



IN THE NAME OF ALLAH THE MOST BENEFICENT
AND THE MERCIFUL



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

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

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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.

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.



FHM's Profile

FHM commenced its business operation in March, 1985, with an initial capital of Rs.25.0 million only. Continuing with solid, dynamic and prudent approach now FHM has an equity base over Rs.3.00 billion and assets size over Rs.4.0 billion.

The basic aim for establishing FHM was to make contribution towards the transformation of our mercantile as well as financial system and dealings in line with principles elaborated in Shariah. FHM being pioneer in the Modaraba and Non-Banking Islamic Financial sector played a vital role for promotion of Islamic Finance in Pakistan's Islamic Financial Market.

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.

The Management of FHM has always given emphasis on building-up quality asset portfolio. The efficacy of FHM's business strategy and prudent risk management policies has supported the management to maintain outstanding assets quality while ensuring sustainability of performance, despite the increasingly competitive operating environment in Pakistan's financial market.

The management always believes in steady growth and not the policy of aggressive employment of Modaraba's fund. Efforts have always been made to enlarge the area of business in a prudent manner and execute funding transactions judiciously on selective basis with in-depth assessment of client.

Business transactions have always been done on economic considerations, keeping in view the safety of investor funds. It can be judged with the performance of FHM of twenty five years and this would convince that "Stability of

Operation" and "Sustainability of Growth" are well achieved in every year. It can be observed that FHM is much stronger today in terms of the healthy size of Equity, strong Balance Sheet Footing and sound Profitability with stronger management talent and vibrant Human Resource.

The main component of success of FHM is excellent team work across all levels of the organization. Due to hard and dedicated work of all staff members made FHM the premier Modaraba within the Modaraba sector.

Following achievements remained hallmarks during the operations of FHM.

- Unbroken history of payment of dividend to Certificate holders every year.
- Remained a profitable venture throughout the business operations.
- Maintaining "A" category rating for more than 12 years.
- Leading modaraba in terms of size of assets, equity and profitability.
- Recipient of "Corporate Excellence Award" from Management Association of Pakistan for last four consecutive years.
- Recipient of best performing modaraba "1st position" awards for last several years from Modaraba Association of Pakistan.
- Recipient of Best Corporate Report Award from The Joint Committee of ICAP & ICMAP.
- Recipient of Certificate of Merit from SAFA for Best Presented Accounts and Corporate Governance Disclosures.

In conclusion, we proudly say that at present the FHM is among one of the best Islamic Financial Services Institutions within non-banking sector in Pakistan.



BOARD OF DIRECTORS

Mr. Wazir Mumtaz Ahmed - Chairman (Non-Executive Director)

Mr. Muhammad Shoaib Ibrahim - Chief Executive Officer

Mr. Wazir Husain Jafree - (Non-Executive Director)

Mr. Abbas Ali Muhammad - (Non-Executive Director)

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

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

BANKERS

Habib Metropolitan Bank Limited (Islamic Banking)

Bank Al Falah Limited (Islamic Banking)

Al Baraka Bank Pakistan Limited

Bankislami Pakistan Limited

Burj Bank Limited

REGISTERED OFFICE

5th Floor, HBZ Plaza (Hirani Centre)

I.I. Chundrigar Road, Karachi.

Tel: 021-32635949-51

Fax: 021-32627373

BRANCH OFFICES

Lahore Branch:

1st Floor, 5-Z Block, Phase III, Defence Housing
Authority, Lahore.

TEL: 042-35693074-76, FAX: 042-35693077

Islamabad Branch:

Office No. 7, Mezzanine Floor, Razia Shareef Plaza
Blue Area, Islamabad.

TEL: 051-32278865-67, FAX: 051-2278868

Web: www.habibmodaraba.com

Email: fhm@habibmodaraba.com

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 – Chief Executive Officer

Muhammad Shoaib, is associated with First Habib Modaraba since the inception of modaraba. His extensive working experience in Non-Banking Islamic Financial institutions for more than 25 years makes him senior most person with such rich experience of Islamic Finance in Pakistan. This intense exposure gave him the insight into the financial and technical aspects of fund management in Islamic way. He has done Master's in Business Administration (MBA) in Banking and Finance. 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 also remained 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.

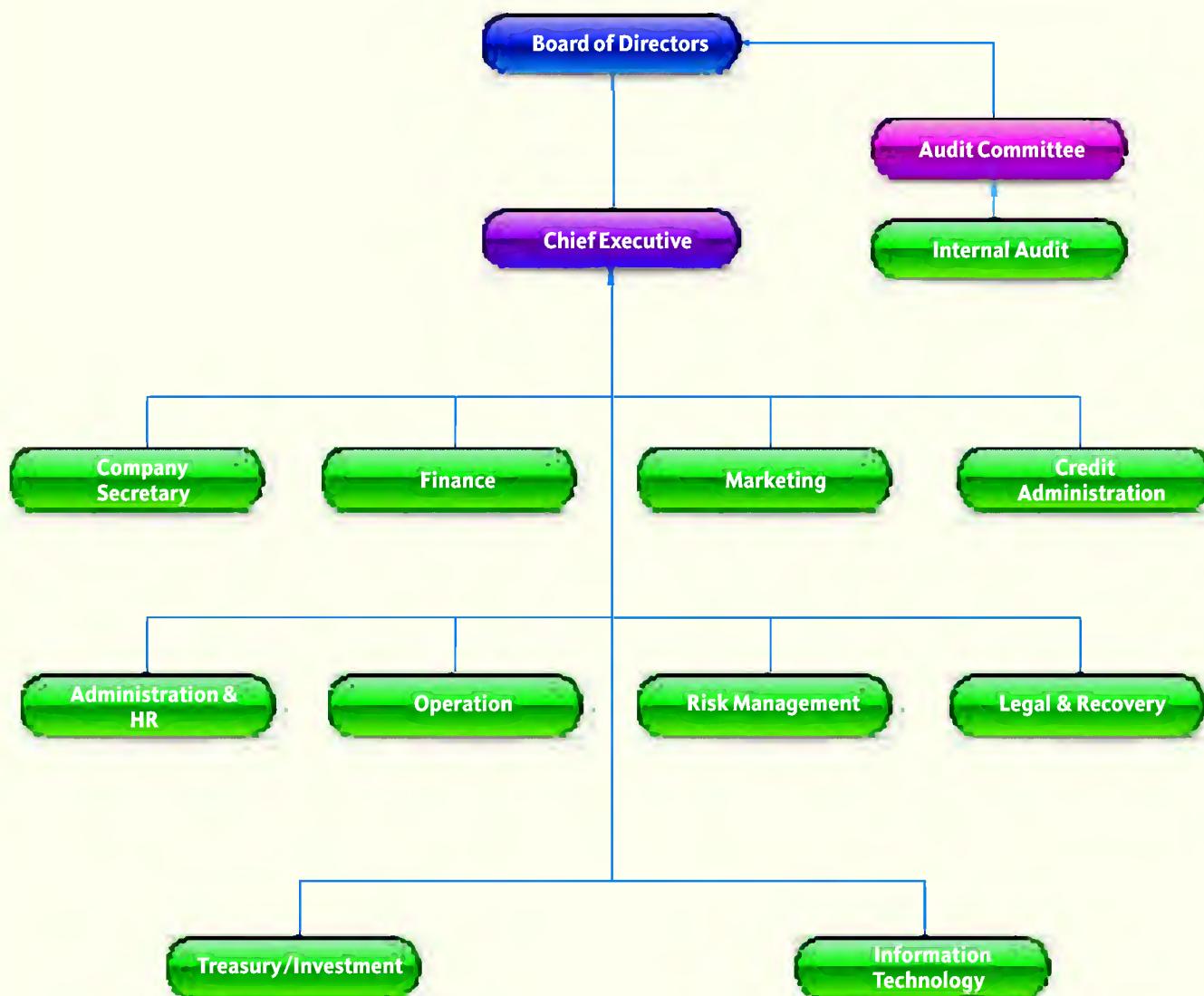
Abbas Ali Muhammad – Director

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.

ORGANIZATIONAL STRUCTURE



FOR THE YEAR ENDED JUNE 30, 2011



Audit Committee Terms 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. Abbas Ali Muhammad
Non Executive (Member)

Mr. Wazir Husain Jafree
Non Executive (Member)

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



**QUALITY
SERVICE**

INTEGRITY

**CORPORATE
GOVERNANCE**

**CUSTOMER
FIRST**

TEAMWORK

RESPONSIVE

**CORE
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.

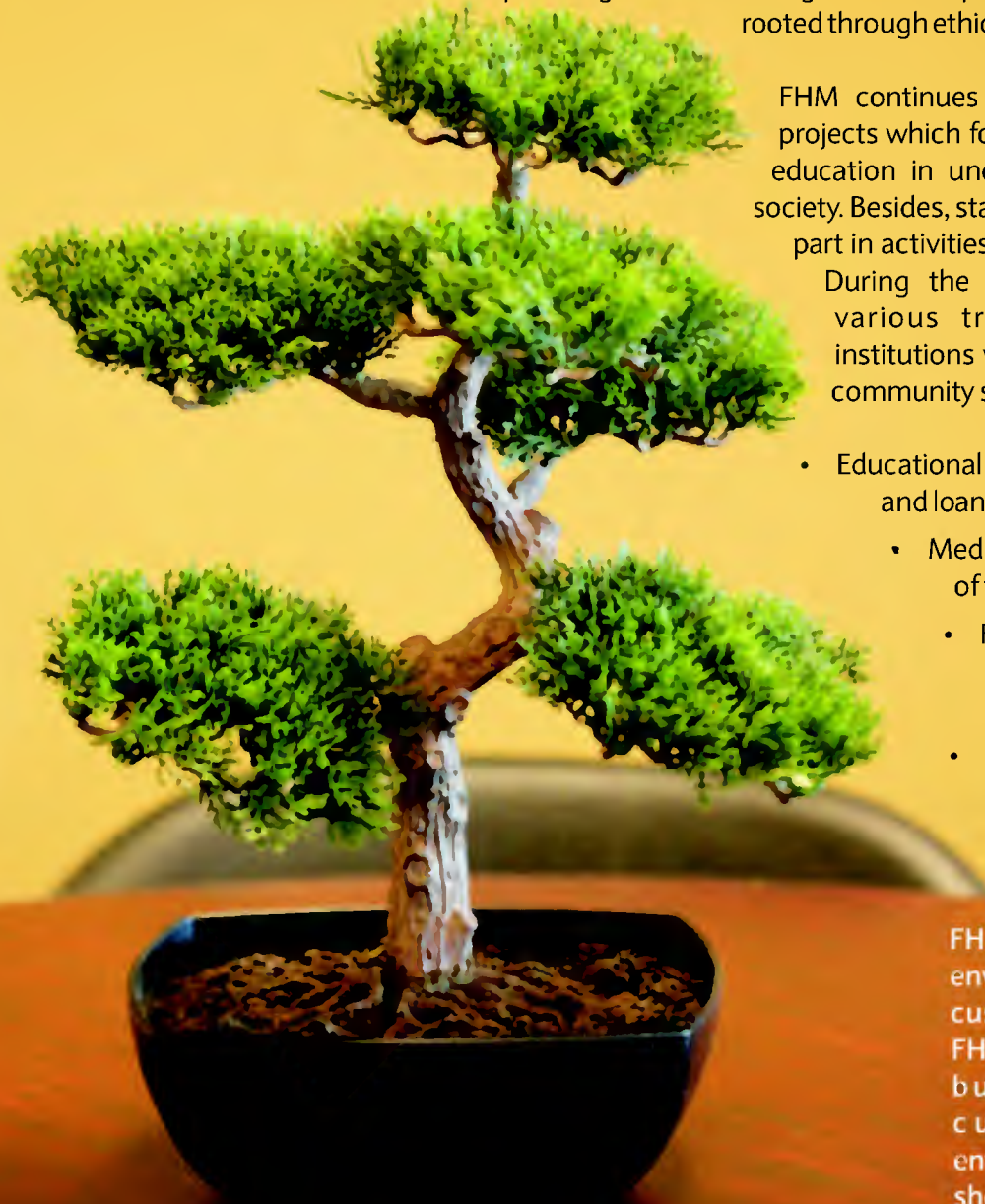
CORPORATE SOCIAL RESPONSIBILITY

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.

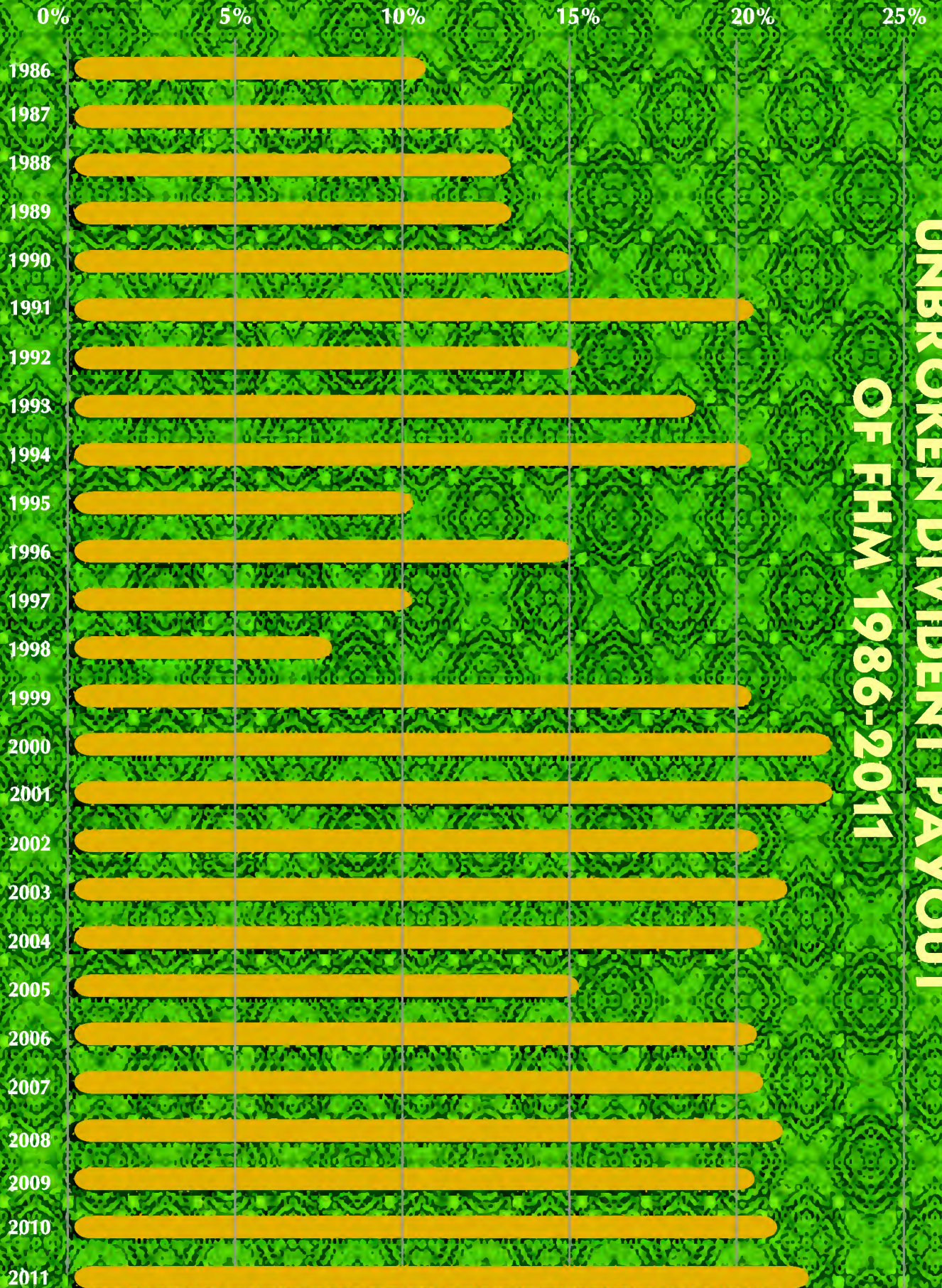
During the year FHM has supported various trust and philanthropist institutions who are engaged in various community service projects such as:-

- 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

DIVIDEND %



UNBROKEN DIVIDEND PAYOUT
OF FHM 1986-2011



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.

VALUE ADDED STATEMENT

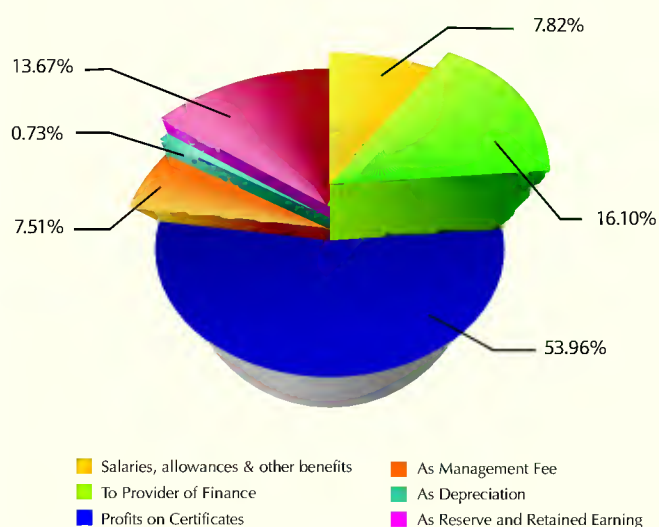


	2011		2010	
	Rs.	(%)	Rs.	(%)
Value Added				
Revenue from operations	346,280,687		317,651,152	
Other income / charges	84,404,871		78,151,268	
Value added by Ijarah services	430,685,558		395,802,420	
Operating expense	19,717,164		16,096,752	
	410,968,394	100.00	379,705,668	100.00

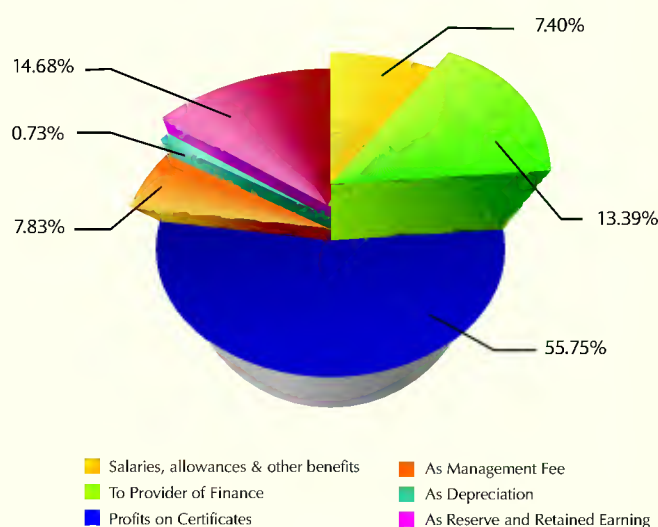
Value Allocated

To Employees				
Salaries, allowances & other benefits	32,156,792	7.82	28,093,113	7.40
To provider of finance				
As profit on Certificate of Musharaka	66,172,247	16.10	50,851,357	13.39
To Modarib				
As management fee	30,880,220	7.51	29,713,394	7.83
To certificate holders				
Profit on certificates	221,760,000	53.96	211,680,000	55.75
To Society				
Donation	840,000	0.20	852,000	0.22
To expansion & growth				
As Depreciation	2,997,156	0.73	2,775,263	0.73
As Reserve and Retained earning	56,161,979	13.67	55,740,541	14.68
	410,968,394	100.00	379,705,668	100.00

Value Allocated 2011



Value Allocated 2010



KEY FINANCIAL DATA SIX YEARS AT A GLANCE



KEY FINANCIAL DATA	(Rupees in million)					
	2011	2010	2009	2008	2007	2006
Total Assets	4,075.21	3,777.83	3,281.20	4,025.65	5,000.90	3,889.85
Ijarah Assets	2,372.96	2,435.30	2,096.89	2,716.03	3,185.14	2,744.84
Gross Ijarah Disbursement	1,226.65	1,512.37	1,150.74	1,074.80	1,780.60	1,719.96
Current Assets	1,531.47	1,302.28	1,163.36	1,300.79	1,808.28	1,136.05
Current Liabilities	820.81	728.55	527.70	778.52	1,811.58	1,531.28
Total Liabilities	1,015.59	885.69	663.05	1,178.83	2,503.21	2,094.53
Paid-up Capital	1,008.00	1,008.00	1,008.00	1,008.00	504.00	504.00
Reserves	2,051.62	1,884.20	1,610.15	1,838.82	1,993.69	1,291.31
Certificate Holders' Equity	3,059.62	2,892.20	2,618.15	2,846.82	2,497.69	1,795.31
Gross Revenue	1,437.27	1,348.64	1,666.23	1,666.79	1,502.96	1,206.40
Net Profit	277.92	267.42	243.61	268.86	149.31	141.08
Earning Per Certificate - Rs.5/- each	1.38	1.33	1.21	1.50	1.36	1.40
Cash Dividend	22%	21%	20%	21%	20%	20%
Ijarah Rental	327.34	311.18	351.55	317.30	286.49	254.95

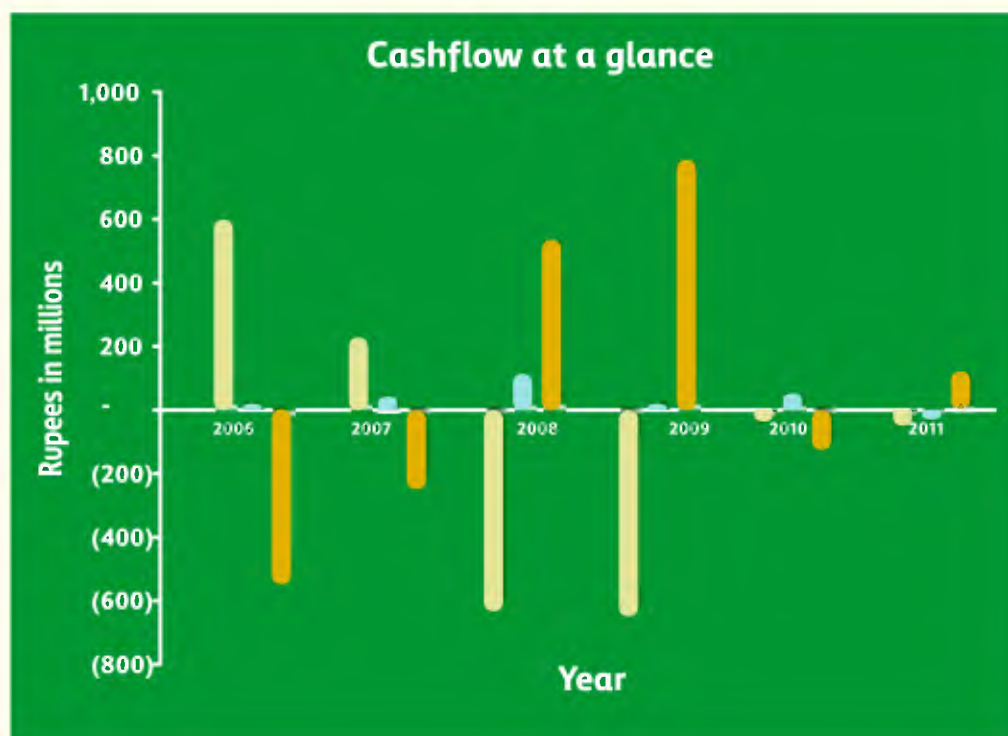
STAKEHOLDER INFORMATION	2011	2010	2009	2008	2007	2006
Profitability Ratios						
Profit after tax ratio (%)	19.34	19.83	14.62	16.13	9.93	11.69
Gross yield on earning assets (%)	42.19	41.54	59.99	48.02	32.80	33.25
Gross spread ratio (%)	12.96	12.88	9.35	5.45	3.76	8.84
Cost / Income ratio (%)	81.82	81.46	86.11	85.43	90.64	88.63
Return on equity (%)	13.22	13.13	12.36	13.87	14.71	14.60
Return on assets (%)	6.82	7.08	7.42	6.68	2.99	3.63
Return on capital employed (%)	10.03	10.78	11.82	11.39	8.41	9.76
Gross profit ratio (%)	22.65	22.02	20.25	17.20	18.11	21.01
Net profit to sale (%)	19.34	19.83	14.62	16.13	9.93	11.69
EBITDA margin to sale (%)	25.87	26.74	22.09	20.39	13.34	15.06
Income / Expense ratio	1.18	1.18	1.12	1.08	1.05	1.11
Liquidity Ratios						
Advance to deposit ratio	4.25	4.86	6.07	7.39	2.67	2.73
Current ratio	1.87	1.79	2.20	1.67	1.00	0.74
Cash to current liabilities	20%	29%	57%	19%	7%	5%
Cashflow from operations to sale	9%	8%	48%	34%	15%	49%
Turnover ratio						
Total Asset Turnover Ratio (%)	37.52	38.18	53.46	45.82	31.91	31.90
Fixed Asset Turnover Ratio (%)	60.11	58.27	82.83	67.70	49.98	45.06
Investment / Market ratio						
Market Value Per Share	8.15	6.70	5.77	7.77	13.50	6.95
High	8.19	7.33	7.85	16.35	13.80	8.30
Low	5.66	5.50	4.37	7.39	6.55	6.50
EPS (Earning per share)	1.38	1.33	1.21	1.50	1.36	1.40
Price earning ratio	5.91	5.04	4.77	5.18	9.93	4.96
Price to book ratio	0.78	0.66	0.59	0.81	1.34	0.73
Dividend Yield ratio (%)	13.50	15.67	17.33	13.51	7.41	14.39
Dividend Payout ratio (%)	79.79	79.16	82.75	78.73	67.51	71.45
Dividend cover ratio	1.25	1.27	1.21	1.43	1.36	1.40
Cash dividend (%)	22%	21%	20%	21%	20%	20%
Cash dividend per share	1.10	1.05	1.00	1.05	1.00	1.00
Book Value Per Share	10.43	10.10	9.78	9.62	10.07	9.59
Dividend (in million rupees)	222	212	202	212	101	101
Profit Growth Ratio (%) [YoY]	4	10	(9)	80	6	39
Profit Growth Ratio (%) [base year 2006]	97	90	73	91	6	-
Capital Structure ratio						
Net assets per share	15.18	14.35	12.99	14.12	24.78	17.81
Earning asset to total asset ratio (%)	94.66	93.76	89.88	95.43	97.28	95.94

SUMMARY OF CASH FLOW



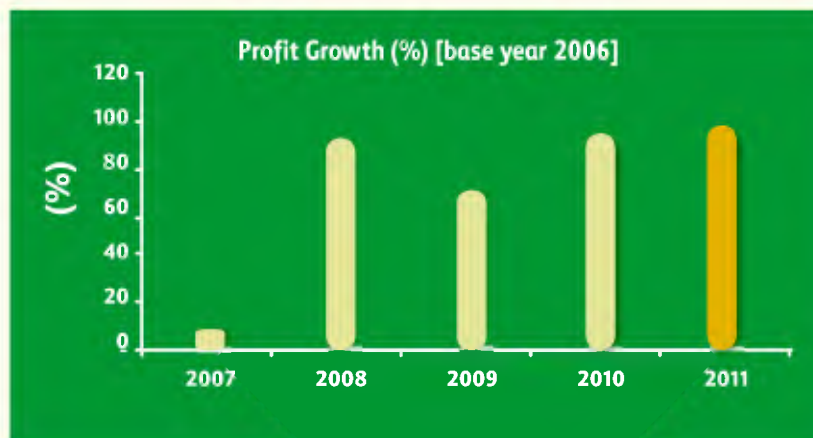
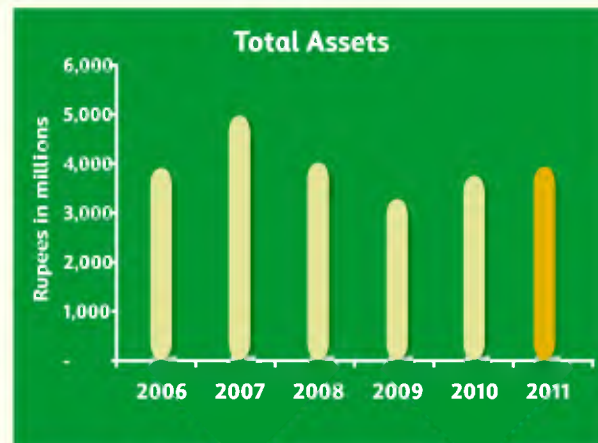
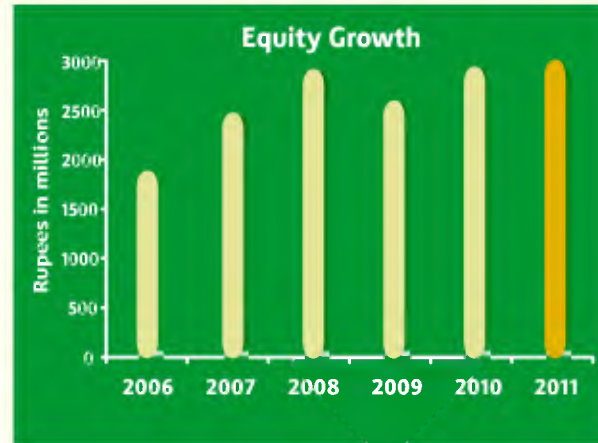
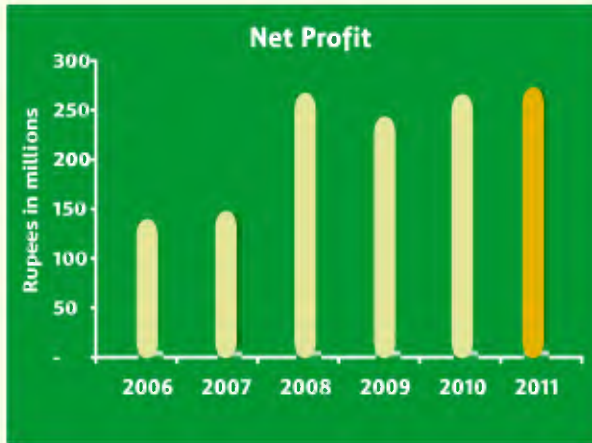
(in million rupees)

	2011	2010	2009	2008	2007	2006
Cash & cash equivalents at the beginning of the year	212	302	150	125	73	32
Net Cash flow from operating activities	130	(102)	805	560	(233)	(589)
Net Cash flow from investing activities	(68)	47	17	125	39	8
Net Cash flow from financing activities	(112)	(34)	(670)	(660)	245	623
Net increase/decrease in cash & cash equivalent	(51)	(90)	152	25	52	42
Cash & cash equivalents at the end of the year	162	212	302	150	125	73



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

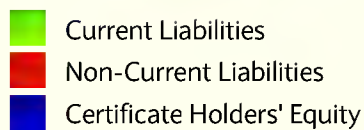
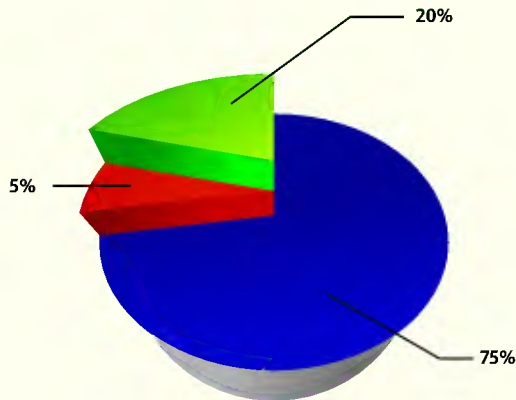
FINANCIAL SUMMARY AT A GLANCE



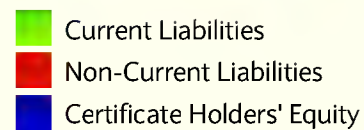
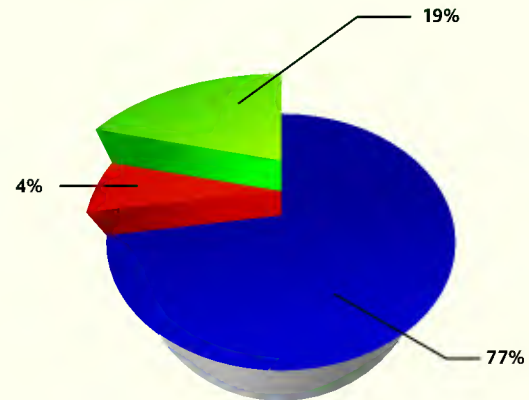
BALANCE SHEET COMPOSITION



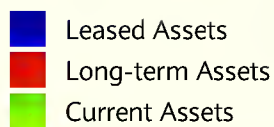
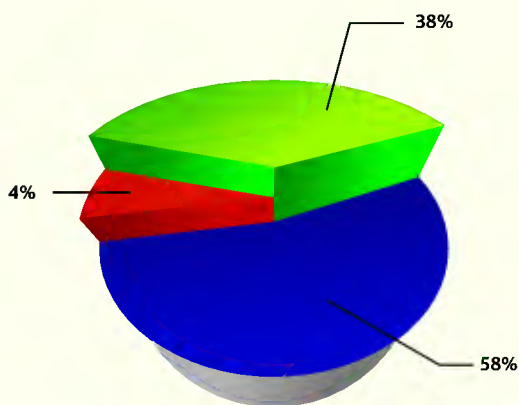
**Equity & Liabilities
2011**



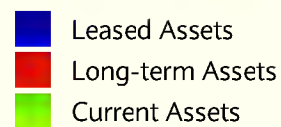
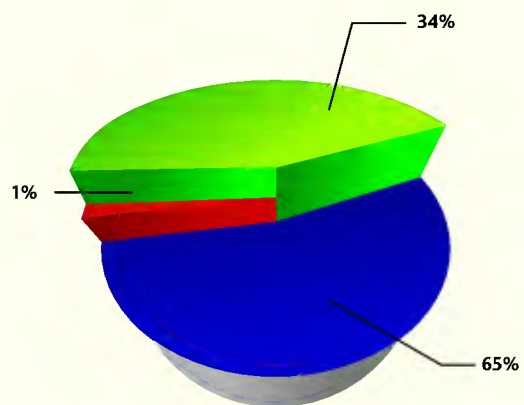
**Equity & Liabilities
2010**



**Assets
2011**



**Assets
2010**



HORIZONTAL ANALYSIS



BALANCE SHEET (%)

	2011	2010	2009	2008	2007	2006
ASSETS						
NON-CURRENT ASSETS						
Fixed Assets - tangible						
Ijarah Assets	(2.56)	16.14	(22.80)	(14.73)	16.04	34.09
Assets in own use	(11.49)	(7.31)	(9.92)	22.96	(15.85)	77.99
Intangible Assets	36.01	451.60	(61.52)	(77.60)	(30.92)	8.28
Investment in diminishing musharaka	402.48	130.15	0.00	0.00	0.00	0.00
Long-term advances & deposits	81.85	1,850.00	(93.39)	4.08	(17.29)	75.94
CURRENT ASSETS						
Investments	20.70	25.36	(26.54)	(32.98)	70.18	73.66
Current maturity of diminishing musharaka	88.27	236.42	0.00	0.00	0.00	0.00
Ijarah rental receivable - secured, considered good	(9.27)	(58.27)	254.31	362.25	(51.44)	10.47
Loan & advances	-	-	(100.00)	39.13	(34.88)	(39.82)
Trade deposits & short-term prepayments	195.36	154.68	(33.11)	232.26	(85.09)	(39.82)
Other receivables	158.54	(26.62)	(41.51)	1,617.68	(44.70)	(39.82)
Tax refund due from Government	1,642.05	0.00	0.00	0.00	0.00	0.00
Cash & bank balances	(23.93)	(29.72)	101.14	20.02	70.29	129.89
TOTAL ASSETS	7.87	15.14	(18.49)	(19.50)	28.56	46.40
EQUITY & LIABILITIES						
CAPITAL & RESERVES						
Authorized Certificate capital	0.00	0.00	0.00	83.33	0.00	0.00
Issued, subscribed & paid-up capital	0.00	0.00	0.00	100.00	0.00	0.00
Reserves	8.89	17.02	(12.44)	(7.77)	54.39	56.94
Certificate holders' equity	5.79	10.47	(8.03)	13.98	39.12	35.31
NON-CURRENT LIABILITIES						
Long-term Murabaha finances	-	-	(100.00)	(61.88)	22.91	109.94
Certificates of Musharaka - unsecured	347.51	(89.48)	(85.21)	43.82	108.50	(78.65)
Security deposits against Ijarah assets	22.56	21.31	(31.54)	(13.89)	16.03	27.53
CURRENT LIABILITIES						
Murabaha finances - current portion	-	-	(100.00)	(13.95)	20.04	55.11
Certificates of Musharaka - current portion	18.59	49.83	5.92	(72.09)	17.16	90.35
Security deposits - current portion	(44.79)	(4.58)	33.15	15.03	48.86	2.97
Short-term Musharaka finances - secured	0.00	0.00	0.00	(100.00)	(33.33)	(1.96)
Unearned Ijarah rentals	(36.97)	107.22	264.87	0.00	0.00	0.00
Advance Ijarah rentals received	(5.59)	3.74	(9.22)	19.99	0.34	47.68
Trade & other payables	61.11	43.67	(32.61)	9.61	29.88	44.49
Taxation - net	0.00	653.27	(70.83)	(22.98)	11.19	(5.29)
Unclaimed profit distribution	7.39	11.67	12.25	11.74	10.34	8.32
TOTAL EQUITY & LIABILITIES	7.87	15.14	(18.49)	(19.50)	28.56	46.40

PROFIT & LOSS ACCOUNT (%)

	2011	2010	2009	2008	2007	2006
Ijarah rentals	5.67	(19.27)	(0.25)	11.09	24.97	19.02
Profit on diminishing musharaka	192.82	78.48	0.00	0.00	0.00	0.00
Depreciation on Ijarah assets	5.82	(21.36)	(2.85)	11.16	28.36	16.36
Administrative expenses	16.51	3.66	13.11	17.69	39.04	(8.70)
Other Income	(2.24)	6.72	(50.62)	91.72	169.99	78.87
Other charges	(53.49)	(69.49)	14,932.29	0.00	0.00	0.00
Financial charges	30.13	(32.21)	(51.73)	(14.27)	59.86	42.29
Modaraba company's management fee	3.93	9.77	(9.39)	80.06	5.84	38.62
Profit for the year	3.93	9.77	(9.39)	80.06	5.84	38.62

VERTICAL ANALYSIS



BALANCE SHEET (%)	2011	2010	2009	2008	2007	2006
ASSETS						
NON-CURRENT ASSETS						
Fixed Assets - tangible						
Ijarah Assets	58.23	64.46	63.91	67.47	63.69	70.56
Assets in own use	0.14	0.17	0.21	0.19	0.12	0.19
Intangible Assets	0.0023	0.0019	0.0004	0.0008	0.0029	0.0055
Investment in diminishing musharaka	3.98	0.85	0.43	0.00	0.00	0.00
Long-term advances & deposits	0.07	0.04	0.43	0.00	0.00	0.00
CURRENT ASSETS						
Investments	30.71	27.44	25.20	27.97	33.59	25.37
Current maturity of diminishing musharaka	1.74	1.00	0.34	0.00	0.00	0.00
Short-term Murabaha finance	0.00	0.00	0.00	0.00	0.00	1.85
Ijarah rental receivable - secured, considered good	0.11	0.13	0.35	0.08	0.01	0.04
Loan & advances	0.00	0.00	0.00	0.04	0.03	0.05
Trade deposits & short-term prepayments	0.12	0.04	0.02	0.02	0.01	0.00
Other receivables	0.51	0.21	0.34	0.47	0.02	0.05
Tax refund due from Government	0.43	0.03	0.00	0.00	0.00	0.00
Cash & bank balances	3.96	5.62	9.21	3.73	2.50	1.89
TOTAL ASSETS	100.00	100.00	100.00	100.00	100.00	100.00
EQUITY & LIABILITIES						
CAPITAL & RESERVES						
Authorized Certificate capital	26.99	29.12	33.52	27.32	12.00	15.42
Issued, subscribed & paid-up capital	24.73	26.68	30.72	25.04	10.08	12.96
Reserves	50.34	49.87	49.07	45.68	39.87	33.20
Certificate holders' equity	75.08	76.56	79.79	70.72	49.94	46.15
NON-CURRENT LIABILITIES						
Long-term Murabaha finances	-	-	-	4.19	8.86	9.26
Certificates of Musharaka - unsecured	0.07	0.02	0.19	1.07	0.60	0.37
Security deposits against Ijarah assets	4.71	4.14	3.93	4.68	4.38	4.85
Deferred liability - Staff gratuity	-	-	-	-	-	-
Total Non-Current Liabilities	4.78	4.16	4.13	9.94	13.83	14.48
CURRENT LIABILITIES						
Deferred Murabaha Income	-	-	-	-	-	0.06
Murabaha finances - current portion	-	-	-	6.81	6.37	6.82
Certificates of Musharaka - current portion	14.98	13.62	10.47	8.06	23.23	25.49
Security deposits - current portion	1.19	2.33	2.82	1.72	1.21	1.04
Short-term Musharaka finances - secured	-	-	-	-	2.00	3.86
Short-term Murabaha finances - secured	-	-	-	-	1.47	-
Unearned Ijarah rentals	0.24	0.42	0.23	0.05	-	-
Advance Ijarah rentals received	0.51	0.58	0.64	0.58	0.39	0.49
Trade & other payables	2.71	1.81	1.45	1.76	1.29	1.28
Taxation - net	0.068	0.074	0.01	0.03	0.03	0.04
Unclaimed profit distribution	0.44	0.45	0.46	0.33	0.24	0.28
Proposed profit distribution	-	-	-	-	-	-
Total Current Liabilities	20.14	19.28	16.08	19.34	36.23	39.37
TOTAL EQUITY & LIABILITIES	100.00	100.00	100.00	100.00	100.00	100.00
PROFIT & LOSS ACCOUNT (%)	2011	2010	2009	2008	2007	2006
Ijarah rentals	98.68	99.52	99.78	100.00	99.83	99.52
Profit on diminishing musharaka	1.32	0.48	0.22	-	-	-
Profit on Murabaha finance	-	-	-	-	0.17	0.48
	100.00	100.00	100.00	100.00	100.00	100.00
Depreciation on Ijarah assets	76.92	76.82	78.86	80.96	80.91	78.77
Administrative expenses	3.93	3.56	2.77	2.45	2.31	2.08
Other Income	6.46	6.99	5.29	10.68	6.19	2.86
Other charges	0.51	1.16	3.08	0.02	-	-
Financial charges	4.67	3.79	4.51	9.32	12.08	9.44
Modaraba company's management fee	2.18	2.21	1.63	1.79	1.11	1.31
Profit for the year	19.60	19.92	14.65	16.13	9.95	11.75

CERTIFICATE HOLDERS INFORMATION



Registered Office:
First Habib Modaraba
5th 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).

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 5,123 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. Azadar Jafri 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. Azadar Jafri
Head of Operations

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 22% (Rs.1.10/- per Modaraba Certificate of Rs.5/- each) for the financial year ended 30th June, 2011.

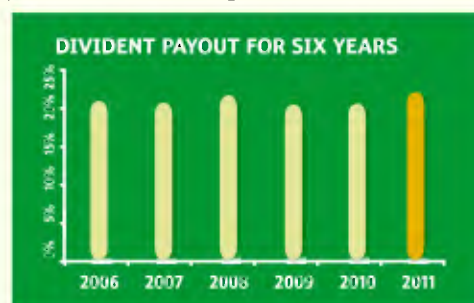
Book Closure Dates.

The Certificate Transfer Book of the Modaraba will remain close from 25-08-11 to 31-08-11 (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 PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE.



AS AT 30TH JUNE, 2011

CATEGORY NO.	CATEGORIES OF CERTIFICATES HOLDERS	NUMBER OF CERTIFICATES HELD	CATEGORY WISE NO. OF CERTIFICATES HOLDERS	CATEGORY WISE CERTIFICATES HELD	PERCENTAGE
1	INDIVIDUALS		5,020	57,076,204	28.31
2	INVESTMENT COMPANIES		4	90,058	0.04
3	JOINT STOCK COMPANIES		42	4,405,293	2.19
4	DIRECTOR, CHIEF EXECUTIVE OFFICER, THEIR SPOUSE AND MINOR CHILDREN.		1	40,000	0.02
	MR. ABBAS ALI MUHAMMAD	40,000			
5	NIT / ICP		3	1,630,823	0.81
	NATIONAL BANK OF PAKISTAN-TRUSTEE DEPARTMENT NI(U)T FUND	1,584,070			
	INVESTMENT CORPORATION OF PAKISTAN	5,960			
	NATIONAL INVESTMENT TRUST LIMITED	40,793			
6	ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES	99,633,022	3	99,633,022	49.42
7	BANKS, DFIS, NBFIS INSURANCE COMPANIES, MODARABAS & MUTUAL FUND		19	13,319,789	6.61
8	FOREIGN INVESTORS		11	4,609,553	2.29
9	COOPERATIVE SOCIETIES		2	16,803,950	8.34
10	CHARITABLE TRUSTS		7	1,157,808	0.57
11	OTHERS		11	2,833,500	1.41
	TOTAL		5,123	201,600,000	100

PATTERN OF CERTIFICATE HOLDINGS



AS AT 30TH JUNE, 2011

Number of Certificate Holders	Certificate Holdings		Total Certificate Held
653	1	100	34,502
1068	101	500	332,338
703	501	1,000	541,334
1512	1,001	5,000	3,557,039
433	5,001	10,000	3,304,881
152	10,001	15,000	1,852,504
99	15,001	20,000	1,798,871
81	20,001	25,000	1,855,111
58	25,001	30,000	1,627,166
25	30,001	35,000	811,978
35	35,001	40,000	1,352,205
31	40,001	45,000	1,296,633
41	45,001	50,000	2,004,034
11	50,001	55,000	573,189
15	55,001	60,000	868,774
8	60,001	65,000	508,932
4	65,001	70,000	272,880
10	70,001	75,000	734,996
7	75,001	80,000	543,601
9	80,001	85,000	735,646
10	90,001	95,000	912,498
16	95,001	100,000	1,583,816
4	100,001	105,000	407,919
5	105,001	110,000	544,640
1	110,001	115,000	112,000
5	115,001	120,000	585,340
5	120,001	125,000	612,160
3	125,001	130,000	380,788
4	130,001	135,000	523,588
5	135,001	140,000	694,724
3	140,001	145,000	426,823
5	145,001	150,000	739,772
6	150,001	155,000	913,793
2	155,001	160,000	319,045
2	160,001	165,000	1,133,760
2	165,001	170,000	335,391
2	170,001	175,000	346,360
3	185,001	190,000	563,024
1	190,001	195,000	192,000
2	195,001	200,000	400,000
3	200,001	205,000	607,044
2	205,001	210,000	416,600
3	210,001	215,000	638,656
2	215,001	220,000	437,500
2	225,001	230,000	454,300
2	240,001	245,000	481,944
1	245,001	250,000	249,000
2	255,001	260,000	515,780
2	260,001	265,000	520,796
2	265,001	270,000	538,000
1	270,001	275,000	270,200
1	275,001	280,000	279,701
2	280,001	285,000	564,480
2	295,001	300,000	600,000
1	320,001	325,000	322,560
1	325,001	330,000	326,000
4	345,001	350,000	1,396,000
1	365,001	370,000	367,497
1	370,001	375,000	375,000
2	385,001	390,000	776,500
2	400,001	405,000	800,800
1	405,001	410,000	408,500
1	410,001	415,000	413,638
1	420,001	425,000	424,500
1	425,001	430,000	425,344
1	430,001	435,000	434,524
2	455,001	460,000	917,011
1	470,001	475,000	473,963
1	495,001	500,000	500,000
1	500,001	505,000	500,245
1	510,001	515,000	514,000
1	535,001	540,000	537,500
1	590,001	595,000	592,600
1	600,001	605,000	602,400
1	660,001	665,000	660,500
1	745,001	750,000	750,000
2	820,001	825,000	1,649,808
2	850,001	855,000	1,705,500
1	855,001	860,000	858,500
1	1,195,001	1,200,000	1,200,000
1	1,300,001	1,305,000	1,300,192
1	1,405,001	1,410,000	1,406,000
1	1,445,001	1,450,000	1,450,000
1	1,580,001	1,585,000	1,584,070
1	1,600,001	1,605,000	1,601,000
1	1,750,001	1,755,000	1,750,800
1	1,825,001	1,830,000	1,828,000
1	1,840,001	1,845,000	1,843,815
1	2,010,001	2,015,000	2,015,000
1	2,580,001	2,585,000	2,581,500
1	2,995,001	3,000,000	3,000,000
1	3,965,001	3,970,000	3,969,000
1	16,975,001	16,800,000	16,796,655
1	20,155,001	20,160,000	20,160,000
1	20,120,001	21,125,000	21,124,584
1	58,345,001	58,350,000	58,348,438
5123			201,600,000

BRANCH OFFICES



LAHORE



BRANCH OFFICES



ISLAMABAD



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 12 years from Pakistan Credit Rating Agency (Private) Ltd.

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, 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 26 years. No doubts, it is a very remarkable achievement of FHM, which is rarely available within the sector of non-banking financial institutions.

Excellent Investment Portfolio

So far, FHM has developed a very lucrative investment portfolio, which is not only yielding good dividend return but also has handsome unrealized gain.



Recipient of Best Performing Modaraba Award

During last 13 years, FHM has received 10 awards as best performing Modaraba from Modaraba Association of Pakistan (MAP). For the year ended 30th June 2010 FHM has once again received best performing Modaraba “1st Position Award” from MAP.

Recipient of Corporate Excellence Award

FHM is receiving “Corporate Excellence Award” from Management Association of Pakistan for last four consecutive years within the category of Leasing and Modaraba sector. So far FHM has secured three Excellence Certificate Awards and one Excellence Trophy Award.

Recipient of Best Corporate Report Award from ICAP/ICMAP

The Joint Committee of ICAP & ICMAP has given “Best Corporate Report Award” to FHM under the category of Non Banking Financial Institution. The NBFIs are one of the largest sectors comprising of Insurance, Leasing, Investment Banks, Mutual Funds and Modarabas. This category having more than 100 listed entities and out of which the Joint Committee of ICAP and ICMAP had selected five entities and FHM was one of them, ranked as second position. FHM is the first Modaraba who has awarded for best corporate report award.

Recipient of SAFA “Certificate of Merit Award”

SAFA in its Summit 2010 held in Nepal on 12th December, 2010 awarded a “Certificate of Merit Award” to First Habib Modaraba for Best Presented Accounts and Corporate Governance Disclosures in the category of Non-Banking Financial Sector.

South Asian Federation of Accountants (SAFA) is an Apex Body of South Asian Association for Regional Co-operation (SAARC) and a Regional Grouping of International Federation of Accountants (IFAC).





Corporate Memberships

First Habib Modaraba (FHM) having affiliation with well-reputed international and local associations



ISLAMIC FINANCIAL SERVICES BOARD
(Malaysia)

The Islamic Financial Services Board (IFSB), is based in Kuala Lumpur, Malaysia, was officially inaugurated in 2002. The Islamic Financial Services Board (IFSB) is an international standard-setting organization that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors. The IFSB also conducts research and coordinates initiatives on industry related issues, as well as organizes roundtables, seminars and conferences for regulators and industry stakeholders.



البنك الإسلامي الدولي
سوق مالية إسلامية
International Islamic Financial Market
(Bahrain)

IIFM is the global standardization body for the Islamic Capital & Money Market segment of the IFSI. Its primary focus lies in the standardization of Islamic financial products, documentation and related processes.

IIFM was founded with the collective efforts of the Central Bank of Bahrain, Bank Indonesia, Central Bank of Sudan, Labuan Financial Services Authority (Malaysia), Autoriti Monetari Brunei Darussalam and the Islamic Development Bank (a multilateral institution based in Saudi Arabia).



NBFI & Modaraba
Association of Pakistan

NBFI & Modaraba Association Of Pakistan was incorporated on 29th July, 2010 by merging Modaraba Association of Pakistan (MAP) and Leasing Association of Pakistan (LAP). The total numbers of members of the Association are 40 (forty) which includes 27 modarabas, 10 leasing companies and 3 investment banks.

The Association provides a forum to all members to confer on all issues of common interest and to formulate joint strategies for their operation.



Management Association of Pakistan

Management Association of Pakistan was formed in 1964. MAP is the apex management association of the country. Its mandate is to further strengthen management thought, practice and advocacy. MAP provides a platform for exchange of management knowledge and acts as a bridge between the public and private sectors, management practitioners and the government. The MAP is a forum at which national and international economic issues are discussed in their various events throughout the year.



MARKETING ASSOCIATION OF PAKISTAN

Marketing Association of Pakistan promotes the business interest of its members and drives growth of the marketing association industry.

To enhance the appreciation of marketing discipline, provision of a forum to Pakistani marketers for interaction with fellow professionals and development of a voluntary code of ethics. MAP brings together persons interested and connected with marketing activities by arranging professional meetings each month.



Best Performing Modaraba Award from Modaraba Association of Pakistan for the year 2010

*The Modaraba Association of Pakistan (MAP)
commenced award for the
Best Performance of Modaraba in 1999.
Since then MAP is distributing awards to
three best performing Modaraba every year
for top three positions.*

*So far, Alhamdulillah,
First Habib Modaraba (FHM)
has secured ten awards
and out of them last three were consecutive
“1st Position” award.*

BEST PERFORMING MODARABA AWARD





Management Association of Pakistan

Management Association of Pakistan was formed in 1964. MAP is the apex management association of the country. Its mandate is to further strengthen management thought, practice and advocacy. MAP provides a platform for exchange of management knowledge and acts as a bridge between the public and private sectors, management practitioners and the government. The MAP is a forum at which national and international economic issues are discussed in their various events through out the year.



Corporate Excellence Award Management Association of Pakistan



2010



2007



2008



2009



SOUTH ASIAN FEDERATION OF ACCOUNTANTS
(An Apex Body of SAARC)

SAFA

BPA & CG Award

SAFA has awarded

"Certificate of Merit"

to **FIRST HABIB MODARABA**

for Best Presented Accounts &
Corporate Governance Disclosures

in the category of

Non Banking Financial Sector





South Asian Federation of Accountants (SAFA) is an Apex Body of South Asian Association for Regional Co-operation (SAARC) and a Regional Grouping of International Federation of Accountants (IFAC). SAFA represents over 170000 accountants having membership of the national chartered accountancy and management accountancy institutions in the South Asian countries namely Bangladesh, India, Nepal, Pakistan and Sri Lanka.

SAFA in its Summit 2010 held in Nepal on 12th December, 2010 awarded a "Certificate of Merit" to First Habib Modaraba for Best Presented Accounts and Corporate Governance Disclosures in the category of Non-Banking Financial Sector.

This was given by The Federal Minister of Finance of Nepal Mr. Surendra Pandey in presence of President of SAFA Mr. Komal Chitrakar and Vice President Mr. A.N. Raman.



Institute of
Chartered Accountants
of Pakistan



Institute of Cost &
Management Accountants
of Pakistan

JOINT COMMITTEE OF ICAP AND ICMAP
has given
BEST CORPORATE REPORT AWARD - 2009



to
First Habib Modaraba



First Habib Modaraba
(An Islamic Financial Institution)



The Institute of
Chartered Accountants
of Pakistan

JOINT COMMITTEE OF ICAP / ICMAP



Institute of
Cost and Management Accountants
of Pakistan

BCRA-08/01-1(ICMAP)

Thursday, October 28, 2010

Mr. Muhammad Shoaib
Managing Director & CEO
First Habib Modaraba
5th Floor, HBZ Plaza (Hirani Centre),
I. I. Chundrigar Road, Karachi

CONGRATULATIONS

Dear Sir,

On behalf of the Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP), we congratulate you on getting the 2nd position in **Financial - NBFIs Sector** in the Best Corporate Report Awards -2009.

We wish you all the best in the future.

Thanking you,



Ahmed Saeed, FCA, FCMA
Chairman
Joint Evaluation Committee



Muhammad Rafi
Chairman
ICAP & ICMAP Joint Committee

Enclosure: Photographs

CREDIT RATINGS





Press Release

PACRA MAINTAINS RATING OF FIRST HABIB MODARABA

Lahore: 20-June-2011

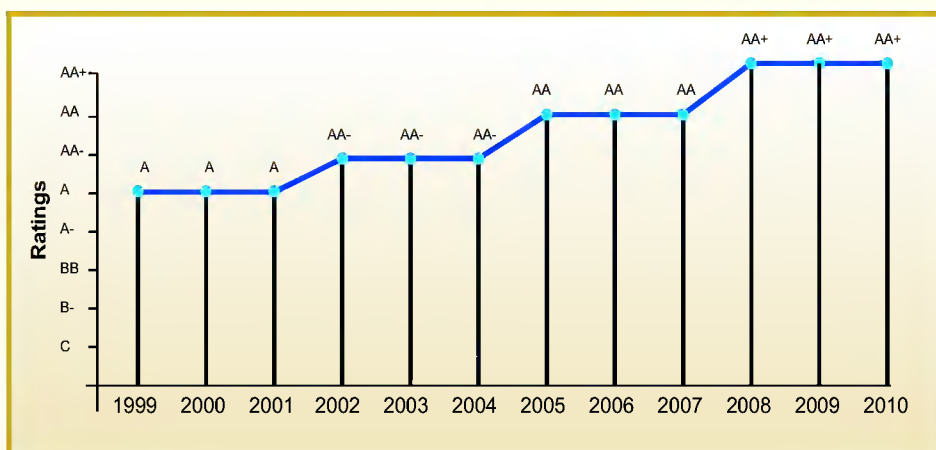
The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term rating of "AA+" (Double A plus) and "A1+" (A One Plus) respectively of First Habib Modaraba (FHM). These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment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

The ratings denote FHM's sound risk absorption capacity emanating from a strong equity base. Moreover, the Modaraba has a healthy liquidity profile, as reflected in its sizable investment book, yielding a stable dividend stream. FHM's risk-averse business strategy has enabled the Modaraba to sustain very strong asset quality despite continuing distressed economic conditions. Ijarah financing continues to remain FHM's strong forte, though the management is working to diversify its financing portfolio by taping hitherto unexplored potential areas of business. Meanwhile, FHM's association with the House of Habib remains a key factor.

About the Modaraba: 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, managed by Habib Modaraba Management (Pvt.) Limited (HCML) is associated with House of Habib (HoH).

The board of directors of FHM comprises professionals having vast experience of banking and finance. The MD, Mr. Muhammad Shoaib, Ex-Chairman of Modaraba Association of Pakistan, 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.

Rating growth during last 12 years





SILVER JUBILEE CELEBRATION



STAFF MEMBERS AT DINNER OF SILVER JUBILEE





LEASE (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

(Shirkatul Mutanqish) 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.



MUSHARKA

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.



Assalam o Alaikum Wa Rahmatullah Wa Barakatuhu,

On behalf of the Board of Directors, it is my immense pleasure to present the audited accounts of the Modaraba for the year ended June 30, 2011.

(Rs. In thousand)

FINANCIALS

Profit before management fee	308,802
Modaraba company management fee	<u>30,880</u>
Profit for the year	277,922
Unappropriated profit B/F	<u>3,594</u>
Profit available for appropriation	<u><u>281,516</u></u>

Earning per certificates of Rs. 5/- each 1.38

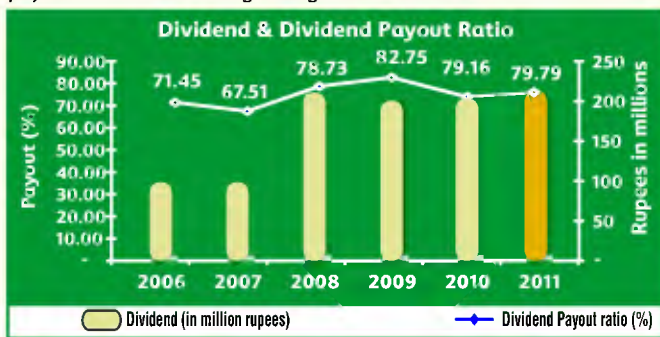
APPROPRIATIONS

Cash dividend @ 22 %	221,760
Transfer to statutory reserve @ 20 %	55,584
Unappropriated profit C/F	<u>4,172</u>
	<u><u>281,516</u></u>

DIVIDEND



The board is pleased to announce a cash dividend of 22 % i.e. Rs. 1.10 of certificate of Rs. 5 /- each and continuing unbroken payout record since beginning.



ECONOMIC REVIEW

The financial year 2010-11 started with worst natural disaster i.e. floods, which had damaged our economy at large. Pakistan's economy was already under stress due to low growth and high inflations and floods have further aggravated problems of our country.

The unprecedented rains and floods in Pakistan started in late July-2010 deteriorated economic outlook sharply affected large part of the country and left millions homeless. The agriculture sector-which contributes significant portion to the GDP and employment, has been hit hard.

The economy of our country is passing through with continuous challenging environment since last several years. Many industries are suffering with prolong energy shortages, gas & electricity which has hampered production to great extent and disturbed broader economic growth. Besides, the high food prices rise in global oil prices and increase in fiscal deficit are continued to exert pressure on cost, keeping inflation in double digit. The GDP growth achieved 2.4% as compared to last year of 3.8%.

Inflation mainly fueled by increase in food and oil prices continues to be a root cause. CPI inflation rose to 14.0% on YoY basis compared to 11.5% in the previous year. To control money supply & contain inflation, the State Bank of Pakistan (SBP) has tightened its monetary policy stance and increased the discount rate three times during the year by a total of 150 basis points during the years. However, since last two monetary policy announcements SBP is maintaining the discount rate at 14% and it is expected that tight monetary stance will be maintained keeping in view of inflation scenario in future.

The government borrowing has reached historic level during the last fiscal year owing to higher subsidies and rising current expenditure. This has resulted crowding out of private sector which ultimately slowed down economic activities at large. The economic scenario as whole remained depress in terms of both, growth and investment. The low growth, high inflation and soaring debt stock of government forced policy makers to curtail development expenditures and subsidies.

However, on a positive note, the post flood recovery in various crops was remained encouraging. The rise in export of around 30 percent, increase in remittances which touched the figure of around \$11.0 billion and surpluses in current account are promising sign for our economy. The foreign exchange reserves have also crossed the \$18.billion mark, a record level in the history of country.

By the grace of God, our country has huge economic resources and it needs long term plan with firm commitment and dedication to explore all of them. In current situation, priority should be given to address the issue of energy shortages which is the key factor for raising productivity and ultimately leads to high growth.

The most critical issue being encountered by Pakistan's economy is to address fiscal space which can be achieved through widening of tax base, reforming loss making Public Sector Enterprises and addressing circle debt issue. Through enlargement of fiscal space government would be able to increase in public investment and social spending which are inevitable for achieving solid and sustainable growth.

46.45	46.58	47.88	49.43	+1.13	+2.37%
27.83	24.73	25.34	23.89	-1.45	-6.29%
29.00	29.32	29.76	30.48	+0.72	2.41%
71.37	70.53	70.53	70.53	-0.84	-1.18%
82.45	85.61	81.77	85.43	+3.66	4.44%
62.17	63.30	67.37	61.03	-6.34	-10.31%

FINANCIAL SECTOR

According to State Bank of Pakistan, the commercial banking sector of Pakistan has done well with growth of profit around 23%. The liquidity of system has improved and solvency has further strengthened. However, rising level of non-performing loans (NPLs) portfolio of around Rs.550.0 billion remained serious issue within the financial institutions. The contributing factors of rising trend of NPLs are due to economic slowdown, high interest rate & inflation, rupee devaluation, and poor law and order within the country.

The NBFC sector continues to face impediments in its business activities due to various reasons like short of liquidity, overall reluctance of the financial institutions/banks to provide long term borrowing lines, continuous increase in costs of doing business for the industry, especially for the SME sector and rising non performing advances portfolio.

However, besides these challenges, performance of the sector has improved as compared corresponding period of last year in particularly Modaraba and mutual fund sector. According to NBF and Modaraba Association of Pakistan, the total profit of Modaraba for the year ended was Rs.781 million as compared to a loss of Rs.158.0 million. Out of 26 Modarabas, 18 Modarabas declared cash dividend which is the matter of great satisfaction. Likewise, Mutual fund sector has also shown good growth of around 20%.

CAPITAL MARKET

The performances of Equity market remained satisfactory. The growth in index was reported around 28% in financial year of 2010-11. In the recent budget, there was expectation of relaxation in Capital Gain Tax (CGT), but no change was made in the existing CGT structure. Lack of interest of investors remained after the implementation of CGT. However, the management of KSE introduced leverage products i.e. Margin Trading System (MTS). This new system will support investors to avail the software to access financing for their shares investment.



Keeping in view of uncertain economic scenario, FHM took cautious stance for further investment in equity market. By the grace of God, the overall investment portfolio is in excellent position and handsome unrealized gain is still available for the year ended 30th June, 2011 within the investment portfolio of FHM.



BUSINESS REVIEW

Alhamdulillah, First Habib Modaraba (FHM) effectively pursued its corporate strategy based on prudence and cautiousness keeping in view of prevailing business scenario. Despite of difficult operating environment the performance of FHM remained satisfactory. FHM's well planned strategy and its execution was tremendously supported and responded to the challenges of business and economy during difficult period.

By the grace of God, FHM has been maintaining its status as leading Modaraba within the Modaraba sector and ranking top ranking position amongst its peer group. The board of directors declared cash dividend of 22% for the period ended

30th June, 2011. It is matter of great satisfaction that FHM has been maintaining its history of continuous payment of dividend to its Certificate Holders for last 26 years with average pay out of around 17.10%. Within last 12 years the average payment of dividend is around 20.40% percent. This is due to our sincere commitment towards handsome and quick return to our certificates.

During the year under review the disbursements with respect to lease financing and Diminishing Musharaka financing were made of Rs. 1,227.0 million and 223.0 million respectively. Profit after tax was increased by 4% to Rs. 278.0 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 installment and repayment of other financing facilities remained satisfactory. We are pleased to inform you that we had reversed Rs. 7.522 million against provision for impairment.

According to Year Book of 2010 of Modaraba Association of Pakistan, again FHM ranked No.1 in profitability and Equity. Alhamdollillah, 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

M/s Pakistan Credit Rating Agency (private) Limited, (PACRA) has again repose their confidence in sound and stable position of FHM and maintained rating scale of AA+ for long term and A1+ for short term for the period ended 30th June, 2010. A1+ is highest rating in the short term scale assigned by PACRA.

As per PACRA's assessment, the rating denotes FHM's sound risk absorption capacity emanating from a strong equity base with very low leveraging. Moreover, the Modaraba has a healthy liquidity profile, as reflected in its sizeable investment book, yielding a stable dividend stream.

BEST PERFORMING MODARABA AWARD BY MODARABA ASSOCIATION OF PAKISTAN

For the financial year ended 30th June, 2010, 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 10 awards from Modaraba Association of Pakistan within last 13 years.

CORPORATE EXCELLENCE AWARD

Besides best performance award, the FHM is also receiving "Corporate Excellence Award" from Management Association of Pakistan for last four consecutive years within the category of Leasing and Modaraba sector. In the ceremony of 27th Corporate Excellence Awards held in November last year, FHM received corporate excellence certificate award from the Management Association. So far FHM has secured three Excellence Certificate Awards and one Excellence Trophy Award.

BEST CORPORATE REPORT AWARD "ICAP/ICMAP"

The joint committee of ICAP/ICMAP has given "Best Corporate Report Award" to FHM under the category of Non Banking Financial Institutions (NBFIs) in their award ceremony held in October, last year.

The NBFIs are one of the largest sectors comprising of Insurance, Leasing, Investment Banks, Mutual Funds and Modarabas. This category having more than 100 listed entities and out of which the Joint Committee of ICAP and ICMAP had selected five entities and FHM was one of them, ranked as second position. Alhamdullillah, so far FHM is the first Modaraba who has awarded for best corporate report award within the entire Modaraba sector.

BEST CORPORATE REPORT AWARD "SAFA"

South Asian Federation of Accountants (SAFA) has given "Certificate of Merit" award to FHM for "Best Presented



Account” and “Corporate Governance Disclosure” within the category of Non Banking Financial Institutions (NBFI) sector of Pakistan.

SAFA is an Apex Body of South Asian Association for Regional Co-operation (SAARC) and represents membership of the national chartered accountancy and cost and management accountancy institutions in South Asian Countries namely Bangladesh, India, Nepal, Sri Lanka and Pakistan.

Alhamdulillah, this is again a great achievement not only for FHM but certainly an honor for entire Modaraba and NBFI sector.

core knowledge base and understanding of the risk being taken. Further it remained committed to follow strong risk management culture and sound internal control system to mitigate the known and inherent risk.

The current economic meltdown, increasing business volatility, uncertain political front, and weak law and order situation of the country have led to take more cautious approach towards credit granting. The impact of slow and uncertain economic conditions of the country dilutes the secure and safe credit granting avenues and overall assets portfolio of the banking and non-banking financial sector and repayment ability of the obligor.



MARKET INFORMATION

Following table shows the market share of FHM as per the MAP Year Book 2010 (NBFI & Modaraba Association of Pakistan) for the financial year ended 30th June, 2010.

(Rupees in million)

	Combine position of 26 Modarabas	FHM Share	% of share to All Modarabas
Total Equity	11,481.41	2,892.00	25
Total Assets	24,468.40	3,775.20	15
Ijarah Assets	7,574.82	2,473.06	33
Net Profit	780.98	267.40	34

RISK MANAGEMENT

The sound and strong risk management system is the key to sustainable profitable growth of any Financial Institution. The management of FHM always ensured that it maintained high standard of risk management, to enhance senior management

CREDIT RISK

Credit review and credit risk control ensure that Modaraba lending decision are in line with management prudent philosophy and recoveries are monitored actively.

Modaraba manages credit risk exposure through diversification of activities to avoid undue concentration of risk with individual, group or specific industry segments. To strengthen risk management function we have taken many steps including to starts customer grading system on the basis of quantitative and qualitative factors to enhance the credit granting decision. Credit exposures include both individual borrowers and groups of connected counterparties. Overall financial institutions particularly NBFIs have faced difficulties in repayment of advances portfolios and incurred huge NPLs over the years. However, keeping in view we have strengthened our risk parameters for credit granting and post disbursement surveillance.



Procedures for managing credit risk are determined by risk function and businesses jointly under the guidance from several policies and guidelines. Besides, the other stringent credit risk controls and mitigates the evaluation and risk procedures further strengthen at following level:

- Assessment of Industry/Sector, and performance of the sector
- Evaluation of transaction through internal risk rating assessment of obligor
- Standalone performance of the company/client.

OPERATIONAL RISK

Operational Risk is prevalent in all area of operation and assists and supports the management and business units to develop, implement, monitor and report on the effectiveness of implementation of FHM's operational risk management framework. It reports the status of the implementation of the framework and implications of significant risks and risk events at FHM level.

For better management of operational risk Modaraba is going to launch new ERP system which will be helpful for better management of the portfolio, revamp and improve overall risk management process and early warning system.

Management and staff in each FHM department are responsible for identifying operational risks and determining, implementing, monitoring and reporting on policies and practices to manage operational risks to which their business is exposed.

The management of FHM considers both the internal and external environment when it monitors and assesses operational risk.

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

- Segregation of duties between various functions, roles and responsibilities;
- Reconciliation and monitoring of transaction;
- Compliance with regulatory and other legal requirements;
- Control Documentation and procedures;
- Periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risk identified;
- Ethical and business standard;

With improvements in other areas, more emphasis is given on further strengthening of internal controls. The management is continuously focusing on improving governance structure of FHM in line with future business strategies and upcoming challenges.

OUTLOOK 2011-12

The effective economic reforms will remain concerns of the current fiscal year. The economy is passing through several challenges such as inflation, energy crisis, high government borrowing and security issues. Keeping in view of present scenario we expect that economic and political situation will remain volatile. The high cost of credit due to high inflation is the key factor of slow down of economic activity. This high cost does not support domestic business and ultimately lead to either slow recovery or NPLs.

The management of FHM is bit cautious about outlook of the current year and intends to remain more focus on risk management particularly on credit and operations. However, simultaneously more concentration will be given on enhancement of quality assets portfolio with prudent approach. Effective internal control, disciplined expenses growth, emphasis on low cost liability and better compliance functions will be focused area of the FHM's future strategy. The management of FHM will Inshaallah, continues to strive hard to take image of the institutions stronger and long live.

FUTURE STRATEGY

Islamic Financial sector is increasing on very good pace globally. As estimated the assets of Islamic finance industry has cross US\$ one trillion mark. The scope and range Islamic finance and its related businesses will remain to be promising segments of financial world.

In Pakistan, Islamic finance industry is also growing at average rate of around 30%. According to SBP Islamic bulletin, the

Islamic banking assets base has reached to around Rs. 477.0 billion as at close of December, 2010, reflecting growth of 38% on YoY basis.

With the advent of Islamic banks in the banking arena the awareness of general public about Islamic financial products improved a lot and has provided ample room for the growth in this segment. The present market share of Islamic banking is around 7 %. We can say that Islamic finance market in Pakistan is still untapped and the demand of Islamic finance is on the rise.

In order to have low cost funds for development of quality assets portfolio, we are planning to target retail Islamic deposits. We have secured Shariah compliance Certification from two well renowned Shariah scholars which will support the Modaraba to gain the confidence of the prospective investors who wish to place their funds in the Shariah compliant institution.

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. It will be appreciated 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 approach has always helped us to maintain leading position in entire Modaraba sector. We will continue on strategy of focusing of good clientele in diversified sectors with a secured assets mix combination.

Our aim is to remain a best Islamic Financial Services Institution and leading Modaraba within the Modaraba sector. We believe that the measure of our progress is not just our financial achievement, 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.

FHM is also intending to open new branches in the potential areas. The optimization of use of technology to ensure cost effective operations, strengthening of control, efficient management information, improve staff training and high service standard system are always remain part of strategic planning of FHM.

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



DEVELOPMENT ACTIVITIES

As per tradition once again the quality of Assets was main focus for lending. The prudent and conservative lending policy resulted in a little decline in disbursement as compared to last year. Keeping in view of 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 financing product Diminishing Musharaka showed good acceptance in the market. Although the quantum of the disbursement was low as compared to Lease financing but it has great potential. The management is of the opinion that this will generate good volume in the coming years.

The financing product of Salam and Istisna are under consideration for current year, and passing through with the credit risk management and legal vetting phases.

A branch office in Islamabad has been inaugurated; we have opened the branch in the most attractive and active commercial area of Blue Area Islamabad. This Islamabad office will cater the Islamic Financial needs Islamabad – Rawalpindi region and their out skirts such as Hattar. Islamabad is also a potential market for resource mobilization and, we are hopeful that this branch will support us for low cost funds for liability side.

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 complaint mode of investment, after obtaining Shariah compliance certificate the management is planning to float this product on large level.

BUSINESS DIVERSIFICATION

Last year we had planned to diversify our asset portfolio towards Diminishing Musharaka and Alhamdulillah, were successful in doing so. Although it was tough target to convince customers who are in Ijarah business for many years to take facility on DM but our team was successful in this job. We disbursed Rs. 223.0 m in 2011 as compared to Rs. 72.0 m in 2010.

Last two years have been very remarkable in the agriculture sector. The farmers got very handsome returns on their crops that had made their financial position quite better. They repaid facilities of financial institution well in time. The corporate agriculture/food based sector had also shown significant growth. In order to cater financial requirements of this sector we are planning to provide Salam and Istisna. We will continue to diversify our customer segments thereby increasing our product offering.

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 at desired level.

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. We always emphasis on culture of excellence, good governance, transparency, integrity and accountability. We ensure that best business practices should be followed diligently and all activities carried out in accordance with prevailing regulations.

FHM, being a socially responsible corporate entity, has been a regular contributor to the society and communities. It has been our primary concern to ensure that contributing to community development should be continuously carried out. Our belief is that positive contribution not only redresses human suffering but also address human development as well. Sustainability is the goal of maintaining a good quality of life for those who presently experiencing it, while enhancing the quality of life to those who lack it. Therefore, we conduct our business with a view for long term environmental and social sustainability. When making our business decisions we do consider environmental and social impacts in it for sustainable performance within whole society and at national level as well.



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

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

- Encourage staff members for avoiding of unnecessary wastage of resources such as excessive consumption of energy, less paper printing etc. Besides, an office of FHM is being made no smoking zone in order to make available better atmosphere within the premises and also support pollution free environment.
- Motivate staff members for participation in activities which are beneficial for better environment at large.
- Contribution on social community projects by staff members which are indeed a catalyst for any good corporate institution.
- FHM believe in customer satisfaction has a prime concern and their association with the FHM for longer term witnesses the quality in itself. In order to keep customer interest safe, FHM, from time to time address their grievances through their feedback and regular visits.
- FHM encourage equal opportunity employment without any discrimination whether it is gender or any disability, we believe that every human mind having talent which can be benefited to the institutions.
- Health and safety always remain an utmost concern of the management of FHM. Within the HR policy, the staffs of FHM are covered under health and group life insurance

policies with renowned insurance companies. Besides, FHM has also provided best working infrastructure and safe drinking water etc.

- Strong internal controls are the one of the main corporate objectives. FHM promote sound ethical practices within the staff members with Risk & Reward concept. FHM make stringent check on the staff working and immediately debar if any member found any unethical practice. Likewise appropriate reward also given on satisfactory performance and good behavior.
- FHM being financial institution, extend various types of financial services. While giving such services, we always make sure that business model of such customers should not involved in activity which may harmful for environment or for the society as a whole.

We must say that FHM is continuously striving for better prosperity of people, society and other stakeholders. It is our aim to create more value for prosperity of the society and nation.

SHARIAH CERTIFICATION

As per our sincere commitment on further strengthening of day to day business process of FHM in line with Shariah principles, this year also FHM has gone through Shariah audit process. Shariah audit was conducted by Mufti Abdul Sattar Leghari Sahab, who is also Shariah advisor of NBF1 and Modaraba Association of Pakistan.

We are hopeful that this Shariah certificate will give more comfort and satisfaction to our all stakeholders particularly our certificate holders and investors. Shariah Certificate of Mufti Sahab is attached with this report.

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

Information technology is continues to play a vital and critical role in overall operation of Modaraba. FHM IT Department has made significant progress and is in a stage of delivering its ERP-II Product which provide services via the Internet, and in

leveraging web-based applications and processes for conducting the business operation of Modaraba.

The main features of ERP-II Product are:

- ERP-II define common business processes and roll them out across the all FHM nationwide locations, standardize the master data, standardize the entire IT infrastructure, and to implement Web-based initiatives.
- Increase efficiency and effectiveness of department staff through the acquisition and installation of current industry standard PC hardware and current versions of the Microsoft operating system.
- Improve data utilization through upgrades to the department server infrastructure and network switches and routers.

The project of ERP-II is almost completed and ready to be launched. This is a remarkable job done by our IT team. This new developed ERP will further make us able to indulge with latest developments in the information technology world. A new website has been designed. This website is easily accessible, user friendly and customer supportive

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, 2011 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, 2010 are Rs. 21.967 million and Rs. 11.675 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. Abbas Ali Muhammad	4
Mr. Wazir Husain Jafree	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 year June 30, 2012.

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
Chief Executive Officer

Karachi: July 26, 2011

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 August 29, 2011 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, 2011.

The certificate-holders whose names appear on the register of Certificate-Holders of FHM as on August 24, 2011 will be eligible to attend the Annual Review Meeting.

By order of the Board

Adnan Thanwey
Company Secretary

Karachi: August 8, 2011



The 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 practice of corporate governance.

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

1. All the directors of the Management Company are non-executive directors except Chief Executive.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Modaraba.
3. 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.
4. During the year, no casual vacancy occurred on the Board of Directors.
5. 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.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies along with the dates on which they approved or amended has been maintained.
7. The Modaraba will arrange for certification under "The Board Development Series" program offered by Pakistan Institute of Corporate Governance for their directors to acquaint them with their duties and responsibilities as per timelines provided by Securities and Exchange Commission of Pakistan.
8. 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.
9. 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, alongwith agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
10. 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.
11. 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.

12. The Directors' report for this year has been prepared in compliance requirements of the Code and fully describe the salient matters required to be disclosed.
13. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the Board.
14. 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.
15. The Modaraba has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an audit committee. It comprises three members, of whom all are non-executive directors including the Chairman of the committee.
17. The meetings of the audit committee were held at least once very 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.
18. The Board has employed adequate personnel for internal audit function to ensure the establishment and maintenance of sound and effective internal control, compliance and review policies and procedures.
19. 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.
20. 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 been observed IFAC guidelines in this regard.
21. We confirm that all the material principles contained in the Code of Corporate Governance (CCG) have been complied with.

Muhammad Shoaib Ibrahim
Chief Executive Officer

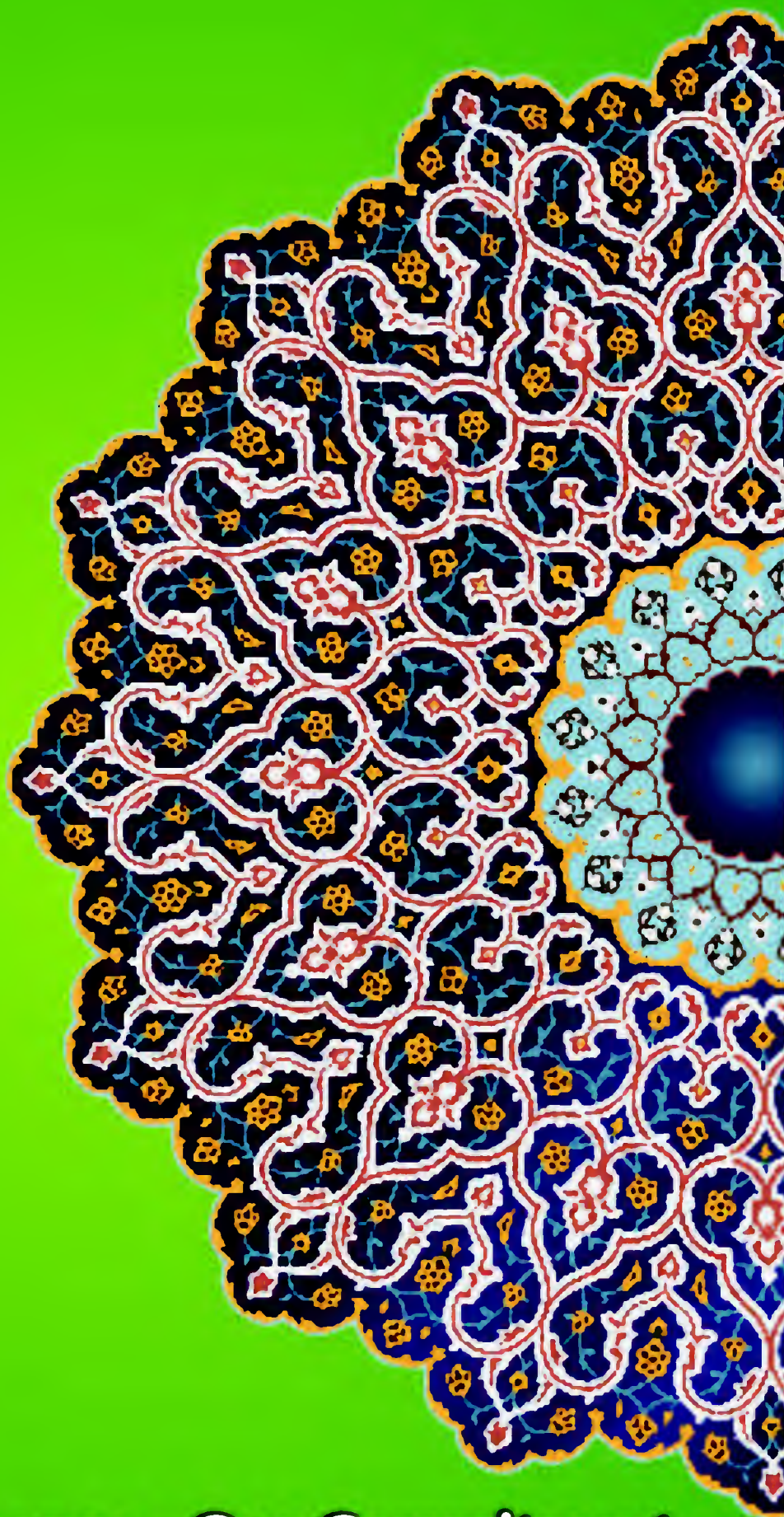
Karachi
Date: July 26, 2011





Financial Statements

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Shariah Governance - Our Commitment



All praise is due to Allah, the Creator 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 Amn till the day of Ashurah

Shariah Certificate for First Habib Modaraba (FHM)

It is to certify, in the context of detailed Shariah audit carried out by the undersigned for the period ended June 2011 that, the business activities (Transactions) on liability side and asset side executed by FHM during the said period were found as per standard requirement of Shariah.

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

Muhammad Sattar Iqbal
 Shariah Advisor
 Modaraba Association of Pakistan



فہم سے حبیب مقرر ہے (FHM) میں جاری تجارتی سرگرمیوں سے متعلق شرعی فتویٰ

فہم سے حبیب مقرر ہے (FHM) میں جاری تجارتی سرگرمیاں، جو اپنے کھلی در (Liability Side) اور حویلی
 زد (Asset Side) کے لئے لگائے گئے ہیں جن میں جون 2011 کا حسابی جائزہ لینے کے بعد ان سرگرمیوں کو
 ادبیہ شریعہ کے مطابق حلال قرار دیا گیا ہے۔

جن اداروں اور سے سرمایہ کاری کی گئی ہے وہ تجارتی معاملات کے مطابق حلال ہے اس لئے کہ ان اداروں کی آمدنی حلال ہے اور
 تجارتی معاملات شریعت کے موافق ہیں۔

July 11, 2011
 Karachi



We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2011 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, 2011.

Karachi July 26, 2011

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

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS



We have audited the annexed balance sheet of FIRST HABIB MODARABA (the Modaraba) as at June 30, 2011 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

These financial statements are the Modaraba Company's [Habib 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, statement of comprehensive income, 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, 2011 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 26, 2011

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

BALANCE SHEET

AS AT JUNE 30, 2011



	Note	2011	2010
Rupees			
NON-CURRENT ASSETS			
Fixed assets - tangible			
Ijarah (lease) assets	3	2,372,955,491	2,435,299,958
Assets in own use	3.2	5,603,600	6,331,259
		2,378,559,091	2,441,631,217
Intangible assets	4	95,245	70,026
Diminishing musharaka financing	5	162,256,122	32,290,845
Long-term advances, deposits and prepayments	6	2,836,850	1,618,050
		2,543,747,308	2,475,610,138
CURRENT ASSETS			
Investments	7	1,251,322,307	1,036,692,562
Current portion of diminishing musharaka financing	5	71,094,740	37,761,808
Ijarah (lease) installments receivables	8	4,303,221	4,743,069
Advances and short term prepayments	9	4,936,856	1,671,445
Other receivables	10	20,869,552	8,071,931
Tax refund due from Government		17,412,658	999,550
Cash and bank balances	11	161,527,915	212,336,936
		1,531,467,249	1,302,277,301
TOTAL ASSETS		4,075,214,557	3,777,887,439
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Certificate capital :			
Authorized			
220,000,000 (2010: 220,000,000)			
certificates of Rs. 5/- each			
		1,100,000,000	1,100,000,000
Issued, subscribed and paid-up capital	12	1,008,000,000	1,008,000,000
Reserves	13	2,051,624,447	1,884,195,489
Certificate holders' equity		3,059,624,447	2,892,195,489
NON-CURRENT LIABILITIES			
Certificates of musharaka	14	3,000,000	670,382
Security deposits against ijarah (lease) assets	15	191,775,644	156,476,255
		194,775,644	157,146,637
CURRENT LIABILITIES			
Certificates of musharaka - current portion	14	7,572,280	12,154,629
Certificates of musharaka	16	602,717,612	502,466,415
Security deposits - current portion	15	48,698,420	88,212,388
Unearned ijarah (lease) and diminishing musharaka installments		9,885,903	15,685,400
Advance ijarah (lease) and diminishing musharaka installments		20,596,188	21,816,116
Trade and other payables	17	81,839,415	47,297,536
Profit payable on certificate of musharaka		28,593,068	21,248,407
Taxation		2,790,833	2,790,833
Unclaimed profit distribution		18,120,747	16,873,589
		820,814,466	728,545,313
CONTINGENCIES AND COMMITMENTS	18	-	-
TOTAL EQUITY AND LIABILITIES		4,075,214,557	3,777,887,439

The annexed notes 1 to 39 form an integral part of these financial statements.

-Sd-
CHIEF EXECUTIVE

-Sd-
DIRECTOR

-Sd-
DIRECTOR

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2011



	Note	2011	2010
		Rupees	
Income from ijarah (leasing)	19	327,337,741	311,181,940
Profit on diminishing musharaka financing		18,942,946	6,469,212
		346,280,687	317,651,152
Administrative expenses	20	(55,711,113)	(47,817,128)
		290,569,574	269,834,024
Other income	21	91,645,196	93,777,281
Other operating charges	22	(7,240,325)	(15,626,013)
		374,974,445	347,985,292
Financial charges	23	(66,172,247)	(50,851,357)
		308,802,198	297,133,935
Modaraba Company's management fee		(30,880,220)	(29,713,394)
Profit for the year		277,921,978	267,420,541
Earnings per certificate - basic and diluted	34	1.38	1.33

The annexed notes 1 to 39 form an integral part of these financial statements.

-Sd-
CHIEF EXECUTIVE

-Sd-
DIRECTOR

-Sd-
DIRECTOR

STATEMENT OF COMPREHENSIVE INCOME



FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011	2010
		Rupees	
Profit for the year		277,921,978	267,420,541
Movement in available for sale investments		101,186,980	208,225,703
Total comprehensive income for the year		<u>379,108,958</u>	<u>475,646,244</u>

The annexed notes 1 to 39 form an integral part of these financial statements.

-Sd-
CHIEF EXECUTIVE

-Sd-
DIRECTOR

-Sd-
DIRECTOR

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2011



	Note	2011	2010
Rupees			
Cash flow from operating activities			
Cash generated from operations	35	1,367,233,206	1,325,894,974
Purchase of ijarah (lease) assets		(1,226,646,877)	(1,512,367,663)
Proceeds from disposal of ijarah (lease) assets		216,610,765	152,612,538
Diminishing musharaka financing - net		(163,298,209)	(44,797,528)
Musta'jir's security deposits:			
Received		83,405,785	97,287,474
Refunded / adjusted		(87,620,364)	(74,029,529)
Net Musta'jir's security deposits		(4,214,579)	23,257,945
Financial charges paid		(58,742,685)	(45,550,867)
Gratuity paid		(1,111,901)	(1,395,751)
Net cash inflow / (outflow) from operating activities		129,829,720	(102,346,352)
Cash flow from investing activities			
Purchase of owned assets (including intangibles)		(2,357,446)	(2,275,690)
Proceeds from disposal of owned assets		4,296,900	1,383,420
Purchase of investments - available for sale		(15,769,118)	(3,330,774)
Investment in Ijarah Sukuk bonds		(100,000,000)	-
Proceeds from disposal of investments		16,339,042	8,055,311
Dividend received		30,505,058	44,657,566
Long-term advances, deposits and prepayments		(1,218,800)	(1,538,050)
Net cash (used in) / generated from investing activities		(68,204,364)	46,951,783
Cash flow from financing activities			
Profit distribution paid		(210,432,843)	(199,863,979)
Certificates of musharaka		97,998,466	165,459,503
Net cash outflow from financing activities		(112,434,377)	(34,404,476)
Net decrease in cash and cash equivalents		(50,809,021)	(89,799,045)
Cash and cash equivalents at the beginning of the year		212,336,936	302,135,981
Cash and cash equivalents at the end of the year		161,527,915	212,336,936

The annexed notes 1 to 39 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, 2011

	Certificate capital	Capital reserves		General reserve	Revenue Reserves		Total reserves	Total
		Certificate premium	Statutory reserve		Unrealized gain on investments	Unappropriated profit		
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)
Total 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 on June 30, 2010	<u>1,008,000,000</u>	<u>378,000,000</u>	<u>385,289,051</u>	<u>50,000,000</u>	<u>855,632,083</u>	<u>215,274,355</u>	<u>1,884,195,489</u>	<u>2,892,195,489</u>
Balance as on July 01, 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
Profit distribution for the year ended June 30, 2010 at 21%	-	-	-	-	-	(211,680,000)	(211,680,000)	(211,680,000)
Total comprehensive income for the year	-	-	-	-	101,186,980	277,921,978	379,108,958	379,108,958
Transfer to statutory reserve at 20%	-	-	55,584,396	-	-	(55,584,396)	-	-
Balance as at June 30, 2011	<u>1,008,000,000</u>	<u>378,000,000</u>	<u>440,873,447</u>	<u>50,000,000</u>	<u>956,819,063</u>	<u>225,931,937</u>	<u>2,051,624,447</u>	<u>3,059,624,447</u>

The annexed notes 1 to 39 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, 2011

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 SRO 431 (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 New standards, interpretations and amendments to published approved accounting standards

Amendments that are effective in current year but not relevant to the Modaraba

The Modaraba has adopted the amendments to the following accounting standards which became effective during the year:

		Effective date (annual periods beginning on or after)
IAS 32	Financial Instruments	February 01, 2010
IFRS 1	First time Adoption of International Financial Reporting Standards	January/July 01, 2010
IFRS 2	Share based Payment	January 01, 2010

In April 2009 and May 2010, International Accounting standards Board issued amendments to various accounting standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are listed below:

Issued in April 2009

IAS 1	Presentation of Financial Statements	January 01, 2010
IAS 7	Cash flows statement	January 01, 2010
IAS 17	Leases	January 01, 2010
IAS 36	Impairment of assets	January 01, 2010
IAS 39	Financial Instruments: Recognition and Measurement	January 01, 2010
IFRS 5	Non Current Assets Held for Sales and Discontinued Operation	January 01, 2010
IFRS 8	Operating Segments	January 01, 2010

Issued in May 2010

IAS 27	Consolidated and Separate Financial Statements	July 01, 2010
IFRS 3	Business Combination	July 01, 2010

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

Amendments not yet effective

The following amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

IAS 1	Presentation of Financial Statements	July 01, 2012
IAS 12	Income Tax	January 01, 2012
IAS 19	Employee Benefits	January 01, 2013
IAS 24	Related Party Disclosures	January 01, 2011
IAS 27	Consolidated and Separate Financial Statements	January 01, 2013
IAS 28	Investments in Associates	January 01, 2013
IFRS 1	First time Adoption of International Financial Reporting Standards	July 01, 2011
IFRS 7	Financial Instruments Disclosures	July 01, 2011
IFRS 9	Financial Instruments – Classification and Measurement	January 01, 2013
IFRIC 14	The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 01, 2011

The Modaraba expects that the adoption of the above amendments and interpretations of the standards will not affect the Modaraba's financial statements in the period of initial application.

In addition to the above, amendments to various standards have also been issued by the IASB. Such interpretations are generally effective for accounting periods beginning on or after January 01, 2011. The Modaraba expects that such improvements to the standards will not have any material impact on the Modaraba's financial statements in the period of initial application.

2.3 Basis of preparation

These financial statements have been prepared on the historical cost basis except for the measurement at fair value of certain financial instruments in accordance with the requirements of IAS-39 "Financial Instruments: Recognition and Measurement", wherever applicable.

Permissible Islamic financial products including Murabaha (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.

2.4 Significant accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Modaraba's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future period effected. In the process of applying the Modaraba's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

Useful lives, pattern of flow of economic benefits and impairment

Estimates with respect to residual values and depreciable lives and pattern of flow of economic benefits based on the analysis by the management of the Modaraba. Further, the Modaraba reviews the value of the assets for possible impairment on an

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

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 (lease) installments at each reporting date to assess whether provision should be recorded in the profit and loss account, in addition to the mandatory provisions required in accordance with the Prudential Regulations issued by the SECP. In particular, judgment by management is required in the 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.

2.5 Revenue recognition

Ijarah (lease) installments are recognized on accrual basis.

Income from Murabaha is accounted for on consummation of Murabaha transaction. However, profit on that portion of revenue not due for payment (deferred Murabaha income) is deferred and recognized on a time proportionate basis.

Income on diminishing musharaka financing is recognized on accrual basis.

Income on 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.

2.6 Fixed assets – Tangible

(a) Ijarah (lease) assets

Ijarah (lease) assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight line method whereby the cost of an asset less salvage value is written off over the ijarah (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.

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

(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.

2.7 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.

2.8 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 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.

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

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.

2.9 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.

2.10 Financial liabilities

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

2.11 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.

2.12 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.

2.13 Ijarah (lease) installments and Murabaha finance receivables

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

2.14 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.

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

2.15 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.

2.16 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.

2.17 Compensated absences

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

2.18 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 90 percent of distributable profit.

2.19 Provisions

Provisions are recognized when the Modaraba has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

2.20 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.

2.21 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	2011	2010
Rupees			
3. IJARAH (LEASE) ASSETS			
Ijarah (lease) assets	3.1	2,203,316,226	2,194,616,551
Advance against ijarah (lease) assets	3.1.1	169,639,265	240,683,407
		<u>2,372,955,491</u>	<u>2,435,299,958</u>

3.1 Ijarah (lease) assets

Particulars	June 30, 2011								
	C O S T			D E P R E C I A T I O N			Impairment	Written down value as at June 30, 2011	Rate of depreciation %
	As at July 1, 2010	Additions / (disposals) during the year	As at June 30, 2011	As at July 1, 2010	Charge / (adjustments) for the year	As at June 30, 2011			
	Rupees								
Plant, machinery and equipment	1,619,384,019	281,872,819	1,168,486,320	880,941,356	419,183,604	638,814,111	1,381,894	528,290,315	8.33 to 50
		(732,770,518)			(661,310,849)				
Vehicles	2,552,863,164	1,015,818,200	2,837,890,273	1,084,340,438	671,805,368	1,158,689,068	4,175,294	1,675,025,911	15 to 33.33
		(730,791,091)			(597,456,738)				
	<u>4,172,247,183</u>	<u>1,297,691,019</u>	<u>4,006,376,593</u>	<u>1,965,281,794</u>	<u>1,090,988,972</u>	<u>1,797,503,179</u>	<u>5,557,188</u>	<u>2,203,316,226</u>	
		<u>(1,463,561,609)</u>			<u>(1,258,767,587)</u>				

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	1,619,384,019	1,016,059,056	385,124,625	880,941,356	8,173,544	730,269,119	8.33 to 50
		(560,627,725)			(520,242,325)				
Vehicles	1,931,971,384	1,146,915,391	2,552,863,164	860,339,425	645,867,531	1,084,340,438	4,175,294	1,464,347,432	15 to 33.33
		(526,023,611)			(421,866,518)				
	<u>3,816,433,124</u>	<u>1,442,465,395</u>	<u>4,172,247,183</u>	<u>1,876,398,481</u>	<u>1,030,992,156</u>	<u>1,965,281,794</u>	<u>12,348,838</u>	<u>2,194,616,551</u>	
		<u>(1,086,651,336)</u>			<u>(942,108,843)</u>				

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

3.1.1 Advance against ijarah (lease) assets

The ijarah (lease) assets cost includes an amount of Rs.169.639 million (2010: Rs.240.683 million) relating to advance against ijarah (lease) assets which are not yet been delivered to Mustajir's.

3.2 Assets in own use

Particulars	June 30, 2011							
	C O S T			DEPRECIATION			Written down value as at June 30, 2011	Rate of depreciation %
	As at July 1, 2010	Additions / (disposals) during the year	As at June 30, 2011	As at July 1, 2010	Charge / (adjustments) for the year	As at June 30, 2011		
	Rupees							
Office equipment	5,444,328	2,050,221 (161,700)	7,332,849	4,191,758	782,046 (161,699)	4,812,105	2,520,744	25 to 33.33
Furniture and fixture	7,927,920	251,525 (175,400)	8,004,045	5,888,865	650,904 (112,676)	6,427,093	1,576,952	20
Vehicles	8,900,719	0 (923,001)	7,977,718	5,861,086	1,533,726 (922,998)	6,471,814	1,505,904	16.67
Plant and machinery	1	- (1)	-	-	-	-	-	-
	22,272,968	2,301,746 (1,260,102)	23,314,612	15,941,709	2,966,676 (1,197,373)	17,711,012	5,603,600	

Particulars	June 30, 2010							
	C O S T			DEPRECIATION			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 0	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	

3.3 Disposal of assets in own use

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	Rupees	Rupees	Rupees	Rupees		
Motor vehicle - Suzuki Cultus	1*	-	1	235,800	By tender	Fazal Abbas
Toyota Corolla	923,000	922,999	1	-	Company Policy	Amir Kaleem
Plant and machinery Petra water cooled unit	1*	-	1	4,006,000	By tender	Ideal Foods Karachi
Office equipment PABX	161,700	161,699	1	20,000	Trade in	MB Technologies
Furniture and fixture	89,600	26,880	62,720	35,100	By tender	Silver Line
Furniture and fixture	20,900	20,899	1	-	Company Policy	Fayyaz Hussain Qazi
Furniture and fixture	64,900	64,899	1	-	Company Policy	Amir Kaleem
	1,260,102	1,197,376	62,726	4,296,900		

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

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

4. INTANGIBLE ASSETS

Particulars	COST			AMORTIZATION			Rate of depreciation %	
	As at July 1, 2010	Additions / (disposals) during the year	As at June 30, 2011	As at July 1, 2010	Charge / (adjustments) for the year	As at June 30, 2011		Written down value as at June 30, 2011
	Rupees							
Computer software - 2011	589,654	55,700	645,354	519,628	30,481	550,109	95,245	33.33
Computer software - 2010	519,154	70,500	589,654	506,459	13,169	519,628	70,026	

Note 2011 2010
Rupees

5. DIMINISHING MUSHARAKA FINANCING

Secured		
Diminishing musharaka financing	5.1	195,410,981
Less: Current portion shown in current assets		(71,094,740)
		124,316,241
Advance against diminishing musharaka financing		37,939,881
		162,256,122
		32,290,845

5.1 This represent diminishing musharaka financing for a term of 3 to 5 years.

6. LONG-TERM ADVANCES, DEPOSITS AND PREPAYMENTS

Advances	6.1	508,800	-
Long-term deposits			
Security deposit to Central Depository Company of Pakistan Limited		150,000	150,000
Security deposit of Lahore office		120,000	120,000
Security deposit of Islamabad office		130,000	-
Security deposit to Habib Metropolitan Bank for locker		70,000	70,000
Miscellaneous deposits		18,050	18,050
		488,050	358,050
Prepayments			
Prepaid rent		1,840,000	1,260,000
		2,836,850	1,618,050

6.1 This represents the amount advanced for the development and implementation of ERP II Application Software.

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011	2010
Rupees			
8. IJARAH (LEASE) INSTALLMENTS RECEIVABLES			
Secured- considered good			
Ijarah (lease) installments due		6,027,675	11,633,420
Suspense ijarah (lease) installments	8.1	(1,724,454)	(6,890,351)
		<u>4,303,221</u>	<u>4,743,069</u>

8.1 Suspense ijarah (lease) installments represent amounts overdue on ijarah (lease) assets.

9. ADVANCES AND SHORT TERM PREPAYMENTS

Advances		1,514,050	220,725
Short term prepayments		3,422,806	1,450,720
		<u>4,936,856</u>	<u>1,671,445</u>

10. OTHER RECEIVABLES

Unsecured- considered good			
Profit receivable on modaraba deposit accounts		3,140,608	4,283,726
Ijarah (lease) insurance receivable		28,630	60,000
Profit receivable on Ijarah Sukuk bond		2,461,069	679,537
Profit on Islamic Investment Certificate		2,028,082	1,175,342
Advance tax		12,452,119	1,685,227
Registration charges receivable		535,080	-
Other receivables		46,531	-
Excess payment receivable from gratuity fund	10.1	177,433	188,099
		<u>20,869,552</u>	<u>8,071,931</u>

10.1 Staff retirement benefits

a Defined benefit plan

As mentioned in note 2.15, 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, 2011.

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

Present value of defined benefit obligation		13,452,894	10,910,565
Fair value of plan assets		(13,630,327)	(11,098,664)
Receivable recognised in the balance sheet		<u>(177,433)</u>	<u>(188,099)</u>

b Amount charged to profit and loss account:

Current service cost		1,166,138	1,035,106
Interest cost		1,438,428	1,202,026
Expected return on plan assets		(1,460,974)	(1,225,149)
Actuarial (gain) / loss recognized		<u>(21,025)</u>	<u>399,918</u>
		<u>1,122,567</u>	<u>1,411,901</u>

The charge for the year has been allocated to administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	Rupees	
c Movement in the liability recognized in the balance sheet:		
Balance as at July 01	(188,099)	(204,249)
Net charge for the year	1,122,567	1,411,901
Contribution to the fund	(1,111,901)	(1,395,751)
Balance as at June 30	<u>(177,433)</u>	<u>(188,099)</u>

d Movement in the present value of defined benefit obligation:

Balance as at July 01	10,910,565	9,665,996
Current service cost	1,166,138	1,035,106
Interest cost	1,438,428	1,202,026
Actuarial loss	113,585	447,437
Actual benefits paid during the year	(175,822)	(1,440,000)
Balance as at June 30	<u>13,452,894</u>	<u>10,910,565</u>

e Movement in the fair value of plan assets:

Balance as at July 01	11,098,664	9,870,245
Expected return	1,460,974	1,225,149
Contributions	1,111,901	1,395,751
Actuarial gain	134,610	47,519
Actual benefits paid during the year	(175,822)	(1,440,000)
Balance as at June 30	<u>13,630,327</u>	<u>11,098,664</u>

f Principal actuarial assumptions used are as follows:

Expected rate of increase in salary level	14.50%	12.75%
Valuation discount rate	14.50%	12.75%
Rate of return on plan assets	14.50%	12.75%

	2011	2010	2009	2008	2007
	Rupees				
g Comparisons for past years:					
As at June 30					
Present value of defined benefit obligation	13,452,894	10,910,565	9,665,996	8,396,952	6,497,766
Fair value of plan assets	(13,630,327)	(11,098,664)	(9,870,245)	(6,970,665)	(5,124,696)
(Surplus) / deficit	<u>(177,433)</u>	<u>(188,099)</u>	<u>(204,249)</u>	<u>1,426,287</u>	<u>1,426,287</u>
Experience loss / (gain) on obligation	<u>113,585</u>	<u>447,437</u>	<u>(753,697)</u>	<u>(802,743)</u>	<u>(694,708)</u>
Experience gain / (loss) on plan asset	<u>134,610</u>	<u>47,519</u>	<u>(208,739)</u>	<u>183,312</u>	<u>2,947</u>

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	Rupees	
Major categories / composition of plan assets are as follows:		
Bank deposit	13,630,327	11,098,664

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 the year was Rs.1.492 million (2010: Rs. 0.718 million).

	2011	2010
	Rupees	
Defined benefit plan		
Contribution for the year allocated to administrative expenses	1,122,567	1,411,901

Expected charge for the year ending June 30, 2012

The expected gratuity cost charge for the year ending June 30, 2012 amounts to Rs. 1.291 million. The actual cost will be determined after valuation of the Fund as at June 30, 2012 when the actuarial gains and losses arising during the year ending June 30, 2012 will be available.

	Note	2011	2010
		Rupees	
11. CASH AND BANK BALANCES			
Stamps in hand		72,800	32,900
Cash at banks			
State Bank of Pakistan			
Cash reserve account		-	40,000
Current account		17,524	25,503
		17,524	65,503
On current accounts		909,233	524,049
Deposit accounts			
Modaraba Deposit account Dawood Islamic bank	11.1	114,319	4,685
Modaraba Deposit account HMB Islamic branch	11.2	110,412,802	151,709,799
Islamic Investment Certificate	11.3	50,000,000	50,000,000
Redemption fund for Certificates of Musharaka	11.4	1,237	10,000,000
		160,528,358	211,714,484
		161,527,915	212,336,936

11.1 The profit on the above modaraba deposit account ranges between 5.00% to 5.25% per annum (2010: 5.00% to 5.20% per annum).

11.2 The profit on the above modaraba deposit account ranges between 9.00% to 10.50% per annum (2010: 9.00% to 11.00% per annum).

11.3 The profit on the above modaraba deposit account (term) is 12.50% per annum (2010: 11.00% per annum).

11.4 The profit on the above redemption fund account is 9.00% per annum (2010: 9.00% per annum).

	2011	2010		2011	2010
	(Number of certificates)			Rupees	
193,900,000	193,900,000		Certificates of Rs. 5/- each issued for cash	969,500,000	969,500,000
7,700,000	7,700,000		Certificates of Rs. 5/- each issued as bonus certificates	38,500,000	38,500,000
201,600,000	201,600,000			1,008,000,000	1,008,000,000

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011	2010
Rupees			
13. RESERVES			
Capital reserves			
Premium on issuance of certificates		378,000,000	378,000,000
Statutory	13.1	440,873,447	385,289,051
		818,873,447	763,289,051
Revenue reserves			
General		50,000,000	50,000,000
Unrealized gain on available-for-sale investments		956,819,063	855,632,083
Unappropriated profit		225,931,937	215,274,355
		1,232,751,000	1,120,906,438
		2,051,624,447	1,884,195,489
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	10,572,280	12,825,011
Less: Current maturity shown under current liabilities		(7,572,280)	(12,154,629)
		3,000,000	670,382
14.1	The estimated share of profit paid / payable on the above unsecured finance ranges between 12.75% to 13.50% per annum (2010: 12.00% to 13.00% per annum).		
15. SECURITY DEPOSITS AGAINST IJARAH (LEASE) ASSETS			
Mustajir's security deposits	15.1	240,474,064	244,688,643
Less: Current portion shown under current liabilities		(48,698,420)	(88,212,388)
		191,775,644	156,476,255
15.1	These represent interest free deposits repayable at the maturity of respective ijarah (lease) terms.		
16. CERTIFICATES OF MUSHARAKA			
Unsecured			
Certificates of Musharaka	16.1	602,717,612	502,466,415
16.1	The estimated share of profit paid / payable on the above unsecured finance ranges between 10.00% to 13.50% per annum (2010: 9.00% to 13.00% per annum).		
17. TRADE AND OTHER PAYABLES			
Accrued liabilities		8,065,141	7,158,604
Adjustable against ijarah (lease) contracts	17.1	36,538,724	-
Advance against sale of diminishing musharaka units		695,005	-
Workers' Welfare Fund		5,660,325	10,425,538
Management fee payable	17.2	30,880,220	29,713,394
		81,839,415	47,297,536

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

17.1 This relates to withholding tax deposited pertaining to ijarah (lease) vehicles, including Rs. 26.243 million relating to prior years recorded on the basis of returns filed with the Tax Authorities in current year. The amounts are adjustable against ijarah (lease) contracts upon receipt of refunds from tax authorities.

17.2 The balance is payable to the Modaraba Management Company.

18. CONTINGENCIES AND COMMITMENTS

Contingencies

There are no contingencies as at the balance sheet date.

Commitments

a Commitments in respect of ijarah (lease) transactions amounting to Rs.63 million (2010: Rs. 38 million).

b Commitments in respect of ERP II Application Software amounting to Rs.1.187 million (2010: Nil).

	Note	2011	2010
		Rupees	
19. INCOME FROM IJARAH (LEASING)			
Ijarah (leasing) installments		1,418,326,712	1,342,174,096
Less: Depreciation on ijarah (lease) assets		(1,090,988,971)	(1,030,992,156)
		327,337,741	311,181,940

20. ADMINISTRATIVE EXPENSES

Salaries, allowances and other benefits	24	32,156,792	28,093,113
Printing, stationery and advertising		5,007,433	4,331,245
Travelling and conveyance		756,733	608,418
Insurance		402,628	477,482
Utilities		463,542	364,645
Postage		358,220	296,314
Newspapers and periodicals		45,189	73,210
Repairs and maintenance		1,834,902	1,260,447
Telecommunication		526,360	574,253
Entertainment		237,157	246,653
Fee and subscription		4,202,974	1,781,300
Legal and professional charges		989,259	1,125,867
Donations	20.1	840,000	852,000
Depreciation on fixed assets in own use	3.2	2,966,676	2,762,094
Amortization on intangible assets	4	30,481	13,169
Certificate registrar expenses		1,747,443	1,990,091
Vehicle running expenses		787,277	773,553
Office expense		582,213	441,581
Staff training and workshop		54,000	170,510
Staff Hajj expenses		598,800	534,700
Rent		1,047,600	946,500
Miscellaneous		75,434	99,983
		55,711,113	47,817,128

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

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

21. OTHER INCOME	Note	2011	2010
Rupees			
Dividend on shares		30,505,058	44,657,566
Gain on disposal of ijarah (lease) assets		11,816,743	8,070,045
Gain on sale of shares - net		14,012,689	6,819,111
Gain on sale of fixed assets		4,234,177	1,299,998
Profit on Modaraba'a deposit accounts		10,755,355	15,734,082
Profit on redemption reserve fund - COM		476,755	195,199
Profit on Sukuk		7,511,727	2,542,652
Profit on Islamic Investment Certificates		5,373,332	6,372,606
Miscellaneous income		167,710	2,332,647
Reversal of impairment on ijarah (lease) assets		6,791,650	5,753,375
		<u>91,645,196</u>	<u>93,777,281</u>

22. OTHER OPERATING CHARGES

Workers' welfare fund		5,660,325	10,425,538
Impairment of ijarah (lease) assets	22.1	-	4,175,294
Professional tax		1,100,000	-
Auditor's remuneration	22.2	480,000	421,900
Impairment on available for sale investment		-	603,281
		<u>7,240,325</u>	<u>15,626,013</u>

22.1 Impairment has been recorded on ijarah (lease) assets on the basis of future recoverability of cash flows.

22.2 Auditors' remuneration:

Audit fee		300,000	275,000
Fee for review of half yearly financial statements and Statement of Compliance with Code of Corporate Governance		150,000	120,000
Out of pocket expenses		30,000	26,900
		<u>480,000</u>	<u>421,900</u>

23. FINANCIAL CHARGES

Profit on certificates of musharaka		66,087,351	50,801,474
Bank commission and charges		84,896	49,883
		<u>66,172,247</u>	<u>50,851,357</u>

24. 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:

	2011			2010		
	Officers	Other employees	Total	Officers	Other employees	Total
Rupees						
Salaries	13,810,875	6,582,108	20,392,983	9,279,548	7,978,020	17,257,568
House rent	1,136,700	1,541,250	2,677,950	1,318,800	1,099,200	2,418,000
Conveyance and other allowances	3,573,949	1,651,843	5,225,792	2,305,753	2,328,880	4,634,633
Group insurance	728,526	466,810	1,195,336	478,991	525,754	1,004,745
Gratuity Fund	895,842	226,725	1,122,567	954,215	457,686	1,411,901
Provident fund	1,117,884	424,280	1,542,164	782,253	584,013	1,366,266
	<u>21,263,776</u>	<u>10,893,016</u>	<u>32,156,792</u>	<u>15,119,560</u>	<u>12,973,553</u>	<u>28,093,113</u>
Number of persons	<u>14</u>	<u>20</u>	<u>34</u>	<u>8</u>	<u>24</u>	<u>32</u>

Certain executives are also provided car by Modaraba.

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

25. IJARAH (LEASE) INSTALLMENTS RECEIVABLE WITHIN ONE YEAR

Ijarah (lease) installments receivable in respect of existing ijarah (lease), in the subsequent financial year ending June 30, 2012 amounts to Rs. 1,124 million (2011: Rs. 1,035 million). Ijarah (lease) installments 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).

26. TRANSACTIONS WITH RELATED PARTIES

The related parties and associated undertakings comprise the Modaraba 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	2011	2010
		Rupees	
Balances with related parties			
First Habib Modaraba Gratuity Fund	Receivable / payable to staff gratuity fund	177,433	188,099
Modaraba Management Company	Payable to modaraba management company	30,880,220	29,713,394
First Habib Modaraba Provident Fund	Investment in Certificate of Musharaka	9,975,437	-
Expense for the year			
Modaraba Management Company	Modaraba company's management fee	30,880,220	29,713,394
First Habib Modaraba Gratuity Fund	Gratuity fund	1,122,567	1,411,901
First Habib Modaraba Provident Fund	Provident fund	1,542,164	1,366,266
Payments made during the year			
First Habib Modaraba Gratuity Fund	Contribution to staff gratuity fund	1,111,901	1,395,751
First Habib Modaraba Provident Fund	Contribution to staff provident fund	3,048,328	1,366,266
Modaraba Management Company	Dividend paid	104,411,077	99,439,122
Modaraba Management Company	Management fee	29,713,394	2,706,805

26.1 No remuneration in kind has been paid by the Modaraba to the Directors and Key Management Personnel.

27. 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.

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

28. FINANCIAL INSTRUMENTS

28.1 Risk management policies

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

The Modaraba primarily invests in Ijarah (lease) 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

28.2 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, 2011 is the carrying amount of the financial assets as set out below:

	2011	2010
	Rupees	
Diminishing musharaka financing	233,350,862	70,052,653
Ijarah (lease) installments receivables	4,303,221	4,743,069
Investments	1,251,322,307	1,036,692,562
Deposits	488,050	358,050
Other receivables	8,240,000	6,198,605
Bank balances	161,455,115	212,304,036
	<u>1,659,159,555</u>	<u>1,330,348,975</u>

The aging of Ijarah (lease) installments receivables at the reporting date is:

Past due 1-30 days	2,282,999	3,009,682
Past due over 30-90 days	2,020,222	1,733,387
	<u>4,303,221</u>	<u>4,743,069</u>

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.

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

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 32 to the financial statements.

Impaired Assets

Refer note 2.6 and 3.1 to the financial statements for details on impairment of assets.

28.3 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 29 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.

28.4 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, 2011, the fair value of equity and debt securities exposed to price risk was as follows:

Particulars	Average Cost	Fair Value	Average Cost	Fair Value
	2011	2011	2010	2010
	Rupees			
Equity securities	174,503,243	1,131,322,307	161,663,762	1,016,692,562
Ijarah Sukuk bonds	120,000,000	120,000,000	20,000,000	20,000,000
	<u>294,503,243</u>	<u>1,251,322,307</u>	<u>181,663,762</u>	<u>1,036,692,562</u>

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 stock exchange which is set as per the trading trend and volumes in the security.

b Profit rate risk

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

Risk exposure

The Modaraba has Ijarah (leasing) portfolio. The majority of Ijarah (leasing) portfolio is linked with KIBOR rate as a bench mark. The Modaraba reviews KIBOR on Ijarah (leasing) portfolio on quarterly / six monthly basis.

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

As at June 30, 2011, the profile of the Modaraba's variable value financial instruments were as follows:

	Note	2011	2010
		Rupees	
Variable rate instruments			
Ijarah Sukuk bonds		120,000,000	20,000,000
Islamic deposits		160,527,121	201,714,484
Diminishing musharaka financing		195,410,981	70,052,653
Liability			
Certificate of musharaka		(613,289,892)	(515,291,426)
		(137,351,790)	(223,524,289)

Fair value sensitivity analysis for variable rate instruments

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

Asset / liability class (Having variable interest rates)	(Increase / Decrease) (+/-)	Changes in profit / (loss)	
		2011 Rupees	2010 Rupees
Assets			
Ijarah Sukuk bonds	100 basis points	1,200,000	200,000
Diminishing musharaka financing	100 basis points	1,954,110	700,527
Islamic deposits	100 basis points	1,605,271	2,017,145
Liability			
Certificate of musharaka	100 basis points	(6,132,899)	(5,152,914)

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

Risk Management / Mitigation

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

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

The average effective duration of the Modaraba's portfolio is a measure of the sensitivity of the fair value of the Modaraba's 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.

28.5 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.

29. FAIR VALUE OF FINANCIAL INVESTMENTS

The Modaraba's accounting policy on fair value measurements of the investments is detailed in note 2.8 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, 2011, all the investments were categorised in Level 1 except for Sukuk bonds which are categorized in level 2.

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

30. MATURITIES OF ASSETS AND LIABILITIES

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

	2011			
	Total	Up to one year	Over one year to five years	Over five years
Rupees				
Assets				
Ijarah (lease) fixed assets - tangible	2,372,955,491	215,023,860	2,157,931,631	-
Owned fixed assets - tangible	5,603,600	-	5,603,600	-
Intangible assets	95,245	-	12,695	-
Long term advances, deposits and prepayments	2,836,850	-	2,836,850	-
Diminishing musharaka financing	233,350,862	71,094,740	162,256,122	-
Investments - available for sale	1,251,322,307	1,251,322,307	-	-
Ijarah (lease) installments receivable	4,303,221	4,303,221	-	-
Advances and short term prepayments	4,936,856	4,936,856	-	-
Other receivables	20,869,552	20,869,552	-	-
Tax refund due from Government	17,412,658	17,412,658	-	-
Cash and bank balances	161,527,915	161,527,915	-	-
	4,075,214,557	1,746,491,109	2,328,640,898	-
Liabilities				
Security deposits against ijarah (lease) assets	240,474,064	48,698,420	191,775,644	-
Certificates of musharaka	613,289,892	610,289,892	3,000,000	-
Unearned ijarah (lease) and diminishing musharaka installments	9,885,903	9,885,903	-	-
Advance ijarah (lease) and diminishing musharaka installments	20,596,188	20,596,188	-	-
Trade and other payables	81,839,415	81,839,415	-	-
Profit payable on certificate of musharaka	28,593,068	28,593,068	-	-
Taxation - net	2,790,833	2,790,833	-	-
Unclaimed profit distribution	18,120,747	18,120,747	-	-
	1,015,590,110	820,814,466	194,775,644	-
	3,059,624,447	925,676,643	2,133,865,254	-
Represented by:				
Issued, subscribed and paid-up capital	1,008,000,000			
Reserves	2,051,624,447			
	3,059,624,447			
2010				
	Total	Up to one year	Over one year to five years	Over five years
Rupees				
Assets				
Ijarah (lease) 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	-	70,026	-
Long term advances, deposits and prepayments	1,618,050	-	1,618,050	-
Diminishing musharaka financing	70,052,653	37,761,808	32,290,845	-
Investments - available for sale	1,036,692,562	1,036,692,562	-	-
Ijarah (lease) installments receivable	4,743,069	4,743,069	-	-
Advances and short term prepayments	1,671,445	1,671,445	-	-
Other receivables	8,071,931	8,071,931	-	-
Cash and bank balances	212,336,936	212,336,936	-	-
	3,776,887,889	1,589,066,516	2,187,821,373	-
Liabilities				
Security deposits against ijarah (lease) assets	244,688,643	88,212,388	156,476,255	-
Certificates of musharaka	515,291,426	514,621,044	670,382	-
Unearned ijarah (lease) and diminishing musharaka installments	15,685,400	15,685,400	-	-
Advance ijarah (lease) and diminishing musharaka installments	21,816,116	21,816,116	-	-
Trade and other payables	47,297,536	47,297,536	-	-
Profit payable on certificate of musharaka	21,248,407	21,248,407	-	-
Taxation - net	2,790,833	2,790,833	-	-
Unclaimed profit distribution	16,873,589	16,873,589	-	-
	885,691,950	728,545,313	157,146,637	-
	2,891,195,939	860,521,203	2,030,674,736	-
Represented by:				
Issued, subscribed and paid-up capital	1,008,000,000			
Reserves	1,884,195,489			
	2,892,195,489			

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

31. SEGMENT BY CLASS OF BUSINESS OF MAJOR IJARAH (LEASE) ASSETS

	Ijarah (lease) assets			
	2011		2010	
	Rupees	%	Rupees	%
Auto and Allied	127,623,260	5.79	172,179,824	7.85
Financial Institutions	124,478,730	5.65	178,321,355	8.13
Cable and Electric Goods	40,075,607	1.82	121,514,932	5.54
Cement	83,928	0.00	193,944	0.01
Chemical and Pharmaceutical	738,771,873	33.53	618,111,669	28.17
Communications	55,986,095	2.54	1,701,300	0.08
Construction	4,364,187	0.20	15,417,066	0.70
Consumer	51,771,634	2.35	49,069,059	2.24
Education	13,032,870	0.59	10,779,159	0.49
Engineering	33,900,738	1.54	21,459,203	0.98
Food and Allied	99,425,730	4.51	89,188,385	4.06
Fuel and Energy	161,018,401	7.31	148,212,547	6.75
Glass and Ceramics	18,437,331	0.84	18,547,198	0.85
Health	34,335,830	1.56	21,524,009	0.98
Information Technology	77,466,467	3.52	76,904,099	3.50
Paper and Board	24,777,980	1.12	33,328,756	1.52
Services	321,912,481	14.61	319,841,135	14.57
Sugar and Allied	122,141,066	5.54	106,894,095	4.87
Synthetic and Rayon	3,791,873	0.17	4,518,561	0.21
Textile	131,976,467	5.99	159,287,740	7.26
Transport	1,838,500	0.08	5,205,256	0.24
Miscellaneous	16,105,178	0.73	22,381,259	1.02
	2,203,316,226	100.00	2,194,580,551	100.00

31.1 Modaraba's operations are restricted to Pakistan only.

32. 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	
Financial assets							
Cash and bank balances	160,528,358	-	160,528,358	999,557	-	999,557	161,527,915
Other receivables	-	-	-	8,240,000	-	8,240,000	8,240,000
Investments - available for sale	-	120,000,000	120,000,000	1,131,322,307	-	1,131,322,307	1,251,322,307
Ijarah (lease) installments receivables	-	-	-	4,303,221	-	4,303,221	4,303,221
Advances	-	-	-	1,514,050	-	1,514,050	1,514,050
Long term deposits	-	-	-	-	488,050	488,050	488,050
Diminishing musharaka financing	71,094,740	162,256,122	233,350,862	-	-	-	233,350,862
	231,623,098	282,256,122	513,879,220	1,146,379,135	488,050	1,146,867,185	1,660,746,405
Financial liabilities							
Security deposits against ijarah (lease) assets	-	-	-	48,698,420	191,775,644	240,474,064	240,474,064
Certificates of musharaka	610,289,892	3,000,000	613,289,892	-	-	-	613,289,892
Trade and other payables	-	-	-	38,945,361	-	38,945,361	38,945,361
Unclaimed profit distribution	-	-	-	18,120,747	-	18,120,747	18,120,747
	610,289,892	3,000,000	613,289,892	105,764,528	191,775,644	297,540,172	910,830,064
On balance sheet gap	(378,666,794)	279,256,122	(99,410,672)	1,040,614,607	(191,287,594)	849,327,013	749,916,341
Ijarah (lease) assets	215,023,860	1,988,292,366	2,203,316,226	-	-	-	2,203,316,226

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

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

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

(i) **Yield / profit rate risk**

Yield / profit rate risk arises from the possibility that changes in yield / profit rates will affect the value of financial instruments. All financial instruments of the Modaraba are on a profit and loss sharing basis, or on variable profit rate.

(ii) **Market risk**

Modaraba recognizes market risk as the exposure created by potential changes in the market prices and rates.

(iii) **Fair values of financial assets and liabilities**

The fair values of traded instruments is based on quoted market prices. Fair value of future Ijarah (lease) installments receivable against Ijarah (lease) assets, other assets, other liabilities and other items cannot be calculated with sufficient reliability due to absence of current active market of such assets and liabilities.

33. 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:

	2011		2010	
	Advances, deposits, prepayments and other receivables	Ijarah (lease) installments receivables	Advances, deposits, prepayments and other receivables	Ijarah (lease) installments receivables
	Rupees			
Segment by class of business				
Banks and Financial Institutions	7,629,759	-	6,138,605	-
Cable and Electrical Goods	-	41,862	-	-
Textile	-	-	-	899,362
Chemical and Pharmaceutical	1,486,100	3,567,894	-	3,221,191
Communications	46,000	-	-	-
Consumer	-	39,088	-	-
Food and Allied	1,050	193,066	-	188,424
Fuel and Energy	8,000	-	-	155,220
Insurance Companies	685,191	-	1,450,720	-
Others	2,583,410	200,252	188,099	1,300
Services	1,376,146	261,059	241,950	140,212
Transport	-	-	-	137,360
	13,815,656	4,303,221	8,019,374	4,743,069

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

34. EARNINGS PER CERTIFICATE

34.1 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	2011	2010
Rupees			
Profit for the year		277,921,978	267,420,541
Weighted average number of certificates		201,600,000	201,600,000
Earnings per certificate		1.38	1.33

34.2 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.

35. CASH GENERATED FROM OPERATIONS

	Note	2011	2010
Rupees			
Profit for the year		277,921,978	267,420,541
Adjustment for:			
Gain on disposal of assets			
Ijarah (lease)		(11,816,743)	(8,070,045)
In own use - net		(4,234,177)	(1,299,998)
Depreciation fixed assets			
Ijarah (lease) assets		1,090,988,971	1,030,992,156
In own use		2,966,676	2,762,094
Impairment of ijarah (lease) assets		-	4,175,294
Impairment of investments		-	603,281
Owned assets sold / written off		3	33
Amortization of intangible assets		30,481	13,169
Reversal of impairment on ijarah (lease) assets		(6,791,650)	(5,753,375)
Provision for gratuity		1,122,567	1,411,901
Dividend income		(30,505,058)	(44,657,566)
Gain on disposal of investments		(14,012,689)	(6,819,111)
Profit on certificates of musharaka		66,087,351	50,801,474
Movement in working capital	35.1	(4,524,504)	34,315,126
		1,367,233,206	1,325,894,974

35.1 Movement in working capital

Decrease / (increase) in current assets:			
Ijarah (lease) installments receivable		439,848	6,623,586
Advances and short term prepayments		(3,265,411)	(1,015,145)
Tax refund due from Government		(16,413,108)	-
Other receivables		(12,808,287)	4,332,433
(Decrease) / increase in current liabilities:			
Advance ijarah (lease) and diminishing musharaka installments		(1,219,928)	786,243
Unearned ijarah (lease) and diminishing musharaka installments		(5,799,497)	8,115,975
Trade and other payables		34,541,879	15,472,034
		(4,524,504)	34,315,126

NOTES TO THE FINANCIAL STATEMENTS



FOR THE YEAR ENDED JUNE 30, 2011

36. PROFIT DISTRIBUTION AND APPROPRIATION

Subsequent to the year ended June 30, 2011 the Board of Directors of the Management Company has declared a final distribution of Rs.1.10 per certificate, amounting to total profit distribution of Rs.221.760 million (2010: Re. 1.05/- per certificate amounting to total profit distribution of Rs. 211.680 million) in its meeting held on 26-07-2011.

37. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 26-07-2011 by the Board of Directors of the Modaraba Management Company.

38. 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:

- Profit payable on certificate of musharaka is now presented separately for purposes of better presentation.
- Ijarah (leasing) income has been presented on the face of the profit and loss account net of depreciation for purposes of better presentation.

39. GENERAL

Figures have been rounded off to the nearest rupee.

-Sd-
CHIEF EXECUTIVE

-Sd-
DIRECTOR

-Sd-
DIRECTOR