from operations	317,651,152		355,169,823	
Other income / charges	78,151,268		36,654,537	
<b>Value added by Ijarah services</b>	<b>395,802,420</b>		<b>391,824,360</b>	
Operating expense	16,096,752		17,122,921	
	<b>379,705,668</b>	<b>100.00</b>	<b>374,701,439</b>	<b>100.00</b>
<b>Value Allocated</b>				
To Employees				
Salaries, allowances & other benefits	28,093,113	7.40	24,723,795	6.60
To provider of finance				
As profit on Certificate of Musharaka	50,851,357	13.39	42,202,806	11.26
As financial charges on Murabaha / Musharaka	-	0.00	32,812,320	8.76
To Modariba				
As management fee	29,713,394	7.83	27,068,056	7.22
To certificate holders				
Dividend on modaraba certificates	211,680,000	55.75	201,600,000	53.80
To Society				
Donation	852,000	0.22	1,236,000	0.34
To expansion & growth				
As Depreciation	2,775,263	0.73	3,045,957	0.81
As Reserve and Retained earning	55,740,541	14.68	42,012,505	11.21
	<b>379,705,668</b>	<b>100.00</b>	<b>374,701,439</b>	<b>100.00</b>

Value Allocated 2010



Value Allocated 2009



## KEY FINANCIAL DATA SIX YEARS AT A GLANCE

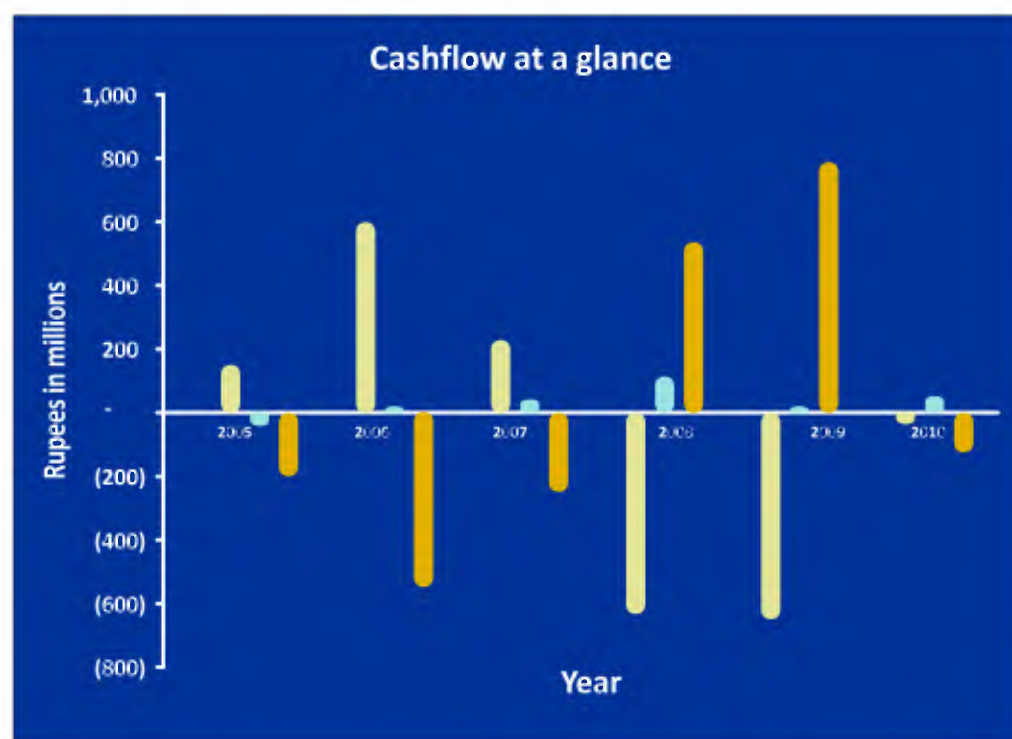
KEY FINANCIAL DATA	(Rupees in million)					
	2010	2009	2008	2007	2006	2005
Total Assets	3,775.20	3,281.20	4,025.65	5,000.90	3,889.85	2,657.05
Ijarah Assets	2,435.30	2,096.89	2,716.03	3,185.14	2,744.84	2,047.01
Gross Ijarah Disbursement	1,512.37	1,150.74	1,074.80	1,780.60	1,719.96	1,226.01
Current Assets	1,299.65	1,163.36	1,300.79	1,808.28	1,136.05	604.92
Current Liabilities	725.86	527.70	778.52	1,811.58	1,531.28	943.45
Total Liabilities	883.01	663.05	1,178.83	2,503.21	2,094.53	1,330.25
Paid-up Capital	1,008.00	1,008.00	1,008.00	504.00	504.00	504.00
Reserves	1,884.20	1,610.15	1,838.82	1,993.69	1,291.31	822.80
Certificate Holders' Equity	2,892.20	2,618.15	2,846.82	2,497.69	1,795.31	1,326.80
Gross Revenue	1,348.64	1,666.23	1,666.79	1,502.96	1,206.40	1,013.62
Net Profit	267.42	243.61	268.86	149.31	141.08	101.77
Earning Per Certificate - Rs.5/- each	1.33	1.21	1.50	1.36	1.40	1.42
Cash Dividend	21%	20%	21%	20%	20%	15%
Ijarah Rental	1,342.17	1,662.61	1,666.79	1,500.45	1,200.67	1,008.82

STAKEHOLDER INFORMATION	(Rupees in million)					
	2010	2009	2008	2007	2006	2005
Profit after tax ratio (%)	19.83	14.62	16.13	9.93	11.69	10.04
Return on assets	7.08	7.42	6.68	2.99	3.63	3.83
Return on equity	13.13	12.36	13.87	14.71	14.60	11.30
Return on capital employed	10.78	11.82	11.39	8.41	9.76	10.71
Asset Turnover Ratio (%)	38.21	53.46	45.82	31.91	31.90	38.87
Income / Expense ratio	1.18	1.12	1.08	1.05	1.11	1.10
Current ratio	1.79	2.20	1.67	1.00	0.74	0.64
Market Value Per Share	6.70	5.77	7.77	13.50	6.95	8.00
High	7.33	7.85	16.35	13.80	8.30	12.55
Low	5.50	4.37	7.39	6.55	6.50	7.50
EPS (Earning per share)	1.33	1.21	1.50	1.36	1.40	1.42
Net assets per share	14.35	12.99	14.12	24.78	17.81	13.16
Earning asset to total asset ratio	91.97	89.11	95.43	97.28	95.94	98.43
Price earning ratio	5.04	4.77	5.18	9.93	4.96	5.63
Dividend Yield ratio (%)	15.67	17.33	13.51	7.41	14.39	9.38
Dividend Payout ratio (%)	79.16	82.75	78.73	67.51	71.45	74.28
Cash dividend (%)	21%	20%	21%	20%	20%	15%
Cash dividend per share	1.05	1.00	1.05	1.00	1.00	0.75
Book Value Per Share	10.10	9.78	9.62	10.07	9.59	8.94
Dividend (in million rupees)	212	202	212	101	101	76
Profit Growth Ratio (%) [YoY]	10	(9)	80	6	39	43
Profit Growth Ratio (%) [base year 2004]	275	242	277	109	98	43

## SUMMARY OF CASH FLOW

(in million rupees)

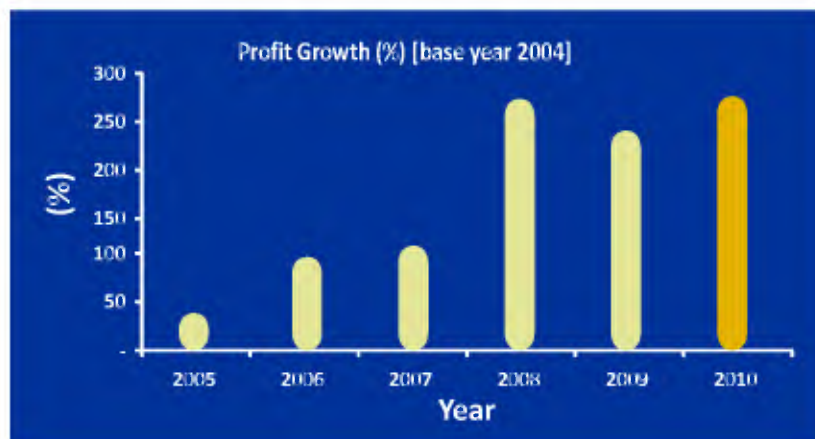
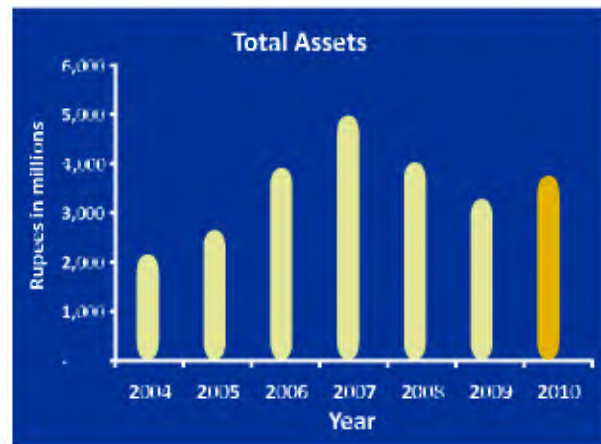
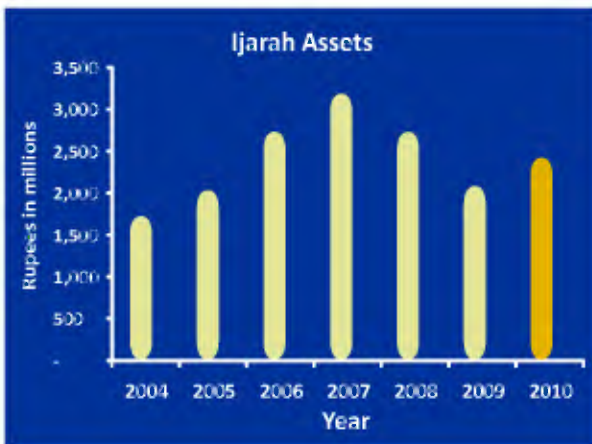
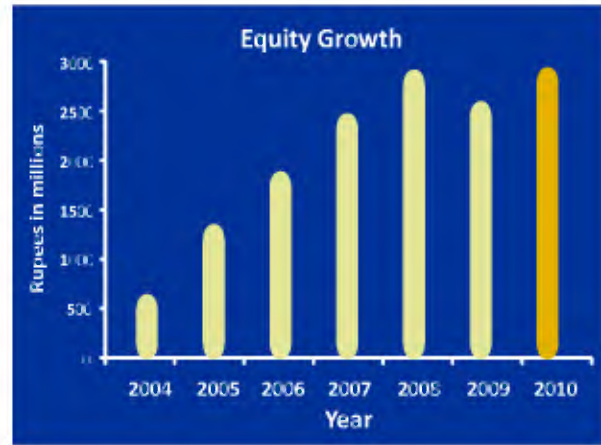
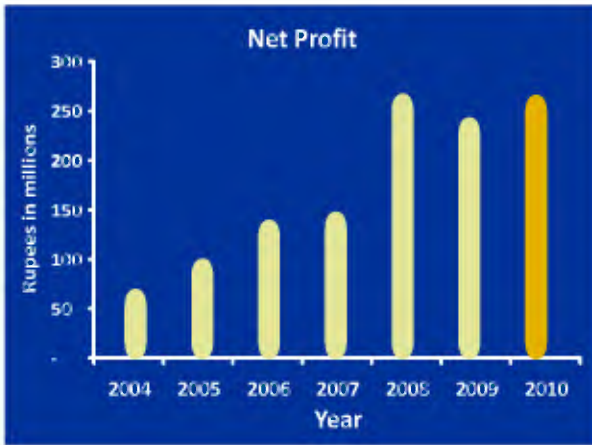
	2010	2009	2008	2007	2006	2005
Cash & cash equivalents at the beginning of the year	302	150	125	73	32	72
Net Cash flow from operating activities	(102)	805	560	(233)	(589)	(189)
Net Cash flow from investing activities	47	17	125	39	8	(18)
Net Cash flow from financing activities	(34)	(670)	(660)	245	623	167
Net (decrease) / increase in cash & cash equivalent	(90)	152	25	52	42	(40)
Cash & cash equivalents at the end of the year	212	302	150	125	73	32



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

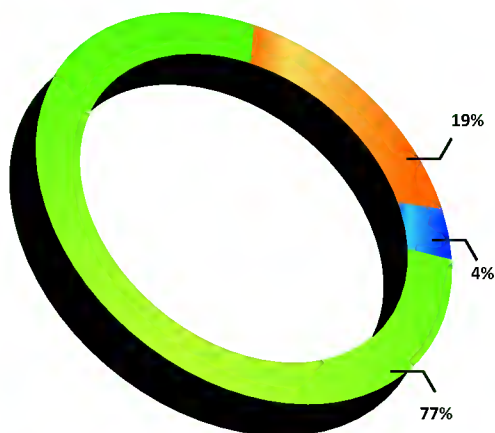


## FINANCIAL SUMMARY AT A GLANCE



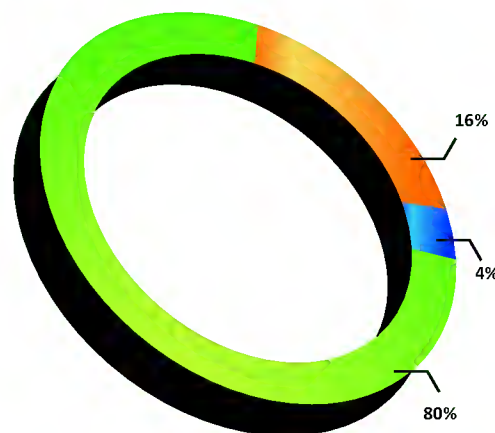
# BALANCE SHEET COMPOSITION

Equity & Liabilities  
2010



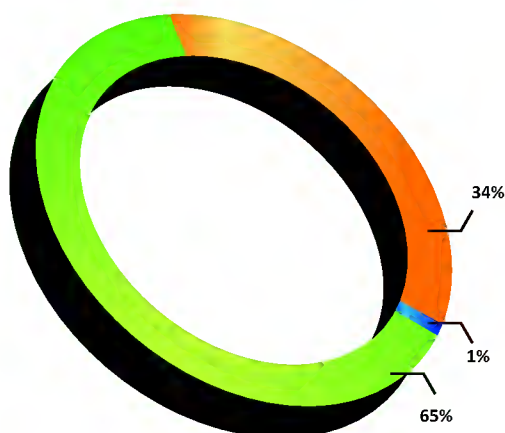
- Current Liabilities
- Non-Current Liabilities
- Certificate Holders' Equity

Equity & Liabilities  
2009



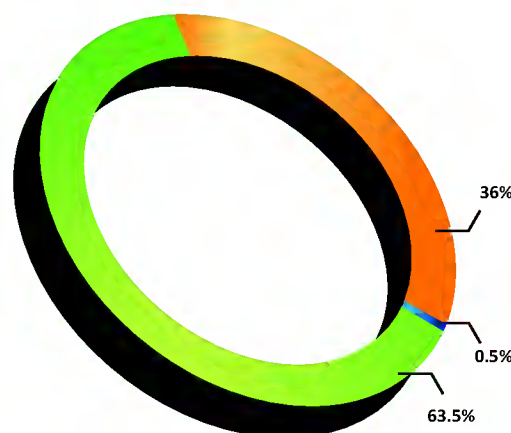
- Current Liabilities
- Non-Current Liabilities
- Certificate Holders' Equity

Assets  
2010



- Fixed Assets
- Long-term Assets
- Current Assets

Assets  
2009



- Fixed Assets
- Long-term Assets
- Current Assets

## HORIZONTAL ANALYSIS

### BALANCE SHEET (%)

	2010	2009	2008	2007	2006	2005
<b>ASSETS</b>						
<b>NON-CURRENT ASSETS</b>						
Fixed Assets - tangible						
Ijarah Assets	16.14	(22.80)	(14.73)	16.04	34.09	18.76
Assets in own use	(7.31)	(9.92)	22.96	(15.85)	77.99	40.75
Intangible Assets	451.60	(61.52)	(77.60)	(30.92)	8.28	119.03
Investment in diminishing musharaka	130.15	0.00	0.00	0.00	0.00	0.00
Long-term advances & deposits	1,850.00	(93.39)	4.08	(17.29)	75.94	(31.45)
<b>CURRENT ASSETS</b>						
Investments	25.36	(26.54)	(32.98)	70.18	73.66	72.75
Current maturity of diminishing musharaka	236.42	0.00	0.00	0.00	0.00	0.00
Short-term Murabaha finance	0.00	0.00	0.00	0.00	0.00	0.00
Ijarah rental receivable - secured, considered good	(58.27)	254.31	362.25	(51.44)	10.47	(3.61)
Loan & advances	-	(100.00)	39.13	(34.88)	(39.82)	134.90
Trade deposits & short-term prepayments	163.52	(33.11)	232.26	(85.09)	(39.82)	134.90
Other receivables	(41.94)	(41.51)	1,617.68	(44.70)	(39.82)	134.90
Cash & bank balances	(29.72)	101.14	20.02	70.29	129.89	(55.76)
<b>TOTAL ASSETS</b>	<b>15.06</b>	<b>(18.49)</b>	<b>(19.50)</b>	<b>28.56</b>	<b>46.40</b>	<b>24.64</b>
<b>EQUITY &amp; LIABILITIES</b>						
<b>CAPITAL &amp; RESERVES</b>						
Authorized Certificate capital	0.00	0.00	83.33	0.00	0.00	100.00
Issued, subscribed & paid-up capital	0.00	0.00	100.00	0.00	0.00	100.00
Reserves	17.02	(12.44)	(7.77)	54.39	56.94	113.99
Certificate holders' equity	10.47	(8.03)	13.98	39.12	35.31	108.45
<b>NON-CURRENT LIABILITIES</b>						
Long-term Murabaha finances	-	(100.00)	(61.88)	22.91	109.94	15.14
Certificates of Musharaka - unsecured	(89.48)	(85.21)	43.82	108.50	(78.65)	(23.69)
Security deposits against Ijarah assets	21.31	(31.54)	(13.89)	16.03	27.53	29.69
Deferred liability - Staff gratuity	0.00	0.00	0.00	0.00	0.00	0.00
<b>CURRENT LIABILITIES</b>						
Deferred Murabaha Income	0.00	0.00	0.00	0.00	0.00	0.00
Murabaha finances - current portion	-	(100.00)	(13.95)	20.04	55.11	(19.43)
Certificates of Musharaka - current portion	49.83	5.92	(72.09)	17.16	90.35	(34.52)
Security deposits - current portion	(4.58)	33.15	15.03	48.86	2.97	11.87
Short-term Musharaka finances - secured	0.00	0.00	(100.00)	(33.33)	(1.96)	0.00
Short-term Murabaha finances - secured	0.00	0.00	0.00	0.00	0.00	0.00
Unearned Ijarah rentals	107.22	264.87	0.00	0.00	0.00	0.00
Advance Ijarah rentals received	3.74	(9.22)	19.99	0.34	47.68	(5.40)
Trade & other payables	43.67	(32.61)	9.61	29.88	44.49	50.75
Taxation - net	(71.37)	(70.83)	(22.98)	11.19	(5.29)	(6.30)
Unclaimed profit distribution	11.67	12.25	11.74	10.34	8.32	10.63
Proposed profit distribution	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>15.06</b>	<b>(18.49)</b>	<b>(19.50)</b>	<b>28.56</b>	<b>46.40</b>	<b>24.64</b>
<b>PROFIT &amp; LOSS ACCOUNT (%)</b>						
Ijarah rentals	(19.27)	(0.25)	11.09	24.97	19.02	21.71
Profit on diminishing musharaka	78.48	0.00	0.00	0.00	0.00	0.00
Profit on Murabaha finance	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation on Ijarah assets	(21.36)	(2.85)	11.16	28.36	16.36	19.46
Administrative expenses	3.66	13.11	17.69	39.04	(8.70)	27.27
Other Income	6.72	(50.62)	91.72	169.99	78.87	67.43
Other charges	(69.49)	14,932.29	0.00	0.00	0.00	0.00
Financial charges	(32.21)	(51.73)	(14.27)	59.86	42.29	29.48
Modaraba company's management fee	9.77	(9.39)	80.06	5.84	38.62	42.79
<b>Profit for the year</b>	<b>9.77</b>	<b>(9.39)</b>	<b>80.06</b>	<b>5.84</b>	<b>38.62</b>	<b>42.79</b>





Silver Jubilee

## VERTICAL ANALYSIS

### BALANCE SHEET (%)

	2010	2009	2008	2007	2006	2005
<b>ASSETS</b>						
<b>NON-CURRENT ASSETS</b>						
<b>Fixed Assets - tangible</b>						
Ijarah Assets	64.51	63.91	67.47	63.69	70.56	77.04
Assets in own use	0.17	0.21	0.19	0.12	0.19	0.15
Intangible Assets	0.0019	0.0004	0.0008	0.0029	0.0055	0.0074
Investment in diminishing musharaka	0.86	0.43	0.00	0.00	0.00	0.00
Long-term advances & deposits	0.04	0.43	0.00	0.00	0.00	0.00
<b>CURRENT ASSETS</b>						
Investments	27.46	25.20	27.97	33.59	25.37	21.39
Current maturity of diminishing musharaka	1.00	0.34	0.00	0.00	0.00	0.00
Short-term Murabaha finance	0.00	0.00	0.00	0.00	1.85	0.00
Ijarah rental receivable - secured, considered good	0.13	0.35	0.08	0.01	0.04	0.05
Loan & advances	0.00	0.00	0.04	0.03	0.05	0.12
Trade deposits & short-term prepayments	0.05	0.02	0.02	0.01	0.00	0.00
Other receivables	0.17	0.34	0.47	0.02	0.05	0.12
Cash & bank balances	5.62	9.21	3.73	2.50	1.89	1.20
<b>TOTAL ASSETS</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>EQUITY &amp; LIABILITIES</b>						
<b>CAPITAL &amp; RESERVES</b>						
Authorized Certificate capital	29.14	33.52	27.32	12.00	15.42	22.58
Issued, subscribed & paid-up capital	26.70	30.72	25.04	10.08	12.96	18.97
Reserves	49.91	49.07	45.68	39.87	33.20	30.97
Certificate holders' equity	76.61	79.79	70.72	49.94	46.15	49.94
<b>NON-CURRENT LIABILITIES</b>						
Long-term Murabaha finances	-	-	4.19	8.86	9.26	6.46
Certificates of Musharaka - unsecured	0.02	0.19	1.07	0.60	0.37	2.53
Security deposits against Ijarah assets	4.14	3.93	4.68	4.38	4.85	5.57
Deferred liability - Staff gratuity	-	-	-	-	-	-
	4.16	4.13	9.94	13.83	14.48	14.56
<b>CURRENT LIABILITIES</b>						
Deferred Murabaha Income	-	-	-	-	0.06	-
Murabaha finances - current portion	-	-	6.81	6.37	6.82	6.44
Certificates of Musharaka - current portion	13.63	10.47	8.06	23.23	25.49	19.61
Security deposits - current portion	2.34	2.82	1.72	1.21	1.04	1.48
Short-term Musharaka finances - secured	-	-	-	2.00	3.86	5.76
Short-term Murabaha finances - secured	-	-	-	1.47	-	-
Unearned Ijarah rentals	0.42	0.23	0.05	-	-	-
Advance Ijarah rentals received	0.58	0.64	0.58	0.39	0.49	0.49
Trade & other payables	1.82	1.45	1.76	1.29	1.28	1.30
Taxation - net	0.003	0.01	0.03	0.03	0.04	0.06
Unclaimed profit distribution	0.45	0.46	0.33	0.24	0.28	0.38
Proposed profit distribution	-	-	-	-	-	-
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

### PROFIT & LOSS ACCOUNT (%)

	2010	2009	2008	2007	2006	2005
Ijarah rentals	99.52	99.78	100.00	99.83	99.52	99.53
Profit on diminishing musharaka	0.48	0.22	-	-	-	-
Profit on Murabaha finance	-	-	-	0.17	0.48	0.47
	100.00	100.00	100.00	100.00	100.00	100.00
Depreciation on Ijarah assets	76.82	78.86	80.96	80.91	78.77	80.57
Administrative expenses	3.56	2.77	2.45	2.31	2.08	2.71
Other Income	6.99	5.29	10.68	6.19	2.86	1.91
Other charges	1.16	3.08	0.02	-	-	-
Financial charges	3.79	4.51	9.32	12.08	9.44	7.90
Modaraba company's management fee	2.21	1.63	1.79	1.11	1.31	1.12
<b>Profit for the year</b>	<b>19.92</b>	<b>14.65</b>	<b>16.13</b>	<b>9.95</b>	<b>11.75</b>	<b>10.09</b>

## CERTIFICATE HOLDERS' INFORMATION

### Registered Office:

First Habib Modaraba  
5<sup>th</sup> Floor, HBZ Plaza,  
I.I. Chundrigar Road,  
Karachi  
Tel No.021-32635949-51  
Fax: 021-32627373  
Web: www.habibmodaraba.com

### Share Registrar Office:

M/s. Noble Computer Services (Pvt.) Limited  
Mezzanine Floor,  
House of Habib Building,  
(Siddiqsons Tower)  
3-Jinnah Cooperative Housing Society,  
Main Shahrah-e-Faisal,  
Karachi - 75350  
PABX: (92-21) - 34325482-87  
Fax: (92-21) 34325442

### Listing on Stock Exchanges

First Habib Modaraba Equity Certificates are listed on Karachi Stock Exchange (KSE), Lahore Stock Exchange (LSE) and Islamabad Stock Exchange (ISE).

### Listing Fees

The Annual Listing Fee for the financial year 2009-2010 has been paid to all the stock exchanges within the prescribed time limit.

### Investor Service Centre

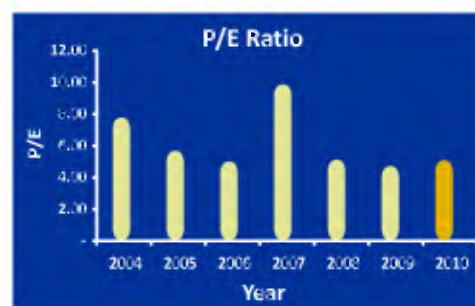
First Habib Modaraba Share department is operated by Noble Computer Services (Pvt.) Limited. It also functions as an Investor Service Centre and has been servicing nearly 5,255 Certificate holders. The Investor Service Centre is managed by a well-experienced team of professionals and is equipped with 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. Raza Rajani at Registrar Office and Mr. Adnan Thanwey, Chief Manager & Company Secretary at First Habib Modaraba.

First Habib Modaraba share department has online connectivity with Central Depository Company of Pakistan Limited. 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. Raza Rajani  
General Manager

Contact Person:  
First Habib Modaraba  
Mr. Adnan Thanwey  
Chief Manager/Company Secretary



### Services Standards

Well reputed and experienced firm of the Share Registrar Services has been entrusted with the responsibility of ensuring that services are rendered within the specified limits.

First Habib Modaraba has always endeavored to provide investors with prompt services, Listed below are various Investor services and the maximum time limits set for their execution.

	Processing Time
Transfer of Certificates (Physical to Physical)	45 days after receipt
Transmission of Certificates	45 days after receipt
Issue of duplicate share certificate	45 days after receipt
Issue of duplicate dividend warrants	10 days after receipt
Issue of revalidated Dividend Warrants	10 days after receipt
Change of Address	5 days after receipt
Deposit of Physical Certificates in to CDC	5 days after receipt

### Dividend Announcement:

The Board of Directors of the Management Company has approved Cash dividend of 21% (Rs.1.05/- per Modaraba Certificate of Rs.5/- each) for the financial year ended 30th June, 2010.

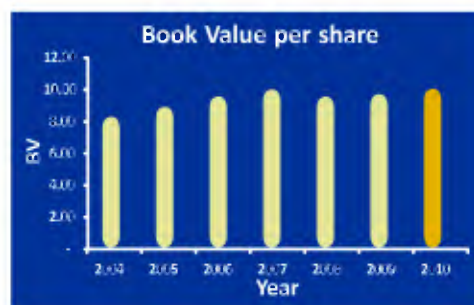
### Book Closure Dates.

The Certificate Transfer Book of the Modaraba will remain close from 02-09-10 to 08-09-10 (both days are inclusive).

### Payment of dividend

The dividend warrants will be sent to Modaraba Certificate Holders within statutory time limit i.e. within 45 days from the re-opening of Certificate Transfer Book to those Modaraba 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 either in physical form or through CDC.

- (i) For Certificates held in Physical Form: to Certificate holders whose names appear in the Register of Members of the Modaraba after entertaining all requests for transfer of Certificates lodged with the Modaraba before the book closure date.
- (ii) For shares held in electronic form: to Certificate holders whose names appear in the statement of beneficial ownership furnished by CDC as at end of the business on book closure date.



### Withholding of Tax & Zakat on Dividend

Under Section 150 of the Income Tax Ordinance, 2001 tax on dividend payable to be Certificate holder is to be withheld and will be paid to the Government @ 10% unless the Certificate holder's income is tax-exempt. This Certificate is issued pursuant to section 164 of the Income Tax Ordinance 2001.

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.

### Dividend Warrant.

Cash Dividends are paid through dividend warrants addressed to the Certificate holders whose name is appearing on the register on the registrar of Certificate holders at the date of book closure. Certificate holders are requested to deposit the dividend warrants into their bank account, at their earliest. It will help the Modaraba in clearing their unclaimed dividend warrant.



## Pattern Of Certificate Holdings As At 30th June, 2010 As Per Requirements Of Code Of Corporate Governance.

CATEGORY NO.	CATEGORIES OF CERTIFICATES HOLDERS	NUMBER OF CERTIFICATES HELD	CATEGORY WISE NO. OF CERTIFICATES HOLDERS	CATEGORY WISE CERTIFICATES HELD	PERCENTAGE
1	INDIVIDUALS		5,144	56,770,504	28.16
2	INVESTMENT COMPANIES		6	133,704	0.07
3	JOINT STOCK COMPANIES		50	5,479,904	2.72
4	DIRECTOR, CHIEF EXECUTIVE OFFICER, THEIR SPOUSE AND MINOR CHILDREN. MR. WAZIR HUSAIN JAFREE MR. MUHAMMAD SHOAB MR. ABBASALI MUHAMMAD MR. WAZIR MUMTAZ AHMED	40,000	1	40,000	0.02
5	EXECUTIVES		-	-	
6	NIT / ICP NATIONAL BANK OF PAKISTAN, NBP-TRUSTEES - NI (U) T (LOC) FUND TRUSTEE DEPTT. INVESTMENT CORPORATION OF PAKISTAN.	1,631,726 1,584,070 5,960	3	1,630,823	0.81
7	ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES		5	100,156,278	49.68
8	PUBLIC SECTOR COMPANIES AND CORPORATIONS		-	-	
9	BANKS, DFIS, NBFIS INSURANCE COMPANIES, MODARABA MANAGEMENT COMPANY & MUTUAL FUND 9.1. FINANCIAL INSTITUTIONS 9.2 LEASING COMPANIES 9.3 INSURANCE COMPANIES 9.4 MODARABAS 9.5 MUTUAL FUNDS		5 4 8 4 -	13,364,932	6.63
10	FOREIGN INVESTORS		7	3,700,000	1.84
11	COOPERATIVE SOCIETIES		2	16,353,547	8.11
12	CHARITABLE TRUSTS		6	1,143,808	0.57
13	OTHERS		10	2,826,500	1.40
	<b>TOTAL</b>		<b>5,255</b>	<b>201,600,000</b>	<b>100</b>



Silver Jubilee

## Pattern Of Certificate Holdings As At 30th June, 2010

Number of Certificate Holders	Certificate Holdings	Total Certificate Held
633	1 - 100	34,221
1107	101 - 500	346,198
721	501 - 1000	557,734
1558	1001 - 5000	3,711,071
440	5001 - 10000	3,354,360
165	10001 - 15000	2,013,141
111	15001 - 20000	2,032,550
88	20001 - 25000	2,002,540
52	25001 - 30000	1,472,936
28	30001 - 35000	904,394
41	35001 - 40000	1,583,947
36	40001 - 45000	1,505,903
41	45001 - 50000	2,010,788
11	50001 - 55000	566,906
21	55001 - 60000	1,220,507
6	60001 - 65000	379,680
5	65001 - 70000	338,840
10	70001 - 75000	736,250
5	75001 - 80000	387,140
6	80001 - 85000	485,872
6	90001 - 95000	547,632
25	95001 - 100000	2,480,584
3	100001 - 105000	306,050
6	105001 - 110000	653,140
8	115001 - 120000	945,340
5	120001 - 125000	609,160
2	125001 - 130000	254,508
5	130001 - 135000	654,588
4	135001 - 140000	557,088
1	140001 - 145000	144,503
5	145001 - 150000	739,772
4	150001 - 155000	608,400
1	155001 - 160000	160,000
5	160001 - 165000	808,560
2	170001 - 175000	346,360
1	180001 - 185000	182,606
3	185001 - 190000	563,024
1	190001 - 195000	192,000
2	195001 - 200000	400,000
4	200001 - 205000	808,644
2	205001 - 210000	416,000
4	210001 - 215000	851,656
3	225001 - 230000	679,584
2	240001 - 245000	481,944
1	245001 - 250000	249,000
1	250001 - 255000	255,000
2	255001 - 260000	515,780
2	260001 - 265000	520,796
3	265001 - 270000	805,000
1	270001 - 275000	270,200
3	280001 - 285000	847,136
1	290001 - 295000	293,000
2	295001 - 300000	600,000
1	300001 - 305000	301,024
2	320001 - 325000	645,120
1	325001 - 330000	326,000
1	335001 - 340000	338,958
4	345001 - 350000	1,396,000
1	365001 - 370000	367,497
1	370001 - 375000	375,000
1	375000 - 380000	379,500
1	385000 - 390000	388,000
2	400001 - 405000	800,800
1	405001 - 410000	408,500
1	420001 - 425000	424,500
2	430001 - 435000	864,994
1	455001 - 460000	457,683
1	470001 - 475000	472,600
1	475001 - 480000	475,327
1	510001 - 515000	514,000
1	600001 - 605000	602,400
1	665001 - 670000	668,400
1	745001 - 750000	750,000
1	810001 - 815000	813,200
2	820001 - 825000	1,649,808
1	845001 - 850000	845,500
2	850001 - 855000	1,705,500
1	855001 - 860000	858,500
1	1085001 - 1090000	1,090,000
1	1190001 - 1195000	1,194,000
1	1300001 - 1305000	1,300,192
1	1385001 - 1390000	1,389,220
1	1405001 - 1410000	1,406,000
1	1500001 - 1505000	1,501,000
1	1580001 - 1585000	1,584,070
1	1750001 - 1755000	1,750,800
1	1825001 - 1830000	1,828,000
1	1995001 - 2000000	2,000,000
1	2580001 - 2585000	2,581,500
1	2995001 - 3000000	3,000,000
1	3965001 - 3970000	3,969,000
1	16345001 - 16350000	16,346,252
1	20155001 - 20160000	20,160,000
1	20930001 - 20935000	20,930,684
1	58345001 - 58350000	58,348,438
		201,600,000

First Habib Modaraba

## CUSTOMER SATISFACTION (FHM)



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 corporate slogan is "Customer First". We always emphasis to provide best quality service to our customer. 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 service to our customer.

We understand that our commitment to satisfy customer's needs must be fulfilled within a professional and ethical framework, thereby creating an ongoing relationships of trust and confidence in all their dealings with FHM.

Besides, we also feel that well updated IT infrastructure is also one of 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 shall look forward to maintain high-level customer satisfaction through improvement of strength and values, based on Sharia'h principles.





## STAFF ACTIVITIES



Team FHM - Striving towards success

First Habib Modaraba

## EDGE & ACHIEVEMENTS



### Highest Equity and Profitability

Maintaining Highest Equity and Profitability, within Modaraba sector since last several years.

### Unbroken Dividend Payout History

Since the beginning of operation the FHM has been paying dividend to its certificate holders every year without any fail.

### Profitable Venture since Inception

By the grace of God, due to unmatched business & finance skills of the management the FHM remain profitable venture since the beginning. By applying strict risk management policies and best business practices Allhamdolillah, FHM has never incurred losses in any year during the business operation of last 25 years. No doubts, it is a very remarkable achievement of FHM, which is rarely available in non-banking financial institutions.

### Credit Rating

During the year, rating of FHM has been maintained to AA+ for long term and A1+ for short term (A1+ is the highest level in PACRA rating scale for short term rating). FHM is maintaining A category rating last 11 years from Pakistan Credit Rating Agency (Private) Ltd.

### Recipient Corporate Excellence Award

Last year, the Management Association of Pakistan (MAP) had given "Corporate Excellence Trophy Award" to FHM. This award was given from the category of Leasing and Modarabas sector. before trophy award FHM had received "Excellence Certificate Award" for 2 consecutive years. This trophy award was 1 step ahead of Excellence Certificate Award.

### Recipient of Best Performing Modaraba Award

During last 12 years, FHM has received 9 awards as best performing Modaraba from Modaraba Association of Pakistan (MAP). For the year ended 30th June 2009 FHM has once again received best performing Modaraba "1st Position Award" from MAP.

### Excellent Investment Portfolio

So far, FHM has developed a very lucrative investment portfolio, which is not only yielding good dividend return but also having outstanding unrealized gain. Presently, in depressed stock market still FHM has gain of more than Rs.850.00 million i.e. gain of around 300% on actual investment. This is again an exceptional case in entire Financials sector including Mutual fund industry.

## RECOGNITIONS / AWARDS

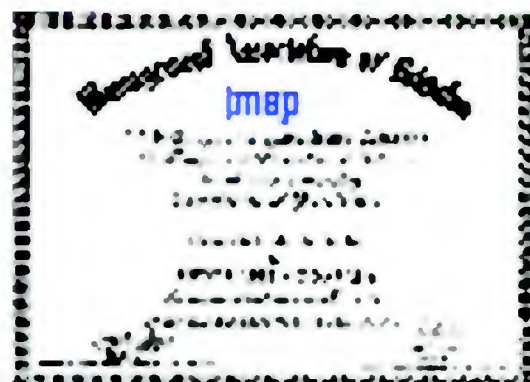


### *Corporate Excellence Award From Management Association of Pakistan*

24th Corporate Excellence  
Certificate 2007



25th Corporate Excellence  
Certificate 2008



26th Corporate Excellence  
Trophy 2009

First Habib Modaraba





## Best Performing Modaraba Award from Modaraba Association of Pakistan for the year 2009

FHM secured 1st Position in Best Performing Modaraba Award from Modaraba Association of Pakistan (MAP) for the year 2009. This is the 9th award so far received by the FHM from MAP.



Mr. Muhammad Shoaib, Managing Director & CEO (Right) is receiving Best Performing Modaraba (1st Position Award) of Modaraba Association of Pakistan from Mr. Bilal Rasul, Ex-Registrar of Modarabas



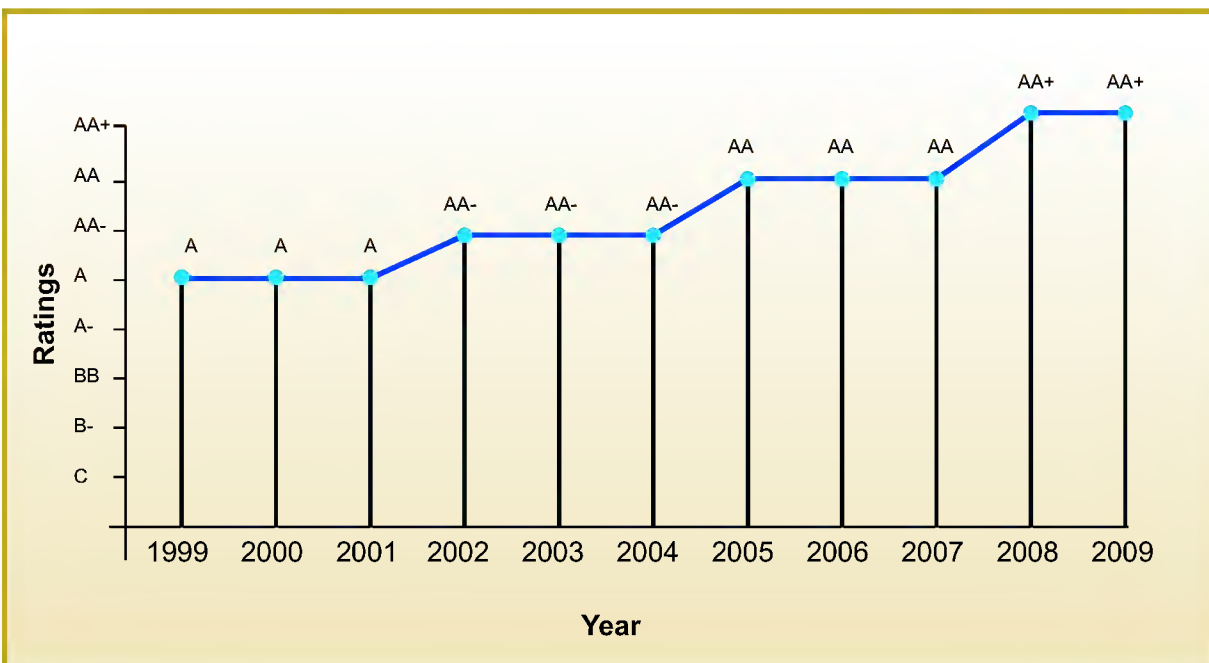
FHM has secured 1<sup>st</sup> Position in the Category of "Best Performing Modaraba" within modaraba sector. This award was given by Modaraba Association of Bankers to FHM in its 10th Annual General Meeting held on December 14, 2009.

**First Habib Modaraba**

# CREDIT RATINGS



## Rating growth during last 11 years







## Press Release

### PACRA MAINTAINS RATING OF FIRST HABIB MODARABA

Lahore: 09-Jul-2010

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term rating of “AA+” (Double A plus) and “A1+” (A One Plus) respectively of First Habib Modaraba (FHM). These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The ratings denote FHM’s sound risk absorption capacity emanating from a strong equity base with very low leveraging. FHM’s risk-averse business strategy has enabled the Modaraba to sustain its exceptional asset quality despite continuing distressed economic conditions. The management, while following a prudent approach, is working to diversify its financing portfolio, by tapping hitherto unexplored potential areas of business. The recent expansion in leased assets is expected to augment the Modaraba’s profitability. Meanwhile, FHM’s association with the House of Habib remains a key factor.

About the Modarab: First Habib Modaraba, established in 1985 and listed on all the bourses of the country, is a perpetual multipurpose modaraba engaged in Islamic modes of financing, mainly Ijarah (lease). FHM is managed by Habib Modaraba Management Company (Pvt.) Limited (HCML).

The board of directors of FHM comprises professionals having vast experience of banking and finance. The MD, Mr. Muhammad Shoaib, is the Chairman of Modaraba Association of Pakistan and has been associated with the Modaraba since its inception. The management team is composed of seasoned professionals who have been associated with the Modaraba for a long period.



### IJARAH

Ijarah is a contract of renting/ hiring/leasing for usufruct of the assets under which Modaraba arrange finances for moveable fixed assets at agreed rental and period with an undertaking to purchase the assets by the customer. Rental and Purchase price is fixed in Advance.



### DIMINISHING MUSHARAKA

(Shirkah-Al-Mutanaqisah) is a type of Shirkah where one partner purchases the other partner's share gradually. Two partners acquire any asset (vehicle/ machinery/property) with an intention that one or both partner will use this asset or any one rent out its share in the property to another and sharek undertakes to purchase the share of other partner until it acquires the complete ownership.



### CAR-NAMA

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



### MURABAHA

It is contract of sales of goods on deferred payment basis in which Modaraba buys the goods and sell them to the customer of deferred payment basis. In this transaction, seller i.e. Modaraba disclose the cost and profit thereon.



### **SALAM**

Salam means a contract in which whole payment made in advance for goods to be delivered later; thus the contract creates a liability for the seller. Amount given, as Salam cannot be called back, unlike Qard.



### **ISTISNA**

This is a contractual agreement for manufacturing goods and commodities, allowing cash payment in advance and future delivery or a future payment and future delivery.



### **MUSHARAKA**

It is a partnership where profit is shared as per agreed ratio at the inception of shirkah, while the loss is shared in proportion of capital investment of each partner. All the partners are entitled to participate in the management of the business.



### **CERTIFICATE OF MUSHARAKA**

It is on the basis of this expertise and know-how that FHM presents a prime investment opportunity in the form of Certificate of Musharaka (COM) and promises best possible returns to investors with complete security.



## MESSAGE FROM THE CHAIRMAN

I am delighted to have the opportunity to extend my warmest congratulations to the First Habib Modaraba (FHM) on its Silver Jubilee.

The Silver Jubilee anniversary of FHM representing successful completion of twenty five years of sure, steady and profitable growth.

FHM commenced its business operations in 1985, with initial capital of Rs.25.0 million only. However, continuing with a solid, dynamic and prudent approach now Alhamdulillah FHM has a total equity size of around 2.800 billion.

This is a significant achievement. Considering that during the past two and half decades, the FHM had effectively encountered with several economic & business challenges. FHM has successfully managed the ever-changing requirement of Shariah compliant Islamic financing products, by ensuring planned growth on sound footing.

By the Grace of Allah, the performance of FHM of over 25 years remained satisfactory with the consistence growth by maintaining high quality of assets, sound capital base and handsome return to our Certificate Holders.

FHM draw its success by complying with highest ethical and moral standards and always make efforts to enhance superior professional competencies.

Our ambition is to make FHM a strong financial institution providing assistance to Industrial and Commercial Sector of the economy in accordance with Sharia base, Islamic mode of financing. The broader policy objectives are to create value for Certificate Holders on a sustainable basis, to maintain high asset quality, and to follow Good Governance and Best Business Practices.

I am confident that in the ensuing years, FHM will further improve its operating performance through a flexible multi-pronged strategy to adapt to the opportunities and challenges in the operating environment, enabling the FHM to serve its customers in a more better way and continue to add value for its certificate holders.

On the happy and auspicious occasion of the Silver Jubilee of the FHM, I sincerely thank all the clients and patrons for their confidence, trust and participation in the growth of FHM. I also congratulate all the staff members for their restless and dedicated service towards the progress of FHM.

WAZIR MUMTAZ AHMED  
CHAIRMAN

## DIRECTOR'S REPORT

Assalam o Alaikum Wa Rahmatullah Wa Barakatuhu,

On behalf of the Board of Directors, it is my immense pleasure to present the un-audited accounts of the Modaraba for the year ended June 30, 2010.

(Rs. In thousand)

### FINANCIALS

Profit before management fee	297,134
Modaraba company management fee	29,714
Profit for the year	267,420
Unappropriated profit B/F	1,338
Profit available for appropriation	268,758

Earning per certificates of Rs. 5/- each 1.33

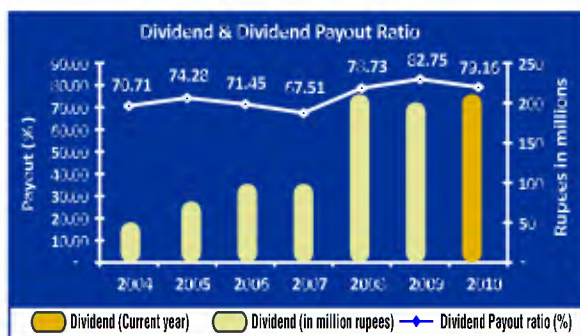
### APPROPRIATIONS

Cash dividend @21%	211,680
Transfer to statutory reserve @ 20 %	53,484
Unappropriated profit C/F	3,594
	268,758



### Dividend

The Board is pleased to announce a cash dividend of 21% i.e. Rs. 1.05 of certificate of Rs. 5/- each and continuing unbroken payout record since beginning.



### ECONOMIC REVIEW

During the year FY09-10 the economy of Pakistan, after overcoming initial challenges, gradually picking pace with visible signs of moving towards sustainable growth. Initially,

the country suffered from the fall out of the global recession, resulting slowdown of the economy, deteriorating foreign exchange reserves, serious security threats, energy crises and rising inflation. The outgoing fiscal year saw a modest recovery. The following growth trends have been noticed at the end of fiscal year.

- GDP grew from 1.2 % to 4.1 %
- The agriculture sector grew an estimated 2 %, against target of 3.8 %. Previous growth was 4.0 %.
- Manufacturing sector grew by 5.2 % against fall of 3.7 % a year earlier.
- Services sector grew by 4.6 % compared to 1.6 % of previous year.

Inflationary pressures have eased from an average of over 20% in FY09 to around 13%. This has allowed State Bank to cut its discount rate. However, there has been resurgence in inflationary pressures in recent months.

The tight monetary policy by State Bank of Pakistan, a timely inflow of funds from IMF, increasing trend in exports supported by steady workers' remittances and generally improved financial discipline contained inflation to some extent relieved pressure on liquidity in the financial markets. This produced modest improvement in the macroeconomic indicators and consequently in the overall stability of the economy.

Foreign exchange reserves have been rebuilt to above \$15 billion, from their low level of under \$6 billion in October 2008, while much of the accumulation is due to releases from the IMF.

The government through their various measures tried to control fiscal space by expediting revenue mobilization via ambitious tax and non-tax revenue targets and curtailing current expenditure mainly via lower subsidies.

### FINANCIAL SECTOR

During the year, the financial sector has shown the signs of modest recovery. Non-banking financial companies (NBFC) have also been affected from the heat of severe liquidity crisis and resource mobilization constraints. Besides these challenges, performance of Modaraba sector and Mutual Funds depicted a reasonably well position with a steady growth. On the other side, Leasing sector and Investment Banks are slowly coming out from the crisis.

During the year 2009-10, SBP continued its review of Monetary Policy and reduced the discount rate by 100 bps in August 2009 and further reduced it by 50 bps in November

2009 to bring the policy rate to 12.5 % mainly due to little declining trend of overall inflation of the country.

Monetary policy & financial sector liquidity is expected to remain tight during FY10-11 mainly due to persistent inflationary pressures & the government's budgetary borrowing requirements.



### CAPITAL MARKET

During period under review, the country's equity market depicted a sign of recovery as it gained above 33 % being the 5th best performing market in the world on the back of restoration of macroeconomic stability, the upgrading of Pakistan's sovereign rating by Standard and Poor's, and the revision, to stable, of Pakistan's outlook by Moody's and a timely inflows of funds from IMF.

The major contributor for the bullish trend throughout the year was the heavy net buying of \$556 million by the foreign investors, but political and law & order situation kept sentiments dampened throughout the year.

With the influx of foreign portfolio investment during FY09-10, the KSE-100 index crossed the 10,000 mark on 12th March 2010 after a period of 18 months. However, since imposition of capital gain tax (CGT) the overall turnover of the market has been declined due to uncertainties in the mechanism of operation and collection of CGT.

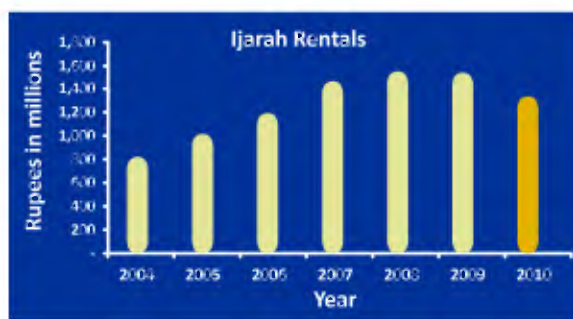
### BUSINESS REVIEW

By the Grace of Allah, First Habib Modaraba (FHM) during the financial year has completed its 25 years and celebrating this year as "Silver Jubilee Year" of FHM.

Alhamdulillah, under the current circumstances, FHM effectively pursued its strategy of consolidation and remained focused on the improvement in quality of assets and profitability. In exceptional business circumstances during the year, the performance of FHM remained satisfactory.

During the year under review the disbursements with respect to Ijarah were made of Rs. 1,512.0 million, profit after tax was increased by 9.83% of Rs. 24.0 million as compared to previous year.

Recovery of Ijarah Rental was remained satisfactory during the period. Due to good assets quality portfolio the collection of monthly lease rental and repayment of other financing facilities remained satisfactory. However as a cautious approach, we had provided a sum of Rs.4.175 million as impairment against slow moving Ijarah Rental payment, which is less than 1% of total Ijarah portfolio. I am very pleased to inform you that we had reversed Rs. 5.754 million against provision for impairment of last year due to its recovery.



According to Year Book of 2009 of Modaraba Association of Pakistan, again FHM ranked No.1 in profitability and Equity. Alhamdulillah, this equity base is not only the highest in Modaraba sector but also the highest within NBFC sector i.e. Leasing and Investment Banks.



We are confident that Inshallah, Modaraba will also hold same position within the sector in coming years.

### CREDIT RATING

We are glad to inform you that by the Grace of Almighty Allah, rating of your Modaraba have been maintained i.e. AA+ for long term and maintained A1+ for short term (highest rating in the short term scale) by the Pakistan Credit Rating Agency (Pvt.) Limited (PACRA).

The rating denotes FHM's sound risk absorption capacity emanating from a strong equity base with very low leveraging. As per PACRA, the risk-averse business strategy has enabled the FHM to sustain its exceptional asset quality despite continuing distressed economic conditions.



Alhamdulillah, FHM has been maintaining this “A” category rating since last almost 11 years.

### BEST PERFORMING MODARABA AWARD BY MODARABA ASSOCIATION OF PAKISTAN

For the financial year ended 30th June, 2009, yet again the Modaraba Association of Pakistan has awarded “1st Position Award” to FHM as best performing Modaraba within the Modaraba sector.

This is our 3rd consecutive year where FHM has been awarded “1st Position” within the Modaraba sector. So far FHM has received 9 awards from Modaraba Association of Pakistan since last 11 years.

### MARKET SHARE INFORMATION

Following table shows the market share of FHM as per the MAP Year Book 2009 (Modaraba Association of Pakistan) for the financial year ended 30th June, 2009.

	(Rupees in million)		
	Combine position of Modaraba sector	FHM Share	% of FHM within the sector
Paid up Capital	8,439	1,008	12
Total Equity	10,839	2,618	24
Total Assets	23,087	3,281	14
Total Income	6,202	1,754	28
Ijarah Income	5,144	1,663	32
Other Income	1,087	91	8
Net Profit / (loss) after Tax	(158)	244	

### RISK MANAGEMENT

The management of FHM always remained committed to follow strong risk management culture and sound internal control. The current economic downturn and increasing business volatility have led to a higher level of activity directed toward assessing, mitigating and monitoring of risks more carefully. The impact of economic of the economic roller coaster took its toll on overall assets portfolio of the banking and non-banking financial sector.

Uncertain economic and business environment with many troublesome weaknesses will have significant impact on the businesses of the country resulting dilution of repayment behavior and increase of the risk of default.

Risk management is an integral part of our business activities. The FHM has been successfully managing the risks through a framework of risk management policies and procedures. Risk measurement activities broadly take place at different hierarchy levels and monitoring mechanism that are closely aligned with overall operations.

The management of the Modaraba actively ensures that the risks are adequately identified, measured and managed. An independent and dedicated credit and risk management

department guided by a prudent and a robust framework of risk management policies and guidelines are in place which broadly includes:-

### Credit Risk

Credit risk is the risk that counterparty will not settle its obligation in accordance with agreed terms. Credit exposures include both individual borrowers and groups of connected counterparties. While financial institutions particularly NBFC,s have faced difficulties over the years for weak payment behavior by the borrower.

Procedures for managing credit risk are determined by risk function and businesses jointly under the guidance from several policies and guidelines.

Alhamdulillah, FHM have well defined prudent credit policy for managing Credit Risk. The sound practices set out by the Management address the following areas:

- Establishing an appropriate credit risk environment
- Operating under a sound credit appraisal process
- Maintaining an appropriate credit administration, measurement and monitoring process and
- Ensuring adequate controls over credit risk

### Operational Risk

FHM has keen interest in reviewing with critical urgency the framework of their business processes, looking for exposures they might have for emphasizing the usage of mechanism for managing the operational risk running in the Modaraba.

Modaraba objective is to manage operational risk so as to balance limiting of financial losses and achieving its objective of generating returns for certificates holders.





The management encompasses the controls in the following areas to mitigate operational risk effectively:

- Requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- Requirements for the reconciliation and monitoring of transaction;
- 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 risk identified;
- Ethical and business standard;

The improvement in economic & industrial activity will lead to improvement in corporate profitability and hence it would reduce the corporate credit risk.

### FUTURE STRATEGY

The Pakistan's Islamic finance market is still untapped. The demand of Islamic finance is on the rise. There is ample space available for Islamic financial institutions since their market share is around 5%.

The introduction of new Islamic products in Modaraba sector will definitely invigorate the Modaraba sector and will help them to play their vital role in the development of Islamic financial market.



### OUTLOOK 2010-11

The country's economy is showing gradual improvements but maintaining these gains and ensuring continuity of the economic recovery remains challenging for the economic managers during 2010-11. Looking forward, high credit risk and NPLs will remain major challenges for the overall financial institutions due to dilution of repayment behavior

The recent economic trends suggest the possibility of modest recovery in the upcoming year. As noted, much of the improvement in the economy during FY09-10 is on account of strong donor support, particularly from the IMF. Thus continuation of the IMF program is essential to Pakistan for capitalizing on the progress.

The positive improvement in the macroeconomic indicators, mainly inflation & contraction in external imbalances bodes well for revival of economic activity. However, increase in fuel and energy prices will lead to higher inflation ultimately impacting operating costs. Overall profitability of the industry will remain under pressure. Security problems continue to present a major risk to economic recovery and policy consistency in the foreseeable future.

Your Modaraba, while remaining cautious and prudent during the prevailing economic slow down, is focused to take benefit of every good opportunities that adds value of all our stakeholders. You will appreciate that we have been continuously upgrading our business strategies in order to cope with any extreme volatile and negative trend of the business. We must say that on our prudent and proactive risk management that has always helped us to maintain leading position in entire Modaraba sector.

Our aim is to remain a best Islamic Service Institution and leading Modaraba within the Modaraba sector. We believe the measure of our progress is not just our financial achievements, but it should add value for our all stakeholders. We shall continue to build a best performance culture that overcomes all the challenges of business and operations and promote best business practices and good governance.

The optimization of use of technology to ensure cost effective operations, strengthening of controls, efficient management information and high service standard system are always remain part of strategic planning of FHM.



Inshallah, we will maintain our growth momentum and give even better results based on Shariah principles.

### DEVELOPMENT ACTIVITIES

Without compromising on the quality of Assets the disbursement showed a growth as compared to last year. Keeping in view continued adverse market condition and in line with the strict risk management policies and frame work the focus of disbursement was made on vehicles which comprise of approximately 80% of disbursement.

During the year the newly launched product Diminishing Musharaka was focused as additional mode of financing. Although the quantum of the disbursement is low but the market acceptance is very high. The management is of the opinion that this would be generating good volume in the coming years.

In Lahore, we have relocated our Lahore branch to one of the active commercial area of Defence, Y block. The present premises of Lahore branch have much bigger space with good location for growth of business. This Lahore office will enhance the businesses of Lahore and other cities of Punjab.

In continuation to the last year's management plan to launch marketing campaign to target small investors in our scheme of Certificate of Musharaka specially for those investors who wish to invest in Shariah compliant mode of investment, after obtaining Shariah compliance certificate the management is planning to open small Deposit Mobilization Branches in potential areas of Karachi and Lahore to cater the needs of domestic investors as well.

After successful running of in-house developed ERP-I, our experts in Information Technology department has started working on developing ERP-II in order to keep your modaraba fully equipped with latest software and hardware technologies. Initial research and development work is completed and it is expected that in the beginning of next calendar year this new project will be launched.

### SHARIAH CERTIFICATION

As per our commitment on further strengthening of shariah governance in our daily business transactions FHM has gone through shariah audit process during the year under review.

Shariah audit was conducted by Mufti Abdul Sattar Leghari Sahib, who is also Shariah advisor of Modaraba Association of Pakistan.

We are hopeful that this Shariah Certification will give more comfort and satisfaction to our all stakeholders particularly investors of FHM

### BUSINESS DIVERSIFICATION

After getting approval of 8 new Islamic financial products for the asset side of the modarabas from the Religious Board of the Modarabas a level playing field is now provided to modarabas to develop quality assets.

FHM also benefited, has worked on them and are fully geared up to enter into those approved new products such as Diminishing Musharaka Salam, Istisna etc. but due to economic slow down we could not disburse in these products as targeted in the beginning of the year keeping in view of nature of products and prevailing marketing conditions. However, around Rs.70.0 million were disbursed in Diminishing Musharaka. We see lot of potential in this Diminishing Musharaka product. It is an excellent product for those customers who don't want to go for Ijarah facility.

We expect and are hopeful that reasonable disbursements will be made in above mentioned products subject to availability of quality credit and revival of economic activity to the desired level.

### HUMAN RESOURCE

Staff training is carried out on a continuous basis throughout the year, based on the assessed training needs, particularly in the areas of knowledge enhancement and skills. Training and Human Resource Development always remains very important segment for the management of FHM. HR policies designed in such a way that always gives proper reward, sense of encouragement and motivation amongst the staff members.





## INFORMATION TECHNOLOGY

We always focus on providing state of art IT solution to all stakeholders of FHM. In order to ensure success the dedicated team from operation and technical side has been formed to review and monitor the overall progress of the implementation. IT department is planning to change its existing ERP system with an innovative mix of front-end and back-end modern technologies.

## STATEMENT OF INTERNAL CONTROL

The internal control must be in correspondence with the structure of the organization, which must be conveniently documented and communicated, clearly defining the lines of responsibilities, task and authorities. An essential element of an effective internal control system the management must tend to develop a strong culture of internal control for which it must encourage all their personnel to understand its importance and to carry out actively with the process.

FHM always encourage attaining more professional and efficient working environment by establishing and maintaining adequate and effective internal control systems. The management of the FHM fully acknowledges and appreciates the value and significance of internal control system by identifying control objective through devising all required policies covering all areas of activities.

## CODE OF CORPORATE GOVERNANCE

We report that Modaraba has completed all necessary compliances with the provision of Code of Corporate Governance in its material respects as incorporated in the Listing Rules of the Stock Exchanges. In conformity with the requirements under the Code of Corporate Governance, the Board of Directors states that;

- The financial statements prepared by the management present fairly the state of affairs of the Modaraba including the results of its operations, Cash Flow and Changes in Equity.
- Proper books of accounts have been maintained.
- Appropriate Accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards (IAS), as applicable in Pakistan has been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- The Modaraba is financially sound and has the ability to continue as a going concern.
- The directors do not hold any interest in the certificates of Modaraba other than that has already been disclosed in the pattern of certificate holding.

- A summary of key operating and financial data of the Modaraba of last six years is annexed in this report.

## PATTERN OF CERTIFICATE HOLDING

A Statement showing pattern of Certificate Holding of the Modaraba and additional information as at June 30, 2010 is included in this report.

The Directors, CEO, CFO, Company Secretary and their spouses and minor children did not carry out any transaction in the certificates of the Modaraba during the year.

## PROVIDENT FUND AND GRATUITY

The value of investments of provident fund and gratuity based on audited accounts as at December 31, 2009 are Rs. 17.815 million and Rs. 8.942 million respectively.

## ATTENDANCE OF BOARD MEETING

Four meetings of Board of Directors were held during the year, attendance by each director is appended hereunder.

Name of Director	Number of meetings attended
Mr. Wazir Mumtaz Ahmed	4
Mr. Muhammad Shoaib	4
Mr. Wazir Husain Jafree	4
Mr. Sheikh Ehsanuddin	2
Mr. Abbasali Muhammad	4

## AUDITORS

Present auditors M/s BDO Ebrahim & Co. Chartered Accountants, are being eligible to offer themselves for re-appointment as auditors for the financial year ending June 30, 2011.

## 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.

For and on behalf of Board of Directors

**Muhammad Shoaib Ibrahim**  
Managing Director & CEO

Karachi: July 28, 2010





## 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 September 8, 2010 at 9.00 a.m. at The Institute of Bankers, Moulvi Tamizuddin Road, Karachi, to review the performance of the Modaraba for the year ended June 30, 2010.

The certificate-holders whose names appear on the register of Certificate-Holders of FHM as on September 01, 2010 will be eligible to attend the Annual Review Meeting.

By order of the Board

Adnan Thanwey  
Company Secretary

Karachi: August 17, 2010



**Our commitment to further  
strengthen Shariah Governance**

# بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ

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 Akhirah

## **SHARIAH RULING REGARDING BUSINESS ACTIVITIES IN FIRST HABIB MODARABA (FHM)**

It is to certify, in the context of detailed Shariah audit carried out by the undersigned, that the business activities (Transactions) on liability side and asset side executed by FHM were found as per standard requirement of Shariah and regulators.

It is thus ruled that, it is permissible (JAIZ) to invest and to do other business activities with FHM as the total attributable income is HALAL and the business operations are Shariah Compliant.

This certificate would be considered invalid in case of any violation of Shariah guidelines and the standards issued by SECP & SBP.

الحصا منی و الصواب من منہم الصواب



Mufti Abdul Sattar Laghari  
Shariah Advisor  
Modaraba Association of Pakistan

فرسٹ حبیب مضاربہ (FHM) میں جاری تجارتی سرگرمیوں سے متعلق شرعی فتویٰ

فرسٹ حبیب مضاربہ (FHM) میں جاری تجارتی سرگرمیاں، برائے تھیں۔ زر (Liability Side) اور تمویل زر (Asset Side) کا تفصیلی جائزہ لینے کے بعد، ان سرگرمیوں کا حکم شرعی دوسرے ادارے SECP اور SBP کے تجویز و قوانین کے موافق پایا۔ لہذا اس ادارے میں سرمایہ کاری کرنا اور دیگر تجارتی معاملات کو شرعی جائز ہے، اس لئے کہ اس ادارے کی آمدنی حلال ہے اور تجارتی معاملات شریعت کے موافق ہیں۔

واضح رہے! یہ فتویٰ، کہ اس ادارے کی طرف سے احکام شرعیہ اور سرپرست اداروں کے تجویز و قوانین کی خلاف ورزی کی صورت میں منسوخ تصور ہوگا۔



July 07, 2010  
Karachi





## STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE – YEAR ENDED JUNE 30, 2010

This statement is being presented to comply with the code of Corporate Governance (CCG) contained in Regulation of Listing Regulations of Karachi Stock Exchange (Guarantee) Limited, the Chapter XIII of Listing regulations of Lahore Stock Exchange (Guarantee) Limited and Chapter XI of Listing Regulations of the Islamabad Stock Exchange (Guarantee) Limited, for the purpose of establishing a frame of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

All the directors of the Management Company are non-executive directors except for the Chief Executive & one Director.

The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Modaraba.

All the directors of the Management Company are registered as tax payers and none of them has default in payment of any loan to a banking company, a DFI or an NBFC or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

The Modaraba has prepared a 'Statement of Ethics and Business Practices', which has been approved by BOD and signed by the employees of the Modaraba.

The Board has developed a vision / mission statement and significant policies of the Modaraba. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

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 at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

The Board comprises of senior bankers with a wide range of skills and experience. The directors are fully aware of the relevant laws applicable to the Modaraba, its policies, procedures and provisions of the Prospectus of the Modaraba to manage the affairs of the Modaraba on behalf of the certificate holders.

The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.

The directors' report for this year has been prepared in compliance requirements of the Code and fully describes the salient matters required to be disclosed.

The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the Board.

The directors, CEO and executives do not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of certificate holding.

The Modaraba has complied with all the corporate and financial reporting requirements of the Code.

The Board has formed an audit committee. It comprises three members, of whom all are non-executive directors including the chairman of the committee.

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.

There is a casual vacancy arose during the year which will be filled in due course of time.

The Board has employed adequate personnel for internal audit function to ensure the establishment and maintenance of sound and effective internal controls, compliance and review policies and procedures.

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, 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 Institute of Chartered Accountants of Pakistan.

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.

We confirm that all other material principles contained in the CCG have been complied with.

**Muhammad Shoaib Ibrahim**  
Managing Director & CEO

Karachi  
Date: July 28, 2010







## Financial Statements

Auditors' Review Report to the Certificate Holders	47
Auditors' Report to the Certificate Holders	48
Balance Sheet	49
Profit & Loss Account	50
Statement of Comprehensive Income	51
Cash Flow Statement	52
Statement of Changes in Equity	53
Notes to the Accounts	54



## REVIEW REPORT TO THE CERTIFICATE HOLDERS ON STATEMENT OF COMPLIANCE WITH THE 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 for the year ended June 30, 2010 prepared by the Board of Directors of HABIB MODARABA MANAGEMENT (PRIVATE) LIMITED (the Management Company) in respect of FIRST HABIB MODARABA (the Modaraba) to comply with the Listing Regulation No.37 (Chapter XI) of the Karachi Stock Exchange (Guarantee) Limited, Chapter XI of the Listing Regulations of the Lahore Stock Exchange (Guarantee) Limited and Chapter XI of the Listing Regulations of Islamabad Stock Exchange (Guarantee) Limited, where the Modaraba is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Management 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 provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Modaraba personnel and review of various documents prepared by the Modaraba to comply with the Code of Corporate Governance.

As 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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, Sub-regulation (xiii) of Listing Regulation 37 notified by the Karachi Stock Exchange (Guarantee) Limited vide Circular KSE/-269 dated January 19, 2009, Chapter XI of the Lahore Stock Exchange (Guarantee) Limited and sub-regulation (xiii(a)) of Listing Regulation 35 of the Islamabad Stock Exchange (Guarantee) Limited require the Management Company 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 prevail in arm's length transactions and transactions 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 transactions 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, which the best practices contained in the Code of Corporate Governance, for the year ended June 30, 2010.

Karachi July 28, 2010

**BDO Ebrahim & Co.**  
Chartered Accountants  
Engagement Partner  
Zulfikar Ali Causer



Silver Jubilee

## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of FIRST HABIB MODARABA (the Modaraba) as at June 30, 2010 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 purpose of our audit.

These financial statements are the Modaraba Company's [Habib Modaraba Management (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 the 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 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, investments made and expenditure incurred during the year were in accordance with the objects, terms and condition 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 the 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, 2010 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.

KARACHI : July 28, 2010

**BDO Ebrahim & Co.**  
Chartered Accountants  
Engagement Partner  
Zulfikar Ali Causer





## BALANCE SHEET AS AT JUNE 30, 2010

	Note	2010	2009
Rupees			
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Fixed assets - tangible			
Ijarah assets	3	2,435,299,958	2,096,888,863
Assets in own use	3.2	6,331,259	6,830,618
		<u>2,441,631,217</u>	<u>2,103,719,481</u>
Intangible assets	4	70,026	12,695
Investment in diminishing musharaka	5	32,290,845	14,030,625
Long-term prepayments and deposits	6	1,560,000	80,000
		<u>2,475,552,088</u>	<u>2,117,842,801</u>
<b>CURRENT ASSETS</b>			
Short term investments	7	1,036,692,562	826,977,168
Current portion of investment in diminishing musharaka	5	37,761,808	11,224,500
Ijarah rentals receivables	8	4,743,069	11,366,655
Advances, trade deposits and prepayments	9	1,729,495	656,300
Other receivables	10	6,386,704	10,999,726
Cash and bank balances	11	212,336,936	302,135,981
		<u>1,299,650,574</u>	<u>1,163,360,330</u>
<b>TOTAL ASSETS</b>		<u><b>3,775,202,662</b></u>	<u><b>3,281,203,131</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Certificate capital :			
Authorized			
220,000,000 (2009: 220,000,000)			
certificates of Rs.5/- each			
		<u>1,100,000,000</u>	<u>1,100,000,000</u>
Issued, subscribed and paid-up capital	12	1,008,000,000	1,008,000,000
Reserves	13	1,884,195,489	1,610,149,245
Certificate holders' equity		<u>2,892,195,489</u>	<u>2,618,149,245</u>
<b>NON-CURRENT LIABILITIES</b>			
Certificates of Musharaka	14	670,382	6,373,379
Security deposits against ijarah assets	15	156,476,255	128,984,847
		<u>157,146,637</u>	<u>135,358,226</u>
<b>CURRENT LIABILITIES</b>			
Certificates of Musharaka - current portion	14	514,621,044	343,458,544
Security deposits - current portion	15	88,212,388	92,445,851
Unearned ijarah rentals		15,685,400	7,569,425
Advance ijarah rentals received		21,816,116	21,029,873
Trade and other payables	16	68,545,943	47,710,641
Taxation - net		106,056	370,495
Unclaimed profit distribution		16,873,589	15,110,831
		<u>725,860,536</u>	<u>527,695,660</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	17	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>3,775,202,662</b></u>	<u><b>3,281,203,131</b></u>

The annexed notes from 1 to 36 form an integral part of these financial statements.

-5d-  
CHIEF EXECUTIVE

-5d-  
DIRECTOR

-5d-  
DIRECTOR

First Habib Modaraba



Silver Jubilee

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		Rupees	
Ijarah rentals		1,342,174,096	1,662,609,996
Profit on diminishing musharaka		6,469,212	3,624,695
		<b>1,348,643,308</b>	<b>1,666,234,691</b>
Depreciation on Ijarah assets	3.1	<b>1,030,992,156</b>	1,311,064,868
Administrative expenses	18	<b>47,817,128</b>	46,128,673
		<b>(1,078,809,284)</b>	<b>(1,357,193,541)</b>
		<b>269,834,024</b>	<b>309,041,150</b>
Other income	19	<b>93,777,281</b>	87,874,356
Other operating charges	20	<b>(15,626,013)</b>	(51,219,819)
		<b>347,985,292</b>	<b>345,695,687</b>
Financial charges	21	<b>(50,851,357)</b>	(75,015,126)
		<b>297,133,935</b>	<b>270,680,561</b>
Modaraba company's management fee		<b>(29,713,394)</b>	(27,068,056)
Profit for the year		<b>267,420,541</b>	<b>243,612,505</b>
Earnings per certificate - basic and diluted	31	<b>1.33</b>	<b>1.21</b>

The annexed notes from 1 to 36 form an integral part of these financial statements.

-5d-  
CHIEF EXECUTIVE

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DIRECTOR

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DIRECTOR



## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009
	Rupees	
Profit for the year	267,420,541	243,612,505
Other comprehensive income:		
Net unrealised gain / (loss) on available for sale investments	208,225,703	(260,601,438)
Comprehensive income / (loss) transferred to equity	<u>475,646,244</u>	<u>(16,988,933)</u>

The annexed notes from 1 to 36 form an integral part of these financial statements.

-Sd-  
CHIEF EXECUTIVE

-Sd-  
DIRECTOR

-Sd-  
DIRECTOR





Silver Jubilee

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
Rupees			
<b>Cash flow from operating activities</b>			
Cash generated from operations	32	1,326,101,363	1,621,154,136
Purchase of Ijarah assets		(1,512,367,663)	(1,150,740,752)
Proceeds from transfer of Ijarah assets		152,612,538	489,124,250
Investment in diminishing musharaka		(44,797,528)	(25,255,125)
Musta'jir's security deposits:			
Received		97,287,474	44,243,977
Refunded / adjusted		(74,029,529)	(80,661,535)
Net Musta'jir's security deposits		23,257,945	(36,417,558)
Financial charges paid		(45,550,867)	(89,277,547)
Taxes paid		(264,439)	(899,416)
Gratuity paid		(1,395,751)	(2,226,287)
Net cash (outflow) / inflow from operating activities		(102,404,402)	805,461,701
<b>Cash flow from investing activities</b>			
Purchase of owned assets (including intangibles)		(2,275,690)	(2,664,230)
Proceeds from disposal of owned assets		1,383,420	473,000
Purchase of investments - available for sale		(3,330,774)	(24,088,660)
Investment in Sukuk		-	(20,000,000)
Proceeds from disposal of investments		8,055,311	45,402,585
Dividend received		44,657,566	16,625,083
Long-term advances and deposits (disbursed) / received		(1,480,000)	1,131,191
Net cash generated from investing activities		47,009,833	16,878,969
<b>Cash flow from financing activities</b>			
Profit distribution paid		(199,863,979)	(210,031,289)
Long term murabaha finances		-	(442,850,788)
Certificates of Musharaka		165,459,503	(17,536,580)
Net cash (outflow) from financing activities		(34,404,476)	(670,418,657)
Net (decrease) / increase in cash and cash equivalents		(89,799,045)	151,922,013
Cash and cash equivalents at the beginning of the year		302,135,981	150,213,968
Cash and cash equivalents at the end of the year		212,336,936	302,135,981

The annexed notes from 1 to 36 form an integral part of these financial statements.

-Sd-  
CHIEF EXECUTIVE

-Sd-  
DIRECTOR

-Sd-  
DIRECTOR

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2010

	Certificate capital	Capital reserves		General reserve	Revenue reserves		Total reserves	Total
		Certificate premium	Statutory reserve		Unrealized gain on investments	Unappropriated profit		
Rupees								
Balance as at July 01, 2008	1,008,000,000	378,000,000	283,082,442	50,000,000	908,007,818	219,727,918	1,838,818,178	2,846,818,178
Profit distribution for the year ended June 30, 2008 at 21%	-	-	-	-	-	(211,680,000)	(211,680,000)	(211,680,000)
Comprehensive income for the year	-	-	-	-	(260,601,438)	243,612,505	(16,988,933)	(16,988,933)
Transfer to statutory reserve at 20%	-	-	48,722,501	-	-	(48,722,501)	-	-
Balance as at June 30, 2009	1,008,000,000	378,000,000	331,804,943	50,000,000	647,406,380	202,937,922	1,610,149,245	2,618,149,245
Balance as at July 01, 2009	1,008,000,000	378,000,000	331,804,943	50,000,000	647,406,380	202,937,922	1,610,149,245	2,618,149,245
Profit distribution for the year ended June 30, 2009 at 20%	-	-	-	-	-	(201,600,000)	(201,600,000)	(201,600,000)
Comprehensive income for the year	-	-	-	-	208,225,703	267,420,541	475,646,244	475,646,244
Transfer to statutory reserve at 20%	-	-	53,484,108	-	-	(53,484,108)	-	-
Balance as at June 30, 2010	1,008,000,000	378,000,000	385,289,051	50,000,000	855,632,083	215,274,355	1,884,195,489	2,892,195,489

The annexed notes from 1 to 36 form an integral part of these financial statements.

-Sd-  
CHIEF EXECUTIVE

-Sd-  
DIRECTOR

-Sd-  
DIRECTOR

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 1. STATUS AND NATURE OF BUSINESS

First Habib Modaraba (the Modaraba) is a perpetual, multi-purpose modaraba floated and managed by Habib Modaraba Management (Private) Limited (the Modaraba Management Company) having its registered office at 5th Floor, HBZ Plaza, I.I. Chundrigar Road, Karachi. The Modaraba is listed on the Karachi, Lahore and Islamabad stock exchanges of Pakistan. The Modaraba is engaged in the business of leasing (Ijarah), Musharaka, Murabaha financing and other related business.

### 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 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). Approved accounting standards comprise such International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS) as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of relevant laws or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the relevant laws and the said directives take precedence.

The SECP has issued directive (vide SRO431(I)/2007 dated May 22, 2007) that Islamic Financial Accounting Standard 2 (IFAS-2) shall be followed in preparation of the financial statement by Companies and Modarabas while accounting for Ijarah (Lease) transactions as defined by said Standard. The Modaraba has adopted the above said Standard.

These financial statements have been presented in Pakistan Rupees, which is the functional currency of the Modaraba.

#### 2.2 Change in accounting policy

IAS 1 (Revised), 'Presentation of financial statements' becomes applicable for the current financial year for the first time. The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity.

All "non-owner changes in equity" are required to be shown separately in performance statement. Companies can choose whether to present one performance statement (the statement of comprehensive income) or two statements (profit and loss account and statement of comprehensive income).

The Modaraba has preferred to present two statements; a profit and loss account and a statement of comprehensive income. These financial statements has been prepared under revised disclosure requirements.

#### 2.3 Standards, interpretations and amendments that have been effective during the period

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 recognised 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 did not have an effect on Modaraba's 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 the standard did not have an effect on Modaraba's financial statements.

IFRIC 15- Agreement for the Construction of Real Estate (effective for annual periods beginning on or after July 1, 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 amendment is not relevant to Modaraba's operations.

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





## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment did not have an effect on Modaraba's financial statements.

IFRIC – 17 Distributions 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 Modaraba does not distribute non-cash assets to its shareholders, this interpretation has no impact on Modaraba's financial statements.

The other new standards, amendments and interpretations that are mandatory for accounting period beginning on or after July 1, 2009 are considered not to be relevant or to have any significant effect on Modaraba's financial reporting and operations.

### 2.4 Standards, interpretations and amendments to the published approved accounting standards that are not yet effective and have not been early adopted

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 require 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.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Modaraba's financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on the Modaraba's financial statements.

IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after 1 January 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.

Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Modaraba's financial statements.

Improvements to IFRSs 2008 – Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – (effective for annual periods beginning on or after 1 July 2009). The amendments specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale if criteria in IFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary; and disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. This amendment is not likely to have any impact on Modaraba's financial statements.

In addition to the above, amendments to various accounting standards have also been issued by the IASB as a result of its annual improvement project. Such improvements are generally effective for accounting periods beginning on or after January 1, 2010. The Modaraba's management expects that such improvements to the standards will not have any material impact on the Modaraba's financial statements.

### 2.5 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Permissible Islamic financial products including Murabaha (as a liability) 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 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.

The Securities and Exchange Commission of Pakistan (SECP) has directed that Islamic Financial Accounting Standard 2 shall be followed in regard to the financial statements by companies and modarabas while accounting for Ijarah (lease) transactions as defined by the said Standard.

### 2.6 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:

#### Useful lives, pattern of flow of economic benefits and impairment

Estimates with respect to residual values and useful lives and pattern of flow of economic benefits 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.

#### Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 10.1 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.

#### Provisions against non performing financing (Suspense income)

The Modaraba reviews its overdue Ijarah rentals 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 estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

### 2.7 Revenue recognition

Ijarah rentals 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 is recognized on accrual basis.

Income on 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.

Gain/(loss) on available-for-sale investments is recognized at the time of disposal of investment.

### 2.8 Fixed assets – Tangible

#### a) Ijarah assets

Ijarah assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

line method whereby the cost of an asset less salvage value is written off over the lease 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.

### b) **Assets in own use**

These are stated at cost less accumulated depreciation. Depreciation is charged to income 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.

## 2.9 **Intangible assets**

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

Amortization is charged to income 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.

## 2.10 **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 cost. 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.

### i) **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, if any, 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 profit and loss account.

### ii) **Held-to-maturity**

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 rate method, of a difference between the initially recognized amount and the maturity amount. This calculation includes all fees and charges 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 profit and loss account when the investments are derecognized or impaired, as well as, through the amortization process.

### iii) **Loans and receivables**

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

in an active market. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in profit and loss account when the loans and receivables are derecognized or impaired, as well as, through the amortization process.

### iv) Available-for-sale

Available-for-sale financial assets are those non derivative 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 gain or loss previously reported in equity is included in the profit and loss account.

The fair value of investments that are actively traded in organized financial markets 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.

### 2.11 Trade date accounting

All 'regular way' purchases and sales of quoted equity securities are recognized on the trade date i.e. the date that the Modaraba commits to purchase / sell the asset. 'Regular way' purchases or sales of quoted investments require delivery within three working days after the transaction date as per stock exchange regulations.

### 2.12 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities are security deposits against Ijarah assets declared and unclaimed profit distribution and other liabilities.

### 2.13 Recognition and derecognition of financial instruments

Financial assets are recognized initially at fair value or in case of financial assets that are not carried at fair value through profit or loss, at fair value plus transaction cost.

All financial assets and liabilities are recognized at the time when the entity becomes party to the contractual provisions of the instrument and are recognized in case of assets, when the contractual rights under the instrument are recognized, expired or surrendered and in case of a liability, when the obligation is discharged, cancelled or expired.

Any gain / (loss) on the recognition and derecognition of the financial assets and liabilities is included in the profit / (loss) for the period in which it arises.

Assets and liabilities that are not of contractual nature and that are created as a result of statutory requirements imposed by the Government are not financial instruments of the Modaraba.

### 2.14 Offsetting of financial assets and financial liabilities

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

### 2.15 Ijarah rentals and Murabaha finance receivables

Ijarah rentals and Murabaha finance receivables are stated net of provision and suspense income. Provision is recognized for Ijarah rentals receivable, in accordance with the Prudential Regulations for Modarabas. Bad debts are written-off when identified.

### 2.16 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.

### 2.17 Finance arrangements including Certificates of Musharaka

These are carried on the balance sheet at their principal amount.

Profits on these arrangements are recognized as expense in the period in which they are incurred.

Profit on Musharaka finance is accounted for on the basis of the projected rate of profit. The effect of adjustments, if any, between actual rate and projected rate of profit is accounted for at the end of each year after determination of the actual rate.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 2.18 Staff retirement benefits

#### a) Gratuity scheme

The Modaraba operates a gratuity scheme for all eligible employees who have completed the minimum qualifying period of service. The scheme is administered by the Trustees nominated under the Trust Deed. The contributions to the scheme are made in accordance with actuarial valuation using Projected Unit Credit Method.

Actuarial gains and losses arising at each valuation date are recognized immediately.

#### 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 the Modaraba and the employees.

### 2.19 Compensated absences

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

### 2.20 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. 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 financial statements used for taxation purposes. However, deferred tax liability 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 ninety percent of distributable profit.

### 2.21 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.

### 2.22 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.

### 2.23 Related party transactions

All transactions with the related parties are priced on arm's length basis. Prices for those transactions are determined on the basis of admissible valuation methods.

	Note	2010	2009
		Rupees	
<b>3. IJARAH ASSETS</b>			
Ijarah assets	3.1	2,194,616,551	1,926,107,724
Advance against ijarah assets	3.1.1	240,683,407	170,781,139
		<u>2,435,299,958</u>	<u>2,096,888,863</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 3.1 Ijarah assets

Particulars	June 30, 2010								
	C O S T			D E P R E C I A T I O N			Impairment	Written down value as at June 30, 2010	Rate of depreciation %
	As at July 1, 2009	Additions/ (disposals) during the year	As at June 30, 2010	As at July 1, 2009	Charge/ (adjustments) for the year	As at June 30, 2010			
	Rupees								
Plant, machinery and equipment	1,884,461,740	295,550,004 (560,627,725)	1,619,384,019	1,016,059,056	385,124,625 (520,242,325)	880,941,356	12,348,838	726,093,825	8.33 to 50
Vehicles	1,931,971,384	1,146,915,391 (526,023,611)	2,552,863,164	860,339,425	645,867,531 (421,866,518)	1,084,340,438	-	1,468,522,726	15 to 33.33
	3,816,433,124	1,442,465,395 (1,086,651,336)	4,172,247,183	1,876,398,481	1,030,992,156 (942,108,843)	1,965,281,794	12,348,838	2,194,616,551	

Particulars	June 30, 2009								
	C O S T			D E P R E C I A T I O N			Impairment	Written down value as at June 30, 2009	Rate of depreciation %
	As at July 1, 2008	Additions/ (disposals) during the year	As at June 30, 2009	As at July 1, 2008	Charge/ (adjustments) for the year	As at June 30, 2009			
	Rupees								
Plant, machinery and equipment	3,122,770,839	322,859,690 (1,561,168,789)	1,884,461,740	1,615,006,960	728,900,401 (1,327,848,305)	1,016,059,056	13,926,919	854,475,765	8.33 to 50
Furniture and fixtures	8,981,933	- (8,981,933)	-	7,803,743	28,875 (7,832,618)	-	-	-	15 to 33.33
Vehicles	2,097,568,616	659,619,923 (825,217,155)	1,931,971,384	893,000,172	582,135,592 (614,796,339)	860,339,425	-	1,071,631,959	15 to 33.33
	5,229,321,388	982,479,613 (2,395,367,877)	3,816,433,124	2,515,810,875	1,311,064,868 (1,950,477,262)	1,876,398,481	13,926,919	1,926,107,724	

#### 3.1.1 Advance against ijarah assets

This represents an amount of Rs. 240.683 million (2009: Rs. 170.781 million) paid relating to advance against ijarah assets which have not yet been delivered to Mustajir's.

### 3.2 Assets in own use

Particulars	June 30, 2010								
	C O S T			D E P R E C I A T I O N			Impairment	Written down value as at June 30, 2010	Rate of depreciation %
	As at July 1, 2009	Additions/ (disposals) during the year	As at June 30, 2010	As at July 1, 2009	Charge/ (adjustments) for the year	As at June 30, 2010			
	Rupees								
Office equipment	4,431,933	1,012,395	5,444,328	3,757,402	434,356	4,191,758	-	1,252,570	25 to 33.33
Furniture and fixture	7,322,885	1,303,595 (698,560)	7,927,920	5,867,094	636,878 (615,107)	5,888,865	-	2,039,055	20
Vehicles	8,870,520	30,200 (1)	8,900,719	4,170,226	1,690,860 -	5,861,086	-	3,039,633	16.67
Plant and machinery	2	- (1)	1	-	-	-	-	1	
	20,625,340	2,346,190 (698,562)	22,272,968	13,794,722	2,762,094 (615,107)	15,941,709	-	6,331,259	

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Particulars	June 30, 2009							
	C O S T			D E P R E C I A T I O N			Written down value as at June 30, 2009	Rate of depreciation %
	As at July 1, 2008	Additions/ (disposals) during the year	As at June 30, 2009	As at July 1, 2008	Charge/ (adjustments) for the year	As at June 30, 2009		
Rupees								
Office equipment	4,078,965	390,968 (38,000)	4,431,933	3,083,247	712,153 (37,998)	3,757,402	674,531	25 to 33.33
Furniture and Fixture	6,849,975	747,960 (275,050)	7,322,885	5,521,284	620,858 (275,048)	5,867,094	1,455,791	20
Vehicles	7,899,970	1,509,000 (538,450)	8,870,520	2,641,613	1,676,351 (147,738)	4,170,226	4,700,294	16.67
Plant and machinery	-	2	2	-	-	-	2	
	<b>18,828,910</b>	<b>2,647,930 (851,500)</b>	<b>20,625,340</b>	<b>11,246,144</b>	<b>3,009,362 (460,784)</b>	<b>13,794,722</b>	<b>6,830,618</b>	

### 3.3 Disposal of assets in own use

Particulars	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
Rupees						
Motor vehicle - Suzuki Cultus	1*	-	1	350,000	Insurance claim	EFU Insurance
Plant and Machinery Petra water Cooled unit	1*	-	1	950,000	Negotiation	Golden Cookies
Furniture and Fixture	180,750	97,330	83,420	83,420	As per Company's Policy	Shabbir Sharif- Employee
Furniture and Fixture	517,810	517,777	33	-		Written off
	<b>698,562</b>	<b>615,107</b>	<b>83,455</b>	<b>1,383,420</b>		

\* This represent assets transferred from Ijarah assets to owned assets at the time of termination of Ijarah agreement.

## 4. INTANGIBLE ASSETS

Particulars	C O S T			A M O R T I Z A T I O N				
	As at July 1, 2009	Additions/ (disposals) during the year	As at June 30, 2010	As at July 1, 2009	Charge/ (adjustments) for the year	As at June 30, 2010	Written down value as at June 30, 2010	Rate of Amortization %
	Rupees							
Computer software	519,154	70,500	589,654	506,459	13,169	519,628	70,026	33.33
2009 :	<b>502,854</b>	<b>16,300</b>	<b>519,154</b>	<b>469,864</b>	<b>36,595</b>	<b>506,459</b>	<b>12,695</b>	<b>33.33</b>

## 5. INVESTMENT IN DIMINISHING MUSHARAKA

Secured

Investment in diminishing musharaka  
Less: Current portion shown in current assets

Note	2010	2009
	Rupees	
	<b>70,052,653</b>	25,255,125
	<b>(37,761,808)</b>	(11,224,500)
	<b>32,290,845</b>	14,030,625

5.1 This represent investment in diminishing musharaka for a term of 1 to 3 years. These investments are secured by way of personal / corporate guarantees. The investment carries profit ranging between KIBOR +1% to KIBOR +4% (June 30, 2009: Kibor+2%).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 6. LONG-TERM PREPAYMENTS AND DEPOSITS

	Note	2010	2009
		Rupees	
<b>Prepayment</b>			
Prepaid rent		1,260,000	-
<b>Long-term deposits</b>			
Security deposit to Central Depository Company		150,000	50,000
Security deposit for Lahore office		120,000	-
Security deposit to Habib Metropolitan Bank for locker		30,000	30,000
		<b>300,000</b>	<b>80,000</b>
		<b>1,560,000</b>	<b>80,000</b>

- 6.1 Maximum amount due from the officers and other employees of Modaraba at the end of any month during the year was Nil and Nil (2009: Rs. 2.11 million and Rs. 0.74 million) respectively

### 7. INVESTMENTS - available for sale

	Note	2010	2009
		Rupees	
Investment in shares	7.1	1,016,692,562	806,977,168
Investment in Ijarah Sukuk bonds	7.2	20,000,000	20,000,000
		<b>1,036,692,562</b>	<b>826,977,168</b>

#### 7.1 Investment in shares

Shares of listed companies	Name of company	2010	2010	2009	2009
		Average cost	Carrying value at fair value (Market price)	Average cost	Carrying value at fair value (Market price)
		Rupees			
<b>Number of shares</b>					
2010	2009				
330	330				
		<b>Auto and Allied Engineering</b>			
		1,750	26,159	1,750	22,407
		<b>Banks</b>			
15,088,750	12,773,959	77,820,359	475,295,625	79,058,159	325,608,215
21,726,342	18,729,606	63,134,991	519,259,574	63,134,991	464,681,525
194,900	100,000	1,207,547	625,629	658,355	637,000
105,000	100,000	1,038,695	1,527,750	1,038,695	1,100,000
		<b>Mutual Funds</b>			
5,000	5,000	42,550	21,250	42,550	15,550
		<b>Chemical and Pharmaceutical</b>			
1,000	1,000	46,348	92,650	46,348	80,200
2,200	2,000	202,218	381,876	202,218	256,860
		<b>Food and Allied Industry</b>			
60	60	7,200	69,077	7,200	81,900
40	40	4,800	37,600	4,800	54,200



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Shares of listed companies	Name of company	2010		2009		
		Average cost	Carrying value at fair value (Market price)	Average cost	Carrying value at fair value (Market price)	
Number of shares		Rupees				
2010	2009					
<b>Fuel and Energy</b>						
2,000	2,000	Pakistan State Oil Company Limited	294,463	520,400	294,463	427,300
58,800	49,000	Pakistan Petroleum Limited	10,877,308	10,826,256	10,877,308	9,287,460
2,000	2,000	Oil and Gas Development Company Limited	145,640	283,380	145,640	157,280
<b>Synthetic and Rayon</b>						
110	110	Gatron Industries Limited	2,805	4,620	2,805	6,655
115	115	Rupali Polyester Limited	2,875	3,795	2,875	3,387
<b>Sugar</b>						
330,720	176,000	Habib Sugar Mills Limited	6,824,915	7,709,083	4,043,333	4,540,800
<b>Textile Composite</b>						
423	423	Gul Ahmed Textile Mills Limited	9,298	7,838	9,298	16,429
			<b>161,663,762</b>	<b>1,016,692,562</b>	<b>159,570,788</b>	<b>806,977,168</b>

### 7.2 Investment in Ijarah Sukuk bonds

Investment in Ijarah sukuk bonds	7.2.1	20,000,000	20,000,000	20,000,000	20,000,000
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**7.2.1** These Sukuk Bonds are issued by the Government of Pakistan with the maturity term of 3 years from the date of issue, September 26, 2008. The profit on the Sukuk shall be paid semi-annually on the basis of rental rate announced by the State Bank of Pakistan prior to start of each half year. The Modaraba has obtained permission from Registrar of Modarabas to treat the investment as part of redemption reserve fund to be set aside by the Modaraba to comply with the requirements of the Registrar of Modarabas for the issuance of certificate of Musharaka.

### 8. IJARAH RENTALS RECEIVABLES

Secured- considered good  
Ijarah rentals due  
Suspense Ijarah rentals

Note	2010	2009
Rupees		
	<b>11,633,420</b>	19,957,008
8.1	<b>(6,890,351)</b>	(8,590,353)
	<b>4,743,069</b>	11,366,655

**8.1** Suspense Ijarah rentals represent amounts overdue on Ijarah assets.

### 9. ADVANCES, TRADE DEPOSITS AND PREPAYMENTS

Advances  
Trade deposits  
Short term prepayments

<b>220,725</b>	-
<b>58,050</b>	57,550
<b>1,450,720</b>	598,750
<b>1,729,495</b>	656,300

### 10. OTHER RECEIVABLES

Unsecured- considered good  
Profit receivable on modaraba deposit accounts  
Ijarah insurance receivable  
Profit receivable on Ijarah Sukuk bonds  
Profit on Islamic Investment Certificate  
Excess payment receivable from gratuity fund

	<b>4,283,726</b>	5,541,910
	<b>60,000</b>	-
	<b>679,537</b>	650,827
	<b>1,175,342</b>	4,602,740
10.1	<b>188,099</b>	204,249
	<b>6,386,704</b>	10,999,726

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 10.1 Staff retirement benefits

#### Defined benefit plan

As mentioned in note 2.18, 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, 2010.

The fair value of scheme's assets and the present value of obligation under the scheme at the balance sheet date were as follows:

Note	2010	2009
	Rupees	
Present value of defined benefit obligation	10,910,565	9,665,996
Fair value of plan assets	(11,098,664)	(9,870,245)
	<u>(188,099)</u>	<u>(204,249)</u>
<b>Amount charged to profit and loss account:</b>		
Current service cost	1,035,106	975,379
Interest cost	1,202,026	1,047,362
Expected return on plan assets	(1,225,149)	(882,032)
Actuarial loss / (gain) recognized	399,918	(544,958)
	<u>1,411,901</u>	<u>595,751</u>
The charge for the year has been allocated to administrative expenses.		
<b>Movement in the liability recognized in the balance sheet:</b>		
Balance as at July 01	(204,249)	1,426,287
Net charge for the year	1,411,901	595,751
Contribution to the fund	(1,395,751)	(2,226,287)
Balance as at June 30	<u>(188,099)</u>	<u>(204,249)</u>
<b>Movement in the present value of defined benefit obligation:</b>		
Balance as at July 01	9,665,996	8,396,952
Current service cost	1,035,106	975,379
Interest cost	1,202,026	1,047,362
Actuarial loss / (gain) on obligation	447,437	(753,697)
Actual benefits paid during the year	(1,440,000)	-
Balance as at June 30	<u>10,910,565</u>	<u>9,665,996</u>
<b>Movement in the fair value of plan assets:</b>		
Balance as at July 01	9,870,245	6,970,665
Expected return	1,225,149	882,032
Contributions	1,395,751	2,226,287
Actuarial gain / (loss) on plan asset	47,519	(208,739)
Actual benefits paid during the year	(1,440,000)	-
Balance as at June 30	<u>11,098,664</u>	<u>9,870,245</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Note	2010	2009
	Rupees	
<b>Principal actuarial assumptions used are as follows:</b>		
Expected rate of increase in salary level	12.75%	12.00%
Valuation discount rate	12.75%	12.00%
Rate of return on plan assets	12.75%	12.00%

Comparisons for past years:	2010	2009	2008	2007
	Rupees			
As at June 30				
Present value of defined benefit obligation	10,910,565	9,665,996	8,396,952	6,497,766
Fair value of plan asset	(11,098,664)	(9,870,245)	(6,970,665)	(5,124,696)
(Surplus) / Deficit	<u>(188,099)</u>	<u>(204,249)</u>	<u>1,426,287</u>	<u>1,373,070</u>
Experience (gain) / loss on obligation	<u>447,437</u>	<u>(753,697)</u>	<u>(802,743)</u>	<u>(694,708)</u>
Experience gain / (loss) on plan Asset	<u>47,519</u>	<u>(208,739)</u>	<u>183,312</u>	<u>2,947</u>

Note	2010	2009
	Rupees	
<b>Major categories / composition of plan assets are as follows:</b>		
Bank deposits	<u>11,098,664</u>	<u>9,870,245</u>

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at balance sheet date. The return on plan assets was assumed to equal the discount rate. Actual return on plan assets during 2010 was Rs. 0.718 million (2009: Rs 0.673 million).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Note	2010	2009
	Rupees	
<b>Defined contribution plan</b>		
Contribution for the year allocated to administrative expenses	<b>1,411,901</b>	595,751

### 11. CASH AND BANK BALANCES

Stamps in hand	32,900	47,600
Cash at banks		
State Bank of Pakistan		
Cash reserve account	40,000	40,000
Current account	25,503	55,717
	65,503	95,717
In current accounts	524,049	51,606
Deposit accounts		
Modaraba Deposit account Dawood Islamic bank	11.1 4,685	10,000
Modaraba Deposit account HMB Islamic branch	11.2 151,709,799	201,931,058
Islamic Investment Certificate	11.3 50,000,000	100,000,000
Redemption Reserve fund for Certificates of Musharaka	11.4 10,000,000	-
	211,714,484	301,941,058
	<b>212,336,936</b>	<b>302,135,981</b>

**11.1** The profit on the above modaraba deposit account ranges between 5% to 5.2% per annum (2009: 8.5% to 8.7% per annum).

**11.2** The profit on the above modaraba deposit account ranges between 9% to 11% per annum (2009: 10% to 13% per annum).

**11.3** The profit on the above modaraba deposit account (term) is 11% per annum (2009: 14%).

**11.4** The profit on the above redemption fund account is 9% per annum (2009: Nil)

### 12. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2010	2009		2010	2009
(Number of Certificates)				
193,900,000	193,900,000	Certificates of Rs.5/- each issued for cash	969,500,000	969,500,000
7,700,000	7,700,000	Certificates of Rs.5/- each issued as bonus certificates	38,500,000	38,500,000
<b>201,600,000</b>	<b>201,600,000</b>		<b>1,008,000,000</b>	<b>1,008,000,000</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

13. RESERVES	Note	2010	2009
		Rupees	
<b>Capital reserves</b>			
Premium on issuance of certificates		378,000,000	378,000,000
Statutory reserve	13.1	385,289,051	331,804,943
		<u>763,289,051</u>	<u>709,804,943</u>
<b>Revenue reserves</b>			
General reserve		50,000,000	50,000,000
Unrealized gain on available-for-sale investments		855,632,083	647,406,380
Unappropriated profit		215,274,355	202,937,922
		<u>1,120,906,438</u>	<u>900,344,302</u>
		<u>1,884,195,489</u>	<u>1,610,149,245</u>

13.1 This represents profit set aside to comply with requirement of Prudential Regulations for Modarabas issued by SECP, which is not available for distribution.

### 14. CERTIFICATES OF MUSHARAKA

Unsecured			
Certificates of Musharaka	14.1	515,291,426	349,831,923
Less: Current maturity shown under current liabilities		(514,621,044)	(343,458,544)
		<u>670,382</u>	<u>6,373,379</u>

14.1 The estimated share of profit payable on the above unsecured finance ranges between 9% to 13% (2009: 10.75% to 14%) per annum.

### 15. SECURITY DEPOSITS AGAINST IJARAH ASSETS

Musta'jir's security deposits	15.1	244,688,643	221,430,698
Less: Current portion shown under current liabilities		(88,212,388)	(92,445,851)
		<u>156,476,255</u>	<u>128,984,847</u>

15.1 These represent interest free deposits repayable at the maturity of respective Ijarah terms

### 16. TRADE AND OTHER PAYABLES

Accrued liabilities		7,158,604	4,757,446
Workers' Welfare Fund		10,425,538	-
Profit payable on:			
Certificates of Musharaka		21,248,407	15,885,139
Management fee payable	16.1	29,713,394	27,068,056
		<u>68,545,943</u>	<u>47,710,641</u>

16.1 The balance is payable to the Modaraba Management Company.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 17. CONTINGENCIES AND COMMITMENTS

#### Contingencies

There are no contingencies as at the balance sheet date.

#### Commitments

Commitments in respect of Ijarah transactions amounted to Rs. 38.00 million (2009: Rs. 32.00 million).

	Note	2010	2009
Rupees			
<b>18. ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances and other benefits	22	28,093,113	24,723,795
Printing, stationery and advertising		4,331,245	4,207,316
Traveling and conveyance		608,418	668,576
Insurance		477,482	537,178
Utilities		364,645	360,000
Postage		296,314	366,383
Newspapers and periodicals		73,210	46,042
Repairs and maintenance		1,260,447	1,375,562
Telecommunication		574,253	553,567
Entertainment		246,653	327,272
Fee and subscription		1,781,300	2,459,570
Legal and professional charges		1,125,867	1,131,780
Donations	18.1	852,000	1,236,000
Depreciation on fixed assets in own use	3.2	2,762,094	3,009,362
Amortization on intangible assets	4	13,169	36,595
Certificate registrar expenses		1,990,091	1,984,145
Vehicle running expenses		773,553	787,622
Office expense		441,581	345,039
Staff training and workshop		170,510	302,575
Staff Hajj expenses		534,700	652,900
Rent		946,500	995,200
Miscellaneous		99,983	22,194
		<b>47,817,128</b>	<b>46,128,673</b>

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

### 19. OTHER INCOME

Dividend on shares	44,657,566	16,625,083
Gain on sale of Ijarah assets	8,070,045	44,233,635
Gain on sale of shares-net	6,819,111	-
Gain on sale of fixed assets	1,299,998	82,284
Profit on Modaraba's deposit accounts	15,734,082	18,706,239
Profit on redemption reserve fund-COM	195,199	746,825
Profit on Sukuk	2,542,652	1,953,789
Profit on Islamic Investment Certificates	6,372,606	5,114,795
Miscellaneous income	2,332,647	411,706
Reversal against impaired assets	5,753,375	-
	<b>93,777,281</b>	<b>87,874,356</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 20. OTHER OPERATING CHARGES

	Note	2010	2009
Rupees			
Loss on sale of shares - net		-	36,898,570
Workers welfare fund	20.1	10,425,538	-
Impairment of ijarah assets	20.2	4,175,294	13,926,919
Auditor's remuneration	20.3	421,900	394,330
Impairment of available for sale investment		603,281	-
		<b>15,626,013</b>	<b>51,219,819</b>

**20.1** This includes an amount of Rs. 4.872 million relating to prior year.

**20.2** Impairment has been recorded on ijarah assets on the basis of future recoverability of cash flows.

#### 20.3 Auditor's remuneration:

Audit fee	275,000	250,000
Fee for review of half yearly financial statements and Statement of compliance with Code of Corporate Governance	120,000	120,000
Out of pocket expenses	26,900	24,330
	<b>421,900</b>	<b>394,330</b>

### 21. FINANCIAL CHARGES

Profit on:		
Certificates of Musharaka	50,801,474	42,202,806
Murabaha finances	-	32,646,047
	<b>50,801,474</b>	<b>74,848,853</b>
Bank commission and charges	49,883	166,273
	<b>50,851,357</b>	<b>75,015,126</b>

### 22. REMUNERATION OF OFFICERS AND OTHER EMPLOYEES

The aggregate amount charged in the financial statements for remuneration to officers and other employees of the Modaraba is as follows:

	2010			2009		
	Officers	Other employees	Total	Officers	Other employees	Total
Rupees						
Salaries	9,279,548	7,978,020	17,257,568	9,434,678	6,634,650	16,069,328
House rent	1,318,800	1,099,200	2,418,000	1,248,906	1,251,294	2,500,200
Conveyance and other allowances	2,305,753	2,328,880	4,634,633	1,691,394	1,682,706	3,374,100
Group insurance	478,991	525,754	1,004,745	412,268	503,882	916,150
Gratuity	954,215	457,686	1,411,901	452,770	142,981	595,751
Provident fund	782,253	584,013	1,366,266	738,697	529,569	1,268,266
	<b>15,119,560</b>	<b>12,973,553</b>	<b>28,093,113</b>	<b>13,978,713</b>	<b>10,745,082</b>	<b>24,723,795</b>
Number of persons	8	24	32	9	23	32

Certain officers are also provided Modaraba cars

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 23. IJARAH RENTALS RECEIVABLE WITHIN ONE YEAR

Ijarah rentals receivable in respect of existing Ijarah, in the subsequent financial year ending June 30, 2011 amounts to Rs. 1,035 million (2010: Rs. 1,054 million). Ijarah rentals recoverable within the next twelve months shall be treated as current assets for the purpose of calculating current ratio (as per BPRD Circular No.8 dated April 11, 1998).

### 24. TRANSACTIONS WITH RELATED PARTIES

The related parties and associated undertakings comprise the Management company [Habib Modaraba Management (Private) Limited], First Habib Modaraba Employees' Provident Fund, First Habib Modaraba Gratuity Fund and key management personnel. These balances outstanding to/from these parties have been included in the relevant notes to the financial statements. Transactions with related parties and associated undertakings are as follows:

Relationship	Nature of transaction	Note	2010	2009
			Rupees	
<b>Balances with related parties</b>				
Staff Retirement Benefit Fund	Receivable from staff gratuity fund		<u>188,099</u>	<u>204,249</u>
Modaraba Management Company	Payable to Modaraba Management Company		<u>29,713,394</u>	<u>27,068,056</u>
First Habib Modaraba Provident Fund	Investment in Certificate of Musharaka		<u>-</u>	<u>12,435,000</u>
<b>Expense for the period</b>				
Modaraba Management Company	Modaraba Company's management fee		<u>29,713,394</u>	<u>27,068,056</u>
Staff Retirement Benefits	Gratuity fund		<u>1,411,901</u>	<u>595,751</u>
	Provident fund		<u>1,366,266</u>	<u>1,268,266</u>
<b>Payments made during the period</b>				
Staff Retirement Benefits	Contribution to staff gratuity fund		<u>1,395,751</u>	<u>2,226,287</u>
	Contribution to staff provident fund		<u>1,366,266</u>	<u>1,268,266</u>
Modaraba Management Company	Dividend paid		<u>99,439,122</u>	<u>117,664,441</u>
Modaraba Management Company	Management fee		<u>27,068,056</u>	<u>29,798,735</u>

24.1 No remuneration in kind has been paid by the Modaraba to the directors and key management personnel.





## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 25. 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 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.

### 26. FINANCIAL INSTRUMENTS

#### 26.1 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 interest rate risk and price risk), credit risk and liquidity risk arising from the financial instruments it holds.

The Modaraba primarily invests in Ijarah assets, diminishing musharaka, diversified portfolio of listed securities, Ijarah Sukuk bonds and Islamic investments instruments. Such investments are subject to varying degrees of risk, when emanate from various factors that include but are not limited to:

- Credit risk
- Liquidity risk
- Market risk

#### 26.2 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.

#### Exposure to Credit Risk

The maximum exposure to credit risk before any credit enhancements at June 30, 2010 is the carrying amount of the financial assets as set out below:

Note	2010	2009
	Rupees	
<b>Nature of Financial Assets</b>		
Ijarah rentals receivables	<u>4,743,069</u>	<u>11,366,655</u>
The aging of Ijarah rentals receivables at the reporting date is:		
Past due 1-30 days	3,009,682	5,855,497
Past due 30-90 days	1,733,387	5,511,158
	<u>4,743,069</u>	<u>11,366,655</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### Concentration of Credit Risk

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

Concentration of risks arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

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 30 to the financial statements.

### Impaired Assets

Refer note 2.8, 3.1 & 20 to the financial statements for details on impairment of assets.

### 26.3 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 problem for generation of liquidity.

Note 27 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 are traded in an active market and can be readily disposed off. Only a limited proportion of its investments are not actively traded.

### 26.4 Market Risk

#### a Market Price Risk

The risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices of securities due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

#### Exposure

The Modaraba is exposed to unfavorable changes in the fair values of investments as a result of changes in prices of securities.

As at June 30, 2010, the fair value of debt securities exposed to price risk was as follows:

Particulars	Average Cost	Fair Value	Average Cost	Fair Value
	2010	2010	2009	2009
	Rupees			
Exposure classified as	161,663,762	1,016,692,562	159,570,788	806,977,168
Available-for-sale				
Ijarah Sukuk bonds	20,000,000	20,000,000	20,000,000	20,000,000
	<b>181,663,762</b>	<b>1,036,692,562</b>	<b>179,570,788</b>	<b>826,977,168</b>

### Risk Management

The Modaraba's policy is to manage price risk through diversification and selection of securities and other financial instruments within specified limits set by Investment Committee.

The majority of the Modaraba's investments are publicly traded and are valued at the rates provided by stock exchange which is set as per the trading trend and volumes of the security.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### b Profit rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flows.

#### Risk Exposure

The Modaraba has a Ijarah financing portfolio. The majority of Ijarah portfolio is linked with KIBOR rate as a benchmark. The Modaraba reviews KIBOR on Ijarah portfolio on quarterly/six monthly basis.

As at June 30, 2010, the profile of the Modaraba's variable value financial instruments were as follows:

	Note	2010	2009
		Rupees	
<b>Variable rate instruments</b>			
<b>Assets</b>			
Ijarah Sukuk bonds		20,000,000	20,000,000
Islamic deposits		201,714,484	301,941,058
Investment in Diminishing Musharaka		70,052,653	25,255,125
<b>Liability</b>			
Certificates of Musharaka		(515,291,426)	(349,831,923)
		<b>(223,524,289)</b>	<b>(2,635,740)</b>

#### Fair value sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates would have increased 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)	
		2010	2009
		Rupees	Rupees
<b>Assets</b>			
Ijarah Sukuk bonds	100 basis points	200,000	200,000
Islamic deposits	100 basis points	2,017,145	3,019,411
Investment in Diminishing Musharaka	100 basis points	700,527	252,551
<b>Liability</b>			
Certificates of Musharaka	100 basis points	5,152,914	3,498,319

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

#### Risk Management / Mitigation

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

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



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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

The average effective duration of the Modaraba's portfolio is a measure of the sensitivity of the fair value of the Modaraba's fixed 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 fixed interest portfolio to pass the benchmark of the average duration.

### FAIR VALUE OF FINANCIAL INVESTMENTS

The Modaraba's accounting policy on fair value measurements of the investments is detailed in note 2.10 to these financial statements.

The Modaraba measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

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

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

As at June 30, 2010 all the investments were categorised in Level 1.

### 26.5 Operational risks

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

- The Modaraba's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its objective of generating returns for certificate holders.
- The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors of the management company. This responsibility encompasses the controls in the following areas:
  - requirements for appropriate segregation of duties between various functions, roles and responsibilities;
  - requirements for the reconciliation and monitoring of transactions;
  - compliance with regulatory and other legal requirements;
  - documentation of controls and procedures;
  - requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
  - ethical and business standards;
  - risk mitigation, including insurance where this is effective.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 27. MATURITIES OF ASSETS AND LIABILITIES

Liquidity 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.

	2010			
	Total	Up to one year	Over one year to five years	Over five years
<b>Rupees</b>				
<b>Assets</b>				
Ijarah fixed assets - tangible	2,435,299,958	287,788,765	2,147,511,193	-
Owned fixed assets - tangible	6,331,259	-	6,331,259	-
Intangible assets	70,026	-	12,695	-
Long-term prepayments and deposits	1,560,000	-	1,560,000	-
Diminishing musharaka	70,052,653	37,761,808	32,290,845	-
Investments - available for sale	1,036,692,562	1,036,692,562	-	-
Ijarah rentals receivable	4,743,069	4,743,069	-	-
Advances, trade deposits and prepayments	1,729,495	1,729,495	-	-
Other receivables	6,386,704	6,386,704	-	-
Cash and bank balances	212,336,936	212,336,936	-	-
	<b>3,775,202,662</b>	<b>1,587,439,339</b>	<b>2,187,705,992</b>	<b>-</b>
<b>Liabilities</b>				
Security deposits against Ijarah assets	244,688,643	88,212,388	156,476,255	-
Certificates of Musharaka	515,291,426	514,621,044	670,382	-
Unearned Ijarah rentals	15,685,400	15,685,400	-	-
Advance Ijarah rentals received	21,816,116	21,816,116	-	-
Trade and other payables	68,545,943	68,545,943	-	-
Taxation - net	106,056	106,056	-	-
Unclaimed profit distribution	16,873,589	16,873,589	-	-
	<b>883,007,173</b>	<b>725,860,536</b>	<b>157,146,637</b>	<b>-</b>
	<b>2,892,195,489</b>	<b>861,578,803</b>	<b>2,030,559,355</b>	<b>-</b>
<b>Represented by:</b>				
Issued, subscribed and paid-up capital	1,008,000,000			
Reserves	1,884,195,489			
	<b>2,892,195,489</b>			



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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

	2009			
	Total	Up to one year	Over one year to five years	Over five years
<b>Rupees</b>				
<b>Assets</b>				
Ijarah Fixed assets - tangible	2,096,888,863	91,012,817	2,005,876,046	-
Owned Fixed assets - tangible	6,830,618	-	6,830,618	-
Intangible assets	12,695	-	12,695	-
Long term advances and deposits	80,000	-	80,000	-
Investment in Diminishing Musharaka	25,255,125	11,224,500	14,030,625	-
Investments - available for sale	826,977,168	826,977,168	-	-
Ijarah rentals receivable	11,366,655	11,366,655	-	-
Advances, trade deposits and prepayments	656,300	656,300	-	-
Other receivables	10,999,726	10,999,726	-	-
Cash and bank balances	302,135,981	302,135,981	-	-
	<b>3,281,203,131</b>	<b>1,254,373,147</b>	<b>2,026,829,984</b>	<b>-</b>
<b>Liabilities</b>				
Security deposits against Ijarah assets	221,430,698	92,445,851	128,984,847	-
Certificates of Musharaka	349,831,923	343,458,544	6,373,379	-
Unearned ijarah rental	7,569,425	7,569,425	-	-
Advance Ijarah rentals received	21,029,873	21,029,873	-	-
Trade and other payables	47,710,641	47,710,641	-	-
Taxation - net	370,495	370,495	-	-
Unclaimed profit distribution	15,110,831	15,110,831	-	-
	<b>663,053,886</b>	<b>527,695,660</b>	<b>135,358,226</b>	<b>-</b>
	<b>2,618,149,245</b>	<b>726,677,487</b>	<b>1,891,471,758</b>	<b>-</b>
<b>Represented by:</b>				
Issued, subscribed and paid-up capital	1,008,000,000			
Reserves	1,610,149,245			
	<b>2,618,149,245</b>			

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 28. SEGMENT BY CLASS OF BUSINESS OF MAJOR IJARAH ASSETS

	Ijarah Assets			
	2010		2009	
	Rupees	%	Rupees	%
Auto and engineering	172,179,824	7.85	165,051,569	8.57
Financial institutions	178,321,355	8.13	209,057,179	10.85
Cable and electric goods	121,514,932	5.54	144,529,384	7.50
Cement	193,944	0.01	3,003,094	0.16
Chemical and pharmaceutical	618,111,669	28.16	334,461,866	17.36
Communications	1,701,300	0.08	3,720,450	0.19
Construction	15,417,066	0.70	34,225,822	1.78
Consumer	49,069,059	2.24	29,935,505	1.55
Education	10,779,159	0.49	6,689,018	0.35
Engineering	21,495,203	0.98	41,816,225	2.17
Food and allied	89,188,385	4.06	102,398,496	5.32
Fuel and energy	148,212,547	6.75	139,175,387	7.23
Glass and ceramics	18,547,198	0.85	14,829,835	0.77
Health	21,524,009	0.98	21,767,647	1.13
Information Technology	76,904,099	3.50	90,462,265	4.70
Jute	-	0.00	7,391,979	0.38
Leather and tanneries	-	0.00	834,950	0.04
Paper and board	33,328,756	1.52	38,674,988	2.01
Insurance	-	0.00	3,854,435	0.20
Services	319,841,135	14.57	270,065,261	14.02
Sugar and allied	106,894,095	4.87	50,557,645	2.62
Synthetic and rayon	4,518,561	0.21	36,173,659	1.88
Textile	159,287,740	7.26	137,967,038	7.16
Transport	5,205,256	0.24	13,380,595	0.69
Miscellaneous	22,381,259	1.02	26,083,432	1.35
	<b>2,194,616,551</b>	<b>100.00</b>	<b>1,926,107,724</b>	<b>100.00</b>

28.1 Modaraba's operations are restricted to Pakistan only.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 29. FINANCIAL ASSETS AND LIABILITIES

	Profit bearing			Non-Profit bearing			Total
	Maturity upto one year	Maturity after one year upto five years	Sub-total	Maturity upto one year	Maturity after one year and upto five years	Sub-total	
<b>Financial assets</b>							
Cash and bank balances	211,714,484	-	211,714,484	622,452	-	622,452	212,336,936
Other receivables	-	-	-	6,386,704	-	6,386,704	6,386,704
Investments - available for sale	1,016,692,562	20,000,000	1,036,692,562	-	-	-	1,036,692,562
Ijarah rentals receivables							
- secured, considered good	-	-	-	4,743,069	-	4,743,069	4,743,069
Deposits	-	-	-	58,050	-	58,050	58,050
Long term deposits	-	-	-	-	300,000	300,000	300,000
Investment in diminishing musharaka	37,761,808	32,290,845	70,052,653	-	-	-	70,052,653
	<u>1,266,168,854</u>	<u>52,290,845</u>	<u>1,318,459,699</u>	<u>11,810,275</u>	<u>300,000</u>	<u>12,110,275</u>	<u>1,330,569,974</u>
<b>Financial liabilities</b>							
Security deposits against ijarah assets	-	-	-	88,212,388	156,476,255	244,688,643	244,688,643
Certificates of Musharaka	514,621,044	670,382	515,291,426	-	-	-	515,291,426
Advance Ijarah rentals received	-	-	-	21,816,116	-	21,816,116	21,816,116
Trade and other payables	-	-	-	68,545,943	-	68,545,943	68,545,943
Unclaimed profit distribution	-	-	-	16,873,589	-	16,873,589	16,873,589
	<u>514,621,044</u>	<u>670,382</u>	<u>515,291,426</u>	<u>195,448,036</u>	<u>156,476,255</u>	<u>351,924,291</u>	<u>867,215,717</u>
On balance sheet gap	<u>751,547,810</u>	<u>51,620,463</u>	<u>803,168,273</u>	<u>(183,637,761)</u>	<u>(156,176,255)</u>	<u>(339,814,016)</u>	<u>463,354,257</u>
Ijarah assets	<u>287,788,765</u>	<u>1,906,827,786</u>	<u>2,194,616,551</u>	-	-	-	<u>2,194,616,551</u>

\*Ijarah assets has been included above in order to depict a true picture of the gap between the assets and liabilities of the Modaraba.

The expected rates of profit for financial assets and liabilities are mentioned in the respective notes to the financial statements.

### 30. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Modaraba has established procedures to manage credit exposure including credit approvals, credit limits and obtaining collaterals.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other considerations. Concentration of credit risk indicates the relative sensitivity of the Modaraba's performance to developments affecting a particular industry.

The Modaraba manages concentration of credit risk exposure through diversification of portfolio of its customers to avoid undue concentration of risk with specific industry, sector, or group as follows:



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Segment by class of business	2010		2009	
	Advances, deposits, prepayments and other receivables	Ijarah rentals receivables	Advances, deposits, prepayments and other receivables	Ijarah rentals receivable
	Rupees			
Banks and Financial institutions	6,138,605	-	10,795,477	-
Auto and Allied	-	-	-	306,979
Cable and Electrical Goods	-	-	-	142,531
Textile	-	899,362	-	4,536,012
Chemical and Pharmaceutical	-	3,221,191	-	83,981
Communications	46,000	-	46,000	23,480
Construction	-	-	-	321,018
FMCG	-	-	-	300,966
Food and Allied	1,050	188,424	1,050	217,421
Fuel and Energy	8,000	155,220	8,000	358,703
Glass and Ceramics	-	-	-	101,043
Insurance companies	1,450,720	-	598,750	207,726
Others	188,099	1,300	204,249	373,826
Services	244,950	140,212	82,500	4,392,969
Transport	-	137,360	-	-
	<u>8,077,424</u>	<u>4,743,069</u>	<u>11,736,026</u>	<u>11,366,655</u>

### 31. EARNINGS PER CERTIFICATE

#### 31.1 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	
	2010	2009
	Rupees	
Profit for the year	<u>267,420,541</u>	<u>243,612,505</u>
Weighted average number of certificates	<u>201,600,000</u>	<u>201,600,000</u>
Earnings per certificate	<u>1.33</u>	<u>1.21</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

### 31.2 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.

### 32. CASH GENERATED FROM OPERATIONS

	Note	2010	2009
Rupees			
Profit for the year		267,420,541	243,612,505
Adjustment for:			
Gain on disposal of assets			
Ijarah		(8,070,045)	(44,233,635)
In own use-net		(1,299,998)	(82,284)
Depreciation fixed assets			
Ijarah assets		1,030,992,156	1,311,064,868
In own use		2,762,094	3,009,362
Impairment of ijarah assets		4,175,294	13,926,919
Impairment of investments		603,281	-
Reversal against impaired assets		(5,753,375)	-
Owned assets written off		33	-
Amortization of intangible assets		13,169	36,595
Provision for gratuity		1,411,901	595,751
Dividend income		(44,657,566)	(16,625,083)
(Gain) / loss on disposal of investments		(6,819,111)	36,898,570
Profit on:			
Certificates of Musharaka		50,801,474	42,202,806
Murabaha finance		-	32,646,047
		50,801,474	74,848,853
Movement in working capital	32.1	34,521,515	(1,898,285)
		<u>1,326,101,363</u>	<u>1,621,154,136</u>

### 32.1 Movement in working capital

Decrease / (Increase) in current assets:			
Ijarah rentals receivable		6,623,586	(8,158,522)
Loans and advances		-	1,793,647
Trade deposits and short term prepayments		(1,073,195)	324,791
Other receivables		4,596,872	8,010,330
Increase / (decrease) in current liabilities:			
Advance Ijarah rentals received		786,243	(2,136,222)
Unearned ijarah rentals		8,115,975	5,494,872
Trade and other payables		15,472,034	(7,227,181)
		<u>34,521,515</u>	<u>(1,898,285)</u>

### 33. PROFIT DISTRIBUTION AND APPROPRIATION

Subsequent to the year ended June 30, 2010 the Board of Directors of the Management Company has declared a final distribution of Rs.1.05 per certificate, amounting to total profit distribution of Rs.211.680 million (2009: Re. 1.00/- per certificate amounting to total profit distribution of Rs. 201.600 million) in its meeting held on 28-07-2010.

### 34. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 28-07-2010 by the Board of Directors of the Modaraba Management Company.

### 35. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. However no significant reclassification has been made except the following:

From	To	Amount	Reason
Ijarah Assets (Cost) Furniture & Fixture	Ijarah (Cost) Plant, Machinery & Equipment	10,452,831	For better presentation
Ijarah Assets (Depreciation) Furniture & Fixture	Ijarah Assets (Depreciation) Plant, Machinery & Equipment	10,702,907	For better presentation

### 36. GENERAL

Figures have been rounded off to the nearest rupee.

-Sd-  
CHIEF EXECUTIVE

-Sd-  
DIRECTOR

-Sd-  
DIRECTOR



*Silver Jubilee*