



**25 years**  
of Islamic Financial Services in Pakistan



**Standard Chartered Modaraba**  
Main Building, I. I. Chundrigar Road  
P. O. Box 5556, Karachi-74000  
Phone: 32450000

## *Achievement during 25 years of operations*

Standard Chartered Modaraba (SCM) has a track record of 25 years of profitable operations and has the highest credit rating amongst all leasing companies and modarabas in the country. Having started its operation in August 1987 from Karachi, with about PKR 100 million equity and a single Ijarah product, it has now grown into the largest floating Modaraba currently operating in the country with an equity over PKR. 900 million. SCM now offers different kinds of product including Ijarah, Diminishing Musharika, Housing Finance, Sukuk, Murabaha, Certificate of Musharika and Musharika Deposits catering financial needs of variety of people across the country.

SCM started issuing Certificates of Musharika in January 2001 and now has the largest portfolio of Certificates of Musharika of PKR 2.8 billion in the entire Leasing and Modaraba Sector. SCM has made disbursements exceeding Rs. 26 billion during this time and contributed significantly to the economic development of Pakistan.

Further, dividend distributed through out these years ranges from 16% to 40%. Average dividend pay out is 23% per annum. Investor's confidence in SCM has been confirmed by record over subscription (14 times) by the general public of PKR 1 Billion against an offer of PKR 72 million of Modaraba Certificates. This was the highest amount received in the history of Pakistan's Stock Exchanges at that time.

During these years, SCM achieved several recognitions from Management Association of Pakistan which includes Corporate Excellence Awards in year 2006, 2008 and 2012. Further, during the year, SCM also received an award from NBF and Modaraba Association of Pakistan on completion of 25 years of successful operations.

## Vision

To be preferred provider of Islamic financial products in the market

## Mission

To create exceptional value for our clients, investors and staff; through market leadership in providing innovative Shariah compliant products and solutions, and by adopting and living our core values

## Our Values:

We bring our brand promise to life every day by living the values in how we work with our customers, colleagues and local communities.

Our brand promise Here for good, is at the heart of who we are as a Modaraba and sets us apart from the competition.

## LIVING OUR VALUES:

- Courageous** - we stand up for what we believe is right. We accept accountability and take calculated risks.
- Responsive** - we deliver thoughtful, timely, high quality solutions. We listen to our customers and colleagues and built strong relationships based on mutual respect. We work quickly, thoughtfully and effectively to deliver the best solution.
- International** - we value our diversity and collaborate as one team. We share standards and best practices. We work together, as one team across the Modaraba, for the benefit of our customers.
- Creative** - we continuously improve the way we work, making it simpler, better and faster.
- Trustworthy** - we are reliable, open and honest so that we deliver on our promises and work to high standards.

## *Chairman's Message*



I am happy to share that Standard Chartered Modaraba (SCM) has completed 25 years in the industry and enjoys a favourable position in the market.

SCM has been on the trajectory of growth for the past 25 years and well positioned to take advantage of the tremendous opportunities that exist in the market.

Standard Chartered has helped SCM strengthen its governance and management standard to some of the best international governance and management practices.

SCM's customers and clients enjoy Wholesale Banking and SME relationships, which has helped to develop distinctive customer value propositions for Priority, Islamic and small and medium-sized enterprises (SMEs) customers.

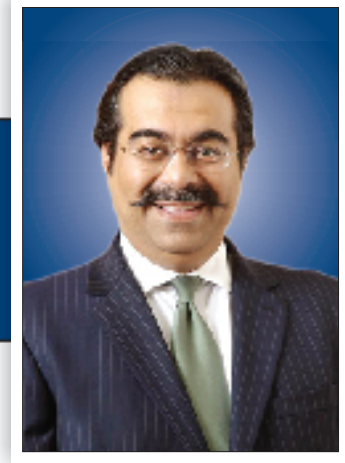
In recognition of its services, SCM has also been presented with Corporate Excellence Award (2012) by the Management Association of Pakistan.

In line with the Group strategy, SCM has also played its part supporting Standard Chartered's sustainability efforts. In Pakistan, the community efforts are focused on education and, Seeing is Believing, where Standard Chartered has contributed to help alleviate avoidable blindness.

I am confident that SCM will continue to contribute positively towards the economic development of Pakistan and would like to thank all our customers for their continued business and support, which has helped make this possible

Mohsin A. Nathani  
Chairman

## *Chief Executive's Message*



I am extremely happy to present to you the twenty sixth financial statements. Twenty five years ago, this modaraba was formed as an experimental leasing vehicle. Now, this multi product modaraba is a market leader partnering with 222 of the top multi nationals, local corporates and small and medium enterprises operating in the country.

Its performance is stellar; twenty five years of not letting the investor down; dividend ranging from 16% to 40% over the years, Its management has consistently been rated exceptional, the most recent recognition being the Management Association of Pakistan's Award presented in April 2012.

It's prudent practices are evident from the fact that less than 0.5% of the total portfolio was provided in the last twenty five years.

SCM's people friendly policies and a "great place to work" reputation can be gleaned from the fact that six of our employees have been associated with us for more than fifteen years and fourteen of our employees (41% of employees) have been associated with us for more than five years.

I am grateful to all my stakeholders for reposing their trust in SCM and I am very confident that SCM is poised to achieve new highs in the future.

Raheel Q. Ahmad  
Chief Executive

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# Modaraba Information

## Directors of Modaraba Company

Mr. Mohsin Ali Nathani  
Chairman

Mr. Raheel Qamar Ahmad  
Managing Director/ Chief Executive

Mr. Najam Siddiqi  
Director

Mr. Imran Sarwar  
Director

Mr. Khurram Shahzad Khan  
Director

Mr. Shezad Arif  
Director

## Company Secretary

Mr. Muhammad Siddique

## Audit Committee

Mr. Najam Siddiqi  
Chairman

Mr. Imran Sarwar  
Member

Mr. Khurram Shahzad Khan  
Member

## Auditors

A.F. Ferguson & Co.  
Chartered Accountants

## Bankers/ Financial Institutions

Standard Chartered Bank (Pakistan) Limited  
Bank Islami Pakistan Limited  
Meezan Bank Limited

## Legal Advisors

Fazle Ghani Adocates  
Izhar Law Associates  
Sirajul Haque & Co.  
Orr Dignam & Co  
Mohsin Tayabali & Co  
Liaquat Marchant Associates

## Registered and Head Office

Standard Chartered Bank  
Main Building, I. I. Chundrigar Road  
P. O. Box 5556, Karachi-74000  
Phone: 32450000

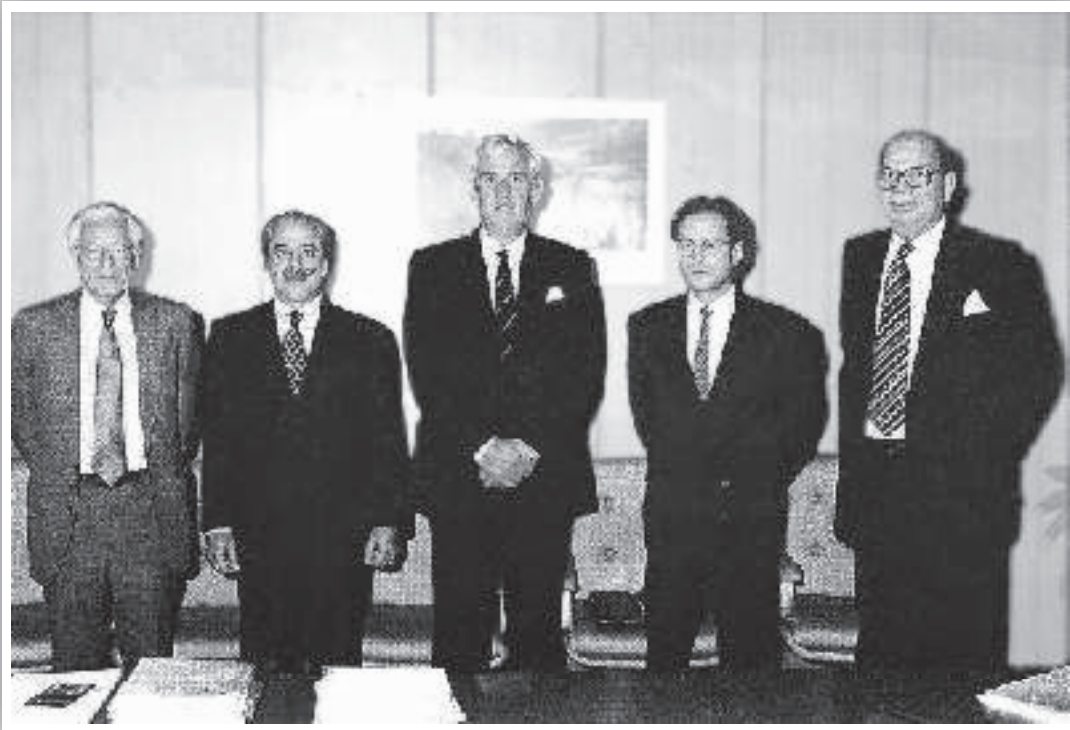
## Branch Offices

Standard Chartered Bank Building  
Tufail Road, P. O. Box 6131  
Lahore Cantt.  
Phone: (042) 36066277-80

Standard Chartered Bank Building  
6-A, 2nd Floor, Union Arcade  
F-7 Markaz, Islamabad  
Phone: (051) 8432329-30



## Board of Directors in 1993



From left to right: Mr. J.R. Rahim – Director, Mr. Julian S.P. Singha – Managing Director & Chief Executive, Mr. Denis P Armstrong – Chairman of Board of Directors, Mr. S. Tariq Gilani – Director Designate, Mr. Irtiza Husain – Director.

## Board of Directors in 2012



From left to right: Mr. Najam Siddiqi – Director, Mr. Imran Sarwar – Director, Mr. Mohsin A. Nathani – Chairman of Board of Directors, Mr. Raheel Q . Ahmad – Managing Director & Chief Executive, Mr. Khurram Shahzad Khan – Director, Mr. Shezad Arif – Director.

# Board of Directors



**Mohsin Ali Nathani**

Chairman/ Director

Mohsin A. Nathani was appointed as a Chairman and Director of Standard Chartered Services of Pakistan (Private) Limited on September 27, 2010. He also serves as the Chief Executive of Standard Chartered Bank (Pakistan) Limited (SCBPL). He is the Chairman of Standard Chartered Leasing Limited and Director of Price Solution Pakistan (Private) Limited as well. He has extensive and diversified banking experience of over 21 years, holding key positions in both local and international banking institutions namely Barclays Bank (Dubai), Citigroup (Dubai and Hong Kong) and ABN Amro Bank Singapore. Prior to joining the bank, he was Country Head & Managing Director, Barclays Bank plc's Pakistan. He is also on the boards of Pakistan Council for Philanthropy, I-CARE, Kidney Centre and a trustee in IBA endowment fund.



**Raheel Qamar Ahmad**

Managing Director/ Chief Executive

Raheel Q. Ahmad was appointed as Managing Director/ Chief Executive of Standard Chartered Services of Pakistan (Private) Limited with effect from June 01, 2011. He has 21 years of diversified corporate and investment banking experience with both local and international organisations. He is an Engineer from UET Lahore and has completed MBA from Illinois Institute of Technology, Chicago, USA. He has held senior positions in Mashreqbank psc, United Bank Limited and Allied Bank Limited. Prior to this assignment, he was heading the Local Corporates segment in Origination and Client Coverage (OCC) SCBPL from January 2009.



**Najam Siddiqi**

Director/ Chairman of the Audit Committee

Najam Siddiqi was appointed to the Board on April 26, 2011, he is also a director of Standard Chartered Leasing Limited and Price Solution Pakistan (Private) Limited. He joined SCBPL as Financial Controller and is currently the Chief Financial Officer in SCBPL. He has over 14 years of prolific professional experience at senior level in finance and risk management positions in various banks and a leading audit firm. He has been instrumental in managing crisis and implementing turn around strategies. He has also worked on assignments with CEO Europe in Standard Chartered UK. He was Head of Finance & Internal Audit in Oman International Bank SAOG. Then moved to KASB Bank Limited as Financial Controller & Head of Risk Management. Before joining SCBPL, he was a Chief Financial Officer in Samba Bank Limited.



**Imran Sarwar**

Director/ Member of the Audit Committee

Imran Sarwar was appointed to the Board on February 22, 2011, he holds the position of Head of OCC at SCBPL. He has over 21 years of professional experience in the banking sector both locally and internationally. Imran holds a bachelors Degree in Law and in Business Administration from USA and Imran joined SCBPL in 2001 in Lahore as the Unit Head of Corporate Banking. Since then he has held various positions including, Senior Credit Officer for Pakistan and Managing Director and Head of Global Corporates, UAE. In February 2011, Imran relocated from Dubai to Pakistan as Managing Director and Head of OCC - Pakistan.



**Khurram Shahzad Khan**

Director/ Member of the Audit Committee

Khurram S. Khan was appointed to the Board on June 30, 2011, he is also a director of Standard Chartered Leasing Limited and holds the position of Country Chief Risk Officer (CCRO) at SCBPL. He holds an MBA degree from the University of Rochester, USA. He has an overall professional experience of over 27 years mostly in Risk and Corporate banking and has been associated with SCBPL since 1996. He joined SCBPL in Corporate Banking, Lahore. Subsequently, he became GSAM Head, Pakistan. He then spent six years in Bangladesh and Thailand as Senior Credit Officer. He returned back to Pakistan in early 2008 for a second stint as Head GSAM Pakistan. Prior to joining SCBPL, he has worked in Corporate and Investment Banking for Banque Indosuez/ Credit Agricole. Before joining banking, he spent over three years consulting in Nespak.



**Shezad Arif**

Director

Shezad Arif was appointed to the Board on December 14, 2011 as a Director. He holds the position of Head of Small & Medium Enterprises (SME) at SCBPL since February 2010. He has approximately 18 years of corporate banking experience with foreign as well as local banks. He holds a MBA degree from Southeastern University. Shezad started his professional career with Emirates Bank International and then moved to United Bank Limited. At UBL, he was a part of the team that set up the Corporate Banking Department in UBL and thereafter led the department as Unit head. He joined SCBPL in August 2005 as Head of Commodity Corporates and Islamic Banking Group. He later became the Head of Global Corporates SCBPL in April 2008 and then moved on to SME in the Consumer Bank.

## Corporate Social Responsibility

### Our Community Investment efforts

As a concerned corporate entity and a leading Islamic financial institution, we are committed to contribute towards the social well-being of the local community. We are also dedicated to support the business and economic development, in-line with the principles of Shari'ah, ethically and responsibly.

Throughout 2011-12, Standard Chartered Modaraba continued to implement a comprehensive corporate social responsibility (CSR) programme comprising of financial and practical support for a range of charitable and social organisations to make a meaningful difference in the community.

In support of our global health strategy, Seeing is Believing, we are actively contributing to tackle avoidable blindness in Pakistan with special focus on treatment of childhood blindness. As a result, Standard Chartered Modaraba partners with leading eye care organisation (Layton Rahmatulla Benevolent Trust Hospital - LRBT) to promote sustainable eye care services in the country.



Standard Chartered Modaraba staff actively participates in volunteering activities across the country. Our volunteering efforts focus on increasing general awareness about avoidable blindness among patients and assisting the LRBT staff in their daily activities with respect to registration of patients, initial screening, MIS generation and keeping records of the patients.

### Good housekeeping and business practices

We are mindful about minimising both direct and indirect negative impact on our environment arising from business activities.

Through good housekeeping practices such as minimising the use of paper, greater use of email for correspondence, adopting energy efficient technologies and practices at the workplace and responsible disposal of waste, we take special care of our environment.



Our business practices undertake a thorough assessment of the environmental and social impact of the projects that Standard Chartered Modaraba finances during the normal course of business. Having played a pioneering role in the introduction and subsequent development of Islamic Financing, we recognise the important role in supporting and sustaining our community. In particular, Standard Chartered Modaraba recognises the importance of working towards protecting the environment, a core philosophy behind Islamic Financial Services.

## Our Human Capital

### Training and development

Standard Chartered Modaraba continues to invest in the training and development of employees to create highly motivated, competent and innovative individuals and teams that deliver value for our mutual benefit. We embrace and strive to continuously improve our core values that guide our actions in the areas of human rights, the environment, prevention of bribery and anti-money laundering.

Training needs are assessed each year. In 2011-12, Standard Chartered Modaraba conducted an Islamic finance training course for the entire Standard Chartered Modaraba team. Additionally, Anti-Money Laundering, Terrorist Financing and Anti-Bribery- Mitigating Bribery Risk E-learning courses have been (developed by SC Group) duly completed as mandatory courses by all employees. In line with our strategy to multiply leadership capacity, leadership training was imparted to selected employees.

Furthermore, staff is encouraged to acquire professional qualification as part of their career enrichment. During the year, six of our staff were elevated from their positions as part of our job enrichment strategy.

### Employment type and diversity

Standard Chartered Modaraba encourages gender diversity, therefore Standard Chartered Modaraba employees were 81% male and 19% female as of June 30, 2012.

### Employee Engagement Survey

Standard Chartered Modaraba conducts an engagement survey annually to assess employees' views about their relationships within the workplace with the line managers and colleagues. The survey assesses employee satisfaction level and the quality of the communication. The survey enables employees to feel valued and helps Standard Chartered Modaraba improve employee engagement, drive performance and business outcomes and help retention of talent.



Standard Chartered Modaraba recognises and rewards performance and service excellence to create a better working environment. During the year, six employees having served Standard Chartered Modaraba for more than fifteen years were recognised for their commitment and dedication towards achievement of Standard Chartered Modaraba's objectives at the Silver Jubilee Celebration.

Four employees also received spot awards. Staff is regularly appreciated and achievements are highlighted through communication by the Managing Director/ CEO.

Four employees also received spot awards. Staff is regularly appreciated and achievements are highlighted through communication by the Managing Director/ CEO.



## Our Team



Photograph taken at the silver jubilee celebration of Standard Chartered Modaraba  
on May 19, 2012

**Our Achievements**



Standard Chartered Modaraba won the Management Association of Pakistan's 28th Corporate Excellence Award 2012 for the 'Equity Investment Instruments' category presented to Raheel Q. Ahmad-CEO SCM by the Finance Minister, Dr. Abdul Hafeez Shaikh.



Some of SCM's awards and achievements during the last 25 years

## Long Serving Staff



Syed Ghulam Abbas



Mohammad Arif Daya



Maria Wilson



Latif Hussain Shah



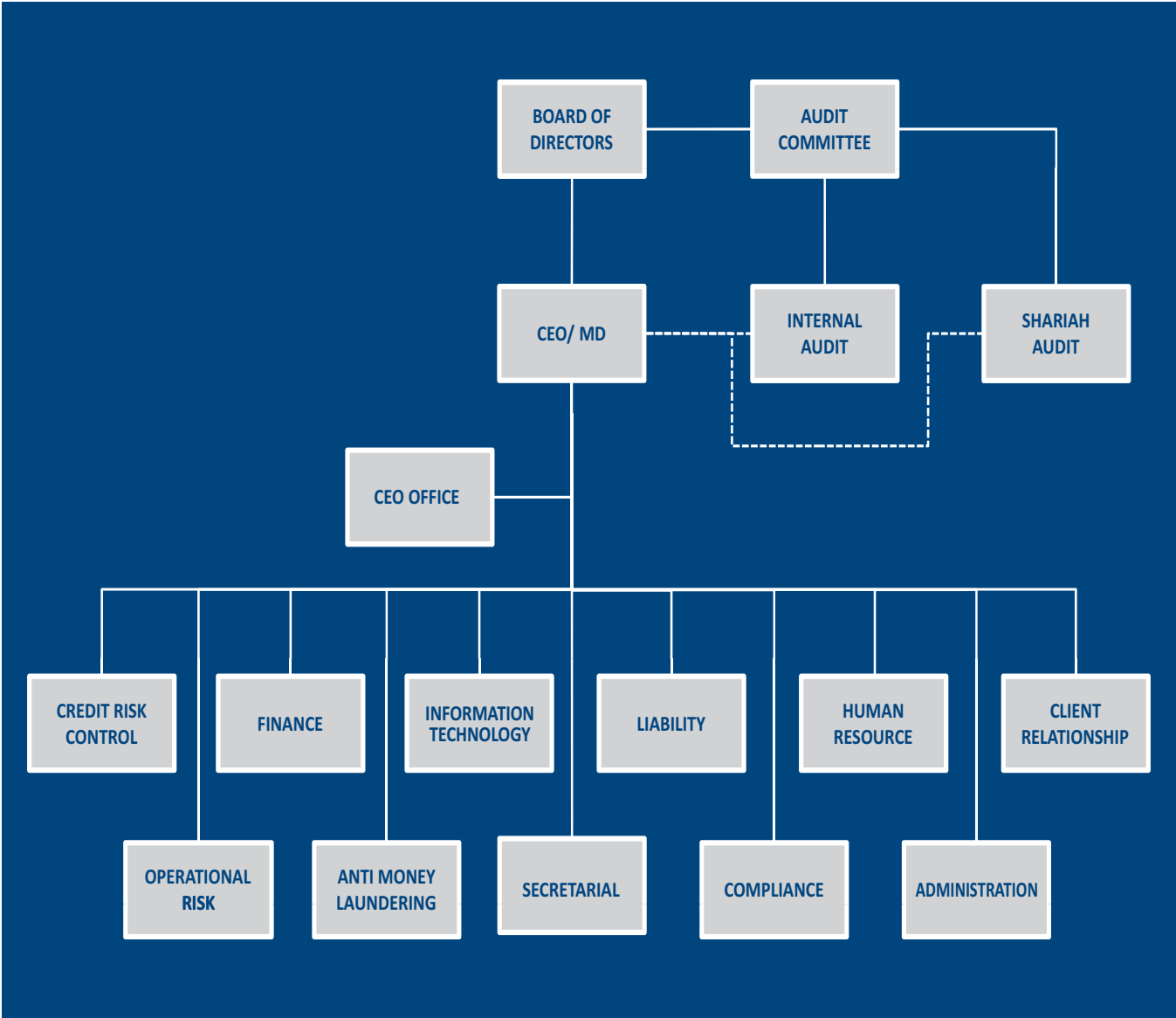
Gloria Fernandes



Mirza Amir Sultan

SCM in its Silver Jubilee Celebration has recognized the services of staff that have served in SCM for more than 15 years with dedication and commitment towards the achievement of SCM objectives.

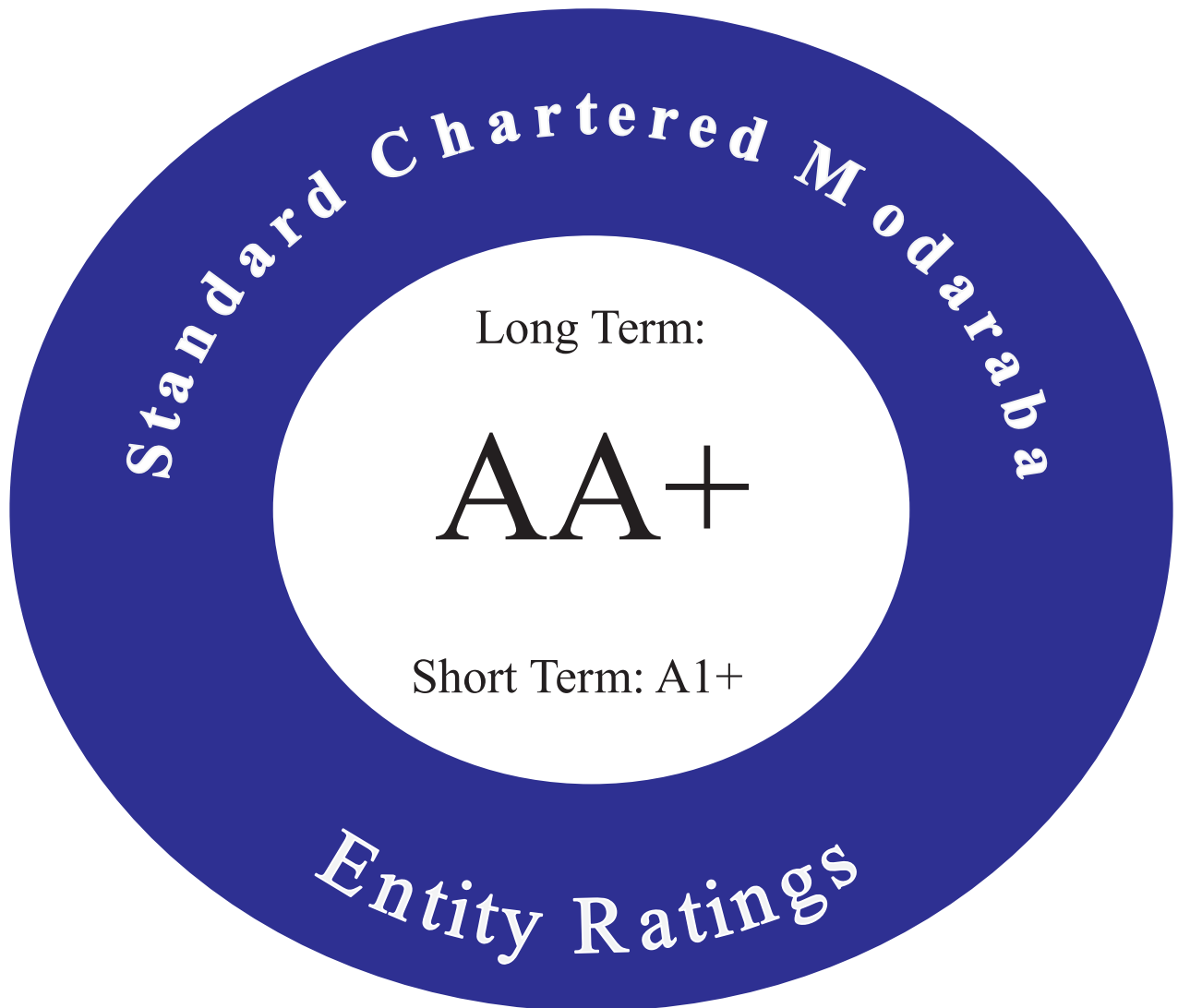
# Organogram







The Pakistan Credit Rating Agency Limited



## Notice of Annual Review Meeting

Notice is hereby given that the thirteenth Annual Review Meeting of certificate-holders of Standard Chartered Modaraba (SCM) will be held on Tuesday, October 16, 2012 at 10:00 a.m. at Institute of Chartered Accountants of Pakistan, Chartered Accountants Avenue, Clifton Karachi to review the performance of the Modaraba for the year ended June 30, 2012.

The certificate-holders whose names appear on the Register of certificate-holders of SCM as on October 08, 2012 will be eligible to attend the Annual Review Meeting.

On behalf of the Board



**Muhammad Siddique**

Company Secretary  
Standard Chartered Services of Pakistan (Pvt) Ltd  
Managers of Standard Chartered Modaraba.  
September 11, 2012

**Note:** CDC account holders will have to follow the undermentioned guidelines as laid down in Circular-1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan:

- In case of individuals the account holder and/or person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate their identity by showing original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting, (CDC account holders are also requested to bring their participant ID no. and account no in CDS).
- In case of corporate entity the board of directors' resolution/ power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

### REQUEST TO CERTIFICATE HOLDERS

Please note that all companies are required to annually submit to Securities & Exchange Commission of Pakistan, Form 'A' and Annual Statement of Collection / Deduction of Withholding Tax from dividend payments under section 150 of Income Tax Ordinance, 2001 to Income Tax Authorities. Above statutory returns now require Computerized NIC and NTN numbers of all the certificate-holders.

We, therefore, request all the certificate-holders to submit their CNIC and NTN numbers through a duly signed letter by the respective certificate-holder.

## Twenty Sixth Report of the Directors of Modaraba Company

For the year ended June 30, 2012

The Board of Directors of Standard Chartered Services of Pakistan (Private) Limited, the Management Company of Standard Chartered Modaraba (SCM), is pleased to present the twenty sixth Directors' report of SCM, together with audited financial statements and auditors' report thereon for the year ended June 30, 2012.

### 1. Economy

According to the latest Economic Survey, GDP growth accelerated to 3.7% in FY12 from 3% in FY11. The main growth drivers are record government spending and an accommodative monetary policy. Government deficit increased to 7.4% of GDP in FY12 against a budgetary target of 4.7%, due to higher subsidies and lower than targeted tax collection. Similarly, household consumption growth has risen sharply by 11.6% y/y on higher rural incomes, record-high remittances and increased bank lending to the private sector. In FY13 the government targets 4.3% GDP growth.

However, risks remain to the macroeconomic outlook due to sharp drop in investment spending and the ongoing energy crisis. The Pakistan Rupee (PKR) has come under significant pressure, down 5.4% YTD to 94.4 by end June 2012, due to widening C/A deficit and large debt repayments. The State Bank of Pakistan's FX reserves declined to USD 10.8 billion by end-June 2012, from peak levels of USD 14.8 billion in June 2011.

Financing the widening deficit and meeting large external debt payments will be a challenge. Pakistan is scheduled to make USD 4.6 billion of debt repayments in FY13, including USD 3 billion to the IMF. Pakistan is likely to get some reprieve from decline in oil prices and improved relations with the US. Following the re-opening of transit trade route for NATO forces in Afghanistan, the US administration has released USD 1.1 billion to the government for military assistance. This will help strengthen the FX reserve position and lower the government deficits.

### 1. Operating Results and Business Overview

	<b>June 30, 2012 (PKR '000')</b>	June 30, 2011 (PKR '000')
<b>Balance Sheet</b>		
Certificate capital	<b>453,835</b>	453,835
Total equity	<b>960,694</b>	938,070
Investment in Ijarah finance and Ijarah Assets	<b>4,419,914</b>	3,324,495
Investments in Diminishing Musharika and Sukuks	<b>1,159,141</b>	438,212
Redeemable capital	<b>3,163,448</b>	2,025,639
<b>Profit and Loss</b>		
Revenue (net of Ijarah assets depreciation)	<b>555,660</b>	403,905
Financial charges	<b>348,265</b>	224,186
Provisions / Impairments (net of reversals/ recoveries)	<b>25,661</b>	28,211
Operating expenses	<b>67,322</b>	53,315
Profit before management fee	<b>114,412</b>	98,194
Net profit	<b>100,911</b>	86,607

	<b>June 30, 2012 (PKR '000')</b>	June 30, 2011 (PKR '000')
Appropriations		
Net profit for the year	<b>100,911</b>	86,607
Add: Un appropriated profit brought forward	<b>337</b>	9,338
Profit available for appropriation	<b>101,248</b>	95,945
Profit distribution @ 17.50% (2011 @17.25%)	<b>79,421</b>	78,287
Statutory reserve	<b>20,182</b>	17,321
	<b>99,603</b>	95,608
Unappropriated profit carried forward	<b>1,645</b>	337
Earnings per certificate	<b>2.22</b>	1.91

By the Grace of Allah, considering the general business environment, your Modaraba's performance during the year has been excellent. The Modaraba's net profit increased by 16.52% to Rs. 100.91 million as compared to Rs. 86.61 million during corresponding period of last year. Your Modaraba continued focusing on raisings funds from the general public through Certificates of Musharika (CoMs). Thus, the balance of CoMs has increased by 63% to Rs. 2,842 million, as at June 30, 2012 (the highest ever in the sector) as compared to Rs. 1,747 million as at the close of last year. Without compromising credit quality, Modaraba's investment in Ijarah finance, Ijarah assets, Murabaha finance, Diminishing Musharika, Term Deposits and House Finance Diminishing Musharika have increased by 49.48% to Rs. 5,729 million as against Rs. 3,833 million last year. Total assets have increased by 47.36% to Rs. 6,132 million as against Rs. 4,161 million last year. SCM is the first Modaraba in Pakistan whose asset base has exceeded Rs. 6 billion as at June 30, 2012. The growth in the business has been driven mainly by deepening relationships with selective clientele and initiating relationships with good names. The asset portfolio has a good mix of multi-nationals, large and medium sized local corporate and selective SME relationships.

Standard Chartered Modaraba manages and monitors risk exposure very prudently. The evaluation of borrower's credit profile including repayment ability is made at the time of grant of facility. Regular oversight of disbursements is made by the Client Relationships team post disbursement. Further, there are Portfolio Management and Early Alert committees which are responsible to ensure portfolio monitoring and timely alerts for possible untoward scenarios.

Your Modaraba, while remaining cautious and prudent during the prevailing economic slowdown, is focused to take benefit of good opportunities that add value of all stake holders. Our sensible and proactive risk management approach has always helped us to maintain a leading position in the Modaraba sector. We will continue to place emphasis on customer service with focus on quality clients.

Your Modaraba has Operational Risk Committees which have been established to ensure that an appropriate risk management framework is in place at the grass root level, and to report, monitor and manage operational and reputational risks

### 3. Shariah Compliance and Shariah Audit Mechanism

In February 2012, the Specialized Companies Division (Modaraba Wing) of the Securities and Exchange Commission of Pakistan issued a circular regarding Shariah Compliance and Shariah Audit mechanism for Modarbas. The circular requires every modaraba to have a Shariah Advisor on its panel. Accordingly, The

Board appointed Mufti Abdul Sattar Laghari as the Shariah Advisor. The Board has also appointed a Shariah Internal Auditor to oversee the implementation of Shariah principles and report the findings to the Board of Directors and Shariah Advisor as per the circular.

#### 4. Profit Distribution

The Board in its meeting held on September 11, 2012 has approved the distribution of profit of Rs. 1.75 (17.5%) per certificate of Rs. 10 each, subject to deduction of zakat and tax at source where applicable, for the year ended June 30, 2012.

An amount of Rs. 20.18 million has been transferred to statutory reserve in compliance with the Prudential Regulations for Modarabas which require that not less than 20% and not more than 50% of the Modaraba's after tax profit be transferred to such reserve till such time as the reserve equals 100% of the paid up capital. Thereafter, a sum not less than 5% of the after tax profit is to be transferred.

#### 5. External Annual Audit

The financial statements of SCM have been audited without any qualification by the auditors namely M/s A.F. Ferguson & Co., Chartered Accountants.

#### 6. Entity Ratings

Your Modaraba continues to maintain entity ratings of AA+ (Double A plus) and A1+ (Single A one plus) for long-term and short-term respectively. These ratings are the highest in the entire modaraba and leasing sectors and have been assigned by Pakistan Credit Rating Agency (Private) Limited. These ratings indicate low expectation of credit risk and exceptionally strong capacity for timely payment of financial commitments.

#### 7. Social Responsibility

Your Modaraba believes that an organisation can be about more than the profit it makes. As the biggest modaraba operating in Pakistan, by doing things the right way, we can have a positive social and economic impact where we operate. We remain committed to building a sustainable business, simultaneously creating value for our shareholders, supporting our clients and customers and contributing to the communities where we live and work. Throughout 2011-12, SCM continued to implement corporate social responsibility (CSR) strategy comprising of financial and practical support for charitable and social organizations following our group's brand promise, "Here for good". Through our CSR strategy we seek to strengthen relationships between our business, community, government and customers. It is pertinent to mention that SCM allows its employees two paid leaves in the year to participate in volunteering activities.

"Seeing is Believing" is a Standard Chartered group's initiative to tackle avoidable blindness with special focus on treatment of cataract blindness. SCM partners with a leading eye-care organisation in the country-Layton Rahmatulla Benevolent Trust Hospital (LRBT). During the year, SCM staff participated in volunteering activities at LRBT in Karachi. SCM staff has also visited Hussaini Blood Bank for volunteering.

#### 8. Corporate Excellence Award

Your Modaraba won the Management Association of Pakistan's (MAP) 28th Corporate Excellence Awards. The award was presented by the Honourable Finance Minister Hafiz Sheikh in a ceremony held at Marriott Hotel on April 10, 2012 in the category of Equity Investment Instruments Sector.

The Corporate Excellence Award, instituted by MAP in 1982, is given to those listed companies which can be viewed as models of corporate governance and management systems that promote long term value for

all stakeholders. MAP Corporate Excellence Award has become a prestigious accolade in the corporate sector of Pakistan.

The award was based on a long set of quantitative and qualitative evaluations featuring Corporate Governance, Leadership, Social Responsibility, Customer and Market focus, Human Resource Focus, Operations Risk management, IT Governance, IT Infrastructure, service delivery and data security. The evaluations were followed by the interview conducted by the MAP team of the entire management team of SCM.

SCM's linkage and close alignment with the Standard Chartered Group has helped strengthen the governance and management standard to the best international practices.

## 9. Silver Jubilee Celebration

You should be proud of the fact that having been formed in 1987 as a single product Modaraba, your modaraba has now grown into a multi product Modaraba with the highest asset base in the industry. To mark the completion of 25 years of SCM, a Silver Jubilee Celebration was organized on May 19, 2012. The event was attended by key clientele, ex employees and other key stakeholders of SCM.

## 10. Corporate and Financial Reporting Framework

- The financial statements, prepared by the management of the modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the modaraba have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements, Accounting estimates used are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements and any departures there from have been adequately disclosed. The system of internal control, which is in place is sound in design and has been effectively implemented. It is being continuously reviewed by internal audit and other such procedures. The process of review will continue and any weakness in controls will be removed.
- Board is satisfied with the Modaraba's ability to continue as a going concern.
- There has been no material departure from the best practices of code of corporate governance, as detailed in the listing regulations except as disclosed in statement of compliance with the code of corporate governance.
- Key operating and financial data for the last six years in summarized form is included in this annual report.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as on June 30, 2012 except for those disclosed in the financial statements.
- The value of investments made by staff retirement benefit funds based on their respective un-audited accounts as at June 30, 2012 is as follows:

Provident Fund	Rs. 14.017 million
Gratuity Fund	Rs. 6.025 million

- During the year, seven (07) meetings of the Board of Directors were held. Attendance by each director was as follows:

Name of Director	No. of Meetings Attended
Mohsin A. Nathani	07
Raheel Q. Ahmad	07
Najam Siddiqi	05
Imran Sarwar	07
Khurram S. Khan	04
Shariq Saleem (resigned in December 2011)	01
Shezad Arif (appointed in December 2011)	02

Leave of absence was granted to directors who could not attend some of the board meetings.

- The pattern of holding of certificates by the certificate-holders is included in this annual report.
- The Directors, CEO, CFO/ Company Secretary and their spouses and minor children did not carry out any transaction in the certificates of Modaraba during the year.

## 11. The Board of Directors

The following changes have taken place in board of directors of the Standard Chartered Services of Pakistan (Private) Limited (the Company), the management company of Standard Chartered Modaraba since the Directors' report for the year ended June 30, 2011:

- On account of his new assignment with Standard Chartered Group, Mr. Shariq Saleem decided to step down and has resigned from the office of Director of Standard Chartered Services of Pakistan (Private) Limited. Mr. Shezad Arif, Head of Small & Medium Enterprises, Standard Chartered Bank (Pakistan) Limited has been appointed as Director of Standard Chartered Services of Pakistan (Private) Limited in his place.

The Board places on record its appreciation for the valuable services rendered by Mr. Shariq Saleem during his association with the company and extends a warm welcome and cooperation to the newly appointed director in performing their fiduciary responsibility.

## 12. Our People

People at SCM are crucial to the delivery of its sustainable business model. In our continuous drive to make SCM a great place to work, focus is on attracting the best talent across our footprint and employee engagement. At SCM we believe high performance is not just about generating high profits; it is about living our values, demonstrating the many ways that we are Here for good.

The Board places on record its appreciation of the services rendered by the staff members responsible for SCM affairs. Modaraba's record of achievements would not have been possible without the efforts of every employee. It is indeed the dedication and hard work of each one of them that has brought SCM to where it stands now. We will continue to invest in our Human Resources.

### 13. Auditors

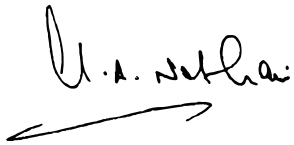
On the recommendation of Audit Committee, the Board has approved the appointment of the Messrs. A. F. Ferguson & Co., Chartered Accountants, as auditors for the year ending June 30, 2013, subject to approval by the Registrar of Modaraba Companies and Modarabas.

### 14. Acknowledgment

The Board would like to thank the SECP for its continued guidance and support.

The Board would also like to thank its valued customers and investors for their continued trust and support.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'M. A. Nathani', with a long horizontal flourish underneath.

Mohsin A. Nathani, Chairman

September 11, 2012



## Pattern of holding of certificates by the Certificate-holders as at June 30, 2012

Number of Certificate holders	Certificate holding		Total Certificates held
	From	To	
1,384	1	50	27,045
620	51	100	45,147
3,813	101	500	1,149,316
1,171	501	1,000	892,921
1,404	1,001	5,000	3,075,239
227	5,001	10,000	1,638,491
322	10,001	375,000,000	38,555,371
<b>8,941</b>			<b>45,383,530</b>

Certificate-holders Category	Number of Certificate-holders	Number of Certificate Held	Percentage %
INDIVIDUAL	8,833	20,154,015	44.41
FINANCIAL INSTITUTIONS *	12	11,745,505	25.88
INVESTMENT COMPANIES	5	40,454	0.09
INSURANCE COMPANIES	11	5,662,104	12.48
MODARABAS / MODARABA MANAGEMENT COMPANIES**	9	4,680,951	10.31
JOINT STOCK COMPANIES	44	1,799,256	3.96
OTHERS			
- Trustees Of New Jubilee Ins Co. Ltd S.P.F	1	212,231	0.47
- Trustees Al-Bader Welfare Trust	1	209,031	0.46
- Trustees D.G.Khan Cement Co. Ltd.Emp. P.F	1	165,000	0.36
- Trustees Aloo & Minocher Dinshaw Chr. Trust	1	149,595	0.33
- Trustees Of Haji Mohammed Welfare Trust	1	129,150	0.28
- Trustees-Thal Ltd Emp Provident Fund	1	121,880	0.27
- Trustees Of Sana Ind Ltd. Emp Grat Fund	1	76,293	0.17
- Trustees Mrs. Khorshed H. Dinshaw & Mr. Hoshang N. E. Dinshaw	1	68,072	0.15
- Trustee Of Habib Modaraba Management Ltd. Employees	1	37,522	0.08
- Trustees D.N.E. Dinshaw Charity Trust	1	23,843	0.05
- Managing Comm. Of Bismillah Taqee Found	1	21,829	0.05
- The Al-Malik Charitable Trust	1	21,553	0.05
- Zoroastrian Co-Op. Housing Society Ltd.	1	18,191	0.04
- Trustees, Mama School Emp. Gratuity Fund.	1	12,127	0.03
- Mang. Com. Karachi Zarhosti Banu Mandal	1	9,702	0.02
- Trustees Of Faroukh & Roshen Karani Trust	1	6,063	0.01
- Trustee Of First Habib Modaraba Employees Contributory P.F	1	5,684	0.01
- Trustees Adamjee Enterprises Staff P.F	1	5,000	0.01
- Trustees Thal Ltd Emp. Ret. Benifit Fund	1	4,851	0.01
- Trustee Gul Ahmed Textile Mills Ltd Emp P.F	1	1,183	0.00
- Islamic Inv. Co. Of The Gulf (Bahrain)	1	872	0.00
- Managing Committee Ghazali Education Trust	1	577	0.00
- The Nazir	1	430	0.00
- United Executors & Trustees Co.	1	210	0.00
- Punjab Coop Board For Liquidation	1	171	0.00
- Trustee Crescent Leasing Corp. Ltd. P.F	1	143	0.00
- M/S Ghulaman-E-Abbas Educational	1	42	0.00
	<b>8,941</b>	<b>45,383,530</b>	<b>100.00</b>

\* Includes Standard Chartered Bank (Pakistan) Limited (4,538,353 certificates)

\*\* Includes Standard Chartered Services of Pakistan (Private) Limited (4,538,353 certificates)

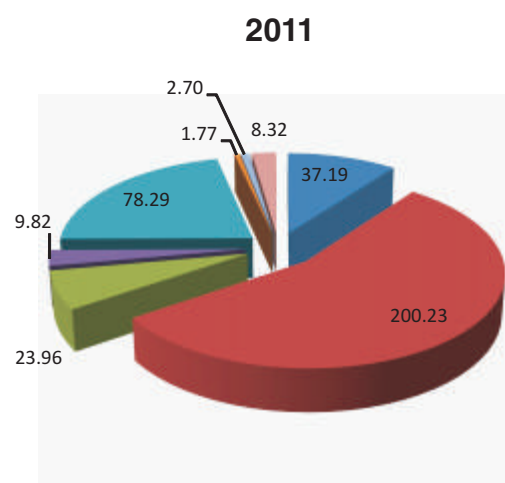
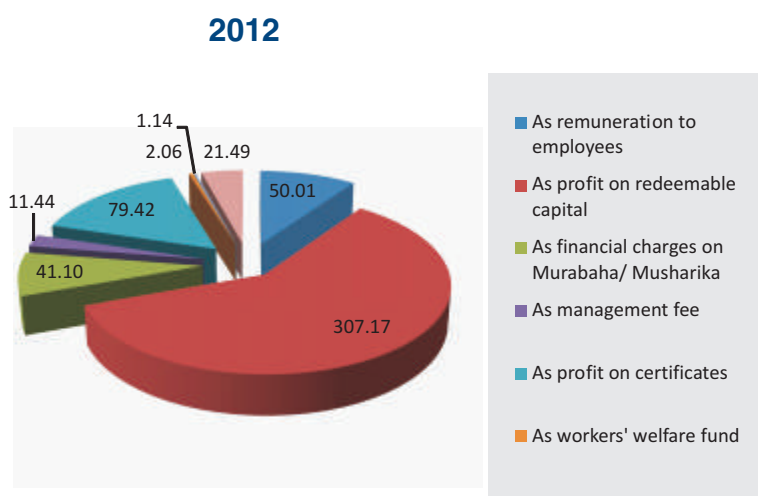
## Pattern of holding of certificates by the Certificate-holders as at June 30, 2012

### Additional Information

Categories of Certificate-holders	Number	Certificates held	Percentage
Associated Companies, Undertakings And Related Parties			
Standard Chartered Services of Pakistan (Private) Limited		4,538,353	10.00
Standard Chartered Bank (Pakistan) Limited		4,538,353	10.00
Mutual Funds	2	9,076,706	20.00
	-	-	-
Directors, CEO & their Spouse and Minor Children	-	-	-
Executives	-	-	-
Public Sector Companies and Corporations	6	6,242,203	13.75
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas	23	1,695,194	3.74
Certificate-holders holding five percent or more certificates in the Modaraba (other than those reported above)	-	-	-

## Statement of Value Added

	2012		2011	
	Rupees	%	Rupees	%
Revenue from operations (net of depreciation of Ijarah assets)	525,523,288		389,826,964	
Other Income/ charges	4,475,755		(14,132,892)	
	<u>529,999,043</u>		<u>375,694,072</u>	
Operating expenses	16,176,431		13,429,947	
Value Added	<u>513,822,612</u>	<u>100</u>	<u>362,264,125</u>	<u>100</u>
Distributed as follows:				
To Employees As remuneration	50,010,500	9.73	37,186,767	10.27
To finance providers As profit on redeemable capital	307,165,642	59.78	200,226,694	55.27
As financial charges on Murabaha/Musharika	41,099,181	8.00	23,958,857	6.61
To Modarib As management fee	11,441,203	2.23	9,819,373	2.71
To Certificate-holders As profit on certificates	79,421,178	15.46	78,286,589	21.61
To Revenue Authorities As workers' welfare fund	2,059,417	0.40	1,767,487	0.49
Retained in Business As depreciation	1,135,256	0.22	2,698,074	0.74
As capital reserves and retained earning	21,490,236	4.18	8,320,284	2.30
	<u>513,822,612</u>	<u>100.00</u>	<u>362,264,125</u>	<u>100.00</u>



## Six Years' Financial Summary

	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12
<b>Key Financial Figures (Rs. In millions)</b>						
<b>Profit &amp; Loss Account</b>						
Revenues from operations	253	273	397	408	404	556
Financial charges	133	129	237	244	224	348
Impairment loss against doubtful debts	-	1	3	24	28	26
Net Profit	82	97	104	80	87	101
Dividend including Bonus certificates	86	73	75	77	78	79
<b>Balance Sheet</b>						
Certificate-holders' fund (cum dividend)	506	541	551	540	532	535
Reserves	354	352	372	388	406	426
Financing from financial institutions	318	989	363	9	457	494
Redeemable capital and deposits	1,303	1,088	1,942	2,413	2,493	3,857
Portfolio (other than staff finances)	2,519	2,943	3,299	3,123	3,740	5,539
Total disbursements	1,457	1,775	1,852	1,450	2,374	3,630
<b>Key Financial Ratios</b>						
Return on equity (%)	9.56	10.90	11.25	8.60	9.23	10.50
Financial charges cover ratio	1.62	1.33	2.28	3.05	2.59	3.45
Net profit ratio (%)	32.52	35.64	27.15	20.91	22.22	19.20
Income / Expense ratio	1.45	1.53	1.36	1.26	1.30	1.24
Debt / Equity ratio	1.98	1.97	2.10	2.24	2.65	4.36
<b>Shares and Earnings</b>						
Break-up value per certificate	19.89	19.66	20.35	20.46	20.67	21.17
Market value per certificate	13.60	12.50	9.35	9.45	10.07	12.45
Earning per certificate	1.90	2.14	2.29	1.76	1.91	2.22
Cash dividend per certificate	1.50	1.60	1.65	1.70	1.73	1.750
Bonus certificate (%)	5.00	-	-	-	-	-
Price earning ratio	7.16	5.83	4.08	5.37	5.28	5.60

## Horizontal Analysis

### Balance Sheet (%)

	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007
<b>ASSETS</b>						
Current assets						
Cash and bank balances	(53.91)	(71.24)	82.03	160.30	11.37	(76.45)
Loans and receivable - Term deposit receipts	114.29	(76.67)	100.00	-	-	-
Ijarah rentals receivable	100.53	63.99	117.71	100.00	-	-
Advances, deposits, prepayments and other receivables	9.92	1,379.78	(63.14)	(56.09)	10,683.35	(88.41)
Short-term Murabaha receivable	-	-	(100.00)	31.08	542,038.05	(62.36)
Current portion of investment in Sukuk certificates	(51.85)	(55.00)	(65.00)	328.57	100.00	(100.00)
Current portion of Diminishing Musharika	(30.70)	9,933.37	48.31	(84.37)	1,349.65	(37.90)
Current portion of net investment in Ijarah finance	(71.22)	(56.22)	(11.52)	(25.76)	0.76	10.57
Taxation recoverable	(11.51)	3.82	109.59	1.95	0.85	-
Non - current assets						
Loans and advances to employees	(47.55)	200.09	(26.98)	39.84	146.79	370.94
Long-term portion of investment in Sukuk certificates	(17.46)	(78.35)	(35.21)	(18.63)	100.00	-
Long-term portion of Diminishing Musharika	215.70	72.31	983.90	182.87	(49.53)	21.36
Long-term portion of net investment in Ijarah finance	(99.76)	(77.41)	(70.99)	(44.44)	16.03	11.87
Ijarah assets	46.16	52.06	42.69	100.00	-	-
Fixed assets in own use	(29.70)	(28.55)	(10.20)	(9.58)	(7.02)	(24.94)
<b>TOTAL ASSETS</b>	<b>47.36</b>	<b>15.42</b>	<b>4.88</b>	<b>11.74</b>	<b>20.12</b>	<b>0.12</b>
<b>LIABILITIES AND EQUITY</b>						
Current liabilities						
Musharika finance	8.29	4,719.35	(95.93)	(76.50)	353.81	(54.33)
Murabaha finance	100.00	-	(100.00)	100.00	(100.00)	-
Current maturity of security deposits	(38.18)	22.56	36.22	14.28	22.72	39.90
Creditors, accrued and other liabilities	56.29	7.06	4.15	50.94	34.19	30.66
Advance Ijarah rentals received	(61.54)	8.79	74.14	100.00	-	-
Current portion of redeemable capital	55.11	1.98	38.81	125.65	(23.68)	34.32
Deferred Murabaha income	-	-	(100.00)	29.03	100.00	-
Unclaimed profit distribution	8.25	8.35	8.76	6.92	7.15	2.35
Non - current liabilities						
Long-term portion of security deposits	77.20	40.71	(15.92)	14.51	47.89	16.50
Long-term portion of Morabaha finance	-	-	-	-	-	(100.00)
Long-term portion of redeemable capital	132.51	(74.76)	(33.19)	15.59	(44.94)	27.70
<b>TOTAL LIABILITIES</b>	<b>60.44</b>	<b>20.42</b>	<b>6.48</b>	<b>15.11</b>	<b>28.38</b>	<b>(2.29)</b>
<b>CERTIFICATE HOLDERS' EQUITY</b>						
Certificate capital						
Issued, subscribed and paid-up certificate capital	-	-	-	-	-	-
Certificate issued as fully paid in cash	-	-	-	-	14.68	36.41
Certificate issued as fully paid bonus certificates	-	-	-	-	-	-
Reserves	4.98	4.46	4.29	5.91	(0.61)	(6.07)
Unappropriated profit	3.11	(9.10)	(11.26)	12.08	17.59	55.72
	2.41	1.02	0.54	3.51	3.78	5.25
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>47.36</b>	<b>15.42</b>	<b>4.88</b>	<b>11.74</b>	<b>20.12</b>	<b>0.12</b>

### Profit & Loss Account (%)

	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007
Ijarah finance income	(71.81)	(57.04)	(43.65)	13.18	14.74	14.27
Ijarah rentals earned	56.60	54.62	256.41	100.00	-	-
Profit on Sukuk certificates	(100.00)	(92.11)	(31.83)	41.55	100.00	-
Income on Murabaha transactions	-	(100.00)	(78.90)	56,356.96	627.48	(63.86)
Income on Diminishing Musharika transactions	111.73	328.62	100.00	-	(100.00)	(53.96)
Income on deposits with bank	46.45	(11.28)	1,108.73	4.65	148.45	66.67
	<b>49.72</b>	<b>32.03</b>	<b>65.53</b>	<b>88.03</b>	<b>8.02</b>	<b>3.63</b>
Financial charges	55.35	(8.10)	2.84	83.27	(2.68)	(11.03)
Depreciation on assets under Ijarah arrangements	57.77	56.43	258.06	100.00	-	-
Impairment against Ijarah assets	(100.00)	100.00	-	-	-	-
Reversal of provision in respect of Ijarah finances - net	(151.72)	169.52	(136.05)	168.65	(1,439.58)	(97.33)
Provision in respect of Diminishing Musharika	100.00	-	-	-	-	-
Reversal / (Provision) in respect of Sukuk certificates	(102.29)	10.31	100.00	-	-	-
Other income	122.16	(47.05)	84.67	65.71	(17.05)	101.47
Administrative and operating expenses	26.27	14.06	13.03	(3.54)	11.16	14.19
Modaraba management company fee	16.52	5.67	(19.51)	6.78	18.37	34.30
Provision for workers' welfare fund	16.52	(52.87)	100.00	-	-	-
Profit for the year	<b>16.52</b>	<b>8.42</b>	<b>(23.12)</b>	<b>6.78</b>	<b>18.37</b>	<b>33.63</b>

## Vertical Analysis

### Balance Sheet (%)

	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007
<b>ASSETS</b>						
Current assets						
Cash and bank balances	0.17	0.54	2.16	1.24	0.53	0.58
Loans and receivable - Term deposit receipts	2.45	1.68	8.32	-	-	-
Ijarah rentals receivable	2.20	1.62	1.14	0.55	-	-
Advances, deposits, prepayments and other receivables	3.90	5.23	0.41	1.16	2.95	0.03
Short-term Murabaha receivable	-	-	-	3.96	3.37	0.00
Current portion of investment in Sukuk certificates	0.02	0.05	0.13	0.39	0.10	-
Current portion of Diminishing Musharika	0.92	1.95	0.02	0.02	0.11	0.01
Current portion of net investment in Ijarah finance	1.39	7.10	18.72	22.20	33.41	39.83
Taxation recoverable	0.26	0.44	0.49	0.24	0.27	0.32
Non - current assets						
Loans and advances to employees	0.01	0.01	0.01	0.01	0.01	0.00
Long-term portion of investment in Sukuk certificates	0.11	0.20	1.05	1.70	2.34	-
Long-term portion of Diminishing Musharika	17.86	8.34	5.58	0.54	0.21	0.51
Long-term portion of net investment in Ijarah finance	0.00	1.52	7.78	28.12	56.56	58.56
Ijarah assets	70.69	71.27	54.10	39.77	-	-
Fixed assets in own use	0.03	0.06	0.09	0.11	0.13	0.17
<b>TOTAL ASSETS</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>LIABILITIES AND EQUITY</b>						
Current liabilities						
Musharika finance	8.06	10.97	0.26	6.76	32.17	8.51
Murabaha finance	8.66	-	-	3.78	-	3.91
Current maturity of security deposits	1.17	2.80	2.64	2.03	1.98	1.94
Creditors, accrued and other liabilities	3.62	3.41	3.68	3.70	2.74	2.45
Advance Ijarah rentals received	0.68	2.61	2.76	1.66	-	-
Current portion of redeemable capital	50.54	48.01	54.34	41.06	20.33	32.00
Deferred Murabaha income	-	-	-	0.14	0.12	-
Unclaimed profit distribution	0.42	0.57	0.60	0.58	0.61	0.68
Non - current liabilities						
Long-term portion of security deposits	10.13	8.43	6.91	8.62	8.41	6.83
Long-term portion of Morabaha finance	-	-	-	-	-	-
Long-term portion of redeemable capital	1.05	0.67	3.05	4.78	4.62	10.09
<b>TOTAL LIABILITIES</b>	<b>84.33</b>	<b>77.46</b>	<b>74.24</b>	<b>73.13</b>	<b>70.99</b>	<b>66.42</b>
<b>CERTIFICATE HOLDERS' EQUITY</b>						
Certificate capital						
Issued, subscribed and paid-up certificate capital						
Certificate issued as fully paid in cash	4.65	6.85	7.91	8.29	9.27	11.13
Certificate issued as fully paid bonus certificates	2.75	4.06	4.68	4.91	5.49	5.75
Reserves	6.94	9.75	10.77	10.83	11.43	13.81
Unappropriated profit	1.32	1.89	2.40	2.84	2.83	2.89
	15.67	22.54	25.76	26.87	29.01	33.58
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

### Profit & Loss Account (%)

	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007
Ijarah finance income						
Ijarah finance income	1.24	6.57	20.20	59.33	98.57	92.79
Ijarah rentals earned	92.92	88.84	75.86	35.23	-	-
Profit on Sukuk certificates	-	0.02	0.28	0.68	0.90	-
Income on Murabaha transactions	-	-	0.57	4.47	0.01	0.00
Income on Diminishing Musharika transactions	4.45	3.14	0.97	-	-	6.98
Income on deposits with bank	1.39	1.43	2.12	0.29	0.52	0.23
<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
Financial charges						
Financial charges	(20.73)	(19.98)	(28.71)	(46.21)	(47.41)	(52.63)
Depreciation on assets under Ijarah arrangements	(68.71)	(65.21)	(55.04)	(25.44)	-	-
Impairment against Ijarah assets	-	(0.28)	-	-	-	-
Reversal of provision in respect of Ijarah finances - net	(0.08)	0.22	0.11	(0.50)	(0.35)	0.03
Provision in respect of Diminishing Musharika	(1.49)	-	-	-	-	-
Reversal / (Provision) in respect of Sukuk certificates	0.04	(2.46)	(2.94)	-	-	-
Other income	1.79	1.21	3.02	2.70	3.07	3.99
Administrative and operating expenses	(4.01)	(4.75)	(5.50)	(8.06)	(15.70)	(15.26)
Modaraba management company fee	(0.68)	(0.88)	(1.09)	(2.25)	(3.96)	(3.61)
Provision for workers' welfare fund	(0.12)	(0.16)	(0.44)	-	-	-
<b>Profit before taxation</b>	<b>6.01</b>	<b>7.72</b>	<b>9.40</b>	<b>20.24</b>	<b>35.64</b>	<b>32.52</b>

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance (Code) contained in Chapter XI of the listing regulations of Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed Modaraba is managed in compliance with the best practices of corporate governance.

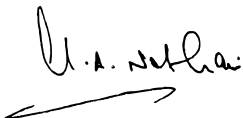
Regardless of the fact that Standard Chartered Services of Pakistan (Private) Limited, the Management Company of Standard Chartered Modaraba, is a private limited company, the Board of Directors of management company are pleased to confirm that the Code is being complied with in all material respects (pertaining to operations of the Modaraba).

The Modaraba management company (hereafter referred to as the Company) has applied the principles contained in the Code in the following manner.

1. At present the Board comprises of six directors of which five are non-executives and only the Chief Executive Officer (CEO) is an executive director. None of the directors is an independent director.
2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this company.
3. All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurring on the board on December 14, 2011 was filled up by the directors within thirty days.
5. The company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
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 were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the board. The terms of appointment and remuneration package of non-executive directors are not approved by the board as they are nominees of Standard Chartered Bank (Pakistan) Limited.
8. The meetings of the board were presided over by the Chairman and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The board has arranged one training program for its directors during the year.
10. The board has approved appointment of Head of Internal Audit, including his remuneration and terms and conditions of employment. No appointment of CFO and Company Secretary has been made during the year.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the board.

13. The directors, CEO and executives do not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of shareholding.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the Code with respect to the Modaraba.
15. The board has formed an Audit Committee. It presently comprises of three members who are non-executive directors including the chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Modaraba as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has set up an effective internal audit function which is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Modaraba.
18. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. The 'closed period', prior to the announcement of interim/ final results, and business decisions, which may materially affect the market price of Modaraba's securities, was determined and intimated to directors, employees and stock exchanges.
21. Material/ price sensitive information has been disseminated among all market participants at once through stock exchanges.
22. We confirm that all other material principles contained in the Code have been complied with except:
  - a) The Board of Directors have not formed a Human Resource and Remuneration (HR & R) Committee as required under the revised Code of Corporate Governance. The Board is in the process of seeking dispensation from the Securities and Exchange Commission of Pakistan in respect of this requirement; and
  - b) Appointment of a person other than Chief Financial Officer (CFO) as the secretary of the Audit Committee. Subsequent to the year ended June 30, 2012 the Head of Internal Audit has been appointed as the secretary of the Audit Committee.

On behalf of the Board



Mohsin A. Nathani  
Chairman  
September 11, 2012



## **REVIEW REPORT ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Standard Chartered Services of Pakistan (Private) Limited, the Management Company of Standard Chartered Modaraba, to comply with the requirements of Chapter XI of the Listing Regulations of the Karachi Stock Exchange and the Lahore Stock Exchange 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 of the Modaraba. 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 Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

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 a) of Listing Regulation 35 of the Karachi Stock Exchange (Guarantee) Limited and the Lahore Stock Exchange (Guarantee) Limited requires the Modaraba to place before the Board of Directors for their consideration and approval of 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 alternative pricing mechanism. All such transactions are also required to be separately placed before the Audit Committee of the Management Company. We are only required and have ensured compliance of the requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee of the Management Company. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

Based on our review nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Modaraba for the year ended June 30, 2012. We draw our attention to paragraph 22 (a) and (b) of the annexed statement which highlights that the Modaraba has not complied with the requirements of clause (xxv) and (xxx) of the Code of Corporate Governance with respect to formation of Human Resource and Remuneration (HR & R) Committee and appointment of a person other than the Chief Financial Officer as the secretary of the Audit Committee.

### **A. F. Ferguson & Co.**

Chartered Accountants

Dated: September 21, 2012

Karachi

## Auditor's Report to the Certificate Holdres

We have audited the annexed balance sheet of Standard Chartered Modaraba as at June 30, 2012 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

These financial statements are the modaraba management company's responsibility (Standard Chartered Services of Pakistan (Private) Limited) which 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 above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by the modaraba management company in respect of Standard Chartered Modaraba, as well as, evaluating the overall presentation of the above said 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 management company in respect of Standard Chartered 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 accordance 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 the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at June 30, 2012 and of the profit, its changes in equity and cash flows for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Modaraba and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

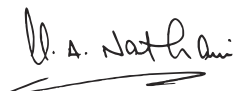
**A. F. Ferguson & Co.**  
 Chartered Accountants  
 Engagement Partner: **Rashid A. Jafer**  
 Dated: September 21, 2012  
 Karachi

**BALANCE SHEET** AS AT JUNE 30, 2012

	Note	June 30, 2012	June 30, 2011
		(Rupees)	
<b>ASSETS</b>			
Current assets			
Cash and bank balances	3	10,314,667	22,378,264
Loans and receivable - Term deposit receipts	4	150,000,000	70,000,000
Ijarah rentals receivable	5	135,102,788	67,373,434
Advances, deposits, prepayments and other receivables	6	239,104,072	217,527,415
Current portion of investment in Sukuk certificates	7	1,015,620	2,109,375
Current portion of Diminishing Musharika	8	103,856,410	80,980,321
Current portion of net investment in Ijarah finance	9	85,045,163	295,503,090
Taxation recoverable		16,087,270	18,179,491
Total current assets		740,525,990	774,051,390
Non - current assets			
Loans and advances to employees		315,390	601,310
Long-term portion of investment in Sukuk certificates	7	6,770,840	8,203,125
Long-term portion of Diminishing Musharika	8	1,047,497,978	346,919,093
Long-term portion of net investment in Ijarah finance	9	148,501	63,324,379
Ijarah assets	9	4,334,720,195	2,965,667,860
Fixed assets in own use	10	1,646,242	2,341,898
Total non-current assets		5,391,099,146	3,387,057,665
<b>TOTAL ASSETS</b>		<b>6,131,625,136</b>	<b>4,161,109,055</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Musharika finance	11	494,366,261	456,528,711
Murabaha finance	12	530,967,500	-
Current maturity of security deposits	13	71,988,162	116,455,506
Creditors, accrued and other liabilities	14	221,722,284	141,867,914
Advance Ijarah rentals received		41,686,343	108,399,003
Current portion of redeemable capital	15	3,094,473,420	1,997,908,776
Unclaimed profit distribution		25,476,612	23,534,996
Total current liabilities		4,480,680,582	2,844,694,906
Non - current liabilities			
Long-term portion of security deposits	13	621,275,125	350,614,544
Long-term portion of redeemable capital	15	68,975,000	27,730,000
Total non - current liabilities		690,250,125	378,344,544
<b>TOTAL LIABILITIES</b>		<b>5,170,930,707</b>	<b>3,223,039,450</b>
<b>CERTIFICATE HOLDERS' EQUITY</b>			
Authorised certificate capital 50,000,000 (2011: 50,000,000) certificates of Rs 10 each	16	500,000,000	500,000,000
Certificate capital			
Issued, subscribed and paid-up certificate capital 28,500,000 (2011: 28,500,000) certificates of Rs. 10 each issued as fully paid in cash		285,000,000	285,000,000
16,883,530 (2011: 16,883,530) certificates of Rs. 10 each issued as fully paid bonus certificates	16	168,835,300	168,835,300
		453,835,300	453,835,300
Reserves	17	425,793,013	405,610,730
Unappropriated profit		81,066,116	78,623,575
		960,694,429	938,069,605
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6,131,625,136</b>	<b>4,161,109,055</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	18		

The annexed notes 1 to 34 form an integral part of these financial statements.

For Standard Chartered Services of Pakistan (Private) Limited  
(Management Company)

  
Mohsin Ali Nathani  
Chairman

  
Raheel Qamar Ahmad  
Chief Executive

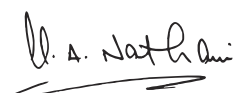
  
Najam Siddiqi  
Director

**PROFIT AND LOSS ACCOUNT** FOR THE YEAR ENDED JUNE 30, 2012

	Note	June 30, 2012	June 30, 2011
		(Rupees)	
Ijarah finance income		20,781,503	73,731,484
Ijarah rentals earned		1,560,783,754	996,693,109
Profit on Sukuk certificates		-	186,282
Income on Diminishing Musharika transactions		74,686,302	35,274,407
Income on deposits with bank		23,429,698	15,998,361
		<b>1,679,681,257</b>	<b>1,121,883,643</b>
Financial charges	19	(348,264,823)	(224,185,552)
Depreciation on assets under Ijarah arrangements	9.1	(1,154,157,969)	(731,544,392)
Impairment against Ijarah assets	9.1	-	(3,131,253)
		<b>177,258,465</b>	<b>163,022,446</b>
Provision in respect of Ijarah finances - net		(1,292,445)	2,498,701
Provision for doubtful Diminishing Musharika		(25,000,000)	-
Reversal / (charge) of provision in respect of Sukuk certificates	7.1.3	631,510	(27,578,125)
		<b>151,597,530</b>	<b>137,943,022</b>
Other income	20	30,136,690	13,565,498
Administrative and operating expenses	21	(67,322,187)	(53,314,788)
		<b>114,412,033</b>	<b>98,193,732</b>
Modaraba management company fee	22	(11,441,203)	(9,819,373)
Provision for workers' welfare fund	23	(2,059,417)	(1,767,487)
Profit before taxation		<b>100,911,413</b>	<b>86,606,872</b>
Taxation	2.12	-	-
Profit after taxation		<b>100,911,413</b>	<b>86,606,872</b>
Other comprehensive income for the year		-	-
Total comprehensive income for the year		<b>100,911,413</b>	<b>86,606,872</b>
Earnings per certificate	24	<b>2.22</b>	<b>1.91</b>

The annexed notes 1 to 34 form an integral part of these financial statements.

For Standard Chartered Services of Pakistan (Private) Limited  
(Management Company)

  
Mohsin Ali Nathani  
Chairman

  
Raheel Qamar Ahmad  
Chief Executive

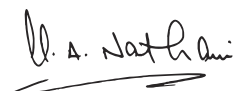
  
Najam Siddiqi  
Director

**CASH FLOW STATEMENT** FOR THE YEAR ENDED JUNE 30, 2012

	Note	June 30, 2012	June 30, 2011
		(Rupees)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		100,911,413	86,606,872
Adjustments for non cash and other items:			
Depreciation on fixed assets in own use	21	1,135,256	2,698,074
Depreciation on fixed assets under Ijarah arrangements	9.1	1,154,157,969	731,544,392
Impairment against Ijarah assets	9.1	-	3,131,253
Gain on disposal of fixed assets	20	(4,000)	(55,000)
Profit on disposal of assets under Ijarah arrangements	20	(13,374,827)	(7,433,433)
Provision/ (reversal) in respect of Ijarah finances		1,292,445	(2,498,701)
(Reversal)/ provision in respect of Sukuk certificates	7.1.3	(631,510)	27,578,125
Provision for doubtful Diminishing Musharika		25,000,000	-
Profit on Sukuk certificates		-	(186,282)
Income on deposits with bank		(23,429,698)	(15,998,361)
Profit on:			
- Redeemable capital	19	307,165,642	200,226,695
- Murabaha finance	19	442,374	-
- Musharika finances	19	16,304,571	10,103,884
		1,468,058,222	949,110,646
		1,568,969,635	1,035,717,518
(Increase) / decrease in assets			
Advances, deposits, prepayments and other receivables		(20,637,696)	(208,366,789)
Ijarah rentals receivable		(69,152,339)	(27,343,120)
Diminishing Musharika		(748,454,974)	(225,757,644)
Purchase of assets under Ijarah arrangements		(2,786,930,933)	(1,945,317,934)
Proceeds from disposal of assets under Ijarah arrangements		277,095,456	202,791,442
Investment in Ijarah finance -net		273,764,345	600,109,697
Loans and advances to employees		285,920	(400,933)
		(3,074,030,221)	(1,604,285,281)
Increase / (decrease) in liabilities			
Creditors, accrued and other liabilities		29,129,330	20,382,959
Advance Ijarah rentals received		(66,712,660)	8,756,225
Security deposits		226,193,237	122,865,170
		188,609,907	152,004,354
		(1,316,450,679)	(416,563,409)
Profit received / (paid) on			
- Sukuk certificates		-	359,784
- Redeemable capital		(256,205,715)	(216,678,733)
- Musharika finances		(14,889,611)	(4,683,951)
Taxes paid		-	(668,505)
		(271,095,326)	(221,671,405)
Net cash used in operating activities		(1,587,546,005)	(638,234,814)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment in Sukuk certificates		3,157,550	4,687,500
Fixed capital expenditure	10	(439,600)	(1,762,459)
Proceeds from disposal of fixed assets		4,000	55,000
Income on deposits with bank		22,490,737	21,364,208
Net cash generated from investing activities		25,212,687	24,344,249
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Redeemable capital less repayments		1,137,809,644	(43,252,977)
Murabaha finances less repayments		530,967,500	-
Profit paid to certificate holders		(76,344,973)	(75,338,031)
Net cash generated from/ used in financing activities		1,592,432,171	(118,591,008)
Increase/ (decrease) in cash and cash equivalents		30,098,853	(732,481,573)
Cash and cash equivalents at the beginning of year		(364,150,447)	368,331,126
Cash and cash equivalents at end of the year	30	(334,051,594)	(364,150,447)

The annexed notes 1 to 34 form an integral part of these financial statements.

For Standard Chartered Services of Pakistan (Private) Limited  
(Management Company)

  
Mohsin Ali Nathani  
Chairman

  
Raheel Qamar Ahmad  
Chief Executive

  
Najam Siddiqi  
Director

**STATEMENT OF CHANGES IN EQUITY** FOR THE YEAR ENDED JUNE 30, 2012

	Certificate capital	Reserves		Sub Total	Unappropriated profit	Total
		Premium on modaraba certificates	Statutory reserve			
----- (Rupees) -----						
Balance as at June 30, 2010	453,835,300	55,384,700	332,904,656	388,289,356	86,490,078	928,614,734
Profit distribution for 2010 @ Rs. 1.7 per certificate	-	-	-	-	(77,152,001)	(77,152,001)
Total comprehensive income for the year ended June 30, 2011	-	-	-	-	86,606,872	86,606,872
Transfer to statutory reserve	-	-	17,321,374	17,321,374	(17,321,374)	-
Balance as at June 30, 2011	453,835,300	55,384,700	350,226,030	405,610,730	78,623,575	938,069,605
Profit distribution for 2011 @ Rs. 1.725 per certificate	-	-	-	-	(78,286,589)	(78,286,589)
Total comprehensive income for the year ended June 30, 2012	-	-	-	-	100,911,413	100,911,413
Transfer to statutory reserve	-	-	20,182,283	20,182,283	(20,182,283)	-
Balance as at June 30, 2012	<b>453,835,300</b>	<b>55,384,700</b>	<b>370,408,313</b>	<b>425,793,013</b>	<b>81,066,116</b>	<b>960,694,429</b>

The annexed notes 1 to 34 form an integral part of these financial statements.

For Standard Chartered Services of Pakistan (Private) Limited  
(Management Company)

  
Mohsin Ali Nathani  
Chairman

  
Raheel Qamar Ahmad  
Chief Executive

  
Najam Siddiqi  
Director

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

### 1 STATUS AND NATURE OF BUSINESS

Standard Chartered Modaraba (the Modaraba) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed thereunder and is managed by Standard Chartered Services of Pakistan (Private) Limited. The Management Company is a wholly owned subsidiary of Standard Chartered Bank (Pakistan) Limited. The address of its registered office is Standard Chartered Bank Building, I.I. Chundrigar Road, Karachi, Pakistan.

The Modaraba is a perpetual Modaraba and is primarily engaged in leasing / Ijarah of plant, machinery, motor vehicles (both commercial and private) and computer equipment etc. The Modaraba may also invest in commercial and industrial ventures suitable for the Modaraba. The Modaraba is listed on the Karachi and Lahore Stock Exchanges.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 2.1 Basis of preparation

##### 2.1.1 Statement of compliance

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

##### 2.1.2 Accounting Convention

These financial statements have been prepared under the historical cost convention.

##### 2.1.3 New and amended standards and interpretations that are effective in the current year

The following standards, amendments and interpretations to approved accounting standards have been published and are mandatory for the Modaraba's accounting period beginning on or after July 1, 2011:

- a) IFRS 7, 'Financial Instruments: Disclosures'. This amendment is effective from January 1, 2011. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment did

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

not have any significant impact on the Modaraba's financial statements during the current year.

- b) IFRS 7, 'Financial instruments: Disclosures'. This amendment is effective from July 1, 2011. The amendment aims to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment does not have any impact on the Modaraba's financial statements during the current year.
- c) IAS 1, 'Presentation of financial statements' (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any impact on the Modaraba's financial statements during the current year.
- d) IAS 24 (revised), 'Related party disclosures', issued in November 2009. It superseded IAS 24, 'Related Party Disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised standard does not have any impact on the Modaraba's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Modaraba's operations and are therefore not detailed in these financial statements.

### 2.1.4 New and amended standards and interpretations that are not yet effective

The following are the new and amended standards and interpretations that have been published and are mandatory for the Modaraba's accounting period beginning on or after July 1, 2012.

- IAS 1, 'Financial statement presentation' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented under 'other comprehensive income' (OCI) in the profit and loss account on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment will not have any significant effect on the Modaraba's financial statements.
- IAS 32, 'Financial instruments: Presentation', (effective January 1, 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The management of the Modaraba is in the process of assessing the impact of this amendment on the Modaraba's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 but are considered not to be relevant or do not have any significant effect on the Modaraba's operations and are, therefore, not detailed in these financial statements.



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

### 2.2 Islamic Financial Accounting Standard - 2

During the year ended June 30, 2008, Islamic Financial Accounting Standard 2 'Ijarah' issued by the Institute of Chartered Accountants of Pakistan which was notified by the Securities and Exchange Commission of Pakistan (the SECP) vide an SRO 431(1)/ 2007 dated May 5, 2007 was adopted. Under the above IFAS 2, the 'Ijarah' transactions are accounted for in the following manner:

- Muj`ir (lessors) shall present the assets subject to Ijarah in their balance sheet according to the nature of the asset, distinguished from the assets in own use.
- Costs, including depreciation on the assets given on Ijarah, incurred in earning the Ijarah income shall be recognised as an expense.
- Ijarah income shall be recognised in income on an accrual basis as and when the rental becomes due, unless another systematic basis is more representative of the time pattern in which the benefit of the use derived from the leased asset is diminished.
- SECP, vide its letter No. SC/ M/ RW/ SCM /2009 dated March 9, 2009, allowed that in case of Modarabas, IFAS-2 shall be applied for Ijarah transactions executed on or after July 1, 2008.

Consequently, in preparation of these financial statements the Modaraba has accounted for leasing transactions executed before July 01, 2008 as finance leases consistent with prior years and has treated the leasing transactions executed on or after July 01, 2008 in accordance with the requirements of IFAS 2.

### 2.3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates. It also requires the 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 historical experience including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Modaraba's financial statements or where judgment was exercised in the application of accounting policies are as follows:

- i) Determination and measurement of useful life and residual value of fixed assets and Ijarah assets (notes 2.10, 9 and 10).
- ii) Provision for potential Ijarah losses (notes 2.5.4 and 9.4)

### 2.4 Cash and cash equivalents

Cash and cash equivalents include cash and balances with banks in current and deposit accounts, cash in hand, musharika finance and other short term highly liquid investments with original maturities of three months or less.

### 2.5 Financial assets

The management of the Modaraba determines the appropriate classification of its financial assets in

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

accordance with the requirements of International Accounting Standard (IAS) 39: 'Financial instruments: Recognition and Measurement', at the time of acquisition of financial assets and re-evaluates this classification on a regular basis. The financial assets of the Modaraba have been classified in the following categories:

### 2.5.1 Classification

a) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

b) Held to maturity

These are financial assets with fixed or determinable payments and fixed maturity with the Modaraba having positive intent and ability to hold to maturity.

### 2.5.2 Initial recognition and measurement

Financial assets are initially recognised at fair value including transaction costs.

### 2.5.3 Subsequent measurement

Subsequent to initial recognition, loans and receivables and held to maturity financial assets are carried at amortised cost.

### 2.5.4 Impairment (including provision for potential Ijarah losses and write offs)

The carrying amount of the Modaraba's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment in any asset or group of assets. If such indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the profit and loss account. For loans and receivables, a provision for impairment is established when there is objective evidence that the Modaraba will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective profit rate.

Provision for non-performing leases, if any, is made in accordance with the requirements of the Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan (SECP) and is charged to the profit and loss account in the current period. Outstanding balances in net investment in Ijarah finance are written off when there is no realistic prospect of recovery.

### 2.5.5 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or have been realised or transferred and the Modaraba has transferred substantially all risks and rewards of ownership.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

### 2.5.6 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

### 2.6 Net Investment in Ijarah Finance

Ijarah financing entered prior to July 1, 2008 is accounted for as a finance lease whereby assets under Ijarah arrangements are presented as receivable at an amount equal to the present value of the minimum Ijarah payments, including estimated residual value, if any. Unearned income i.e. excess of aggregate rentals over the cost of the asset is recorded at the inception of the Ijarah and is amortised over the term of the Ijarah so as to produce a constant rate of return on net investment in Ijarah.

### 2.7 Receivable from terminated / matured contracts

These are stated net of impairment loss. Impairment loss is recognised for doubtful receivables on the basis of Prudential Regulations for Modarabas issued by the SECP or based on the judgment of management, whichever is higher. Bad debts are written off when identified.

### 2.8 Murabaha transactions

Under murabaha financing, funds disbursed for purchase of goods are recorded as 'advance for murabaha'. On culmination of murabaha i.e. sale of goods to customers, murabaha financings are recorded at the deferred sale price net of profit. Goods purchased but remaining unsold at the balance sheet date are recorded as inventories.

### 2.9 Financial liabilities

All financial liabilities are recognised at the time when the Modaraba becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Financial liabilities include musharika finance, murabaha finance, redeemable capital, unclaimed profit distribution, creditors and accrued and other liabilities. They are initially recognised at fair value and subsequently stated at amortised cost.

### 2.10 Fixed assets

#### 2.10.1 Tangible fixed assets

##### Owned assets

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Modaraba and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account as and when incurred.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

Depreciation on all fixed assets is charged to income using the straight-line method in accordance with the rates specified in note 10 to these financial statements and after taking into account residual value, if significant. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation is charged on additions from the month the asset is available for use and on disposals up to the month preceding the month of disposal.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the profit and loss account, in the period in which they arise.

### Ijarah assets

Assets leased out under Ijarah on or after July 1, 2008 are recorded as Ijarah assets and are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged to income applying the straight line method whereby the cost of an asset less salvage value is written off over the lease period, which is considered to be the estimated useful life of the asset.

### 2.10.2 Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only where it is probable that the future economic benefits associated with the asset will flow to the Modaraba and the cost of the item can be measured reliably. Amortisation is charged to income using the straight line method in accordance with the rates specified in note 10 to these financial statements. The useful lives and amortisation method are reviewed and adjusted, as appropriate, at each balance sheet date. Amortisation is charged from the month the asset is available for use while in the case of assets disposed of, it is charged till the month preceding the month of disposal.

Intangible assets having an indefinite useful life are stated at cost less accumulated impairment losses, if any. These assets are not amortised as they are expected to have an indefinite life and are marketable.

Gain and loss on disposal of intangible assets, if any, are taken to the profit and loss account, in the period in which they arise.

### 2.11 Loans, advances and other receivables

These are stated at cost less estimates made for doubtful receivables based on a review of all outstanding amounts at the balance sheet date. Balances considered bad and irrecoverable are written off when identified.

### 2.12 Taxation

#### Current

Provision for current taxation is based on taxable income for the year at the current rates of taxation after taking into account applicable tax credits, rebates and exemption available, if any. The income of non-trading modarabas is exempt from tax provided that not less than 90% of their profits are

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

distributed to the certificate-holders. The Modaraba intends to continue availing the tax exemption by distributing at least 90% of its profits to the certificate holders.

### Deferred

Deferred tax is recognised using the balance sheet liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts appearing in the financial statements. Deferred tax liability is recognised for all taxable temporary differences. Deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilised. Deferred tax asset and liability is measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date. However, the Modaraba has not recognised any amount in respect of deferred tax in these financial statements as the Modaraba intends to continue availing the tax exemption in future years by distributing at least 90% of its profits to its certificate holders every year.

### 2.13 Creditors, accrued and other liabilities

These are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services.

### 2.14 Provisions

Provisions are recognised 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 amount of obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

### 2.15 Staff retirement benefits

The Modaraba operates:

- i) a recognised provident fund for all eligible employees; and
- ii) an approved funded defined contribution gratuity scheme for all permanent employees. Gratuity is payable to employees on completion of the prescribed qualifying period of service under the scheme.

Contributions to the provident fund and gratuity fund are made at the rate of 10% and 8.33% respectively, of the basic salary of employees.

Obligation for contribution to defined contribution plans are recognised as an employee benefit expense in the profit and loss account when they are due.

### 2.16 Revenue recognition

- The Modaraba follows the finance method for recognising income on Ijarah contracts commencing prior to July 1, 2008 and accounted for as finance leases. Under this method the

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

unearned income i.e. the excess of aggregate Ijarah rentals (including residual value) over the cost of the asset under Ijarah facility is deferred and then amortised over the term of the Ijarah, so as to produce a constant rate of return on net investment in the Ijarah. Gains / losses on termination of Ijarah contracts are recognised as income on receipt basis. Income on Ijarah is recognised from the date of delivering of the respective assets to the mustajir.

- For Ijarah arrangements commencing on or after July 1, 2008, Ijarah rentals are recognised as income on accrual basis, as and when rentals become due. In case of Ijarah arrangements with staggered rentals, the income is recognised on a straight line basis over the Ijarah term.
- Unrealised income in respect of non-performing Ijarah finance is held in suspense account, where necessary, in accordance with the requirements of the Prudential Regulations for Modarabas issued by the SECP.
- Documentation charges, front end fees and other Ijarah related income are taken to profit and loss account when they are realised.
- Profit on Musharika arrangements is recognised under the effective mark-up rate method based on the amount outstanding.
- The Modaraba follows the finance method in recognising income on murabaha finance. Under this method the deferred murabaha income i.e. the excess of aggregate murabaha installments over the cost of the asset under murabaha facility is deferred and then amortised over the term of the murabaha, so as to produce a constant rate of return on murabaha finance. Documentation charges, front-end fee and other murabaha income are recognised as income on a receipt basis.
- Profit on diminishing musharika is recognised on an accrual basis.
- Profit on modaraba finance is recognised on the basis of pre-agreed profit / loss sharing ratio when actual gain / loss on transaction is computed upon termination / completion of transaction.
- Mark-up / return on deposits / investments is recognised on accrual basis using the effective profit rate method.
- Other income is recognised on accrual basis.
- Dividend income is recognised when the Modaraba's right to receive the dividend is established.
- Income from shariah non-compliant avenues is not recognised in the profit and loss account and is classified as charity payable.

### 2.17 Proposed profit distribution to certificate holders

Profit distribution to certificate holders is recognised as a liability in the period in which such distribution is announced.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

### 2.18 Functional and presentational currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Modaraba operates. The financial statements are presented in Pakistani Rupees, which is the Modaraba's functional and presentational currency.

### 2.19 Segment reporting

As per IFRS 8, operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Chief Executive Officer has been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

The Chief Executive Officer is responsible for the Modaraba's entire product portfolio and considers the business to have a single operating segment. The Modaraba's asset allocation decisions are based on a single integrated investment strategy and the Modaraba's performance is evaluated on an overall basis.

### 2.20 Earnings per certificate

Earnings per certificate is calculated by dividing the profit after taxation for the year by the weighted average number of certificates outstanding during the year.

	Note	June 30, 2012	June 30, 2011
<b>3 CASH AND BANK BALANCES</b>			(Rupees)
With banks in current accounts		<b>4,032,396</b>	2,333,752
With bank in deposit account	3.1	<b>6,262,212</b>	20,024,512
Cash in hand		<b>20,059</b>	20,000
		<b>10,314,667</b>	<b>22,378,264</b>

**3.1** This represents balance held with the Standard Chartered Bank (Pakistan) Limited (a related party). The deposit account carries profit at the rate of 6% (2011: 6.24%). The balance with bank in deposit account and Term Deposit Receipts (Note 4) have been kept in order to comply with the requirement of guidelines issued by the Securities and Exchange Commission of Pakistan (SECP) for maintaining the prescribed liquidity against the Certificates of Musharika issued by the Modaraba.

	Note	June 30, 2012	June 30, 2011
<b>4 LOANS AND RECEIVABLES</b>			(Rupees)
Term deposit receipts	4.1	<b>150,000,000</b>	<b>70,000,000</b>

**4.1** The rate of profit on Term Deposit Receipts ranges from 10.50% to 10.90% per annum (2011: 12.95% per annum). This balance has been kept in order to comply with the requirement of guidelines issued by the Securities and Exchange Commission of Pakistan (SECP) for maintaining the prescribed liquidity against the Certificates of Musharika issued by the Modaraba.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

	Note	June 30, 2012	June 30, 2011
<b>5 IJARAH RENTALS RECEIVABLE</b>			(Rupees)
Ijarah rentals receivable - considered good		<b>140,023,523</b>	71,484,418
Less: allowance for potential Ijarah losses		<b>(2,475,485)</b>	(1,052,500)
Less: profit held in suspense		<b>(2,445,250)</b>	(3,058,484)
		<b>135,102,788</b>	<b>67,373,434</b>
<b>6 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES</b>			
Loans and advances to employees		<b>425,130</b>	441,078
Advances to suppliers and others		<b>63,000</b>	26,000
Deposits		<b>50,000</b>	50,000
Prepayments		<b>1,377,659</b>	3,572,814
Accrued profit on Sukuk certificates	6.1	-	-
Accrued profit on Term Deposits Receipts		<b>963,798</b>	24,837
Accrued profit on Diminishing Musharika	6.2	<b>12,887,431</b>	17,458,284
Advance against assets under Ijarah arrangements		<b>219,841,700</b>	195,794,600
Others		<b>3,495,354</b>	159,802
		<b>239,104,072</b>	<b>217,527,415</b>
6.1 Accrued profit on Sukuk certificates		<b>30,854,550</b>	23,372,864
Less: Profit held in suspense		<b>(30,854,550)</b>	(23,372,864)
		-	-
6.2 Accrued profit on Diminishing Musharika		<b>19,122,123</b>	17,458,284
Less: Profit held in suspense		<b>(6,234,692)</b>	-
		<b>12,887,431</b>	<b>17,458,284</b>
<b>7 INVESTMENT IN SUKUK CERTIFICATES - Held to maturity</b>			
Investment in Sukuk Certificates	7.1	<b>59,733,075</b>	62,890,625
Less: Provision in respect of Sukuk certificates	7.1.2 & 7.1.3	<b>(51,946,615)</b>	(52,578,125)
		<b>7,786,460</b>	10,312,500
Less : Current portion of investment in Sukuk Certificates		<b>(1,015,620)</b>	(2,109,375)
		<b>6,770,840</b>	<b>8,203,125</b>



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

### 7.1 Particulars of Investment in Sukuk Certificates

Name of investee company	Number of certificates				Profit / mark-up rate	Terms	Redemption terms		Security	Principal Amount outstanding as at June 30, 2012	Provision held as at June 30, 2012	Carrying Amount As at June 30, 2012
	As at July 01, 2011	Purchases during the year	Sales during the year	As at June 30, 2012			Principal	Profit				

-----Rupees-----

Sukuk certificates of Rs.5,000 each unless stated otherwise

Security Leasing Corporation Limited (SLCL)	5,000	-	-	5,000	-	4 years	note 7.1.1	note 7.1.1	First charge over specific leased assets and associated lease receivables with 25% security margin	9,733,075	(1,946,615)	7,786,460
Shahraj Fabrics (Private) Limited	10,000	-	-	10,000	14.13%	5 years	14 equal quarterly installment beginning from 21st month from the date of disbursement	Semi-annually in arrears	First pari passu charge over all present and future plant and machinery of the Company, equivalent to the Facility amount with a 25% margin	50,000,000	(50,000,000)	-

**7.1.1** On March 18, 2010, the terms of the redemption of principal outstanding balance and payment of profit thereon were restructured. Under the revised terms, principal redemptions were to commence from April 2010 in 48 equal monthly installments payable in arrears, and profit was to be payable at the rate of 6% for the first eighteen months commencing from the date of restructuring (3% cash and a 3% accrual basis with the accrued profits payable in equal installments from the 43rd to the 48th months) and at the rate of 1 month KIBOR thereafter i.e. from the nineteenth month. However, during the prior year, the terms of the revised agreement were restructured once again with effect from March 19, 2011. Under the revised agreement, all future profit payments as per the first restructuring agreement were waived and the redemptions of the outstanding principal balance would continue as per the original restructuring agreement. Current year terms were revised third time. Under the revised terms, remaining principal will be paid in 120 equal monthly installments starting from February 19, 2012 against previous arrangement of paying the same in 26 equal monthly installments. The management, as a result of SLCL's deteriorating financial condition, has provided for the amount of outstanding principal by 20 percent.

**7.1.2** Sukuk of Shahraj Fabrics (Private) Limited was overdue and accordingly classified as 'loss' as per the requirements of the Prudential Regulations for Modarabas. Consequently, management had made a provision at the rate of 100 percent in prior year and suspended the accrued profit upto June 30, 2012.

### 7.1.3 Movement in provision against Sukuk Certificates

	Note	June 30, 2012	June 30, 2011
			(Rupees)
Opening balance		52,578,125	25,000,000
(Reversal)/ charge for the year		(631,510)	27,578,125
Closing balance		51,946,615	52,578,125

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

	Note	June 30, 2012	June 30, 2011
(Rupees)			
<b>8 DIMINISHING MUSHARIKA</b>			
Housing Finance - Staff	8.1	39,800,642	25,662,161
- Other individuals (including ex-employees)		213,621,600	17,988,267
		253,422,242	43,650,428
Others - corporate customers	8.4	922,932,146	384,248,986
Less: provision for doubtful receipts		(25,000,000)	-
		897,932,146	384,248,986
		1,151,354,388	427,899,414
Less: current portion of Diminishing Musharika		(103,856,410)	(80,980,321)
		1,047,497,978	346,919,093

8.1 These represent finance provided to employees and officers of the Modaraba under diminishing musharika arrangement for renovation, construction and purchase of house. These carry profit rate ranging from 14.92% to 15.02% (2011: 2%) per annum and are repayable on monthly basis over a maximum period of 20 years (2011: 25 years).

	<b>Officers and employees</b>	
	June 30, 2012	June 30, 2011
(Rupees)		
<b>8.2</b> Reconciliation of carrying amounts of finance provided to employees and officers under diminishing musharika arrangement		
Opening balance	25,662,161	27,141,770
Disbursements during the year	14,691,953	6,595,200
Receipts during the year	(553,472)	(3,079,824)
Transfer to diminishing musharika - others	-	(4,994,985)
Closing balance	39,800,642	25,662,161

8.3 The maximum aggregate amounts due from officers and employees at the end of any month during the year was Rs 39,845,954 (2011: 25,662,161).

8.4 This includes an amount of Rs. 125,000,000 due from a customer which was restructured and converted into a diminishing musharika facility last year. Under the revised terms, the customer is required to make principal payments in seventeen quarterly installments commencing from February 15, 2012. Considering the financial position of the customer, the management has provided for the amount of outstanding principal by 20 percent.

	Note	June 30, 2012	June 30, 2011
(Rupees)			
<b>9 IJARAH FINANCE</b>			
Ijarah contracts commencing July1, 2008 - accounted for under IFAS 2	9.1	4,334,720,195	2,965,667,860
Ijarah contracts prior to July 1, 2008 - accounted for as finance leases	9.2	85,193,664	358,827,469
Less: Current portion of net investment in Ijarah finance	9.2	(85,045,163)	(295,503,090)
		148,501	63,324,379

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

### 9.1 Assets under Ijarah arrangements

The following is a statement of Ijarah assets:

	-----Year ended June 30, 2012-----		Total
	Plant, Machinery & Equipment	Motor vehicles	
	------(Rupees)-----		
At July 01, 2011			
Cost	2,167,987,950	1,966,688,576	4,134,676,526
Accumulated depreciation	(599,109,813)	(566,767,600)	(1,165,877,413)
Impairment against Ijarah assets	(3,131,253)		(3,131,253)
Net book value	<u>1,565,746,884</u>	<u>1,399,920,976</u>	<u>2,965,667,860</u>
Additions	1,483,683,964	1,303,246,969	2,786,930,933
Disposals			
Cost	(207,030,534)	(484,081,243)	(691,111,777)
Depreciation	138,057,961	289,333,187	427,391,148
	(68,972,573)	(194,748,056)	(263,720,629)
Depreciation charge for the year	(567,611,506)	(586,546,463)	(1,154,157,969)
Impairment against Ijarah assets	-	-	-
Closing net book value	<u>2,412,846,769</u>	<u>1,921,873,426</u>	<u>4,334,720,195</u>
At June 30, 2012			
Cost	3,444,641,380	2,785,854,302	6,230,495,682
Accumulated depreciation	(1,028,663,358)	(863,980,876)	(1,892,644,234)
Impairment against Ijarah assets	(3,131,253)	-	(3,131,253)
Net book value	<u>2,412,846,769</u>	<u>1,921,873,426</u>	<u>4,334,720,195</u>
	-----Year ended June 30, 2011-----		Total
	Plant, Machinery & Equipment	Motor vehicles	
	------(Rupees)-----		
At July 01, 2010			
Cost	1,217,549,184	1,276,578,220	2,494,127,404
Accumulated depreciation	(284,456,339)	(259,287,485)	(543,743,824)
Net book value	<u>933,092,845</u>	<u>1,017,290,735</u>	<u>1,950,383,580</u>
Additions	1,063,351,766	881,966,168	1,945,317,934
Disposals			
Cost	(112,913,000)	(191,855,812)	(304,768,812)
Depreciation	49,622,906	59,787,897	109,410,803
	(63,290,094)	(132,067,915)	(195,358,009)
Depreciation charge for the year	(364,276,380)	(367,268,012)	(731,544,392)
Impairment against Ijarah assets	(3,131,253)	-	(3,131,253)
Closing net book value	<u>1,565,746,884</u>	<u>1,399,920,976</u>	<u>2,965,667,860</u>
At June 30, 2011			
Cost	2,167,987,950	1,966,688,576	4,134,676,526
Accumulated depreciation	(599,109,813)	(566,767,600)	(1,165,877,413)
Impairment against Ijarah assets	(3,131,253)		(3,131,253)
Net book value	<u>1,565,746,884</u>	<u>1,399,920,976</u>	<u>2,965,667,860</u>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

### 9.2 Net Investment in Ijarah Finance

Note	June 30, 2012			June 30, 2011		
	Not later than one year	Later than one year and less than five years	Total	Not later than one year	Later than one year and less than five years	Total
----- (Rupees) -----						
Minimum ijarah payments receivable	43,253,957	158,847	43,412,804	212,510,640	39,792,429	252,303,069
Add: Residual value	45,011,610	-	45,011,610	104,899,703	27,766,295	132,665,998
Gross investment in Ijarah finance	88,265,567	158,847	88,424,414	317,410,343	67,558,724	384,969,067
Less: Unearned finance income	3,220,404	10,346	3,230,750	21,771,573	4,234,345	26,005,918
Allowance for potential						
Ijarah losses	9.4	-	-	130,540	-	130,540
Suspended income	9.5	-	-	5,140	-	5,140
Net Investment in Ijarah finance	<b>85,045,163</b>	<b>148,501</b>	<b>85,193,664</b>	295,503,090	63,324,379	358,827,469

9.3 The Modaraba has entered into various Ijarah agreements for periods ranging from 3 to 6 years (2011: 3 to 6 years). Security deposits ranging from 0% to 65% (2011: 0% to 50%) are obtained at the time of disbursement. The rate of profit implicit in Ijarah finance ranges from 13.19% to 21% (2011: 8.50% to 21%) per annum.

### 9.4 Allowance for potential Ijarah losses

	June 30, 2012			June 30, 2011		
	Specific	General	Total	Specific	General	Total
----- Rupees -----						
Opening Balance	130,540	-	130,540	130,540	3,551,201	3,681,741
Charge for the year	-	-	-	-	-	-
Reversal during the year	(130,540)	-	(130,540)	-	(3,551,201)	(3,551,201)
Amount written off during the year	-	-	-	-	-	-
Closing Balance	-	-	-	130,540	-	130,540

9.4.1 As at June 30, 2012, Ijarahs with outstanding principal of Rs. nil (2011: Rs 0.131 million) have been classified as non-performing as per the requirements of the Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan.

### 9.5 Suspended Income - net investment in Ijarah Finance

	June 30, 2012	June 30, 2011
(Rupees)		
Balance at beginning of the year	5,140	4,490,888
Income suspended during the year	-	-
Reversals during the year	(5,140)	(4,485,748)
	-	5,140

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

### 9.6 Contractual rentals receivable- Ijarah contracts commencing July 1, 2008

	June 30, 2012				June 30, 2011			
	Not later than one year	Later than one and not later than five years	Later than five years	Total	Not later than one year	Later than one and not later than five years	Later than five years	Total
	----- (Rupees) -----							
Rentals receivable	1,907,042,566	3,224,511,717	450,328	5,132,004,611	1,291,368,835	2,363,694,234	60,474	3,655,123,543
Residual value	65,292,442	722,678,125	-	787,970,567	29,792,045	458,202,299	-	487,994,344
Total future Ijarah payments receivable	<b>1,972,335,008</b>	<b>3,947,189,842</b>	<b>450,328</b>	<b>5,919,975,178</b>	1,321,160,880	2,821,896,533	60,474	4,143,117,887

### 10 FIXED ASSETS IN OWN USE

	-----Year ended June 30, 2012-----				
	Furniture and fittings	Office equipment appliances and computer systems	Motor vehicles	Total	Intangible assets Computer software
	----- (Rupees) -----				
At July 01, 2011					
Cost	1,564,442	5,358,698	879,000	7,802,140	3,354,389
Accumulated depreciation / amortisation	(927,625)	(4,603,182)	(879,000)	(6,409,807)	(2,404,824)
Net book value	636,817	755,516	-	1,392,333	949,565
Additions	50,000	389,600	-	439,600	-
Disposals					
Cost	(25,000)	(134,000)	-	(159,000)	-
Depreciation	25,000	134,000	-	159,000	-
	-	-	-	-	-
Depreciation / amortisation charge for the year	(268,491)	(498,780)	-	(767,271)	(367,985)
Closing net book value	418,326	646,336	-	1,064,662	581,580
At June 30, 2012					
Cost	1,589,442	5,614,298	879,000	8,082,740	3,354,389
Accumulated depreciation / amortisation	(1,171,116)	(4,967,962)	(879,000)	(7,018,078)	(2,772,809)
Net book value	418,326	646,336	-	1,064,662	581,580
Depreciation / amortisation rate % per annum	33.33	20 and 33.33	33.33		33.33

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2012

-----Year ended June 30, 2011-----					
	Owned Assets			Total	Intangible assets
	Furniture and fittings	Office equipment, appliances and computer systems	Motor vehicles		Computer software
----- (Rupees) -----					
At July 01, 2010					
Cost	1,885,764	10,154,331	879,000	12,919,095	2,257,697
Accumulated depreciation / amortisation	(973,699)	(8,319,216)	(348,667)	(9,641,582)	(2,257,697)
Net book value	912,065	1,835,115	530,333	3,277,513	-
Additions	545,997	119,770	-	665,767	1,096,692
Disposals					
Cost	(867,319)	(4,915,403)	-	(5,782,722)	-
Depreciation	867,319	4,915,403	-	5,782,722	-
	-	-	-	-	-
Depreciation / amortisation charge for the year	(821,245)	(1,199,369)	(530,333)	(2,550,947)	(147,127)
Closing net book value	636,817	755,516	-	1,392,333	949,565
At June 30, 2011					
Cost	1,564,442	5,358,698	879,000	7,802,140	3,354,389
Accumulated depreciation / amortisation	(927,625)	(4,603,182)	(879,000)	(6,409,807)	(2,404,824)
Net book value	636,817	755,516	-	1,392,333	949,565
Depreciation / amortisation rate % per annum	33.33	20 and 33.33	33.33		33.33

**10.1** There were no disposals of fixed assets having net book value exceeding Rs. 50,000 individually.

	Note	June 30, 2012	June 30, 2011
(Rupees)			
<b>11 MUSHARIKA FINANCE</b>			
Secured Musharika with: an associated undertaking	11.1	<b>494,366,261</b>	456,528,711
<b>11.1</b> The total facility for musharika finance available from Standard Chartered Bank (Pakistan) Limited amounts to Rs. 800 million (2011: Rs. 500 million). The estimated share of profit payable on this facility was Rs. 0.3536 to Rs. 0.3982 (2011: Rs. 0.3639 to Rs. 0.3978) per rupee one thousand per day. The facility is secured against hypothecation over the moveable leased out assets of the Modaraba.			
<b>12 MURABAHA FINANCE</b>		June 30, 2012	June 30, 2011
Murabaha with other banks - secured			
Murabaha payable - gross		<b>556,937,952</b>	-
Less: Deferred murabaha expense		<b>(25,528,078)</b>	-
Murabaha profit payable shown in other liabilities		<b>(442,374)</b>	-
		<b>530,967,500</b>	-

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

The total facility for murabaha finance available from Bank Islami Limited and Meezan Bank Limited amounts to Rs. 500 million (2011: nil) and Rs. 1,000 million (2011: nil) respectively. The rate of profit margin on these facilities ranges from Rs. 0.3373 to Rs. 0.3395 (June 2011: nil), per rupee one thousand per day. These facilities are secured against hypothecation over the moveable leased out assets of the Modaraba.

### 13 SECURITY DEPOSITS

	June 30, 2012			June 30, 2011		
	Finance lease	Ijarah	Total	Finance lease	Ijarah	Total
	----- (Rupees) -----					
Security deposits	<b>30,224,205</b>	<b>663,039,082</b>	<b>693,263,287</b>	101,965,081	365,104,969	467,070,050
Less: Repayable / adjustable after one year	-	<b>621,275,125</b>	<b>621,275,125</b>	12,153,091	338,461,453	350,614,544
Current portion	<b>30,224,205</b>	<b>41,763,957</b>	<b>71,988,162</b>	89,811,990	26,643,516	116,455,506

**13.1** Represents sums received under Ijarah finance repayable / adjustable at the expiry of the lease period.

### 14 CREDITORS, ACCRUED AND OTHER LIABILITIES

	Note	June 30, 2012	June 30, 2011
		(Rupees)	
Management fee payable		<b>11,441,203</b>	4,819,373
Profit payable on:			
- Redeemable capital		<b>109,515,614</b>	58,555,687
- Musharika finances		<b>7,858,565</b>	6,443,605
- Murabaha finances		<b>442,374</b>	-
Accrued expenses		<b>9,384,364</b>	17,980,573
Amounts refundable to lessees	14.2	<b>74,428,998</b>	51,196,044
Penalty payable to charity		<b>4,549,720</b>	2,559,344
Others		<b>4,101,446</b>	313,288
		<b>221,722,284</b>	141,867,914

**14.1** Amounts due to associated undertakings at June 30, 2012 aggregated to Rs. 19,299,768 (2011: Rs. 11,262,978 ).

**14.2** This includes Rs. 3.815 million (2011: Rs 4.493 million) on account of termination charges received from musta'jir (lessees) as the termination process was completed subsequent to the balance sheet date. This also includes Rs. 14.934 million (2011: Rs 14.934 million) refundable to Ijarah customers in respect of withholding tax deposited by the customers pertaining to Ijarah vehicles. The amount will be refunded only if the Modaraba receives the refund from the tax department.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

15 REDEEMABLE CAPITAL - PARTICIPATORY AND UNSECURED	Note	Repayable by	June 30,	June 30,
			2012	2011
			(Rupees)	
Musharika deposits	15.1	2013	<b>321,918,420</b>	278,153,776
Certificates of Musharika	15.2	2014	<b>2,841,530,000</b>	1,747,485,000
			<b>3,163,448,420</b>	2,025,638,776
Less: Current portion of redeemable capital			<b>3,094,473,420</b>	1,997,908,776
			<b>68,975,000</b>	27,730,000

15.1 The estimated share of profit payable on Musharika deposits facilities ranges from Rs. 0.2671 to Rs. 0.3534 (2011: Rs. 0.2740 to Rs. 0.3534) per thousand per day.

15.2 The estimated share of profit payable on Certificates of Musharika ranges from Rs. 0.1986 to Rs. 0.4247 (2011: Rs. 0.2671 to Rs. 0.4247) per thousand per day.

## 16 CERTIFICATE CAPITAL

Authorised certificate capital

June 30, 2012	June 30, 2011		June 30, 2012	June 30, 2011
(Number of certificates)			(Rupees)	
<b>50,000,000</b>	50,000,000	Modaraba Certificates of Rs. 10 each	<b>500,000,000</b>	500,000,000

Issued, subscribed and paid-up capital

<b>28,500,000</b>	28,500,000	Modaraba Certificates of Rs. 10 each fully paid in cash	<b>285,000,000</b>	285,000,000
<b>16,883,530</b>	16,883,530	Modaraba Certificates of Rs. 10 each issued as fully paid bonus certificates	<b>168,835,300</b>	168,835,300
<b>45,383,530</b>	45,383,530		<b>453,835,300</b>	453,835,300

16.1 As at June 30, 2012, Standard Chartered Services of Pakistan (Private) Limited (the Management Company) and Standard Chartered Bank (Pakistan) Limited held 4,538,353 (2011: 4,538,353) and 4,538,353 (2011: 4,538,353) certificates of Rs. 10 each respectively.

## 17 RESERVES

Statutory reserve represents profit set aside to comply with the Prudential Regulations for Modarabas issued by the SECP. These regulations require the Modaraba to transfer not less than 20% and not more than 50% of its after tax profit till such time that reserves equal 100% of the paid up capital. Thereafter, a sum not less than 5% of the after tax profit is to be transferred.

During the current year, the Modaraba has transferred an amount of Rs 20,182,283 which represents 20% of the profit after tax.



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

### 18 CONTINGENCIES AND COMMITMENTS

#### Contingencies

- 18.1** An agreement was executed between Haleeb Foods Limited and a consortium of financial institutions. As per the terms of the agreement, Meezan Bank Limited had to provide Inland Usance L/C facility of Rs. 96.12 million to Haleeb Foods Limited on behalf of all the participating institutions for procurement of packaging material from TetraPak. The Modaraba's limit in this respect is Rs 5.402 million on the basis of pro rata share. The Modaraba's outstanding balance of this facility is Rs. 5.376 million as at June 30, 2012.
- 18.2** Another agreement was signed between Haleeb Foods Limited and the consortium of financial institutions. As per the terms of the agreement, Meezan Bank Limited had to provide working capital facilities to the tune of Rs 425 million to Haleeb Foods Limited. SCM's share out of the additional working capital line is Rs 23.885 million which is to be provided in the shape of LC / Ijarah Finance. LCs shall be established by Meezan Bank Limited on behalf of the consortium and the outstanding balance of Modaraba's share was Rs. 7.497 million as at June 30, 2012.
- 18.3** The Modaraba has issued a letter of comfort to The Bank of Punjab on behalf of Tariq Glass Industries Limited amounting to Rs. 104.762 million.

#### Commitments

- 18.4** There were no commitments as at June 30, 2012

### 19 FINANCIAL CHARGES

	Note	June 30, 2012	June 30, 2011
			(Rupees)
Profit on redeemable capital		<b>307,165,642</b>	200,226,695
Profit on Musharika finance		<b>16,304,571</b>	10,103,884
Profit on Murabaha finances		<b>442,374</b>	-
Bank commission and charges		<b>24,352,236</b>	13,854,973
		<b>348,264,823</b>	224,185,552

### 20 OTHER INCOME

Profit on disposal of Ijarah assets		<b>13,374,827</b>	7,433,433
Gain on premature termination of Ijarah		<b>575,545</b>	1,688,728
Documentation fee		<b>10,521,059</b>	4,381,354
Gain on disposal of fixed assets in own use		<b>4,000</b>	55,000
Others		<b>5,661,259</b>	6,983
		<b>30,136,690</b>	13,565,498

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2012

	Note	June 30, 2012	June 30, 2011
<b>21 ADMINISTRATIVE AND OPERATING EXPENSES</b>			(Rupees)
Salaries and other staff benefits	21.2 & 25	<b>50,010,500</b>	31,635,141
Depreciation on fixed assets in own use	10	<b>1,135,256</b>	2,698,074
Advertising, travelling and entertainment		<b>2,114,554</b>	1,142,292
Postage		<b>696,868</b>	710,457
Telecommunication		<b>271,402</b>	444,714
Printing and stationery		<b>1,677,418</b>	1,668,624
Legal and professional		<b>2,486,296</b>	3,804,391
Repairs and maintenance		<b>1,911,002</b>	2,520,586
Charges by associated undertakings	21.2	<b>3,635,388</b>	6,811,926
Subscriptions		<b>655,482</b>	337,392
Auditors' remuneration	21.3	<b>705,000</b>	640,004
Certificate of Musharika trustee fee		<b>629,826</b>	393,277
Insurance - own assets		<b>58,095</b>	55,252
Sundries		<b>1,335,100</b>	452,658
		<b>67,322,187</b>	<b>53,314,788</b>

**21.1** Office space and related expenditure are borne by Standard Chartered Services of Pakistan (Private) Limited.

**21.2** Salaries and other staff benefits include Rs.1,874,784 and Rs. 1,558,149 (2011: Rs.1,322,417 and Rs. 1,100,254) on account of the Modaraba's contribution to the staff provident fund and gratuity fund respectively.

	June 30, 2012	June 30, 2011
<b>21.3 Auditors' remuneration</b>		(Rupees)
Statutory audit fee	<b>450,000</b>	410,000
Half yearly review fee	<b>120,000</b>	100,000
Special reports and certificates	<b>80,000</b>	90,004
Out of pocket expenses	<b>55,000</b>	40,000
	<b>705,000</b>	<b>640,004</b>

**22 MODARABA MANAGEMENT COMPANY FEE**

In accordance with the Modaraba Companies and Modaraba Rules, 1981 management fee at the rate of 10 percent of annual profits is payable to the Management Company.

**23 WORKERS' WELFARE FUND**

The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). Through these amendments Workers' Welfare Fund (WWF) is payable @ 2% of the profit before taxation as per the financial statements or taxable income which ever is higher.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

During the current year, the Honorable Lahore High Court (LHC) in a constitutional Petition relating to the amendments brought in the WWF Ordinance, 1971 through the Finance Act, 2006, and the Finance Act, 2008 has declared that the said amendments were not brought in through a process of budget i.e. the amendments were not introduced through the correct process. Pending the decision of the said constitutional petition, the Management Company, as a matter of abundant caution, has decided to retain the provision for WWF amounting to Rs. 7.577 million (including Rs 2.059 million for the current year) in these financial statements. Provision for WWF has been netted off against taxation recoverable.

	<b>June 30, 2012</b>	June 30, 2011
	(Rupees)	
<b>24 EARNINGS PER CERTIFICATE</b>		
Profit after taxation for the year	<b>100,911,413</b>	86,606,872
	Number	Number
Average number of certificates	<b>45,383,530</b>	45,383,530
	------(Rupees)-----	
Earnings per certificate	<b>2.22</b>	1.91
<b>25 REMUNERATION OF OFFICERS</b>		
Remuneration and staff retirement benefits	<b>48,944,703</b>	30,937,269
Medical expenses reimbursed	<b>255,182</b>	239,248
Other benefits	<b>810,615</b>	458,624
	<b>50,010,500</b>	31,635,141
	Number	Number
Number of employees at end of the year	<b>27</b>	26
<b>26 FINANCIAL RISK MANAGEMENT</b>		

The Modaraba's activities are exposed to a variety of financial risks which mainly include market risk, credit risk and liquidity risk. The Board of Directors of the Management company has overall responsibility for the establishment and oversight of the Modaraba's risk management framework.

### 26.1 Market Risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market profit rates or the market prices of securities due to 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.

Market risk comprises of three types of risk: currency risk, profit rate risk and other price risk.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

### 26.1.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Modaraba at present is not exposed to currency risk as all transactions are carried out in Pakistani Rupees.

### 26.1.2 Profit rate risk

Profit rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market profit rates. The Modaraba has adopted appropriate policies to minimise its exposure to this risk. At the reporting date, the profit rate profile of the Modaraba's significant profit bearing financial instruments in the periods in which they mature is as follows:

		-----2012-----						
Effective yield / profit rate %	Total	Up to one month	Over one month to 3 months	Over three months to one year	Over one year to five years	Over 5 years	Not exposed to yield / profit risk	
------(Rupees)-----								
Financial Assets								
Cash and bank balances	6.00%	10,314,667	6,262,212	-	-	-	4,052,455	
Loans and receivable - Term deposit receipts	10.50% - 10.90%	150,000,000	-	150,000,000	-	-	-	
Ijarah rentals receivable	-	135,102,788	-	-	-	-	135,102,788	
Advances, deposits, and other receivables	2%	237,978,803	220,266,830	-	-	315,390	17,396,583	
Diminishing Musharika	14.92% - 15.02%	1,151,354,388	7,997,331	10,504,070	85,348,609	818,660,469	-	
Investment in Sukuk Certificate	0% - 14.13%	7,786,460	84,635	169,270	761,715	4,062,480	-	
Total Financial Assets as at June 30, 2012		1,692,537,106	234,611,008	160,673,340	86,110,324	823,038,339	231,552,269	
Financial Liabilities								
Musharika Finance	12.91% - 14.54%	494,366,261	-	494,366,261	-	-	-	
Murabaha finance	12.31% - 12.39%	530,967,500	-	230,967,500	300,000,000	-	-	
Security deposits	-	693,263,287	-	-	-	-	693,263,287	
Creditors, accrued and other liabilities	-	221,722,284	-	-	-	-	221,722,284	
Unclaimed profit distribution	-	25,476,612	-	-	-	-	25,476,612	
Redeemable Capital	7.25% - 15.5%	3,163,448,420	490,499,230	491,474,470	2,112,499,720	68,975,000	-	
Total Financial Liabilities as at June 30, 2012		5,129,244,364	490,499,230	1,216,808,231	2,412,499,720	68,975,000	940,462,183	
Total yield / profit risk sensitivity gap			<u>(255,888,222)</u>	<u>(1,056,134,891)</u>	<u>(2,326,389,396)</u>	<u>754,063,339</u>	<u>231,552,269</u>	
Cumulative yield / profit risk sensitivity gap			<u>(255,888,222)</u>	<u>(1,312,023,113)</u>	<u>(3,638,412,509)</u>	<u>(2,884,349,170)</u>	<u>(2,652,796,901)</u>	

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

		-----2011-----						
Effective yield / profit rate %	Total	Up to one month	Over one month to 3 months	Over three months to one year	Over one year to five years	Over 5 years	Not exposed to yield / profit risk	
------(Rupees)-----								
<b>Financial Assets</b>								
Cash and bank balances	6.24%	22,378,264	20,024,512	-	-	-	2,353,752	
Loans and receivables	12.95%	70,000,000	-	70,000,000	-	-	-	
Ijarah rentals receivable	-	67,373,434	-	-	-	-	67,373,434	
Advances, deposits, and other receivables	2%	214,529,911	196,235,678	-	-	601,310	17,692,923	
Diminishing Musharika	2% - 16.83%	427,899,414	1,654,996	10,091,632	69,233,694	309,658,596	-	
Investment in Sukuk Certificate	0% - 15.59%	10,312,500	-	-	2,109,375	8,203,125	-	
<b>Total Financial Assets as at June 30, 2011</b>		<b>812,493,523</b>	<b>217,915,186</b>	<b>80,091,632</b>	<b>71,343,069</b>	<b>318,463,031</b>	<b>37,260,496</b>	
<b>Financial Liabilities</b>								
Musharika Finance	13.28% - 14.52%	456,528,711	-	456,528,711	-	-	-	
Security deposits	-	467,070,050	-	-	-	-	467,070,050	
Creditors, accrued and other liabilities	-	141,867,914	-	-	-	-	141,867,914	
Unclaimed profit distribution	-	23,534,996	-	-	-	-	23,534,996	
Redeemable Capital	9.75% - 15.5%	2,025,638,776	235,062,668	398,722,945	1,364,123,163	27,730,000	-	
<b>Total Financial Liabilities as at June 30, 2011</b>		<b>3,114,640,447</b>	<b>235,062,668</b>	<b>855,251,656</b>	<b>1,364,123,163</b>	<b>27,730,000</b>	<b>632,472,960</b>	
<b>Total yield / profit risk sensitivity gap</b>		<b>(17,147,482)</b>		<b>(775,160,024)</b>	<b>(1,292,780,094)</b>	<b>290,733,031</b>	<b>37,260,496</b>	
<b>Cumulative yield / profit risk sensitivity gap</b>		<b>(17,147,482)</b>		<b>(792,307,506)</b>	<b>(2,085,087,600)</b>	<b>(1,794,354,569)</b>	<b>(1,757,094,073)</b>	

### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in profit rates at the reporting date would have increased / (decreased) profit for the year by the amount shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis has been performed on the same basis as for 2011.

	<b>Profit and loss 100 bp</b>	
	<b>Increase</b>	<b>Decrease</b>
-----Rupees-----		
<b>As at June 30, 2012</b>		
Cash flow sensitivity - variable rate financial assets	44,964,486	(44,964,486)
Cash flow sensitivity - variable rate financial liabilities	(29,163,898)	29,163,898
<b>Net effect</b>	<b>15,800,588</b>	<b>(15,800,588)</b>
<b>As at June 30, 2011</b>		
Cash flow sensitivity - variable rate financial assets	34,436,551	(34,436,551)
Cash flow sensitivity - variable rate financial liabilities	(21,710,755)	21,710,755
<b>Net effect</b>	<b>12,725,796</b>	<b>(12,725,796)</b>

The sensitivity analysis prepared is not necessarily indicative of the effects on profit for the year and assets / liabilities of the Modaraba.

### 26.1.3 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

because of changes in market prices (other than those arising from profit risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Modaraba is not exposed to equity securities price risk as the Modaraba does not hold any equity securities as at June 30, 2012.

### 26.2 Credit risk

**26.2.1** 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 risk is generally limited to principal amounts and accrued profit thereon, if any. The Modaraba's policy is to enter into financial contracts in accordance with the internal risk management policies and the requirements of the Prudential Regulations for Modarabas issued by the SECP.

**26.2.2** As at June 30, 2012 there were no financial assets which have been pledged as collateral for liabilities or contingent liabilities of the Modaraba.

**26.2.3** Outstanding amount of the Modaraba's net investment in Ijarah finance are secured against leased assets. In a few Ijarahs, additional collateral is also obtained in the form of mortgages of property. The Modaraba is entitled to repossess and sell these assets in case of default by the customers. During the current year, the Modaraba has not repossessed any assets.

**26.2.4** A reconciliation of provision made during the year in respect of financial assets is given in note 7.1.3 and note 9.4 to these financial statements.

**26.2.5** The maximum exposure to credit risk, by class of financial instruments at the end of the reporting period without taking into account any collateral held or other credit enhancement is given in note 26.1.2 to these financial statements except for cash in hand of Rs. 20,059 (2011: Rs 20,000).

**26.2.6** The analysis below summarises the credit quality of the Modaraba's bank balances and Sukuks :

	<b>June 30, 2012</b>	June 30, 2011
	Rupees	
Bank balances		
AAA	<b>6,337,352</b>	22,358,264
AA+	<b>3,747,256</b>	-
AA-	<b>150,000</b>	-
A	<b>60,000</b>	-
Term Deposit Receipts		
AA+	<b>150,000,000</b>	70,000,000
Sukuk certificates ratings		
CCC	-	12,890,625
Un-rated	<b>59,733,075</b>	50,000,000

**26.2.7** An analysis of the age of significant financial assets that are past due but not impaired are as under:

	<u>June 30, 2012</u>		<u>June 30, 2011</u>	
	Total outstanding amount Rupees	Payment overdue (in days)	Total outstanding amount Rupees	Payment overdue (in days)
Net investment in Ijarah finance	5,890,471	1-179 days	10,748,989	1-179 days
Ijarah rentals receivable	44,513,007	1-179 days	16,622,560	1-179 days

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

**26.2.8** An analysis of the financial assets that are individually impaired as per the requirements of the Prudential Regulations for Modarabas are as under:

	As at June 30, 2012				
	OAEM	Substandard	Doubtful	Loss	Total
	-----Rupees-----				
Ijarah rentals receivable	-	7,114,925	-	4,416,355	11,531,280
Diminishing Musharika	-	125,000,000	-	-	125,000,000
Sukuk Certificates	-	9,733,075	-	50,000,000	59,733,075

	As at June 30, 2011				
	OAEM	Substandard	Doubtful	Loss	Total
	-----Rupees-----				
Net investment in Ijarah finance	-	-	-	130,540	130,540
Ijarah rentals receivable	16,260,082	-	-	4,416,355	20,676,437
Sukuk Certificates	-	12,890,625	-	50,000,000	62,890,625

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

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

Sectors	2012		2011	
	(Rupees)	%	(Rupees)	%
Confectionery	266,023,763	5.53%	216,607,737	6.51%
FMCG/Food & Allied	308,292,400	6.29%	316,211,498	9.51%
Services	245,604,956	5.01%	200,087,323	6.02%
Fertilizers	238,453,359	4.86%	221,592,940	6.66%
Chemicals	340,319,637	6.94%	231,496,177	6.96%
Sugar	356,579,808	7.27%	251,367,658	7.56%
Bottlers	210,885,291	4.30%	291,924,429	8.78%
Communication	226,583,596	4.62%	87,764,264	2.64%
Textile	436,665,248	8.90%	205,276,214	6.17%
Travel Transport, Storage	150,635,386	3.07%	173,809,481	5.23%
Printing, Publishing & Packaging	142,278,964	2.90%	3,133,169	0.09%
Individuals	340,195,660	6.94%	160,253,879	4.82%
Automobile	185,812,630	3.79%	68,062,348	2.05%
Others	271,191,114	5.53%	169,328,853	5.09%
Financial Institutions	226,703,370	4.62%	21,950,389	0.66%
Power, Energy, Water	436,806,833	8.91%	134,176,078	4.03%
Gas	102,348,021	2.08%	123,430,531	3.71%
Pharmaceuticals	83,576,053	1.70%	55,912,481	1.68%
Steel	53,262,948	1.08%	80,000,000	2.41%
Engineering	68,878,515	1.40%	80,775,178	2.43%
Plastic	146,757,590	2.99%	68,033,699	2.05%
Cement	42,572,916	0.86%	76,417,393	2.30%
Builders / Construction	9,404,717	0.19%	19,362,596	0.58%
Petroleum	11,235,871	0.22%	68,845,775	2.07%
	<b>4,901,068,646</b>	<b>100%</b>	<b>3,325,820,090</b>	<b>100%</b>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2012

	Note	June 30, 2012	June 30, 2011
			(Rupees)
Investment in Ijarah Finance / assets under Ijarah arrangements		<b>4,419,913,859</b>	3,324,495,329
Less: Security deposits held	13	<b>(693,263,287)</b>	(467,070,050)
Add: Impairment against Ijarah assets	9.1	<b>3,131,253</b>	3,131,253
Add: Allowance for potential Ijarah losses	9.4	-	130,540
Add: Markup held in suspense	9.5	-	5,140
		<b>3,729,781,825</b>	2,860,692,212
Investment in Sukuk certificates	7	<b>59,733,075</b>	62,890,625
Investment in Diminishing Musharika other than staff housing	8	<b>1,111,553,746</b>	402,237,253
		<b>4,901,068,646</b>	3,325,820,090

**26.3 Liquidity Risk**

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

The table below analyses the Modaraba's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	As at June 30, 2012			
	Total	Upto three months	More than three months and upto one year	More than one year
	------(Rupees)-----			
Musharika finance	<b>494,366,261</b>	<b>494,366,261</b>	-	-
Murabaha finance	<b>530,967,500</b>	<b>230,967,500</b>	300,000,000	-
Security deposits	<b>693,263,287</b>	<b>23,755,371</b>	48,232,791	621,275,125
Creditors, accrued and other liabilities	<b>221,722,284</b>	<b>221,722,284</b>	-	-
Unclaimed profit distribution	<b>25,476,612</b>	<b>25,476,612</b>	-	-
Redeemable capital	<b>3,163,448,420</b>	<b>981,973,700</b>	2,112,499,720	68,975,000
	<b>5,129,244,364</b>	<b>1,978,261,728</b>	<b>2,460,732,511</b>	<b>690,250,125</b>
	------(Rupees)-----			
	As at June 30, 2011			
	Total	Upto three months	More than three months and upto one year	More than one year
	------(Rupees)-----			
Musharika finance	456,528,711	456,528,711	-	-
Security deposits	467,070,050	19,959,330	96,496,176	350,614,544
Creditors, accrued and other liabilities	141,867,914	141,867,914	-	-
Unclaimed profit distribution	23,534,996	23,534,996	-	-
Redeemable capital	2,025,638,776	633,785,613	1,364,123,163	27,730,000
	<b>3,114,640,447</b>	<b>1,275,676,564</b>	<b>1,460,619,339</b>	<b>378,344,544</b>



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2012

## 26.4 FINANCIAL INSTRUMENTS BY CATEGORY

----- As at June 30, 2012 -----				
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Total
----- (Rupees) -----				
<b>ASSETS</b>				
Cash and bank balances	10,314,667	-	-	10,314,667
Loans and receivable - Term deposit receipts	150,000,000	-	-	150,000,000
Ijarah rentals receivable	135,102,788	-	-	135,102,788
Advances, deposits and other receivables	237,978,803	-	-	237,978,803
Diminishing Musharika	1,151,354,388	-	-	1,151,354,388
Investment in sukuk certificates	-	-	7,786,460	7,786,460
	<u>1,684,750,646</u>	<u>-</u>	<u>7,786,460</u>	<u>1,692,537,106</u>
----- As at June 30, 2012 -----				
	Liabilities at fair value through profit or loss		Other financial liabilities	Total
----- (Rupees) -----				
<b>LIABILITIES</b>				
Musharika finance	-	494,366,261	-	494,366,261
Murabaha finance	-	530,967,500	-	530,967,500
Security deposits	-	693,263,287	-	693,263,287
Creditors, accrued and other liabilities	-	221,722,284	-	221,722,284
Redeemable capital	-	3,163,448,420	-	3,163,448,420
Unclaimed profit distribution	-	25,476,612	-	25,476,612
	<u>-</u>	<u>5,129,244,364</u>	<u>-</u>	<u>5,129,244,364</u>
----- As at June 30, 2011 -----				
	Loans and receivables	Assets at fair value through profit & loss	Held to maturity	Total
----- (Rupees) -----				
<b>ASSETS</b>				
Cash and bank balances	22,378,264	-	-	22,378,264
Loans and receivable - Term deposit receipts	70,000,000	-	-	70,000,000
Ijarah rentals receivable	67,373,434	-	-	67,373,434
Advances, deposits and other receivables	213,928,601	-	-	213,928,601
Diminishing Musharika	427,899,414	-	-	427,899,414
Investment in sukuk certificates	-	-	10,312,500	10,312,500
	<u>801,579,713</u>	<u>-</u>	<u>10,312,500</u>	<u>811,892,213</u>
----- As at June 30, 2011 -----				
	Liabilities at fair value through profit or loss		Other financial liabilities	Total
----- (Rupees) -----				
<b>LIABILITIES</b>				
Musharika finance	-	456,528,711	-	456,528,711
Security deposits	-	467,070,050	-	467,070,050
Creditors, accrued and other liabilities	-	141,867,914	-	141,867,914
Redeemable capital	-	2,025,638,776	-	2,025,638,776
Unclaimed profit distribution	-	23,534,996	-	23,534,996
	<u>-</u>	<u>3,114,640,447</u>	<u>-</u>	<u>3,114,640,447</u>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

### 26.5 Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

Effective July 1, 2009, the Modaraba adopted the amendments to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Presently, the modaraba does not have any instruments which fall in the fair value hierarchy.

### 27 CAPITAL RISK MANAGEMENT

The Modaraba's prime objective when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for certificate-holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Modaraba may adjust the amount of profits / distributions paid to certificate-holders, issue new certificates or sell assets to reduce debt.

Consistent with others in the industry, the Modaraba monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total COM's, Musharika Finance and borrowings less cash and bank balances. Total capital is calculated as equity as shown in the balance sheet plus net debt.

	June 30, 2012	June 30, 2011
	------(Rupees)-----	
Total borrowings	<b>4,188,782,181</b>	2,482,167,487
Less: cash and bank balances	<b>10,314,667</b>	22,378,264
Net debt	<b>4,178,467,514</b>	2,459,789,223
Total equity	<b>960,694,429</b>	938,069,605
Total capital	<b>5,139,161,943</b>	3,397,858,828
Gearing ratio	<b>81.3%</b>	72.4%

### 28 SEGMENT INFORMATION

As per IFRS 8, operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Chief Executive Officer has been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

The Chief Operating Officer is responsible for the Modaraba's entire product portfolio and considers the business to have a single operating segment. The Modaraba's asset allocation decisions are based on a

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

single integrated investment strategy and the Modaraba's performance is evaluated on an overall basis.

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

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

The Modaraba also has a diversified certificate holder population. As at June 30, 2012, there were only three (June 30, 2011: three) certificate holders who each held more than 10% of the Modaraba's certificate capital. Their holdings were 10%, 10% and 11.24% (June 30, 2011: 10%, 10% and 11.24%) respectively.

### 29 RELATED PARTY TRANSACTIONS

The related parties of the Modaraba comprise of the holding company, management company, fellow subsidiary, staff retirement funds, directors and key management personnel. Transactions with related parties other than remuneration and benefits to key management personnel (which are employed by the management company) under the terms of their employment are as follows:

	<b>June 30, 2012</b>	June 30, 2011
	(Rupees)	
Holding Company - Standard Chartered Bank (Pakistan) Limited		
Profit on Musharika finance	<b>16,304,571</b>	10,103,884
Profit on deposit account	<b>4,352,433</b>	5,050,620
Bank charges and commission	<b>24,352,236</b>	13,854,973
Charge for reimbursement of salaries and benefits	<b>-</b>	5,551,626
Charge for reimbursement of miscellaneous expenses	<b>3,635,388</b>	1,260,300
Staff retirement benefit funds		
Contribution to the staff provident fund	<b>1,874,784</b>	1,322,417
Contribution to the staff gratuity fund	<b>1,558,149</b>	1,100,254
Management Company - Standard Chartered Services of Pakistan (Private) Limited		
Management fee	<b>11,441,203</b>	9,819,373
Other related party		
Reimbursement of salaries and benefits	<b>2,869,313</b>	2,394,468
Key management personnel remuneration		
Salaries and benefits	<b>24,019,883</b>	9,393,981
Contribution to staff provident fund	<b>859,288</b>	365,266
Contribution to the staff gratuity fund	<b>715,772</b>	304,273
Number of persons	<b>7</b>	4

The Modaraba enters into transactions with related parties for lease of assets, borrowings under Musharika finances and other general banking services. These transactions are based on a transfer pricing policy under which all transactions are carried out on agreed terms. The balances with related parties have been disclosed in the respective notes.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

### 30 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise of the following balance sheet amounts:

	Note	June 30, 2012	June 30, 2011
		(Rupees)	
Cash and bank balances	3	<b>10,314,667</b>	22,378,264
Loans and receivable - Term deposit receipts	4	<b>150,000,000</b>	70,000,000
Musharika Finance	11	<b>(494,366,261)</b>	(456,528,711)
		<b><u>(334,051,594)</u></b>	<u>(364,150,447)</u>

### 31 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purposes of appropriate presentation. No significant reclassifications have been made during the current year.

### 32 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors of the Management Company in their meeting held on September 11, 2012 have approved, cash distribution of Rs.1.750 (2011: Rs. 1.725) per certificate. The financial statements of the Modaraba for the year ended June 30, 2012 do not include the effect of the final distribution which will be accounted for in the financial statements of the Modaraba for the year ending June 30, 2013.

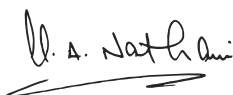
### 33 DATE OF AUTHORISATION

These financial statements were authorised for issue on September 11, 2012 by the Board of Directors of the Management Company.

### 34 GENERAL

#### 34.1 Figures have been rounded off to the nearest rupee.

For Standard Chartered Services of Pakistan (Private) Limited  
(Management Company)



Mohsin Ali Nathani  
Chairman



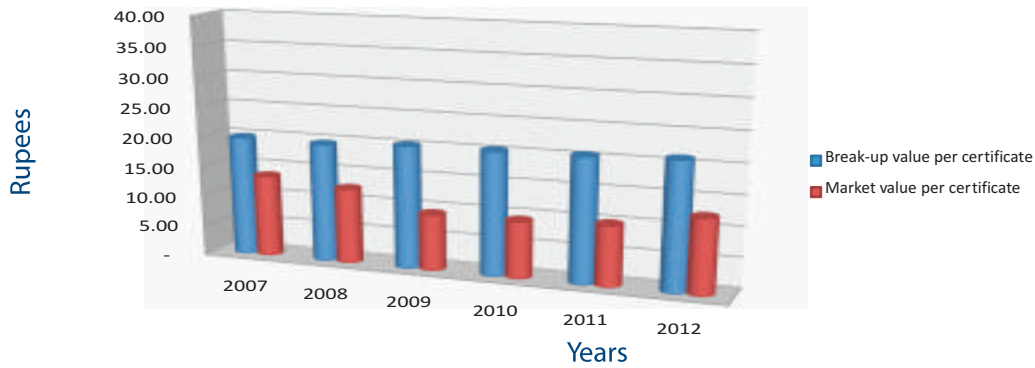
Raheel Qamar Ahmad  
Chief Executive



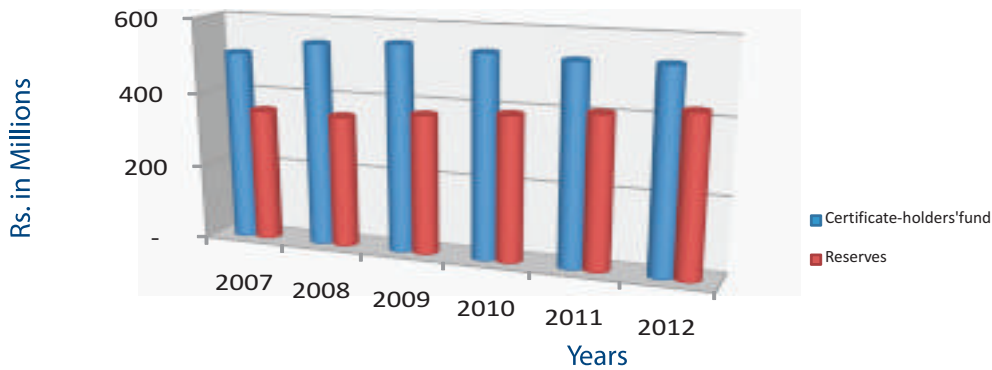
Najam Siddiqi  
Director

## Graphs

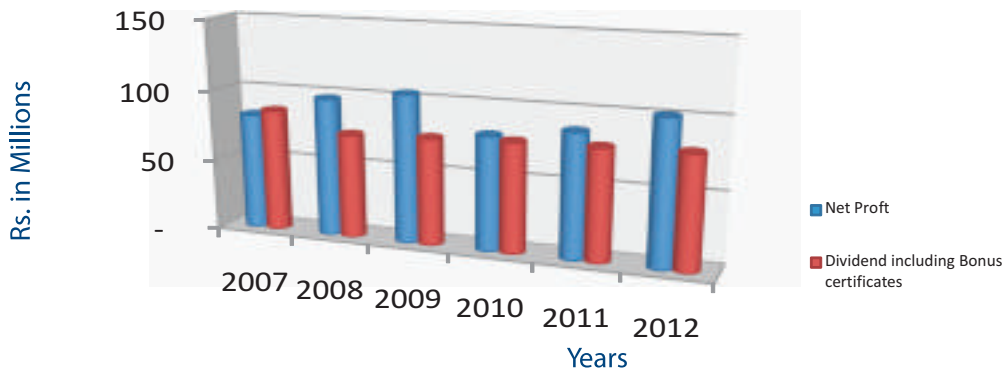
### Break-up and Market value per certificate



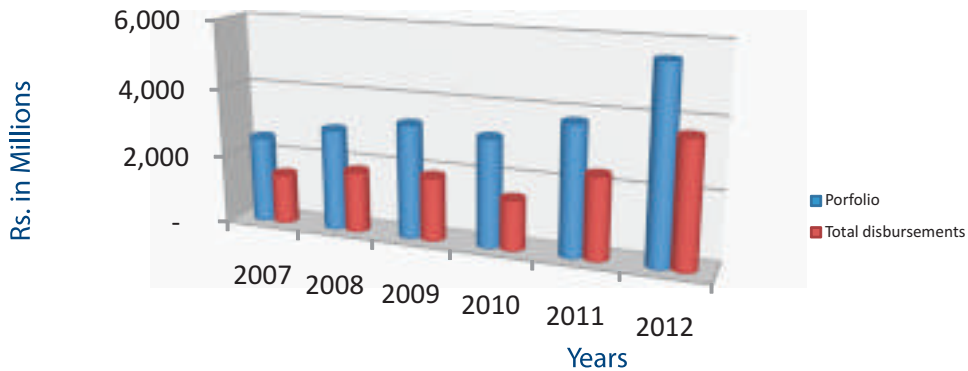
### Certificate-holder's equity

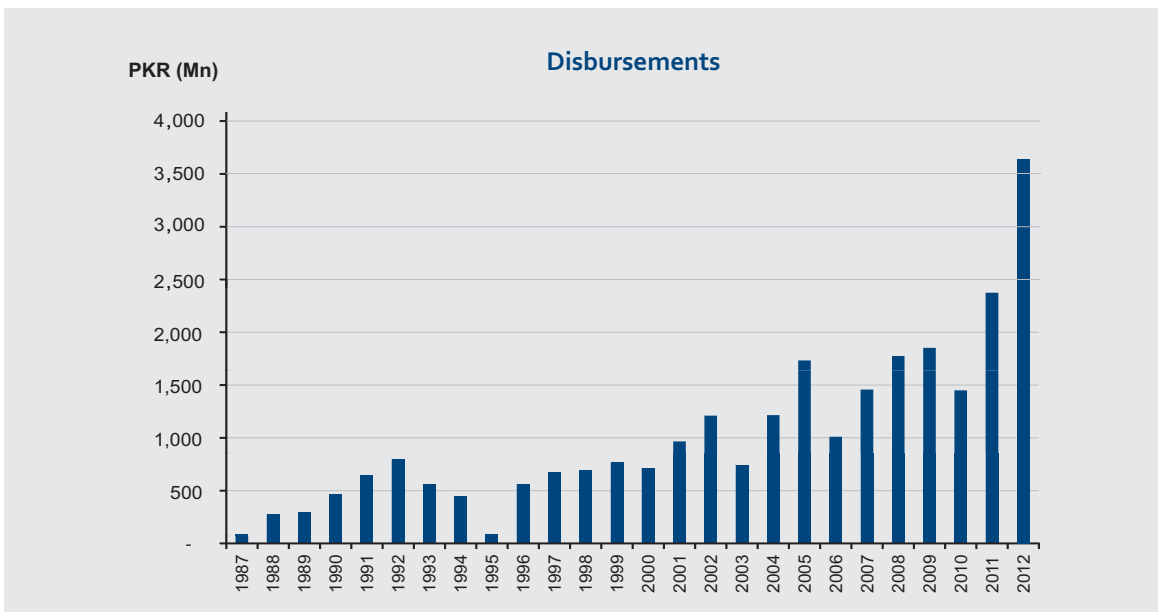
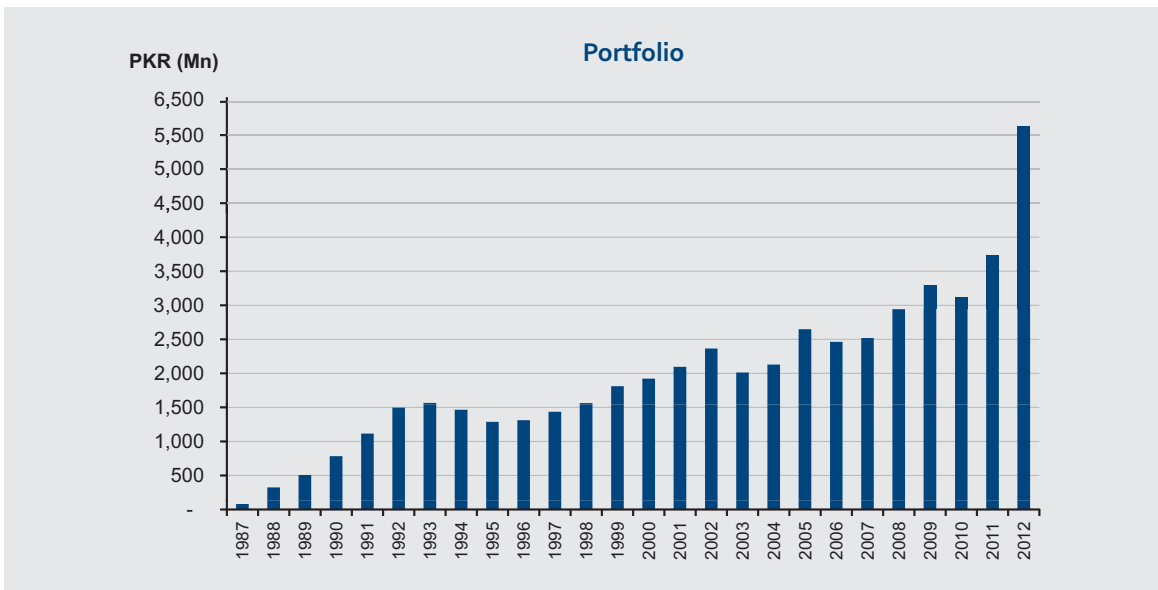
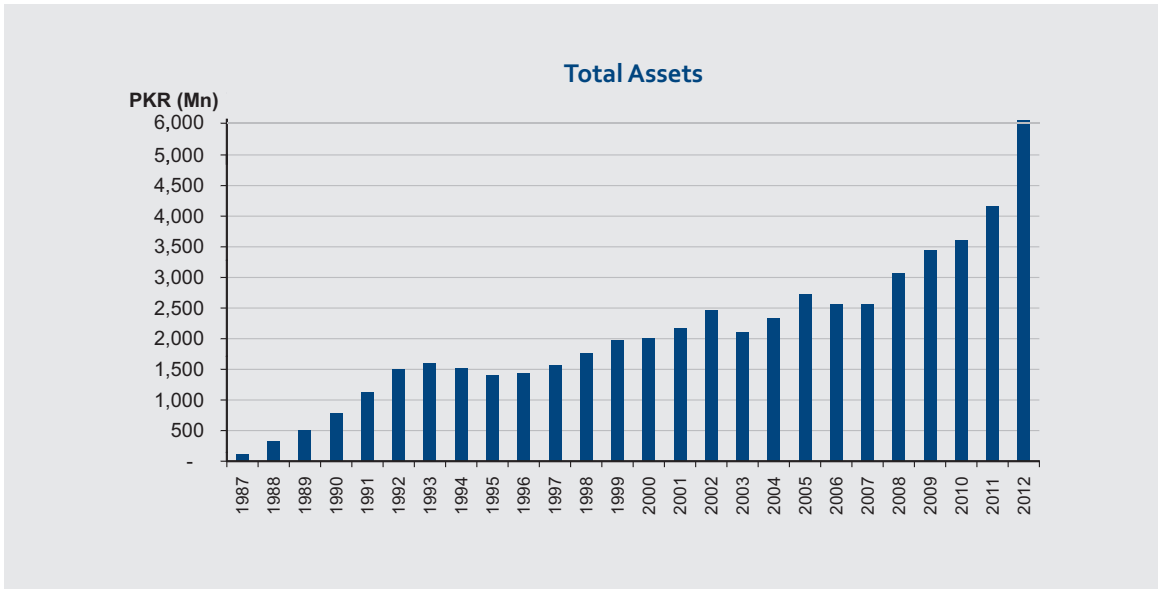


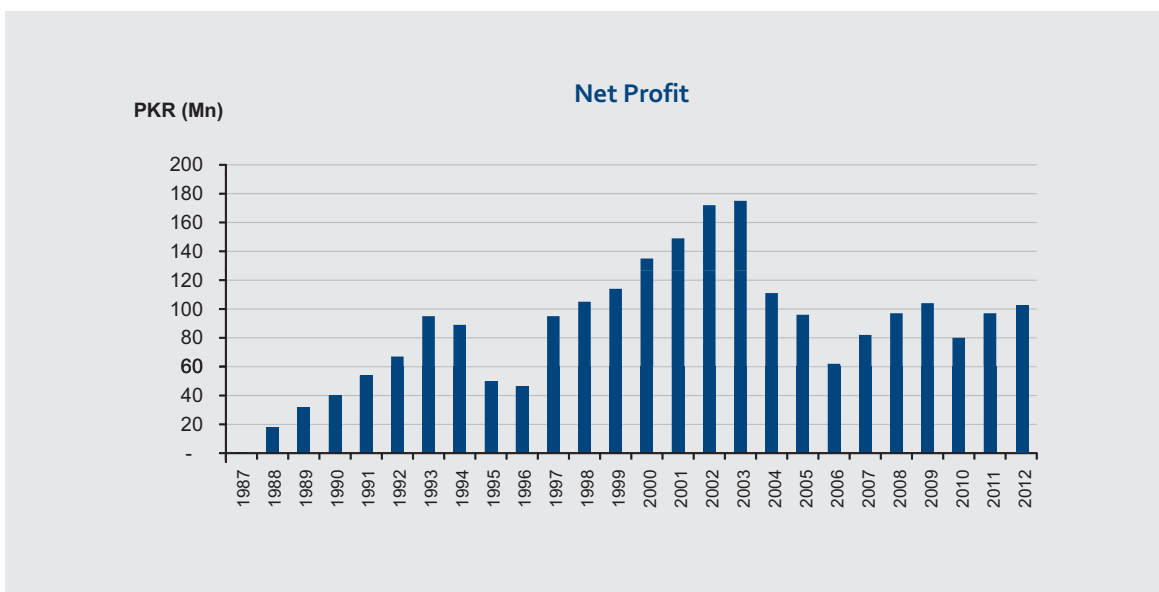
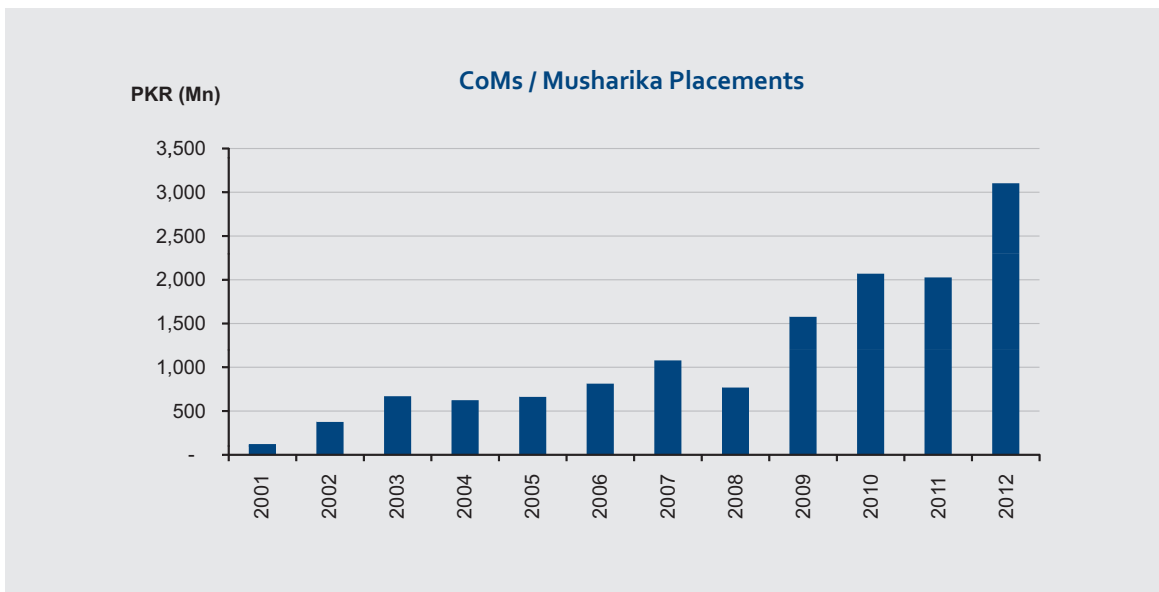
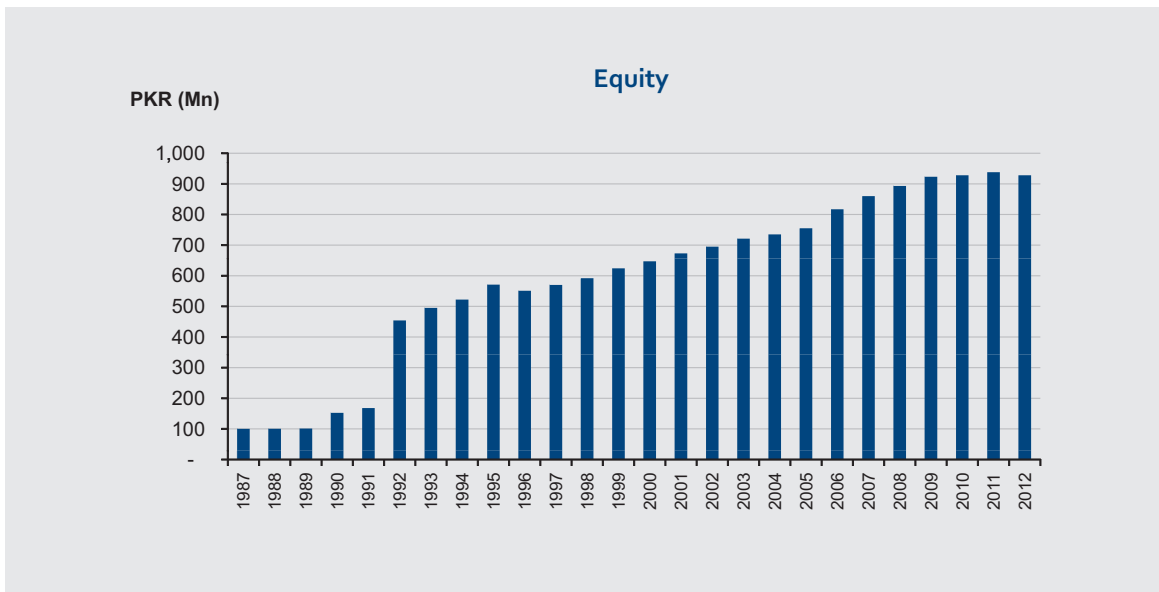
### Year wise Net Profit and Dividend Distribution

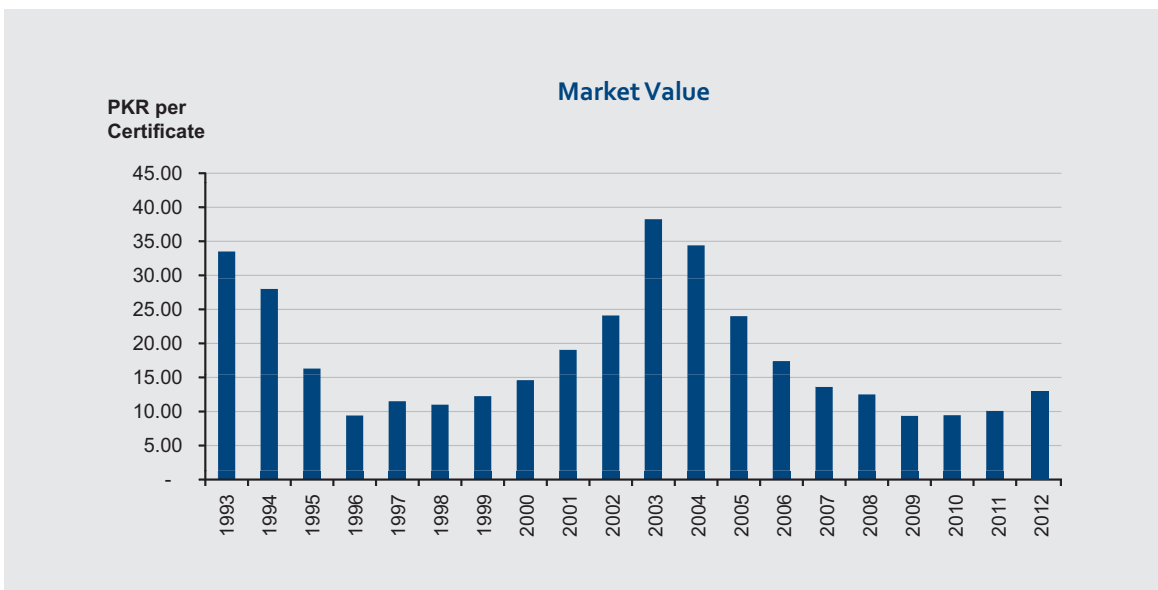
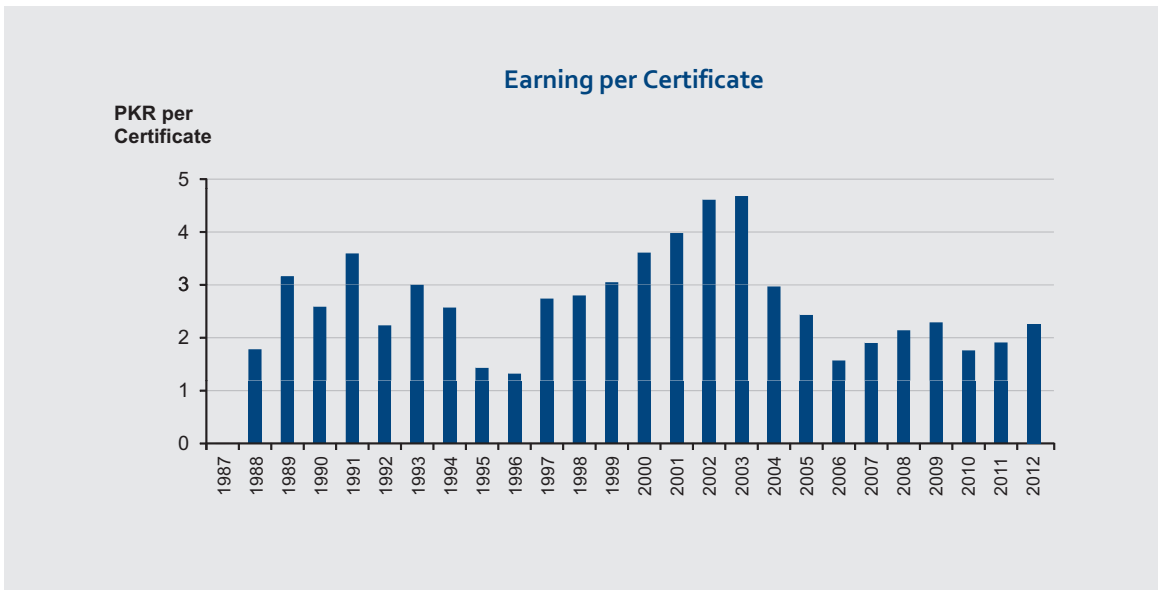
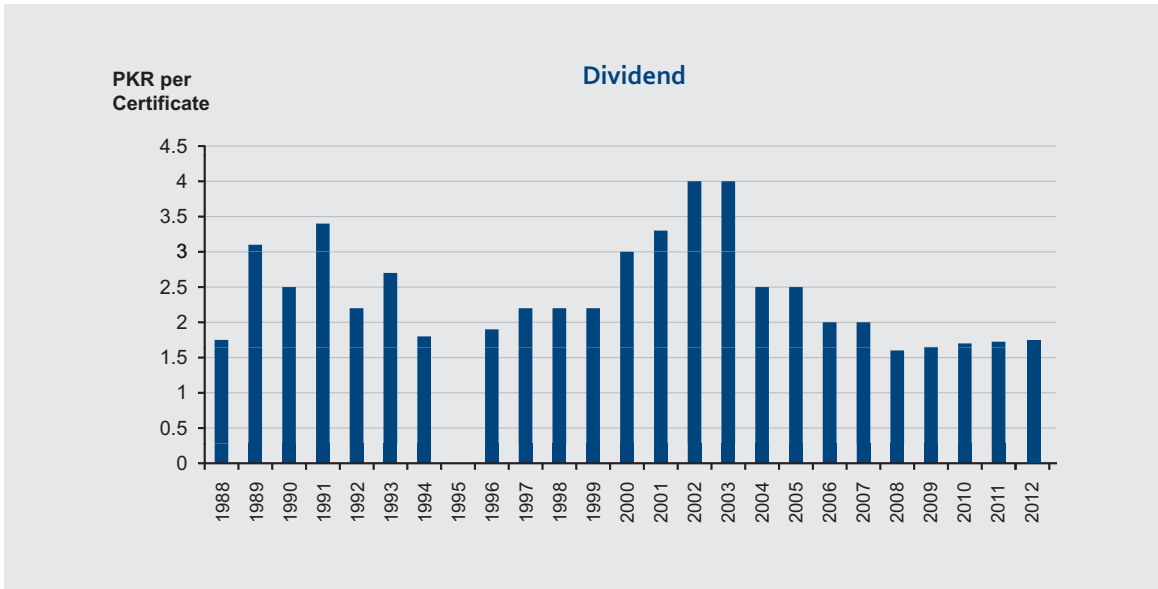


### Year wise Disbursements and Portfolio













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