



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



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

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# Vision

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

# Mission

To become an institution built on Trust, Integrity, Good Governance with Commitment to add value to all stakeholders through an effective human resource management in a modern and progressive organizational culture, maintaining high ethical and professional standards.





# FHM's Profile

FHM commenced its business operation in March, 1985, with an initial capital of Rs.25.0 million. Continuing with solid, dynamic and prudent approach now FHM has an equity base over Rs.3.00 billion and assets size over Rs.4.5 billion.

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

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

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

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

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

By the grace of God, FHM has been maintaining its status as leading Modaraba within the Modaraba sector and rank in top ranking position amongst its peer group. The board of directors declared cash dividend of 20% for the period ended 30th June, 2012. It is matter of great satisfaction that FHM has been maintaining its history of continuous payment of dividend to its Certificate Holders for last 27 years with average pay out of around 17.2%. Within last 14 years the average payment of dividend is around 20.35% percent. This is due to sincere commitment FHM towards handsome return to its investor.

Following achievements remained hallmark during the 27 years of operations of FHM.

- Unbroken history of payment of dividend to Certificate holders every year.
- Remained a profitable venture throughout the business operations.
- Maintaining "AA+" category credit rating for last several years.
- Leading Modaraba in terms of size of assets, equity and profitability.
- Recipient of "Corporate Excellence Award" from Management Association of Pakistan for last five consecutive years.
- Recipient of best performing Modaraba awards for last several years from Modaraba Association of Pakistan.
- Recipient of Best Corporate Report Award from the Joint Committee o ICAP & ICMAP for last two consecutive years
- Recipient of Certificate of Merit Award from SAFA for Best Presented Accounts and Corporate Governance Disclosures for last two consecutive years
- Habib Modaraba received "Brand of the Year" award of the year 2010 from the Brands Foundation of Pakistan. This award was given in the category of Non Banking Financial Institutions.

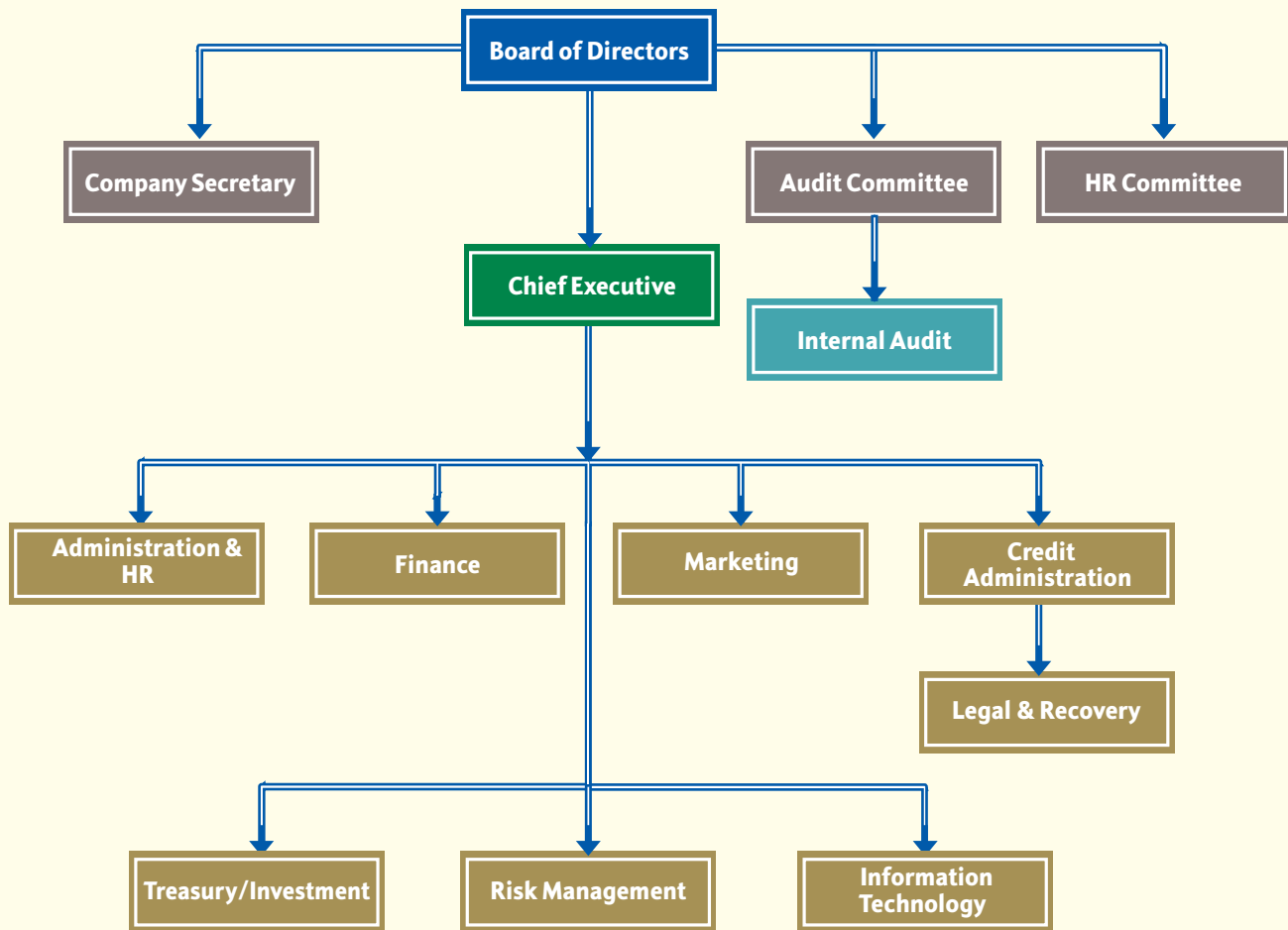
In conclusion, we proudly say that at present the FHM is among one of the best Islamic Financial Services Institutions within non-banking financial sector. Alhamdulillah, the sound and satisfactory performance of FHM on year on year basis is outcome of our well planned corporate strategy and business focus which reach us to target market and capture right opportunities in right time.

Our aim is to continuously build our organization at sound footing with diversified pool of income streams, enhancing our ability to manage and sustain our existence and progress within tough and unexpected turbulences of the businesses. Moreover, our focus is on facilitating the customers through better and efficient service, managing costs and investing in technological advancement so that a comprehensive model can be developed for sustainable growth, providing value addition to all customers and certificate holders.



# ORGANIZATIONAL STRUCTURE

FOR THE YEAR ENDED JUNE 30, 2012





## BOARD OF DIRECTORS

Mr. Wazir Mumtaz Ahmed	- Chairman (Non-Executive Director)
Mr. Muhammad Shoaib Ibrahim	- Chief Executive Officer
Mr. Wazir Husain Jafree	- (Non-Executive Director)
Mr. Abbas Ali Muhammad	- (Non-Executive Director)

## AUDITORS

BDO Ebrahim & Company  
Chartered Accountants

## LEGAL ADVISOR

Mohsin Tayebaly & Company

## AUDIT COMMITTEE

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

## HUMAN RESOURCE COMMITTEE

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

## COMPANY SECRETARY

Mr. Adnan Thanwey

## REGISTRAR:

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

## BANKERS

Habib Metropolitan Bank Limited (Islamic Banking)  
Al Baraka Bank Pakistan Limited  
Bankislami Pakistan Limited  
Burj Bank Limited

## REGISTERED OFFICE

5<sup>th</sup> Floor, HBZ Plaza (Hirani Centre)  
I.I. Chundrigar Road, Karachi.  
Tel: 021-32635949-51  
Fax: 021-32627373

## BRANCH OFFICES

**Lahore Branch:**  
1st Floor, 5-Z Block, Phase III, Defence Housing Authority,  
Lahore.  
TEL: 042-35693074-76, FAX: 042-35693077

**Islamabad Branch:**  
Office No. 7, Mezzanine Floor, Razia Shareef Plaza  
Blue Area, Islamabad.  
TEL: 051-32278865-67, FAX: 051-2278868

**Multan Branch:**  
Mezzanine Floor, Abdali Tower  
Abdali Road, Multan  
TEL : 061-4500121-3, FAX : 061-4588810

**UAN** : 111-346-346

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

**Email** : [fhm@habibmodaraba.com](mailto:fhm@habibmodaraba.com)

### **Wazir Mumtaz Ahmed – Chairman**

Mr. Wazir Mumtaz Ahmed is a seasoned banker. His banking career span over a period of 47 years of committed and dedicated services. He started his banking career in 1961 and carried diversified experience on several senior positions. After completion of his Masters in Economics he got International Certifications in Commercial Law & Economics from London Chamber of Commerce. His career is a perfect combination of Integrity and Commitment which gave him additional advantage to reached upto the position of Senior Executive Vice President in the Bank.

### **Muhammad Shoaib Ibrahim – Chief Executive Officer**

Muhammad Shoaib, is associated with First Habib Modaraba since the inception of modaraba. His extensive working experience in Non-Banking Islamic Financial institutions for more than two decades makes him senior most person with such rich experience of Islamic Finance in Pakistan. This intense exposure gave him the insight into the financial and technical aspects of fund management in Islamic way. He has done Master's in Business Administration (MBA) in Banking and Finance from Institute of Business Administration (IBA). He has completed Post Graduate Diploma (PGD) in Islamic Banking and Finance from Centre of Islamic Economics (Darul Ulum), Karachi, Pakistan. He is also Certified Islamic banker from Professional's Institute of Excellence who are academic partner of University of Marathon U.S.A. and Pakistan Institute of Banking Studies, Pakistan. On number of occasions he remained as an Executive Member of Modaraba Association of Pakistan and also remained the Chairman of Modaraba Association of Pakistan.

### **Wazir Husain Jafree – Director**

Mr. Wazir Husain Jafree is a seasoned banker, his banking career spans over more than 47 years. He carries a diversified experience of working on various senior positions in Pakistan and abroad. He has worked with Habib Bank Limited (HBL), Bank of Credit & Commerce International (BCCI) & Bank AL Habib Limited (BAHL). He also served as Member Executive Committee of Modaraba Association of Pakistan.

### **Abbas Ali Muhammad – Director**

Mr. Abbas Ali Muhammad started his career from Bombay (India). He joined Habib Investment Company in the year 1951 as a "Trainee Officer". In 1971, became the Chief Executive of Habib Investment Company. This executive position also involved business management of several reputed companies as a Director. Mr. Abbas Ali Muhammad has over 53 years of experience in financial management.

## Audit Committee Terms of Reference

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

The audit committee comprises of the following members:

<u>Members</u>	<u>No. of Meeting Attended</u>
Mr. Wazir Mumtaz Ahmed Non Executive (Chairman)	4
Mr. Abbas Ali Muhammad Non Executive (Member)	4
Mr. Wazir Husain Jafree Non Executive (Member)	4
Mr. Shakeel Ahmed Mangroria Internal Auditor & Secretary to the Committee	4

## HR Committee Terms of Reference

The committee shall be responsible for:

- i) recommending human resource management policies to the board;
- ii) recommending to the board the selection, evaluation, compensation (including retirement benefits) and succession planning of the CEO;
- iii) recommending to the board the selection, evaluation, compensation (including retirement benefits) of CFO, Company Secretary and Head of Internal Audit; and
- iv) consideration and approval on recommendations of CEO on such matters for key management positions who report directly to CEO or

The Human Resource committee comprises of the following members:

<u>Members</u>	<u>No. of Meeting Attended</u>
Mr. Abbas Ali Muhammad Non Executive (Chairman)	1
Mr. Wazir Mumtaz Ahmed Non Executive (Member)	1
Mr. Wazir Husain Jafree Non Executive (Member)	1

# Commitment

Commitment transforms a promise into reality. It evokes a strong sense of intention and focus. Commitment speaks boldly of intentions and has power to bring change. When we stand behind our words, we demonstrate commitment. Commitment exists when our actions meet the expectation of our words.

**“There's no abiding success without commitment”.**  
Tony Robbins

The sustainable success is to be achieved by only those institutions that take the broader view of their responsibilities and commitment. At FHM, we are well conscientious and abide by the word “Commitment”. It is a bridge between our values, actions and intentions.

When we started our business operations we had made commitment before our Certificate Holders and investors to make FHM as successful venture.

A strong commitment to progress and deliver has always been a key driver of our performance. Delivering more than expected has made possible through firm commitment at every level of our organization.

After completion of business operations of more than 27 years, FHM is successfully achieved its vision “To be a leading Islamic Financial Institution within the Modaraba sector” and its mission “To become an institution built on trust, integrity, Good Governance with commitment to add value to all stakeholders”.

We always remain firmly committed to our values and corporate objectives. All our successes stem from one word i.e. commitment.

**Muhammad Shoaib Ibrahim**  
Chief Executive Officer

*As our Corporate Objective, We are committed:*

**to progress**

**to perform**

**to deliver**

**to shariah governance**

**to excellence**

**to be prudent**

**to be transparent**





## Strategic Corporate Objectives

- **To be the leading Modaraba within the Modaraba sector as an Islamic Financial Institutions.**
- **To carry out all business transactions in line with approved mode of Shariah principles of Islamic finance.**
- **To maintain high ethical and professional standards.**
- **To build a high performance culture, with growth oriented focus.**
- **To promote economically productive ethical activities.**
- **To achieve sustainable growth and profitability in all areas of business of FHM**
- **To provide state of art services to customer and develop service oriented culture within FHM**
- **To broaden the area of technology to ensure operational efficiency, enhance delivery capability and high service standard.**
- **To develop strong compliance culture and sound risk management framework.**
- **To add Certificate Holders value through better performance and sound return on their investment.**
- **To remain innovative and explore new avenues for growth and profitability.**

## Delivering 27 Years of unbroken dividend payout Average Dividend Payout 17.22%



Committed to

*“Perform”*

Unbroken history of payment of dividend

To give good return to Certificate Holders is the prime objective of the management of FHM.

It is matter of great satisfaction that FHM has been maintaining its history of continuous payment of dividend to its Certificate Holders for last 27 years with average pay out of around 17.2%. Within last 14 years the average payment of dividend is around 20.35% percent.

This is due to our sincere commitment towards handsome and speedy return to our certificates holders and investors.





### **CUSTOMER FIRST**

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

### **INTEGRITY**

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

### **TEAM WORK**

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

### **CORPORATE GOVERNANCE**

Our goal is to respond to a rapidly changing business environment in a timely manner through best business practices by reinforcing our ethical standards and good governance.

### **RESPONSIVE**

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

### **QUALITY SERVICE**

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



# Corporate Social Responsibility

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

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

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

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

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

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

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



## CUSTOMER SATISFACTION

High quality customer service is an integral part of FHM's philosophy. It is our constant endeavor to provide greater services with wider accessibility.

Our corporate slogan is "Customer First". We always emphasize to provide best quality service to our customer. We continuously develop and improve customer-service oriented culture within FHM.

Knowing our customer and their need is the key to our business success. Our managers are well equipped and well trained to provide the most efficient and personalized service to our customer.

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



Besides, we also feel that well updated IT infrastructure is also one of the most important tools to provide best services to customer. FHM is continuously up grading its IT infrastructure in line with modern technology in order to have efficient operations and speedy services to customer.

We shall look forward to maintain high-level customer satisfaction through improvement of strength and values, based on Sharia'h principles.



# VALUE ADDED STATEMENT

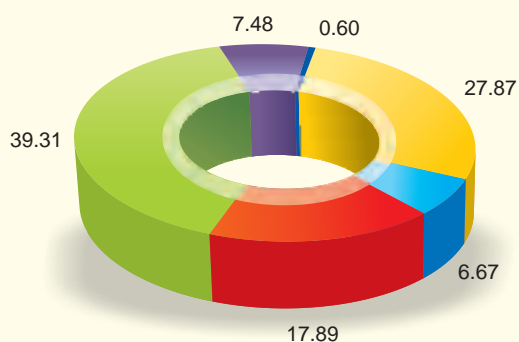


	2012		2011	
	Rs.	(%)	Rs.	(%)
<b>Value Added</b>				
Revenue from operations	378,394,377		346,280,687	
Other income / charges	154,087,841		84,401,871	
Value added by financial services	532,482,218		430,682,558	
Operating expense	19,667,999		19,717,164	
	512,814,219	100.00	410,965,394	100.00

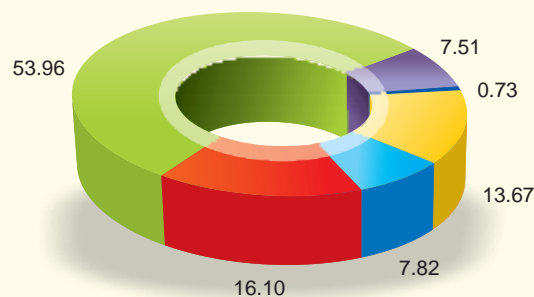
## Value Allocated

To Employees				
Salaries, allowances & other benefits	34,192,045	6.67	32,156,792	7.82
To provider of finance				
As profit on Certificate of Musharaka	91,737,334	17.89	66,172,247	16.10
As financial charges on Murabaha / Musharaka	-	0.00	-	0.00
To Modarib				
As management fee	38,338,298	7.48	30,880,220	7.51
To certificate holders				
Profit on certificates	201,600,000	39.31	221,760,000	53.96
To Society				
Donation	936,000	0.18	840,000	0.20
To expansion & growth				
As Depreciation	3,086,534	0.60	2,997,156	0.73
As Reserve and Retained earning	142,924,008	27.87	56,161,979	13.67
	512,814,219	100.00	410,968,394	100.00

### Value Allocated 2012



### Value Allocated 2011





## KEY FINANCIAL DATA SIX YEARS AT A GLANCE

KEY FINANCIAL DATA	(Rupees in million)					
	2012	2011	2010	2009	2008	2007
Total Assets	4,565.42	4,075.21	3,777.83	3,281.20	4,025.65	5,000.90
Ijarah (Lease) Assets	2,501.15	2,372.96	2,435.30	2,096.89	2,716.03	3,185.14
Gross Ijarah Disbursement	1,465.28	1,226.65	1,512.37	1,150.74	1,074.80	1,780.60
Current Assets	1,818.51	1,531.47	1,302.28	1,163.36	1,300.79	1,808.28
Current Liabilities	1,229.15	820.81	728.55	527.70	778.52	1,811.58
Total Liabilities	1,438.22	1,015.59	885.69	663.05	1,178.83	2,503.21
Paid-up Capital	1,008.00	1,008.00	1,008.00	1,008.00	1,008.00	504.00
Reserves	2,119.20	2,051.62	1,884.20	1,610.15	1,838.82	1,993.69
Certificate Holders' Equity	3,127.20	3,059.62	2,892.20	2,618.15	2,846.82	2,497.69
Gross Revenue	1,451.50	1,437.27	1,348.64	1,666.23	1,666.79	1,502.96
Net Profit	345.43	277.95	267.42	243.61	268.86	149.31
Earning Per Certificate - Rs.5/- each	1.71	1.38	1.33	1.21	1.50	1.36
Cash Dividend	20%	22%	21%	20%	21%	20%
Ijarah Rental	333.39	327.34	311.18	351.55	317.30	286.49

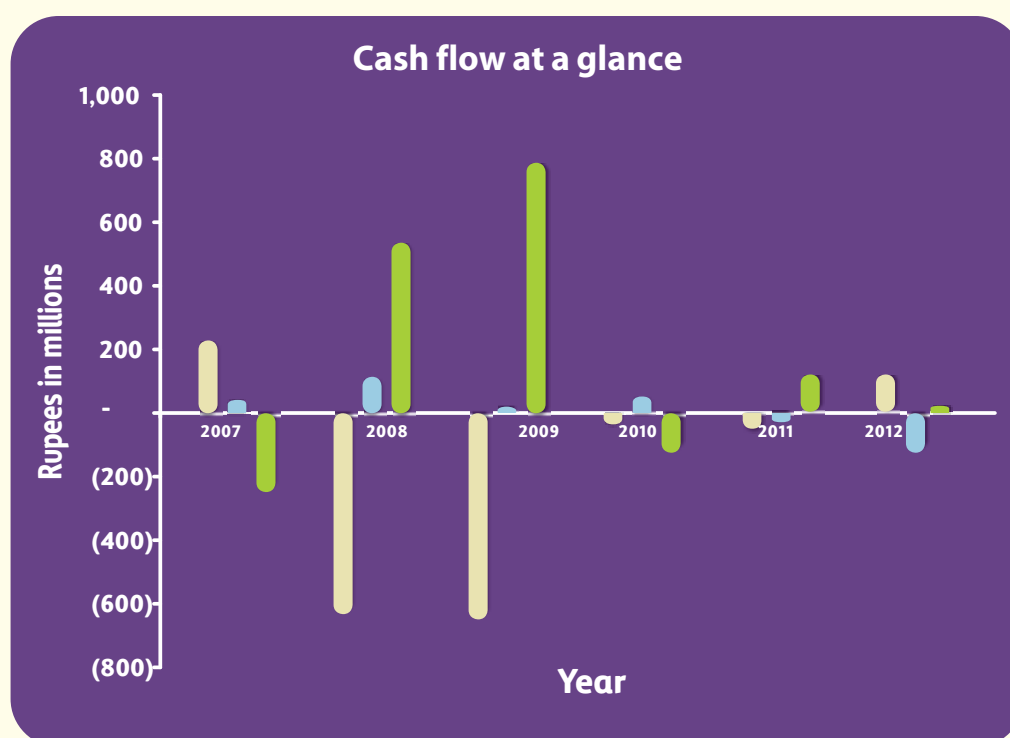
STAKEHOLDER INFORMATION	2012	2011	2010	2009	2008	2007
<b>Profitability Ratios</b>						
Profit after tax ratio (%)	23.80	19.34	19.83	14.62	16.13	9.93
Gross yield on earning assets (%)	33.22	37.26	38.08	56.50	43.39	30.89
Gross spread ratio (%)	12.11	12.96	12.88	9.35	5.45	3.76
Cost / Income ratio (%)	76.35	79.80	79.40	84.57	83.81	89.60
Return on equity (%)	15.52	13.22	13.13	12.36	13.87	14.71
Return on assets (%)	7.57	6.82	7.08	7.42	6.68	2.99
Return on capital employed (%)	12.11	10.03	10.78	11.82	11.39	8.41
Gross profit ratio (%)	23.37	22.65	22.02	20.25	17.20	18.11
Net profit to sale (%)	23.80	19.34	19.83	14.62	16.13	9.93
EBITDA margin to sale (%)	31.48	25.87	26.74	22.09	20.39	13.34
Income / Expense ratio	1.17	1.18	1.18	1.12	1.08	1.05
<b>Liquidity Ratios</b>						
Advance to deposit ratio	2.97	4.25	4.86	6.07	7.39	2.67
Current ratio	1.48	1.87	1.79	2.20	1.67	1.00
Cash to current liabilities	10%	20%	29%	57%	19%	7%
Cashflow from operations to sale	2%	9%	8%	48%	34%	15%
<b>Turnover ratio</b>						
Total Asset Turnover Ratio (%)	35.51	37.52	38.18	53.46	45.82	31.91
Fixed Asset Turnover Ratio (%)	59.02	60.11	58.27	82.83	67.70	49.98
<b>Investment / Market ratio</b>						
Market Value Per Share	7.70	8.15	6.70	5.77	7.77	13.50
High	9.34	8.19	7.33	7.85	16.35	13.80
Low	6.30	5.66	5.50	4.37	7.39	6.55
EPS (Earning per share)	1.71	1.38	1.33	1.21	1.50	1.36
Price earning ratio	4.50	5.91	5.04	4.77	5.18	9.93
Price to book ratio	0.70	0.78	0.66	0.59	0.81	1.34
Dividend Yield ratio (%)	12.99	13.50	15.67	17.33	13.51	7.41
Dividend Payout ratio (%)	58.36	79.78	79.16	82.75	78.73	67.51
Dividend cover ratio	1.71	1.25	1.27	1.21	1.43	1.36
Cash dividend (%)	20%	22%	21%	20%	21%	20%
Cash dividend per share	1.00	1.10	1.05	1.00	1.05	1.00
Book Value Per Share	11.04	10.43	10.10	9.78	9.62	10.07
Dividend (in million rupees)	202	222	212	202	212	101
Profit Growth Ratio (%) [YoY]	24	4	10	(9)	80	6
Profit Growth Ratio (%) [base year 2007]	131	86	79	63	80	-
<b>Capital Structure ratio</b>						
Net assets per share	15.51	15.18	14.35	12.99	14.12	24.78
Earning asset to total asset ratio (%)	95.71	94.66	93.76	89.88	95.43	97.28

# SUMMARY OF CASH FLOW



(in million rupees)

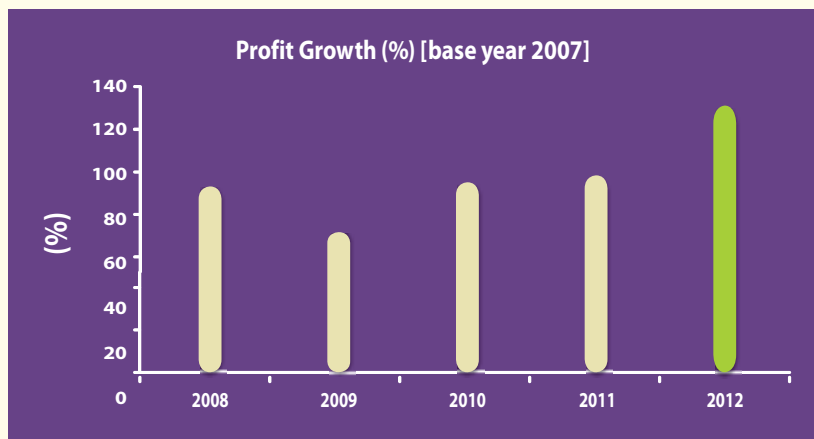
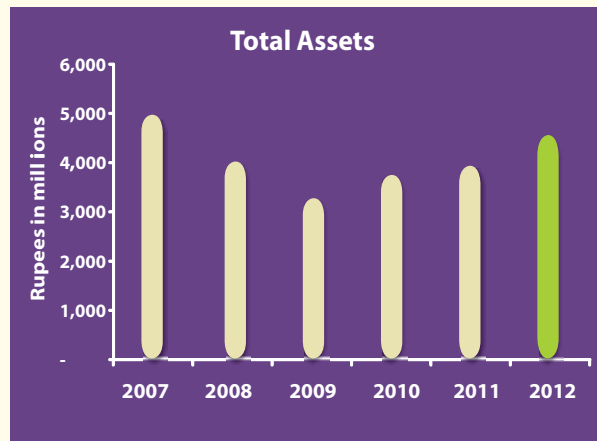
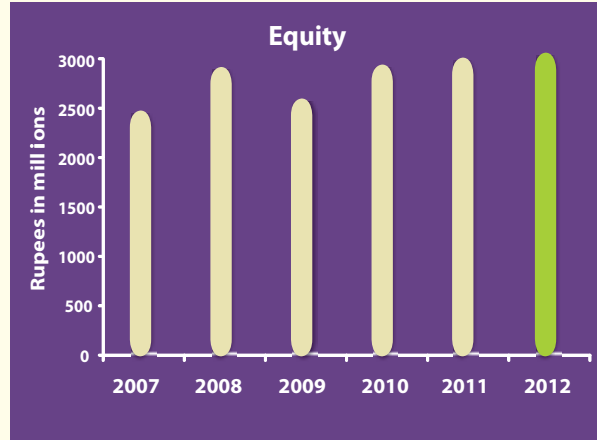
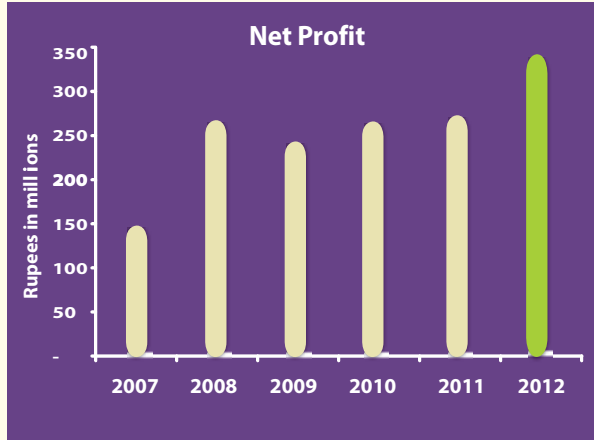
	2012	2011	2010	2009	2008	2007
Cash & cash equivalents at the beginning of the year	112	212	302	150	125	73
Net Cash flow from operating activities	25	130	(102)	805	560	(233)
Net Cash flow from investing activities	(150)	(118)	47	17	125	39
Net Cash flow from financing activities	136	(112)	(34)	(670)	(660)	245
<b>Net increase/decrease in cash &amp; cash equivalent</b>	<b>11</b>	<b>(101)</b>	<b>(90)</b>	<b>152</b>	<b>25</b>	<b>52</b>
<b>Cash &amp; cash equivalents at the end of the year</b>	<b>122</b>	<b>112</b>	<b>212</b>	<b>302</b>	<b>150</b>	<b>125</b>



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

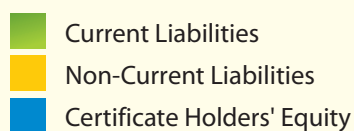
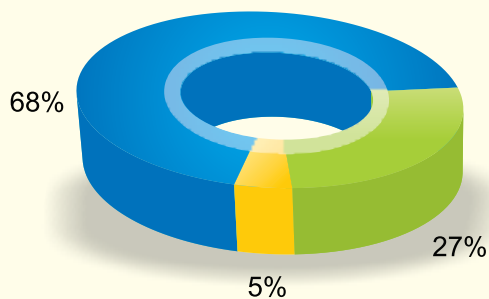


# FINANCIAL SUMMARY AT A GLANCE

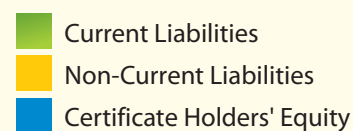
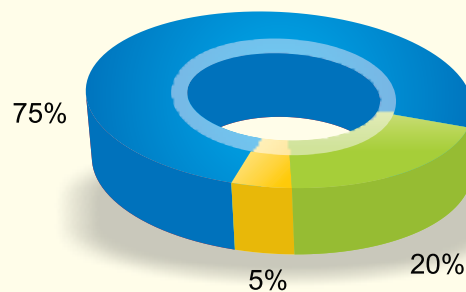




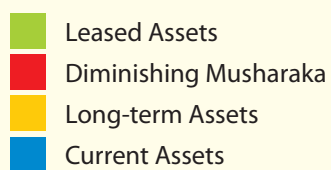
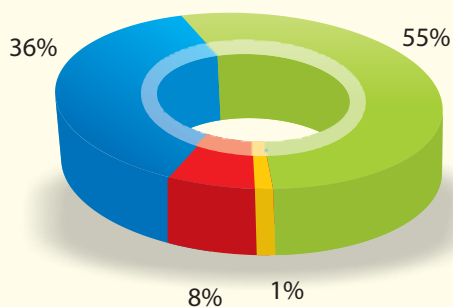
### Equity & Liabilities 2012



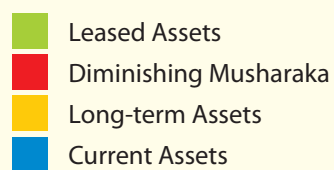
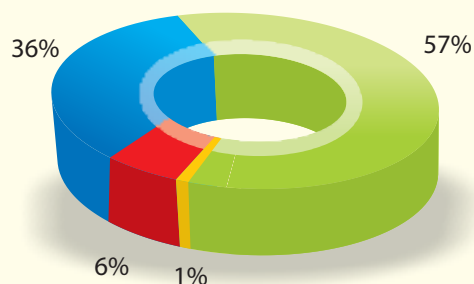
### Equity & Liabilities 2011



### Assets 2012



### Assets 2011





# HORIZONTAL ANALYSIS

## BALANCE SHEET (%)

	2012	2011	2010	2009	2008	2007
<b>ASSETS</b>						
<b>NON-CURRENT ASSETS</b>						
Fixed Assets - tangible						
Ijarah (Lease) Assets	5.40	(2.56)	16.14	(22.80)	(14.73)	16.04
Assets in own use	43.47	(11.49)	(7.31)	(9.92)	22.96	(15.85)
Intangible Assets	2,131.66	36.01	451.60	(61.52)	(77.60)	(30.92)
Investment in diminishing musharaka	44.26	402.48	130.15	0.00	0.00	0.00
Long-term advances & deposits	(46.53)	81.85	1,850.00	(93.39)	4.08	(17.29)
<b>CURRENT ASSETS</b>						
Investments	18.75	20.70	25.36	(26.54)	(32.98)	70.18
Current maturity of diminishing musharaka	108.69	88.27	236.42	0.00	0.00	0.00
Ijarah rental receivable - secured, considered good	(20.58)	(9.27)	(58.27)	254.31	362.25	(51.44)
Loan & advances	-	-	-	(100.00)	39.13	(34.88)
Trade deposits & short-term prepayments	3.12	195.36	154.68	(33.11)	232.26	(85.09)
Other receivables	19.07	158.54	(26.62)	(41.51)	1,617.68	(44.70)
Tax refund due from Government	63.08	1,642.05	0.00	0.00	0.00	0.00
Cash & bank balances	(24.23)	(23.93)	(29.72)	101.14	20.02	70.29
<b>TOTAL ASSETS</b>	<b>12.03</b>	<b>7.87</b>	<b>15.14</b>	<b>(18.49)</b>	<b>(19.50)</b>	<b>28.56</b>
<b>EQUITY &amp; LIABILITIES</b>						
<b>CAPITAL &amp; RESERVES</b>						
Authorized Certificate capital	0.00	0.00	0.00	0.00	83.33	0.00
Issued, subscribed & paid-up capital	0.00	0.00	0.00	0.00	100.00	0.00
Reserves	3.29	8.89	17.02	(12.44)	(7.77)	54.39
<b>Certificate holders' equity</b>	<b>2.21</b>	<b>5.79</b>	<b>10.47</b>	<b>(8.03)</b>	<b>13.98</b>	<b>39.12</b>
<b>NON-CURRENT LIABILITIES</b>						
Long-term Murabaha finances	-	-	-	(100.00)	(61.88)	22.91
Certificates of Musharaka - unsecured	(100.00)	347.51	(89.48)	(85.21)	43.82	108.50
Security deposits against Ijarah assets	9.02	22.56	21.31	(31.54)	(13.89)	16.03
<b>CURRENT LIABILITIES</b>						
Murabaha finances - current portion	-	-	-	(100.00)	(13.95)	20.04
Certificates of Musharaka - current portion	58.82	18.59	49.83	5.92	(72.09)	17.16
Security deposits - current portion	18.86	(44.79)	(4.58)	33.15	15.03	48.86
Short-term Musharaka finances - secured	0.00	0.00	0.00	0.00	(100.00)	(33.33)
Unearned Ijarah rentals	77.03	(36.97)	107.22	264.87	0.00	0.00
Advance Ijarah rentals received	(9.18)	(5.59)	3.74	(9.22)	19.99	0.34
Trade & other payables	29.64	61.11	43.67	(32.61)	9.61	29.88
Taxation - net	0.00	0.00	653.27	(70.83)	(22.98)	11.19
Unclaimed profit distribution	9.33	7.39	11.67	12.25	11.74	10.34
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>12.03</b>	<b>7.87</b>	<b>15.14</b>	<b>(18.49)</b>	<b>(19.50)</b>	<b>28.56</b>

## PROFIT & LOSS ACCOUNT (%)

	2012	2011	2010	2009	2008	2007
Ijarah rentals	(0.87)	5.67	(19.27)	(0.25)	11.09	24.97
Profit on diminishing musharaka	140.30	192.82	78.48	0.00	0.00	0.00
Depreciation on Ijarah assets	(1.69)	5.82	(21.36)	(2.85)	11.16	28.36
Administrative expenses	3.90	16.51	3.66	13.11	17.69	39.04
Other Income	85.14	(2.24)	6.72	(50.62)	91.72	169.99
Other charges	115.07	(53.49)	(69.49)	14,932.29	0.00	0.00
Financial charges	38.63	30.13	(32.21)	(51.73)	(14.27)	59.86
Modaraba company's management fee	22.90	3.93	9.77	(9.39)	80.06	5.84
<b>Profit for the year</b>	<b>24.29</b>	<b>3.93</b>	<b>9.77</b>	<b>(9.39)</b>	<b>80.06</b>	<b>5.84</b>

# VERTICAL ANALYSIS



<b>BALANCE SHEET (%)</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>						
<b>NON-CURRENT ASSETS</b>						
Fixed Assets - tangible						
Ijarah (Lease) Assets	54.78	58.23	64.46	63.91	67.47	63.69
Assets in own use	0.18	0.14	0.17	0.21	0.19	0.12
Intangible Assets	0.0466	0.0023	0.0019	0.0004	0.0008	0.0029
Investment in diminishing musharaka	5.13	3.98	0.85	0.43	0.00	0.00
Long-term advances & deposits	0.03	0.07	0.04	0.43	0.00	0.00
<b>CURRENT ASSETS</b>						
Investments	32.55	30.71	27.44	25.20	27.97	33.59
Current maturity of diminishing musharaka	3.25	1.74	1.00	0.34	0.00	0.00
Short-term Murabaha finance	0.00	0.00	0.00	0.00	0.00	0.00
Ijarah rental receivable - secured, considered good	0.07	0.11	0.13	0.35	0.08	0.01
Loan & advances	0.00	0.00	0.00	0.00	0.04	0.03
Trade deposits & short-term prepayments	0.11	0.12	0.04	0.02	0.02	0.01
Other receivables	0.54	0.51	0.21	0.34	0.47	0.02
Tax refund due from Government	0.62	0.43	0.03	0.00	0.00	0.00
Cash & bank balances	2.68	3.96	5.62	9.21	3.73	2.50
<b>TOTAL ASSETS</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>EQUITY &amp; LIABILITIES</b>						
<b>CAPITAL &amp; RESERVES</b>						
Authorized Certificate capital	24.09	26.99	29.12	33.52	27.32	12.00
Issued, subscribed & paid-up capital	22.08	24.73	26.68	30.72	25.04	10.08
Reserves	46.42	50.34	49.87	49.07	45.68	39.87
<b>Certificate holders' equity</b>	<b>68.50</b>	<b>75.08</b>	<b>76.56</b>	<b>79.79</b>	<b>70.72</b>	<b>49.94</b>
<b>NON-CURRENT LIABILITIES</b>						
Long-term Murabaha finances	-	-	-	-	4.19	8.86
Certificates of Musharaka - unsecured	-	0.07	0.02	0.19	1.07	0.60
Security deposits against Ijarah assets	4.58	4.71	4.14	3.93	4.68	4.38
Deferred liability - Staff gratuity	-	-	-	-	-	-
<b>Total Non-Current Liabilities</b>	<b>4.58</b>	<b>4.78</b>	<b>4.16</b>	<b>4.13</b>	<b>9.94</b>	<b>13.83</b>
<b>CURRENT LIABILITIES</b>						
Deferred Murabaha Income	-	-	-	-	-	-
Murabaha finances - current portion	-	-	-	-	6.81	6.37
Certificates of Musharaka - current portion	21.23	14.98	13.62	10.47	8.06	23.23
Security deposits - current portion	1.27	1.19	2.33	2.82	1.72	1.21
Short-term Musharaka finances - secured	-	-	-	-	-	2.00
Short-term Murabaha finances - secured	-	-	-	-	-	1.47
Unearned Ijarah rentals	0.38	0.24	0.42	0.23	0.05	-
Advance Ijarah rentals received	0.41	0.51	0.58	0.64	0.58	0.39
Trade & other payables	3.14	2.71	1.81	1.45	1.76	1.29
Taxation - net	0.061	0.068	0.074	0.01	0.03	0.03
Unclaimed profit distribution	0.43	0.44	0.45	0.46	0.33	0.24
Proposed profit distribution	-	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>26.92</b>	<b>20.14</b>	<b>19.28</b>	<b>16.08</b>	<b>19.34</b>	<b>36.23</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>PROFIT &amp; LOSS ACCOUNT (%)</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Ijarah rentals	96.86	98.68	99.52	99.78	100.00	99.83
Profit on diminishing musharaka	3.14	1.32	0.48	0.22	-	-
Profit on Murabaha finance	-	-	-	-	-	0.17
	100.00	100.00	100.00	100.00	100.00	100.00
Depreciation on Ijarah assets	76.29	76.92	76.82	78.86	80.96	80.91
Administrative expenses	4.12	3.93	3.56	2.77	2.45	2.31
Other Income	12.07	6.46	6.99	5.29	10.68	6.19
Other charges	1.11	0.51	1.16	3.08	0.02	-
Financial charges	6.52	4.67	3.79	4.51	9.32	12.08
Modaraba company's management fee	2.70	2.18	2.21	1.63	1.79	1.11
<b>Profit for the year</b>	<b>24.57</b>	<b>19.60</b>	<b>19.92</b>	<b>14.65</b>	<b>16.13</b>	<b>9.95</b>



## CERTIFICATE HOLDERS INFORMATION

Registered Office:  
First Habib Modaraba  
5<sup>th</sup> Floor, HBZ Plaza,  
I.I. Chundrigar Road,  
Karachi  
U.A.N. : 111-346-346  
Tel No. : 021-32635949-51  
Fax : 021-32627373  
Email: fhm@habibmodaraba.com  
Web: www.habibmodaraba.com

Share Registrar Office:  
M/s. Noble Computer Services (Pvt.) Limited  
Siddiqsons Tower  
3-Jinnah Cooperative Housing Society,  
Main Shahrah-e-Faisal,  
Karachi - 75350  
PABX: (92-21) - 34325482-87  
Fax: (92-21) 34325442

### Listing on Stock Exchanges

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

### Investor Service Centre

First Habib Modaraba Share department is operated by Noble Computer Services (Pvt.) Limited. It also functions as an Investor Service Centre and has been servicing nearly 5,043 Certificate holders. The Investor Service Centre is managed by a well-experienced team of professionals and is equipped with the necessary infrastructure in terms of computer facilities and comprehensive set of systems and procedures for conducting the Registration function. The team is headed by Mr. Azadar Jafri at Registrar Office and Mr. Adnan Thanwey, Chief Manager & Company Secretary at First Habib Modaraba.

First Habib Modaraba share department has online connectivity with Central Depository Company of Pakistan Limited. The share department undertakes activities Certificate Transfer and Transmission, issue of duplicate / revalidated dividend warrant, issue of duplicate / replaced share Certificates, change of address and other related matters.

For assistance, Certificate holders may contact either the Registered Office or Share Registrar Office:

Contact Person:  
Registrar Office:  
Mr. Azadar Jafri  
Head of Operations

Contact Person:  
First Habib Modaraba  
Mr. Adnan Thanwey  
Assistant Vice President/Company Secretary

### Dividend Announcement:

The Board of Directors of the Management Company has approved Cash dividend of 20% (Re.1.00/- per Modaraba Certificate of Rs.5/- each) for the financial year ended 30th June, 2012.

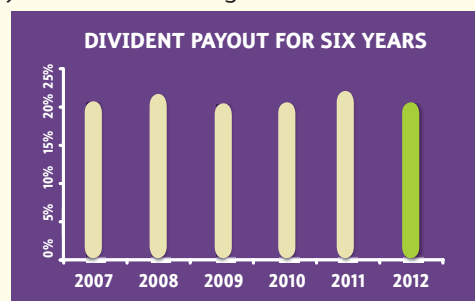
### Book Closure Dates.

The Certificate Transfer Book of the Modaraba will remain close from 28-08-12 to 04-09-12 (both days are inclusive).

## Payment of dividend

The dividend warrants will be sent to Modaraba Certificate Holders within statutory time limit i.e. within 45 days from the re-opening of Certificate Transfer Book to those Modaraba Certificate Holders whose name appear in the Register of Member of the Modaraba after entertaining all requests for transfer of certificate lodge with the Modaraba before the book closure date either in physical form or through CDC.

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



## Withholding of Tax & Zakat on Dividend

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

Zakat is also deductible at source from the dividend at the rate of 2.5% of face value of the share, other than the corporate holders or the individuals who provide the undertaking for non deduction of Zakat.

## Dividend Warrant

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



# PATTERN OF CERTIFICATE HOLDINGS

## As Per Requirements Of Code Of Corporate Governance.

As At 30th June, 2012

CATEGORY NO.	CATEGORIES OF CERTIFICATES HOLDERS	NUMBER OF CERTIFICATES HELD	CATEGORY WISE NO. OF CERTIFICATES HOLDERS	CATEGORY WISE CERTIFICATES HELD	PERCENTAGE
1	INDIVIDUALS		4,949	55,736,129	27.65
2	INVESTMENT COMPANIES		3	50,042	0.02
3	JOINT STOCK COMPANIES		41	3,719,739	1.85
4	DIRECTOR, CHIEF EXECUTIVE OFFICER, AND THEIR SPOUSE AND MINOR CHILDREN.		1	40,000	0.02
	MR. ABBAS ALI MUHAMMAD	40,000			
5	EXECUTIVES		-	-	
6	NIT / ICP		3	1,630,823	0.81
	NATIONAL BANK OF PAKISTAN-TRUSTEE DEPARTMENT NI(U)T FUND	1,584,070			
	INVESTMENT CORPORATION OF PAKISTAN	5,960			
	NATIONAL INVESTMENT TRUST LIMITED	40,793			
7	ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES		5	100,944,454	50.07
8	PUBLIC SECTOR COMPANIES AND CORPORATIONS		-	-	-
9	BANKS, DFIS, NBFIS INSURANCE COMPANIES, MODARABAS & MUTUAL FUNDS		15	10,083,704	5.00
10	FOREIGN INVESTORS		7	3,718,016	1.84
11	COOPERATIVE SOCIETIES		2	21,551,785	10.69
12	CHARITABLE TRUSTS		6	1,156,808	0.57
13	OTHERS		11	2,968,500	1.47
	<b>TOTAL</b>		<b>5,043</b>	<b>201,600,000</b>	<b>100</b>

# PATTERN OF CERTIFICATE HOLDINGS

As At 30th June, 2012



Number of Certificate Holders	Certificate Holdings	Total Certificate Held	
659	1	100	34,784
1064	101	500	330,217
691	501	1,000	531,464
1483	1,001	5,000	3,478,758
418	5,001	10,000	3,185,412
147	10,001	15,000	1,796,072
95	15,001	20,000	1,739,200
82	20,001	25,000	1,876,058
58	25,001	30,000	1,627,704
28	30,001	35,000	913,338
34	35,001	40,000	1,322,001
28	40,001	45,000	1,167,431
39	45,001	50,000	1,904,060
9	50,001	55,000	468,089
15	55,001	60,000	868,812
7	60,001	65,000	447,152
3	65,001	70,000	206,240
10	70,001	75,000	734,996
6	75,001	80,000	467,140
8	80,001	85,000	650,646
1	85,001	90,000	90,000
7	90,001	95,000	639,044
15	95,001	100,000	1,483,816
3	100,001	105,000	305,619
4	105,001	110,000	434,640
3	110,001	115,000	336,886
4	115,001	120,000	468,340
3	120,001	125,000	370,960
3	125,001	130,000	385,008
5	130,001	135,000	654,588
2	135,001	140,000	277,088
4	140,001	145,000	570,323
5	145,001	150,000	739,772
7	150,001	155,000	1,064,369
1	155,001	160,000	160,000
7	160,001	165,000	1,136,260
1	165,001	170,000	168,391
2	170,001	175,000	346,360
1	180,001	185,000	181,647
3	185,001	190,000	561,369
2	190,001	195,000	384,000
2	195,001	200,000	400,000
3	200,001	205,000	607,044
2	205,001	210,000	416,600
2	210,001	215,000	426,560
3	215,001	220,000	652,620
2	220,001	225,000	442,722
1	225,001	230,000	226,800
2	240,001	245,000	481,944
1	245,001	250,000	249,000
1	255,001	260,000	259,500
2	260,001	265,000	520,796
2	265,001	270,000	538,000
1	270,001	275,000	270,200
2	280,001	285,000	564,480
2	295,001	300,000	600,000
1	320,001	325,000	322,560
1	325,001	330,000	326,000
1	335,001	340,000	337,790
1	340,001	345,000	342,672
1	345,001	350,000	350,000
1	360,001	365,000	364,000
1	370,001	375,000	375,000
1	385,001	390,000	388,500
2	395,001	400,000	797,974
2	400,001	405,000	800,800
1	420,001	425,000	424,500
1	425,001	430,000	425,344
1	430,001	435,000	434,524
2	455,001	460,000	917,011
1	465,001	470,000	470,000
1	495,001	500,000	500,000
1	500,001	505,000	504,138
1	510,001	515,000	514,000
1	535,001	540,000	537,500
1	555,001	560,000	555,801
1	590,001	595,000	592,600
1	600,001	605,000	602,400
1	720,001	725,000	724,659
1	745,001	750,000	750,000
1	795,001	800,000	800,000
2	820,001	825,000	1,649,808
2	850,001	855,000	1,705,500
1	855,001	860,000	858,500
1	1,195,001	1,200,000	1,200,000
1	1,300,001	1,305,000	1,300,192
1	1,405,001	1,410,000	1,406,000
1	1,580,001	1,585,000	1,584,070
1	1,620,001	1,625,000	1,621,000
1	1,750,001	1,755,000	1,750,800
1	1,825,001	1,830,000	1,828,000
1	1,840,001	1,845,000	1,843,815
1	2,010,001	2,015,000	2,015,000
1	2,495,001	2,500,000	2,500,000
1	3,965,001	3,970,000	3,969,000
1	20,155,001	20,160,000	20,160,000
1	21,540,001	21,545,000	21,544,490
1	21,990,001	21,995,000	21,993,294
1	58,345,001	58,350,000	58,348,438
5043			201,600,000



First Habib Modaraba

## BRANCH OFFICES

### LAHORE



### ISLAMABAD





MULTAN (NEW BRANCH)



INAUGURATION OF MULTAN BRANCH





### **Credit Rating**

During the year, rating of FHM has been maintained to AA+ for long term and A1+ for short term (A1+ is the highest level in PACRA rating scale for short term rating). FHM is maintaining A category rating for last 12 years from Pakistan Credit Rating Agency (Private) Ltd.

### **Highest Equity and Sound Profitability**

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

### **Unbroken Dividend Payout History**

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

### **Profitable Venture since Inception**

By the grace of God, due to unmatched business & finance skills of the management, FHM remain profitable venture since the beginning. By applying strict risk management policies and best business practices Allhamdolillah, FHM has never incurred losses in any year during the business operation of last 27 years. No doubts, it is a very remarkable achievement of FHM, which is rarely available within the sector of non-banking financial institutions.

### **Excellent Investment Portfolio**

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

## Best performing Modaraba award from NBF and Modaraba Association of Pakistan

For the financial year ended 30th June, 2011, the NBF and Modaraba Association of Pakistan, has awarded best performing Modaraba award to FHM within the Modaraba sector.

So far FHM has received 11 awards from Modaraba Association of Pakistan within last 13 years.

## Corporate Excellence Award

In 28th Corporate Excellence Awards ceremony held in November, 2011, the Management Association of Pakistan (MAP) has awarded "Certificate of Excellence" award to FHM from the category of Equity Investment Instruments Sector. Alhamdulillah, since last five consecutive years FHM has been receiving this award. So far FHM has secured four Excellence Certificate and one Excellence Trophy Award.

## Best Corporate Report Award from ICAP/ICMAP

The joint committee of ICAP/ICMAP has given "Best Corporate Report Award" to FHM under the category of Non-Banking Financial Institutions (NBFIs) in their award ceremony held in October, last year. The award was given on annual audited accounts of FHM for the period ended 30th June, 2010.

Alhamdulillah, so far FHM is the first Modaraba who has awarded for best corporate report award within the entire Modaraba sector since last two consecutive years.

## Best Presented Account Award from "SAFA"

South Asian Federation of Accountants (SAFA) in its Award Ceremony held in Dhaka Bangladesh, on 29th November, 2011, awarded a "Certificate of Merit" award to FHM for "Best Presented Account" and "Corporate Governance Disclosure" within the category of Non-Banking Financial Institutions (NBF) sector of Pakistan.

Within this sector, there were only two nominees from Pakistan and First Habib Modaraba was one of them. This is second consecutive "Certificate of Merit" award to Habib Modaraba from SAFA committee.

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

By the grace of God, this is again a great achievement not only for FHM but certainly an honor for entire Modaraba and NBF sector.

## Brand of the year Award

First Habib Modaraba received "Brand of the Year" award of the year 2010 from the Brands Foundation of Pakistan. This award was given in the category of Non Banking Financial Institutions.



# *Corporate Memberships*



**First Habib Modaraba (FHM) having affiliation with well-reputed International and Local Associations**



## ISLAMIC FINANCIAL SERVICES BOARD (Malaysia)

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



## السوق المالية الإسلامية الدولية International Islamic Financial Market (Bahrain)

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

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



## NBFI & Modaraba Association of Pakistan

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

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



## Management Association of Pakistan

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



## MARKETING ASSOCIATION OF PAKISTAN

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

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

## Awards Received

- 1999** Best Performing Modaraba Award by The Modaraba Association of Pakistan
- 2000** Best Performing Modaraba Award by The Modaraba Association of Pakistan
- 2001** Best Performing Modaraba Award by The Modaraba Association of Pakistan
- 2002** Best Performing Modaraba Award by The Modaraba Association of Pakistan
- 2005** Best Performing Modaraba Award by The Modaraba Association of Pakistan
- 2006** Best Performing Modaraba Award by The Modaraba Association of Pakistan
- 2007** Best Performing Modaraba Award by The Modaraba Association of Pakistan  
Corporate Excellence Certificate Award by The Management Association of Pakistan
- 2008** Best Performing Modaraba Award by Modaraba Association of Pakistan  
Corporate Excellence Certificate Award by The Management Association of Pakistan
- 2009** Best Performing Modaraba Award by The Modaraba Association of Pakistan  
Corporate Excellence Trophy Award by The Management Association of Pakistan
- 2010** Best Performing Modaraba Award by The Modaraba Association of Pakistan  
Corporate Excellence Certificate Award by The Management Association of Pakistan  
Best Corporate Report Award by The Joint Committee of ICAP and ICMAP  
Best Presented Accounts and Corporate Disclosure Award by SAFA
- 2011** Best Performing Modaraba Award by The NBFi's & Modaraba Association of Pakistan  
Corporate Excellence Certificate Award by The Management Association of Pakistan  
Best Corporate Report Award by The Joint Committee of ICAP and ICMAP  
Best Presented Accounts and Corporate Disclosure Award by SAFA  
Brand of the Year Award by The Brands Foundation of Pakistan

# FHM's Calendar

## Calendar of Major Events

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

## Financial Calendar

### 2012

- Ist Quarter Result issued on October 24, 2011
- 2nd Quarter Result issued on January 27, 2012
- 3rd Quarter Result issued on April 24, 2012
- Annual Result issued on July 25, 2012
- Annual Review Meeting Scheduled on September 04, 2012

### 2011

- Ist Quarter Result issued on October 21, 2010
- 2nd Quarter Result issued on January 31, 2011
- 3rd Quarter Result issued on April 19, 2011
- Annual Result issued on July 26, 2011
- Annual Review Meeting August 29, 2011

**Committed to**

*“Perform”*

Performance is deemed to be the fulfillment of an obligation in a manner that releases the performer from all liabilities. The performance is the accomplishment of given task. Well targeted business performance is critical for every organization.

Alhamdulillah, our performance of last 27 years remained satisfactory with growing business volume and profits every year since beginning of our business operation.

FHM has been maintaining its status as leading Modaraba within the Modaraba sector and rank in top ranking position within its peer group.

In recognition of outstanding performance, the NBF and Modaraba Association of Pakistan has been awarding FHM as “Best Performing Modaraba Award” within Modaraba sector of Pakistan, since last 13 years. So far FHM has secured 11 awards of best performance from said Association.





**NBFI & Modaraba**  
Association of Pakistan

## Best Performing Modaraba Awards



**2011**



**Committed to**

***“Excellence”***

**Success may be of one dimensions but excellence is of multiple dimensional in the company. Excellence in any organization cannot be achieved without good corporate governance culture.**

**At FHM, we are committed to achieve the highest standards of corporate governance, integrity and business ethics across all our operations.**

**Our long and sustainable efforts for Corporate Excellence have been continuously recognized by the Management Association of Pakistan (MAP). By the grace of God, since last 5 consecutive years FHM has been receiving Corporate Excellence Certificate and Trophy award.**

**No doubt, this is a great achievement not only for FHM but also for entire Modaraba sector. The recognition of above awards by MAP acknowledges the strong commitment of FHM for promotion of good governance and corporate excellence.**

28<sup>th</sup>

**Corporate  
Excellence Award**



**Management Association of Pakistan  
has given the  
Corporate Excellence Certificate  
TO  
First Habib Modaraba**



**Award Received in Previous years**



2007



2008



2010



2009

**Committed to be**

*“Prudent”*

To be prudent, remain an important corporate objective throughout of business tenor of FHM. Efforts have always been made to enlarge the area of business in a prudent manner and execute funding transactions judiciously on selective basis with in-depth assessment of client.

Due to our prudent and proactive risk management approach, have always supported us in building a good assets quality portfolio and enhance our ability to manage and sustain our existence and progress within tough and unexpected turbulence in business.

Keeping in view of our careful and risk averse approach our credit rating has been maintaining within the rating scale of AA+ for long term. This rating has been awarded by M/s Pakistan Rating Agency Ltd (PACRA). Due to our continued sound and stable business position, we have been maintaining “AA” category rating scale since last several years.



## Press Release

### PACRA MAINTAINS RATING OF FIRST HABIB MODARABA

Lahore: December 13, 2011

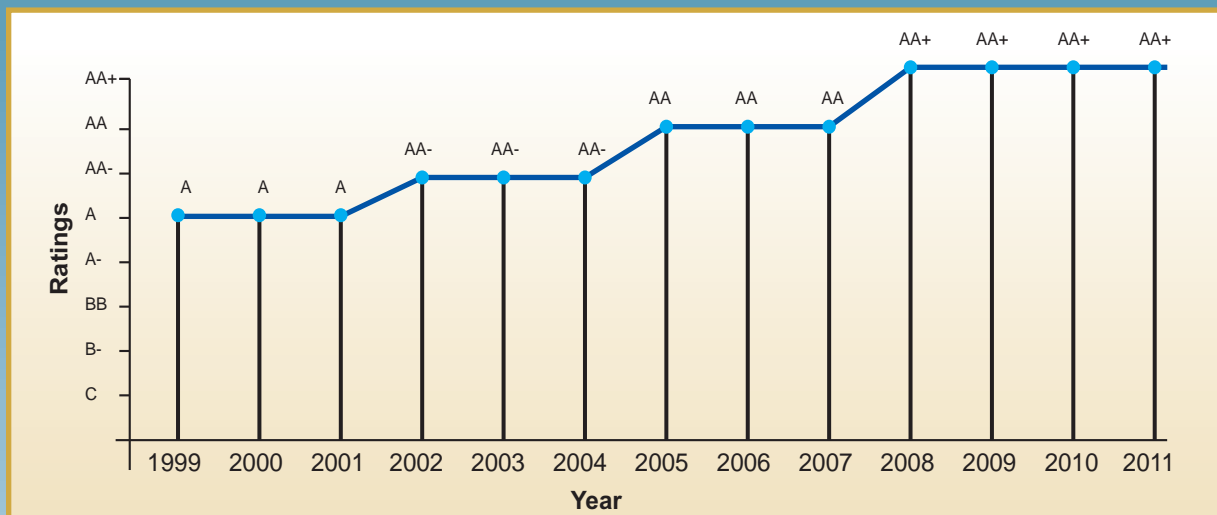
The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term rating of First Habib Modaraba (FHM) at "AA+" (Double A plus) and "A1+" (A One Plus), respectively. These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment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

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

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

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

### Rating growth during last 13 years



**Committed to be**

*“Transparent”*

Today, more than ever, transparency and disclosure (T & D) are critical for business information and appropriate decision. T&D are fundamental components of corporate governance. Greater transparency and better disclosure keep corporate stakeholders better informed about the way a company is being managed.

We realize our responsibility for T &D. We are committed to provide our investors and other stakeholders with transparent information and better disclosure about our structure and operations.

In recognition of our efforts, the joint committee of ICAP/ICMAP at Pakistan level and South Asian Federation of Accountants (SAFA), at SAARC level, has twice awarded FHM for Best Presented Account and Corporate Governance Disclosure award on annual accounts of FHM for 2009 and 2010.



# SOUTH ASIAN FEDERATION OF ACCOUNTANTS

(An Apex Body of SAARC)

# SAFA

BPA & CG Award 2011

SAFA has awarded **“Certificate of Merit”**  
to **FIRST HABIB MODARABA**

for Best Presented Accounts & Corporate Governance Disclosures  
in the Category of **Non Banking Financial Sector**



SAFA “Certificate of Merit Award Received in 2010



# Best Corporate Report Award from ICAP/ICMAP

2011



The Joint Committee of ICAP & ICMAP has selected annual report of First Habib Modaraba for the year ended 30th June, 2010, as a best corporate report and given “Best Corporate Award” under the category of Non-Banking Financial Institutions (NBFI) which comprising on Insurance, Leasing, Investment Banks, Mutual Funds and Modarabas. This ceremony was held on November 11, 2011 at Karachi.

Alhamdulillah, Habib Modaraba is the first Modaraba who has awarded for best corporate award of last two consecutive year.





The Institute of  
Chartered Accountants  
of Pakistan

**JOINT COMMITTEE OF ICAP/ICMAP**



Institute of  
Cost and Management Accountants  
of Pakistan

Ref. No. ICMAP/PRD/ECRA/0003

November 17, 2011

**Mr. Muhammad Shoab Ibrahim**  
Managing Director & CEO  
First Habb Mazaaraba  
5th Floor, H-BZ Plaza (Front Centre),  
I. Chundrigar Road,  
Karachi

**CONGRATULATIONS**

Dear Sir,

On behalf of the Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP), I congratulate you on getting the 3<sup>rd</sup> Position in the Financial Sector-NBFI's in the Best Corporate Report Awards – 2010.

I wish you all the best in your future endeavours..

Thanking you, -

**Abdul Rahim Suriya**  
Chairman,  
Evaluation Sub Committee  
Joint Committee

Enclosure: Photographs



First Habib Modaraba has received  
**Brand of the year 2010 Award**  
from Brands Foundation Pakistan



ONE VOICE  
FOR **No. 1** CHOICE



In view of quantitative survey, qualitative study  
and the expert panel recommendations,  
The Governing Body of Brands Foundation  
do hereby confer this

# Brands of the year Award <sup>TM</sup> 2010

ITS ALL ABOUT CHAMPIONS

TO



**FIRST HABIB MODARBA**

IN THE CATEGORY OF



Shaikh Rashid Alam  
FOUNDER & CEO

Given this 30<sup>th</sup> Day of July 2011

BRANDS FOUNDATION is a public company established as a non-profit organization  
licenced under section 42 of Companies Ordinance 1984



## TEAMWORK

*“Talent wins game  
but teamwork and intelligence win championships”*







## PRODUCT RANGE

### LEASE (IJARAH)



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

### DIMINISHING MUSHARAKA



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

### CAR-NAMA



The rise in the cost of vehicles has made buying the car of a difficult reality. Now we bring a package which reduces your worries for your huge investment in the car of your choice. FHM is offering a very flexible and affordable car Ijarah-financing scheme for corporate employees and self-employed persons who fulfill required criteria of FHM.

### MURABAHA



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



## SALAM



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

## ISTISNA



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

## MUSHARAKA



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

## CERTIFICATE OF MUSHARAKA



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



# DIRECTOR'S REPORT

## Assalam o Alaikum Wa Rahmatullah Wa Barakatuhu,

On behalf of the Board of Directors, I am pleased to present the audited accounts of the Modaraba for the year ended June 30, 2012.

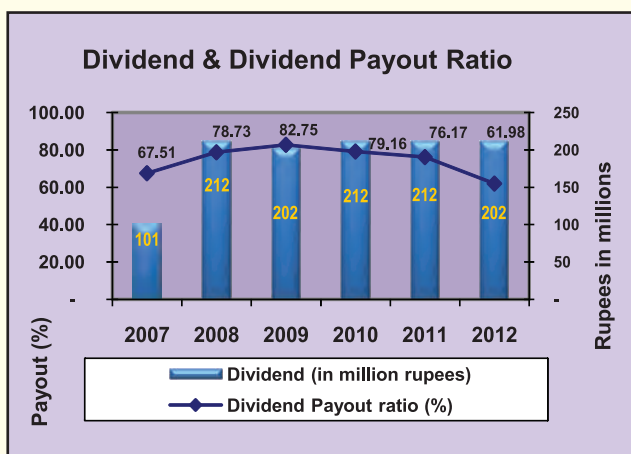
Financials	Rs. In thousands
Profit before management fee	383,383
Modaraba company management fee	38,338
Profit for the year	345,045
Unappropriated profit B/F	4,172
Profit available for appropriation	349,217
Earning per certificates of Rs. 5/- each	Rs.1.71
<b>APPROPRIATIONS</b>	
Cash dividend @ 20%	201,600
Transfer to statutory reserve @ 40%	138,017
Unappropriated profit C/F	9,600
	349,217

### Dividend

The board is pleased to announce a cash dividend of 20 % i.e. Re. 1.0 per certificate of Rs. 5 /- each and continuing unbroken payout record since beginning.

### Statutory Reserve

Keeping in view of better profitability, the Board of Directors recommended transferring profit to statutory reserve 40% as compared to 20% of last year.

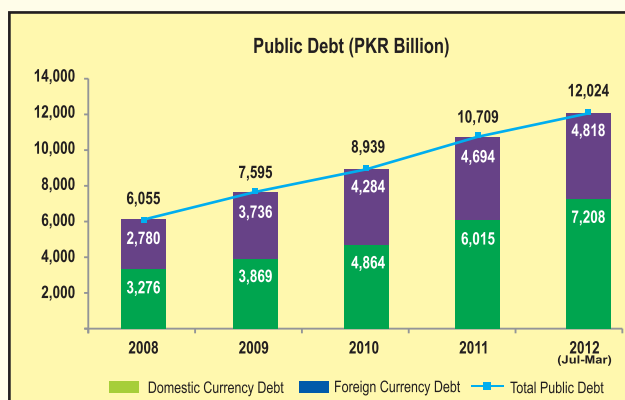


This move has been made for further strengthening of equity base which support FHM for further expansion of business and meeting of any business turbulence or contingencies in future.

### Economic Review

Pakistan's economy continues to face various challenges which are impacting the prospects of economic recovery and macro economic stability. The resilience of the economy of Pakistan has been tested several times by one crisis after another. Domestically, two floods, the difficult security situation and the energy crisis have combined to drastically affect economic growth.

Deficit financing and external account are key concerns for the government. Persistence of structural bottlenecks, mainly due to severe energy shortage and a sensitive law and order conditions have become impediments for economic growth. The uncertainty attached with global economic outlook also has unfavorable implications.

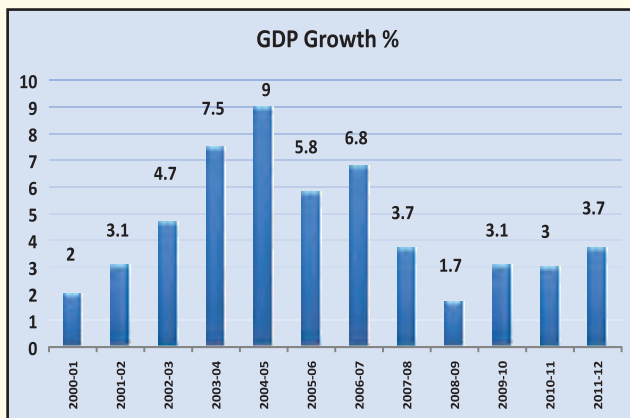


Pakistan's total public debt has increased substantially in the past few years. The Governmental debt has almost doubled from FY08 to FY12. The negative impact of massive borrowing from commercial banks and State Bank is visible in the face of increasing inflation and less liquidity available in Banking sector which lead to a crowding out of banking credit to industries.

The real issue is the structural gap between fiscal revenues and expenditures of the fiscal authority. This gap cannot be reduced without fiscal reforms. At present, it seems difficult to reduce the scale of government borrowings keeping in view of low generation of revenue due to weak economic recovery.

The SBP in their 3rd quarter report for FY12, released in the month of June 2012, stated that country's economy is not in a good shape. The economy has shown some recovery in terms of GDP at growth rate i.e. 3.7 percent as compared to last year level of 2.4 percent and there is slight improvement in performance of agriculture and large scale manufacturing





sector. However, key macro indicators still remain weak. Energy shortages and low investment continue to compromise the economy's capacity for growth.

Unless progress can be made in addressing some fundamental structural weaknesses to revive investment and savings, and restore external financing for badly needed investment, the growth outlook will stay modest.

Given the situation, SBP in their recent monetary policy statement kept its tight monetary policy and also unchanged discount rate i.e. 12 percent keeping in view macro challenges being faced by the country.

Managing inflation remained key concern for GOP during the fiscal year as compared to relatively stable or declining trend during last year or earlier part of this year. The rising inflation was due to rising food and oil prices. The combination of inflationary upsurge and dried-up external financing flows from IMF program and low revenue generation had raised pressure on government borrowing. Budget deficit also remained high, driven by substantial subsidies and losses of state-owned enterprises.

Going forward, it is expected that the fiscal year 2012-13 will be full of challenges for the economy as there are downside risks to the GDP and significant external account vulnerability. The country's external account will likely suffer as a widened trade deficit, low FDI inflow and the upcoming deadline for foreign loan repayments will likely result in shrinkage of the country's liquid foreign exchange reserves causing the further pressure on value of Pak Rupees.

## Financial Sector

For the year ended 31st December, 2011, the performance of banking sector has remained satisfactory and good growth has been reported in profit, size of deposit and overall assets.

However, rising level of non-performing loans (NPLs) portfolio remained serious issue within the financial institutions. Owing to high NPLs, the banking industry is reluctant to expand financing to private sector and major financing is being made in government papers, which are considered more secure as compared to private sector lending. As reported, the cumulative NPLs of banks and DFIs mounted to Rs. 623.193 billion as on December 31, 2011 compared with Rs. 566.645 billion as on December 31, 2010.

The performance of Non-Bank Financial Companies is gradually improving particularly in Mutual Fund, Leasing Companies and Modarabas. According to analysis made by NBF and Modaraba Association of Pakistan, the profitability of overall Modaraba sector remained excellent for the period ended 30th June, 2011. Out of 26 Modarabas 21 declared profits and amongst them 18 Modarabas distributed dividends to their Certificate Holders between the ranges of 3% to 73%.

On development side of NBF sector, recently the new Chairman of Securities and Exchange Commission of Pakistan, (SECP) Mr. Muhammad Ali, has formed an "NBF Reforms Committee" comprising representatives of sector associations and executives from SECPs. The main task of the reforms committee is to review entire structure of NBFs of Pakistan for betterment of the sector.

This is a good move by the SECP and it is expected that recommendations of the committee will support to address issues and difficulties being faced by the sector for its growth and better future prospects. The SECP also emphasis on promotion of role of Islamic NBFs within Pakistan as the overall performance of Islamic Financial Institutions remained excellent.

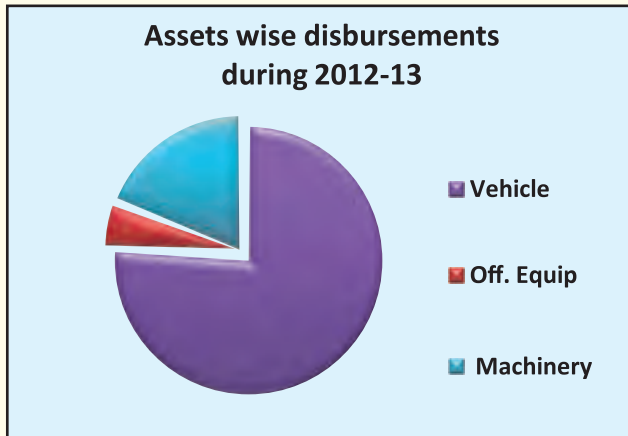
## Business Review of FHM

Alhamdulillah, once again, we have demonstrated our commitment to our Certificate Holders and investors for satisfactory result and better return to their investments in shape of profits and dividends. FHM is well on its way to realizing its vision "To be a leading Islamic Financial Institution within the Modaraba sector" and its mission "To become an institution built on trust, integrity, Good Governance with commitment to add value to all stakeholders".

In these challenging times and changing market dynamics, FHM has managed its performance on prudence and cautiousness as its corporate strategy.



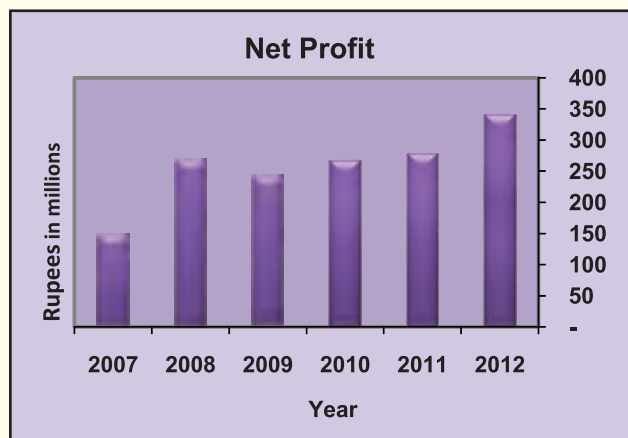
Despite tough competition with other Islamic financial institution particularly, Islamic banks and long weak economic environment, your Modaraba is making all efforts to maintain its performance. In difficult business operating scenario throughout the year, Alhamdulillah, FHM has shown its resilience in maintaining its business and profitability.



During the year under review the disbursements with respect to lease financing and Diminishing Musharaka financing were made of Rs.1,467.0 million and Rs.281.114 million respectively. Profit after tax was increased by 24% to Rs.345.0 million as compared to previous year profit of Rs.278.0 million.

By the grace of God, again this year we had reversed Rs.5.500 million against provision for impairment.

Due to our excellent selection of customer, good assets quality and strong follow up by our recovery department, our recovery remained satisfactory within the overall financial sector of the country particularly within NBF1 sector of Pakistan.



The disbursements in Ijarah and Diminishing Musharaka were made in all good sector of the country and sound corporate entities were also added as new customer from different segments. Your management is determined to keep on developing good asset quality portfolio for sustainable earning stream and keep away themselves from risky financing and investments.

We are continuously striving to improve governance, internal control and business processes systems to enhance operational capacity for better and efficient services to customers.

Alhamdulillah, the sound and satisfactory performance of FHM on year on year basis is outcome of our well planned corporate strategy and business focus which reach us to target market and capture right opportunities in right time.

Our aim is to continuously build our organization at sound footing with diversified pool of income streams, enhancing our ability to manage and sustain our existence and progress within tough and unexpected turbulences of the businesses. Moreover, our focus is on facilitating the customers through better and efficient service, managing costs and investing in technological advancement so that a comprehensive model can be developed for sustainable growth, providing value addition to all customers and certificate holders.

### Credit Rating

M/s Pakistan Credit Rating Agency (private) Limited, (PACRA) in their rating update in December, 2011, has again reposed their confidence in sound and stable position of FHM and maintain rating scale of AA+ for long term and A1+ for short term for the period ended 30th June, 2011. A1+ is highest rating in the short term scale assigned by PACRA.

As per PACRA's assessment the ratings denote FHM's sound risk absorption capacity emanating from equity dominated financial structure and sustained profitability despite continuing volatile economic conditions. Moreover, the Modaraba has a strong liquidity profile, as reflected in its sizable investment book, yielding a stable earnings stream. FHM's risk-averse business strategy has enabled the Modaraba to maintain very strong asset quality despite continuing volatile economic conditions.

## Awards

### Best performing Modaraba award from NBFBI and Modaraba Association of Pakistan

For the financial year ended 30th June, 2011, the NBFBI and Modaraba Association of Pakistan, has awarded best performing Modaraba award to FHM within the Modaraba sector.

So far FHM has received 11 awards from Modaraba Association of Pakistan within last 13 years.

### Corporate Excellence Award

In 28th Corporate Excellence Awards ceremony held in November, 2011, the Management Association of Pakistan (MAP) has awarded "Certificate of Excellence" award to FHM from the category of Equity Investment Instruments Sector. Alhamdulillah, since last five consecutive years FHM has been receiving this award. So far FHM has secured four Excellence Certificate and one Excellence Trophy Award.

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By the grace of God, this is again a great achievement not only for FHM but certainly an honor for entire Modaraba and NBFBI sector.

### Brand of the year Award

Habib Modaraba received "Brand of the Year" award of the year 2010 from the Brands Foundation of Pakistan. This award was given in the category of Non Banking Financial Institutions.

## Market Information

Following table shows the market share of FHM as per the MAP Year Book 2011 (NBFBI & Modaraba Association of Pakistan) for the financial year ended 30th June, 2011.

	(Rupees in million)		
	Combine position of 26 Modarabas	FHM Share	% of FHM share to All Modarabas
Total Equity	12,421.26	3,059.00	25
Total Assets	26,342.19	4,075.58	15
Ijarah Assets	8,967.81	2,372.90	26
Net Profit	1,127.55	277.92	25

## Risk Management Framework

An Effective Risk Management system supports in setting the most appropriate course of action which identify, assess, communicate and address risk issues within all departments of an organizations. Risk management is an



essential pillar of our business strategy. Risk management department is actively measuring, controlling and reporting the risks across the organizations.

Modern analytical tools are used in combination with traditional techniques to assess credit, operational, and market risks.

The global financial crisis, increasing business volatility, uncertain political front, high rising cost of doing business and weak law and order situation of the country have led to take more cautious approach towards smooth functioning of all department particularly credit department where the intensity of risk is very high.

## Credit Risk

The impact of slow and uncertain economic conditions of the country has diluted safe credit granting avenues and reduced overall advances portfolio of the banking and non-banking financial sector towards private sector. It has also impacted repayment ability of the borrower. Keeping in view, the management of FHM has been given their utmost importance and priority for effective management of credit risk. We have been pursuing a holistic approach towards the implementations of sound risk management framework in this area.

During the year under review, the focus remained on to develop and institutionalize the policies & procedural framework to further upgrade credit risk management function at the FHM. To strengthen the same, we have taken many steps including improvement of customer grading system on the basis of quantitative and qualitative factors to enhance the credit granting decision. New techniques of credit appraisals of customers' financials and businesses have been also introduced.

At FHM, credit risk arises from extending credit facilities through different Islamic mode of financing and investment activities. Procedures for managing credit risk are determined by risk function and businesses jointly under the guidance from several policies and guidelines. In order to identify, measure, monitor and mitigate credit risk, following procedures and control have been followed for credit risk planning and its mitigates.

- Appraisals of financials of borrower through quantitative and qualitative analysis and its scoring
- Assessment of standalone performance of the company/client.
- Assessment of Industry/Sector, and performance of the sector
- On site visits and market assessments of customers through market information

## Operational Risk

An operational risk arising from execution of company's day to day affairs. It can be summarized as risks arising from people, system and process through which an institution operates. Operational risk covers very wide area and it is very difficult to quantify it. However, at FHM we have developed good management information systems and contingency planning which support operational risk management system and its mitigates.

The framework of operational risk management has been divided in two broader categories:

- Establishing effective internal control processes and its periodically reviewing operational risk strategy. Such strategy is an integral part of FHM's day to day business and transactions activities which evolve around all levels of FHM's personnel.
- Effective implementation of policies and procedures for controlling and mitigating operational risk and review through internal audit function.

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

## Market risk

Market risk is typically measured using a Value at Risk methodology. Value at risk is well established as a risk management technique, but it contains a number of limiting assumptions that constrain its accuracy. Normally the market risk is associated with Equity Risk, Interest Rate Risk, Currency Risk and Commodity Risk.

Being Non-Bank Islamic Financial Institutions, the FHM is not fully exposed with above all four risks. However, control of below mentioned two risks are well adopted and implemented.

- Equity Risk
- Interest rate risk

In order to evaluate and control above risk, following committees are established

- Market investment committee
- Assets and liability management committee (ALCO)

Both committees are effectively managing equity and interest rate risk. At FHM, although the transactions of equity market are not very regular, but all the transactions went through with SOPs of investment approved by the committee. Being an Islamic Financial Institutions, FHM is not engaged in any business activities where a fixed rate of interest is involved. However, credit facilities are being extended in approved Islamic mode of financing which are linked with market floating rate of profit. The ALCO committee regularly reviews liquidity position and lending

rate management through their standard procedures and market feedback.

## Training and development

The development of human resource in both the personal and professional disciplines of life is utmost importance to us as a Financial Institutions. We believe that by investing on human resource for upgrading their professional knowledge support us for enhancement of their professional capacity which ultimately benefit to FHM.



During the year training program arranged through requirement of job, staff appraisals, and recommendations of department's heads.

In February, 2012, the office of Registrar Modaraba has issued circular of Shariah Compliance Mechanism (SCM) for Modarabas. According to said directives the extensive Shariah Compliance training was required for effective implementation of SCM. During the year, the all concerned staff gone through with proper training for effective implementation of Shariah compliance mechanism and proper monitoring of Shariah compliance department.

## Human Resource

The management of FHM recognizes that effective and energetic human resource plays very important role for long term sustainable growth and performance of our organization. They are our key strength who carries out services for customers and investors. They also play their key role for achieving desire performance of FHM and value additions for its certificate holders.

FHM always concentrate on strengthening its resource pool by acquiring talented personnel and provide them with planned career growth opportunities. FHM is continuously striving to make such policies for employees who should be more customized and competitive, to foster team work, to encourage creativity and to ensure career progression. We

believe to manage them by leading rather than by driving. We hire the best people for the job and strive to retain, motivate, empower and reward them for their contribution. We are committed to provide an ideal professional environment to enable our employees to pursue the highest possible level of performance and supportive in fulfillment of their personal goals.

## Technology

We strongly believe that role of Information Technology is very important for progress of any institution particularly financial institutions. In order to achieve sophisticated product development, better market infrastructure, implementations of sound techniques for controls of risks and enfacement of market share, the role of IT is very important.



During the year IT department adopted Virtually Private Network (VPN) on all FHM Network for better coordination and working environment within the branches.

Regarding the ERP II, department has successfully completed the Phase-I stage and phase II is in process of implementation. FHM IT Department is pursuing the strategy of excellence and sound quality check which support for efficiency and better control.

We have also made our Lahore and Islamabad branches on line with main server. Besides, significant progress was also made towards the implementation of certain other key applications, i.e. human resource management, risk management, and enterprise general ledger, and customer relationship management.

We are hopeful that by above developments, the operational capabilities of relevant department of FHM will be improved and this will support for improvement of internal controls and effective management information system.



## Internal Controls

Internal control is a key process of any organization which ensures effective working at all levels. It is integral to effective risk management for overall operations, a system to ensure that institutions are managed efficiently and effectively, with appropriate policies and procedures that promote the achievement of its goals and objectives.



It is also a process which effect organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish its corporate vision.

An essential element of an effective internal control system the management must tend to develop a strong culture of internal control for which it must encourage all their personnel to understand its importance and to carry out actively with the process.

The management of FHM tries its best to ensure the establishment and maintenance of adequate and effective systems of internal control in compliance with the applicable laws and regulations.

For better control, the required policies and procedures are already in place and its review / updating process being done frequently by the management. Improvement in processes is an ongoing process which the management actively follows. The management FHM is also conscious of its responsibility of putting a system in place for the authentication of transactions, scrutiny of security documentation and identifying areas requiring improvement and devising appropriate remedial action on a timely basis.

We believe that effective internal control system supports for sustainable growth and performance. Alhamdulillah, at FHM, adequate controls are well in placed. It can be judged through our 27 years of successful business operations with consistent growth.

However, management of FHM is continuously improving the same in line with latest requirement and for better governance and control.

## Outlook for 2012-13

Recently IMF has cut its global growth forecast and warned that the outlook could dim further. An already sluggish global recovery shows signs of further weakness, mainly because of continuing financial problems in Europe and slower-than-expected growth in emerging economies. It further stated that advanced economies would only grow 1.4 percent this year and 1.9 percent in 2013.



Likewise, the overall economic scenario of Pakistan is also not satisfactory. Most economic indicators are reflecting downward trends. Economic environment in 2012-13 is likely to remain tough owing the persistent pressure on inflation, fiscal position and structural issues like energy shortages and political situation. This will lead to continuing pressure on private sector credit demand and is expected that this will continue to impact borrower's repayment capacities.

The challenges to the operating environment are likely to persist on account of fiscal vulnerabilities, uncertainty attached with external inflows and risk of inflationary pressures. Meanwhile, the power and gas shortages are expected to place further pressure on the domestic output of the economy. The fiscal vulnerabilities and unresolved circular debt issue may pose further stress on banking system resources. All these factors would continue to put strain on conducive economic environment.

Under the circumstances, FHM's strategic focus would remain on steady growth with cautiousness. We would continue to adopt proactive and prudent approach in building quality assets portfolio through prudent lending and investments.

## Future Strategy

Over the years, Islamic finance industry has experienced significant growth with substantial increase in number of financial institutions offering wide range of services such as financial services, investment banking, fund management Takaful and capital market. Islamic banking industry in Pakistan is growing at a fast pace and maintaining an average growth rate of 30 percent over the past six years.



According to SBP the assets base of Islamic banks has reached to Rs.644.0 billion as on 31st March, 2012 constituting around 8 percent share of the overall banking industry. As estimated the industry has over one trillion dollar assets with presence in over 75 countries across the globe. The widespread growth has not only been a result of activities of pure Islamic financial institutions but also has contributions of conventional institutions that eyed Islamic finance as a profitable economic opportunity. Moreover, resilience of Islamic financial institutions during the financial crisis has lent them more credence than their interest-based conventional counterparts.

In Pakistan, with growth of Islamic banking, the demand of Islamic financial services is rising. At FHM, last year we had started new mode of finance i.e. Diminishing Musharaka (DM) and experience of this mode was remained very well. This year we had disbursed around Rs.281.0 million as compared to last year of Rs.81.0 million which is increase of approximately 3 times.

For current year, besides concentrate on DM we are also planning to launch other products such as Istisna and Salam. Last year we had also planned for these products, but due to some taxation and other legal issues these products could not be launched.

Last year as our prudent approach, we concentrated on good sector of the country such as Fuel and Energy, Food, Health Care, Pharmaceuticals and Chemical. We had remained away from weak or risky sector. As our strategy we will continue to focus in strong sectors of the country for further building of our quality assets.

For induction of quality customer base, it required for efficient services and better rate of profit. In order to compete with other market player particularly Islamic banks we need to offer highly competitive profit rates to keep up good clientele.

## Development Activity

As mentioned in last report that two Islamic financial products i.e. Salam and Istisna were under consideration and passing through the credit and risk management and legal vetting phases. I would like to inform you that all necessary work was completed by our respective team. However, these products were not introduced due to some critical tax issues.

Performance of our new opened Islamabad Branch remains satisfactory during the period. A good volume of business is generated during the year along with handsome amount of Certificate of Musharaka from corporate and retail side were also added by said branch

In June, 2012, the Multan branch was also opened at very good location i.e. Abdali road which is financial and business hub of Multan. The motivation of opening of this branch is to cater the needs of Islamic financial services within this city as well as Southern Punjab which is up to Rahim Yar Khan. This entire belt is benefitted by nature with huge volume of cotton, wheat, and fruits. We expect that by offering Shariah compliant financial products we can generate good business for our assets and liability side.

During the year, we have launched Monthly Profit Scheme under the scheme of Certificate of Musharaka. This product will support small investors and pensioner who need profit amount for their monthly expenses for running their houses.

For better liaison and control our IT department has connected Lahore and Islamabad branches with head office through Virtual Private Network (VPN) and Network Attached Storage (NAS). This connectivity will support us for more efficient service through our branch network and better control at head office level.



## Shariah Compliance and Audit Mechanism

During the year a significant move was made from Registrar Modaraba, SECP, through issuance of Circular No.8 containing detailed guidelines for Shariah Compliance and Shariah Audit Mechanism for Modarabas first time since inception of Modaraba sector. This was a remarkable effort from the office of Registrar of Modaraba for promotion of Modaraba sector as an Islamic Financial Institutions.



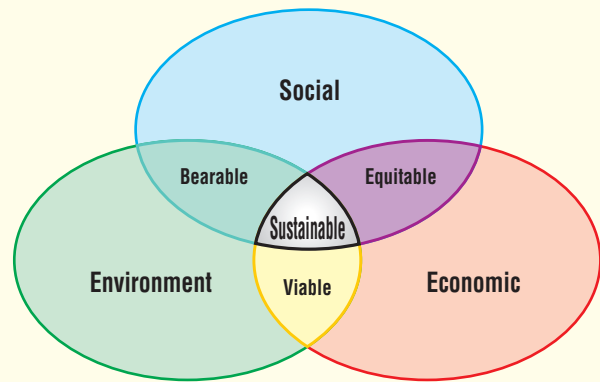
The management of FHM is fully committed for Shariah governance and Shariah compliance culture within the Modaraba. In the 2010, we had felt our responsibility for Shariah governance and voluntarily offered Shariah audit of books of FHM. Purpose of our sincere move was to bring day to day business transactions of FHM in line with Shariah principles of finance and eliminate risk of any inadvertent mistakes or process flaws. Our first Shariah audit was conducted by Mufti Abdul Sattar Leghari Sahab in the year 2010 and report of Shariah audit was published along with our balance sheet for the period ended 30th June, 2010.

In light of new Shariah guidelines, during the year we had also established Shariah Compliance department in line with compliance of said circular. The compliance department will be monitored by Internal Shariah auditor under the supervision of FHM's Shariah advisor.

The issuance of Shariah guideline from SECP shows their sincere efforts to elevate Modaraba sector within Pakistan as an Islamic Financial Institutions. We are hopeful that the said Shariah guidelines will further improve the quality of existing Shariah governance of Modarabas and also support for image building of the sector within Islamic Financial market at local and international level.

## Corporate Social Responsibility

Corporate social Responsibility (CSR) is undertaking the role of "Corporate Citizen". It ensures that business values and policies are align in such a way to balance between improving and developing the wealth of business and contributing for betterment of society in a effective manner. We always emphasis on culture of excellence, good governance, transparency, integrity and accountability.



We ensure that best business practices should be followed diligently and all activities carried out in accordance with prevailing regulations.

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

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

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



- Encourage staff members for avoiding of unnecessary wastage of resources such as excessive consumption of energy, less paper printing etc. Besides, an office of FHM is being made no smoking zone in order to make available better atmosphere within the premises and also support pollution free environment.
- Motivate staff members for participation in activities which are beneficial for better environment at large.
- Contribution on social community projects by staff members which are indeed a catalyst for any good corporate institution.
- FHM believe in customer satisfaction has a prime concern and their association with the FHM for longer term witnesses the quality in itself. In order to keep customer interest safe, FHM, from time to time address their grievances through their feedback and regular visits.
- FHM encourage equal opportunity employment without any discrimination whether it is gender or any disability, we believe that every human mind having talent which can be benefitted to the institutions.
- Health and safety always remain an utmost concern of the management of FHM. Within the HR policy, the staffs of FHM are covered under health and group life insurance policies with renowned insurance companies. Besides, FHM has also provided best working infrastructure and safe drinking water etc.
- Strong internal controls are the one of the main corporate objectives. FHM promote sound ethical practices within the staff members with Risk & Reward concept. FHM make stringent check on the staff working and immediately debar if any member found any unethical practice. Likewise appropriate reward also given on satisfactory performance and good behavior.
- FHM being financial institution, extend various types of financial services. While giving such services, we always make sure that business model of such customers should not involve in activity which may be harmful for environment or for the society as a whole.

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

## Statement Of Internal Control

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

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

## Code Of Corporate Governance

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

- The financial statements prepared by the management present fairly the state of affairs of the Modaraba including the results of its operations, Cash Flow and Changes in Equity.
- Proper books of accounts have been maintained.
- Appropriate Accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards (IAS), as applicable in Pakistan has been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- The Modaraba is financially sound and has the ability to continue as a going concern.

- The directors do not hold any interest in the certificates of Modaraba other than that has already been disclosed in the pattern of certificate holding.
- A summary of key operating and financial data of the Modaraba of last six years is annexed in this report.

### Pattern Of Certificate Holding

A Statement showing pattern of Certificate Holding of the Modaraba and additional information as at June 30, 2012 is included in this report.

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

### Provident Fund And Gratuity

The value of investments of provident fund and gratuity based on audited accounts as at December 31, 2011 are Rs. 27.629 million and Rs. 13.960 million respectively.

### Attendance Of Board Meeting

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

Name of Director	Number of meetings attended
Mr. Wazir Mumtaz Ahmed	4
Mr. Muhammad Shoaib	4
Mr. Abbas Ali Muhammad	4
Mr. Wazir Husain Jafree	4

### Auditors

Present auditors M/s BDO Ebrahim & Co. Chartered Accountants, has completed their five years as auditors of FHM. According to Code of Corporate Governance they are not eligible to offer themselves for re-appointment as auditor for the year ending June 30, 2013

### Conclusion

We are entering in year with our "Prudent Strategic Vision". Under the prevailing circumstances we remained committed to our strategy of steady growth and building quality assets portfolio. As our business philosophy the emphasis will remain on customers' satisfaction through quality service, product innovation and efficient delivery along with long-term competitive advantage.

Our aim is to remain a best Islamic Service Institution and best Modaraba within the Modaraba sector. We shall continue to build a best performance culture that overcomes all the challenges of business and operations and promote best business practices and good governance.

### Acknowledgement

The Board would like to express its sincere thanks and gratitude for the continued support and guidance provided by Securities & Exchange Commission of Pakistan, Registrar Modaraba Companies, Financial Institutions and State Bank of Pakistan from time to time, customers of the Modaraba for their patronage and business, Certificate holders who have remained committed to First Habib Modaraba.

In the end, the Board appreciates dedication, high level of professionalism and hard work of employees of your Modaraba for achieving excellent results.

For and on behalf of Board of Directors

**Muhammad Shoaib Ibrahim**  
Chief Executive Officer

Karachi: July 25, 2012

# NOTICE OF ANNUAL REVIEW MEETING



Notice is hereby given that the Annual Review Meeting of certificate-holders of First Habib Modaraba will be held on September 04, 2012 at 9.00 a.m. at ICMAP Building, ST-18/C Block-6, Gulshan-e-Iqbal, 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 FHM as on August 27, 2012 will be eligible to attend the Annual Review Meeting.

By order of the Board

Adnan Thanwey  
Company Secretary

Karachi: August 13, 2012



# STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE – YEAR ENDED JUNE 30, 2011

In connection with your review of Statement of Compliance with the Best Practices of the Code of Corporate Governance (the Code) prepared by the Board of Directors of Habib Modaraba Management (Private) Limited (the Management Company) in respect of First Habib Modaraba (the Modaraba) for the year ended June 30, 2012, we confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your review:

The statement is being presented to comply with the code of Corporate Governance (CCG) contained in Regulation 35 of Listing Regulations of Karachi Stock Exchange (Guarantee) Limited, the Chapter XIII of Listing Regulations of Lahore Stock Exchange (Guarantee) Limited and Chapter XI of Listing Regulations of the Islamabad Stock Exchange Guarantee Limited for the purpose of establishing a frame of good governance, whereby a listed company is managed in compliance with the best practice of corporate governance.

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

1. The Management Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes:

Category	Names
Independent Directors	Due in next election
Executive Director	Mr. Muhammad Shoaib
Non-executive Directors	Mr. Wazir Mumtaz Ahmed
	Mr. Abbasali Muhammad
	Mr. Wazir Husain Jafree

2. The Directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Management Company.
3. All the resident directors of the Management 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. During the year, no casual vacancy occurred on the Board of Directors.
5. The Modaraba has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Modaraba 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, other executive and non-executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Modaraba will arrange for certification under "The Board Development Series" program offered by Pakistan Institute of Corporate Governance for their directors to acquaint them with their duties and responsibilities as per timelines provided by Securities and Exchange Commission of Pakistan.

10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The directors' report for this year has been prepared in compliance with the requirements of the CCG 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 shares of the company other than that disclosed in the pattern of shareholding.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises three members, of whom all 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 and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises three members, of whom all are non-executive directors including the Chairman of the committee.
18. The Board has set up an effective internal audit function.
19. 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.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. 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 exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with except for induction of independent director which will be due in the next election of Board of Directors.

**Karachi**  
Date: July 25, 2012

**Muhammad Shoaib Ibrahim**  
Chief Executive Officer

**Committed to**

*“Progress”*

Journey of continuous improvement always remain a corporate motto and main driving force for progress within the FHM. Alhamdulillah, since business inception progress has been made at all levels of organizations.

FHM commenced its business operations in 1985, with initial capital of Rs.25.0 million. Continuing with solid, dynamic and prudent approach, now FHM has a total equity base of around Rs.3.0 billion which is at present the highest in entire Modaraba sector. The assets base has also been grown over the year and for the period ended 30th June, 2012 it stood at around Rs.4.500 billion.

The progress is not only limited with better financials but also well reflected in other areas of operations such as Operations, Credit Appraisals, Risk Management and Information Technology and branch networking.

A close-up photograph of a lavender field with numerous purple flower spikes on green stems, creating a soft, textured background.

## Financial Statements

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**Committed to**

# *“Shariah Governance”*

The basic requirement for Islamic financial institutions (IFIs) is to carry out their activities in accordance with the principles of Shariah. It is necessary to have comprehensive and well functioning Shariah control system to ensure that all products and services approved and provided by the IFI are being Shariah compliant.

The management of FHM is fully committed for Shariah governance and Shariah compliance culture within the Modaraba. Shariah control and compliance mechanism system are well in place in FHM. Each and every transactions have been gone through with Shariah screening and Shariah process flow approved by the Shariah Advisor of FHM.





All Praise is due to Allah, the Cherisher of the world  
Peace and Blessings be upon the Prophet of Allah, on his family and all his companions, and on those who  
follow him with Iman till the day of Aakhirah

## **SHARIAH CERTIFICATE FOR FIRST HABIB MODARABA FOR THE PERIOD ENDED JUNE 2012**

It is to certify, in the context of detailed Shariah review carried out by the undersigned for the period ended June 2012 that, the business activities (Transactions) on liability side and asset side executed by FHM during the said period were found as per standard requirement of Shariah.

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

الخاطمني والصواب من منهم الصواب

Mufti Abdul Sattar Laghari  
Shariah Advisor  
First Habib Modaraba

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

فرسٹ حبیب مضاربہ (FHM) میں جاری تجارتی سرگرمیاں، برائے تحصیل زر (Liability Side) اور تمویل زر (Asset Side)، برائے مدت منتهی جون ۲۰۱۲ کا تفصیلی جائزہ لینے کے بعد، ان سرگرمیوں کو احکام شرعیہ کے مجوزہ قوانین کے موافق پایا۔

لہذا، اس ادارے میں سرمایہ کاری کرنا اور دیگر تجارتی معاملات کرنا شرعاً جائز ہے، اس لئے کہ اس ادارے کی آمدنی حلال ہے اور تجارتی معاملات شریعت کے موافق ہیں۔



واللہ اعلم بالصواب

عبدالستار لغاری  
مشیر امور شریعہ  
فرسٹ حبیب مضاربہ (FHM)

۷ جولائی ۲۰۱۲ کراچی



## REVIEW REPORT TO THE CERTIFICATE HOLDERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2012 prepared by the Board of Directors of HABIB MODARABA MANAGEMENT (PRIVATE) LIMITED (the Management Company) in respect of FIRST HABIB MODARABA (the Modaraba) to comply with the Listing Regulation of Karachi Stock Exchange (Guarantee) Limited, Lahore Stock Exchange (Guarantee) Limited and Islamabad Stock Exchange (Guarantee) Limited, where the Modaraba is listed.

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

As part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, the Listing Regulation of Karachi Stock Exchange (Guarantee) Limited, Lahore Stock Exchange (Guarantee) Limited and Islamabad Stock Exchange (Guarantee) Limited require the Management Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba's compliance, in all material respects, which the best practices contained in the Code of Corporate Governance, for the year ended June 30, 2012.

Karachi July 25, 2012

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

# AUDITORS' REPORT TO THE CERTIFICATE HOLDERS



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

These financial statements are the Modaraba Company's [Habib Modaraba Management (Private) Limited] responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by the Modaraba Company, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) In our opinion proper books of account have been kept by the Modaraba Company in respect of the Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;
- b) In our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation And Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of account and are further in agreement with accounting policies consistently applied;
  - ii) the expenditure incurred during the year was for the purpose of the Modaraba's business, and
  - iii) the business conducted, investments made and expenditure incurred during the year were in accordance with the objects, terms and condition of the Modaraba;
- c) In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan and give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at June 30, 2012 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

KARACHI : July 25, 2012

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



# BALANCE SHEET

AS AT JUNE 30, 2012

ASSETS	Note	2012 Rupees	2011 Rupees
<b>NON-CURRENT ASSETS</b>			
Fixed assets - tangible			
Ijarah (lease) assets	5	2,501,152,946	2,372,955,491
Assets in own use	5.2	8,039,208	5,603,600
		<u>2,509,192,154</u>	<u>2,378,559,091</u>
Intangible assets	6	2,125,559	95,245
Diminishing musharaka financing	7	234,071,492	162,256,122
Long term advances, deposits and prepayments	8	1,516,850	2,836,850
		<u>2,746,906,055</u>	<u>2,543,747,308</u>
<b>CURRENT ASSETS</b>			
Investments	9	1,486,001,027	1,301,322,307
Current portion of diminishing musharaka financing	7	148,365,839	71,094,740
Ijarah (lease) installments receivable	10	3,417,703	4,303,221
Advances and short term prepayments	11	5,090,731	4,936,856
Other receivables	12	24,849,608	20,869,552
Tax refund due from Government	13	28,395,755	17,412,658
Cash and bank balances	14	122,394,087	111,527,915
		<u>1,818,514,750</u>	<u>1,531,467,249</u>
		<u>4,565,420,805</u>	<u>4,075,214,557</u>
<b>TOTAL ASSETS</b>			
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Certificate capital :			
Authorized			
220,000,000 (2011: 220,000,000)			
certificates of Rs. 5/- each		1,100,000,000	1,100,000,000
Issued, subscribed and paid-up capital	15	1,008,000,000	1,008,000,000
Reserves	16	2,119,196,045	2,051,624,447
Certificates holder equity		3,127,196,045	3,059,624,447
<b>NON-CURRENT LIABILITIES</b>			
Certificates of musharaka	17	-	3,000,000
Security deposits against ijarah (lease) assets	18	209,078,717	191,775,644
		<u>209,078,717</u>	<u>194,775,644</u>
<b>CURRENT LIABILITIES</b>			
Certificates of musharaka - current portion	17	3,000,000	7,572,280
Certificates of musharaka	19	966,290,959	602,717,612
Security deposits - current portion	18	57,881,505	48,698,420
Unearned ijarah (lease) and diminishing musharaka installments		17,501,347	9,885,903
Advance ijarah (lease) and diminishing musharaka installments		18,705,457	20,596,188
Trade and other payables	20	111,452,021	81,839,415
Profit payable on certificate of musharaka		31,712,221	28,593,068
Taxation		2,790,833	2,790,833
Unclaimed profit distribution		19,811,700	18,120,747
		<u>1,229,146,043</u>	<u>820,814,466</u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	21	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>4,565,420,805</u>	<u>4,075,214,557</u>

The annexed notes 1 to 42 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

# PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2012



	Note	2012 Rupees	2011 Rupees
Income from ijarah (leasing)	22	333,394,377	327,337,741
Profit on diminishing musharaka financing		<u>45,520,678</u>	<u>18,942,946</u>
		378,915,055	346,280,687
Administrative expenses	23	<u>(57,882,578)</u>	<u>(55,711,113)</u>
		321,032,477	290,569,574
Other income	24	169,718,647	91,645,196
Other operating charges	25	<u>(15,630,806)</u>	<u>(7,240,325)</u>
		475,120,318	374,974,445
Financial charges	26	<u>(91,737,334)</u>	<u>(66,172,247)</u>
Modaraba Company's management fee		383,382,984	308,802,198
Profit for the year		<u>(38,338,298)</u>	<u>(30,880,220)</u>
		345,044,686	277,921,978
Earnings per certificate - basic and diluted	37	<u>1.71</u>	<u>1.38</u>

The annexed notes 1 to 42 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR



## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED JUNE 30, 2012

	<b>2012</b> <b>Rupees</b>	<b>2011</b> <b>Rupees</b>
Profit for the year	345,044,686	277,921,978
Movement in available for sale investments	(55,713,088)	101,186,980
Total comprehensive income for the year	<u>289,331,598</u>	<u>379,108,958</u>

The annexed notes 1 to 42 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

# CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2012



	Note	2012 Rupees	2011 Rupees
<b>Cash flow from operating activities</b>			
Cash generated from operations	38	1,413,024,983	1,367,233,206
Purchase of ijarah (lease) assets		(1,465,277,523)	(1,226,646,877)
Proceeds from sale of ijarah (lease) assets		289,569,162	216,610,765
Diminishing musharaka financing - net		(149,086,469)	(163,298,209)
Musta'jir's security deposits:			
Received		99,759,668	83,405,785
Refunded / adjusted		(73,273,510)	(87,620,364)
Net Musta'jir's security deposits		26,486,158	(4,214,579)
Financial charges paid		(88,524,170)	(58,742,685)
Gratuity paid		(1,322,567)	(1,111,901)
Net cash inflow from operating activities		24,869,574	129,829,720
<b>Cash flow from investing activities</b>			
Purchase of owned assets (including intangibles)		(7,560,662)	(2,357,446)
Proceeds from disposal of owned assets		358,500	4,296,900
Purchase of investments - available for sale		(12,337,365)	(15,769,118)
Investment in Islamic investment certificate		(250,000,000)	(50,000,000)
Investment in Ijarah Sukuk bonds		-	(100,000,000)
Redemption of Sukuk bonds		20,000,000	-
Proceeds from disposal of investments		13,518,314	16,339,042
Dividend received		84,765,791	30,505,058
Long-term advances, deposits and prepayments		1,320,000	(1,218,800)
Net cash used in investing activities		(149,935,422)	(118,204,364)
<b>Cash flow from financing activities</b>			
Profit distribution paid		(220,069,047)	(210,432,843)
Certificates of musharaka		356,001,067	97,998,466
Net cash inflow / (outflow) from financing activities		135,932,020	(112,434,377)
Net increase / (decrease) in cash and cash equivalents		10,866,172	(100,809,021)
Cash and cash equivalents at the beginning of the year		111,527,915	212,336,936
Cash and cash equivalents at the end of the year		122,394,087	111,527,915

The annexed notes 1 to 42 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2012

	Capital reserves			General reserve	Revenue Reserves		Total reserves	Total
	Certificate capital	Certificate premium	Statutory reserve		Unrealized gain on investments	Unappropriated profit		
Balance as at July 01, 2010	1,008,000,000	378,000,000	385,289,051	50,000,000	855,632,083	215,274,355	1,884,195,489	2,892,195,489
Profit distribution for the year ended June 30, 2010 at 21%	-	-	-	-	-	(211,680,000)	(211,680,000)	(211,680,000)
Total comprehensive income for the year	-	-	-	-	101,186,980	277,921,978	379,108,958	379,108,958
Transfer to statutory reserve at 20%	-	-	55,584,396	-	-	(55,584,396)	-	-
Balance as on June 30, 2011	<u>1,008,000,000</u>	<u>378,000,000</u>	<u>440,873,447</u>	<u>50,000,000</u>	<u>956,819,063</u>	<u>225,931,937</u>	<u>2,051,624,447</u>	<u>3,059,624,447</u>
Balance as on July 01, 2011	1,008,000,000	378,000,000	440,873,447	50,000,000	956,819,063	225,931,937	2,051,624,447	3,059,624,447
Profit distribution for the year ended June 30, 2011 at 22%	-	-	-	-	-	(221,760,000)	(221,760,000)	(221,760,000)
Total comprehensive income for the year	-	-	-	-	(55,713,088)	345,044,686	289,331,598	289,331,598
Transfer to statutory reserve at 40%	-	-	138,017,874	-	-	(138,017,874)	-	-
Balance as at June 30, 2012	<u>1,008,000,000</u>	<u>378,000,000</u>	<u>578,891,321</u>	<u>50,000,000</u>	<u>901,105,975</u>	<u>211,198,749</u>	<u>2,119,196,045</u>	<u>3,127,196,045</u>

The annexed notes 1 to 42 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR



## 1 STATUS AND NATURE OF BUSINESS

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

## 2 BASIS OF PREPARATION

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Prudential Regulations for Modarabas (hereinafter referred to as the relevant laws). Approved accounting standards comprise such International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS) as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of relevant laws or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the relevant laws and the said directives take precedence.

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

### 2.2 Basis of measurement

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

Permissible Islamic financial products including Murabaha (as a liability) and Musharaka have been used by the Modaraba, in line with similar industry practices. The accounting and presentation of the same are in line with the substance of the transaction and are limited to the extent of actual amount of facility utilized and mutually agreed mark-up / profit thereon. Accordingly, purchases, sales and Musharaka profits / reserves are not reflected in these financial statements except for Murabaha facility (as an asset) which has been accounted for in line with Islamic Financial Accounting Standard - 1.

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

These financial statements have been prepared following accrual basis of accounting except for cash flow information.

### 2.3 Functional and presentation currency

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

## 2.4 Significant accounting estimates and judgments

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

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

Estimates with respect to residual values and depreciable lives and pattern of flow of economic benefits are based on the analysis by the management of the Modaraba. Further, the Modaraba reviews the value of the assets for possible impairment on an annual basis and any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with a corresponding effect on the depreciation charge and impairment.

### Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 20.3 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might effect unrecognized gains and losses in those years.

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

The Modaraba reviews its overdue Ijarah (lease) installments at each reporting date to assess whether provision should be recorded in the profit and loss account, in addition to the mandatory provisions required in accordance with the Prudential Regulations issued by the SECP. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions regarding a number of factors and actual results may differ, resulting in future changes to the provisions.

## 3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS

### 3.1 Amendments that are effective in current year but not relevant to the Company

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

		Effective date (annual periods beginning on or after)
	Conceptual Framework for Financial Reporting	September 2010
IFRS 1	First time Adoption of International Financial Reporting Standards	July 01, 2011
IFRS 7	Financial Instruments: Disclosures	July 01, 2011
IAS 24	Related Party Disclosures	January 01, 2011
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 01, 2011

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012



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

	<b>Effective date (annual periods beginning on or after)</b>	
<b>Issued in May 2010</b>		
IFRS 1	First time Adoption of International Financial Reporting Standards	January 01, 2011
IFRS 7	Financial Instruments: Disclosures	January 01, 2011
IAS 1	Presentation of Financial Statements	January 01, 2011
IAS 34	Interim Financial Reporting	January 01, 2011
IFRIC 13	Customer Loyalty Programmes	January 01, 2011

### 3.2 Amendments not yet effective

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

IFRS 1	First-time Adoption of International Financial Reporting standards - Amendments for government loan with a below-Market rate of interest when transitioning to IFRS. and amendments resulting from Annual Improvements 2009-2011 Cycle (repeat application, borrowing costs)	January 01, 2013
IFRS 7	Financial Instruments Disclosures - Amendments related to the offsetting of assets and liabilities and deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures	January 01, 2013
IFRS 9	Financial Instruments - Reissue to include requirements for the classification and measurement of financial liabilities and incorporate existing derecognition requirements	January 01, 2015
IFRS 9	Financial Instruments - Deferral of mandatory effective date of IFRS 9 and amendments to transition disclosures	January 01, 2015
IAS 1	Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented	July 01, 2012
IAS 1	Presentation of Financial Statements - Amendments resulting from Annual Improvements 2009-2011 Cycle (comparative information)	January 01, 2013
IAS 12	Income Taxes - Limited scope amendment (recovery of underlying assets)	January 01, 2012

		<b>Effective date (annual periods beginning on or after)</b>
IAS 16	Property, Plant and Equipment - Amendments resulting from Annual Improvements 2009-2011 Cycle (servicing equipment)	January 01, 2013
IAS 19	Employee Benefits - Amended standard resulting from the post-employment benefits and termination benefits projects	January 01, 2013
IAS 32	Financial Instruments: Presentation - Amendments relating to the offsetting of assets and liabilities	January 01, 2014
IAS 32	Financial Instruments: Presentation - Amendments resulting from Annual Improvements 2009-2011 Cycle (tax effect of equity distributions)	January 01, 2013
IAS 34	Interim Financial Reporting - Amendments resulting from Annual Improvements 2009-2011 Cycle (interim reporting of segment assets)	January 01, 2013

#### **Standards or interpretations not yet effective**

The following International Financial Reporting Standards or interpretations issued by IASB would be effective from the dates mentioned below against the respective standard or interpretation:

		<b>Effective date (annual periods beginning on or after)</b>
IFRS 10	Consolidated Financial Statements	January 01, 2013
IFRS 11	Joint Arrangements	January 01, 2013
IFRS 12	Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13	Fair Value Measurement	January 01, 2013
IAS 27	Separate Financial Statements	January 01, 2013
IAS 28	Investments in Associates and Joint Ventures	January 01, 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	January 01, 2013

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

#### **4 SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied for the year presented, unless otherwise stated.

## 4.1 Revenue recognition

Ijarah (lease) installments are recognized on accrual basis.

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

Income on diminishing musharaka financing is recognized on accrual basis.

Income on Sukuk bond is recognized on accrual basis.

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

Return on deposit accounts is recognized on accrual basis.

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

## 4.2 Fixed assets – Tangible

### (a) Ijarah (lease) assets

Ijarah (lease) assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight line method whereby the cost of an asset less salvage value is written off over the ijarah (lease) period, which is considered to be the estimated useful life of the asset. In respect of additions and disposals during the year, depreciation is charged proportionately from the date of delivery of assets to the date of its maturity / termination.

### (b) Assets in own use

These are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight line method whereby the cost of an asset is written off over its estimated useful life. In respect of additions and disposals during the year, depreciation is charged proportionately for the period of use.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized if the recognition criteria are met.

The carrying values are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

### (c) Gain or loss on disposal

Gain or loss on disposal of assets, if any, is recognized as and when incurred.

### (d) Impairment

The Modaraba assesses at each balance sheet date whether there is any indication that assets excluding inventory may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amounts. Where the carrying value exceeds the recoverable amount, assets are written down to the recoverable amount and the difference is charged to the profit and loss account.

## 4.3 Intangible assets

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

Amortization is charged to income applying the straight line method whereby the cost of an asset is written off over its estimated useful life. In respect of additions and disposals during the year, amortization is charged proportionately for the period of use.

## 4.4 Financial assets

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

### i) Financial assets at fair value through profit or loss

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

### ii) Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Modaraba has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments, that are intended to be held-to-maturity, are subsequently measured at amortized cost.

This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization, using the effective interest rate method, of a difference between the initially recognized amount and the maturity amount. This calculation includes all fees and charges paid or received between parties to the contract that are an integral part of the effective interest rate, transaction cost and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in profit and loss account when the investments are derecognized or impaired, as well as, through the amortization process.

### iii) Loans and receivables

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

### iv) Available-for-sale

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

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

#### 4.5 Trade date accounting

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

#### 4.6 Financial liabilities

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

#### 4.7 Recognition and derecognition of financial instruments

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

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

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

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

#### 4.8 Offsetting of financial assets and financial liabilities

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

#### 4.9 Ijarah (lease) installments and Murabaha finance receivables

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

#### 4.10 Cash and cash equivalents

Cash and cash equivalents are carried at cost.

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

#### 4.11 Finance arrangements including certificates of musharaka

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

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

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

#### 4.12 Staff retirement benefits

##### (a) Gratuity scheme

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

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

##### (b) Provident fund

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

#### 4.13 Compensated absences

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

#### 4.14 Taxation

##### Current

Provision for current taxation is made on taxable income at the prevailing rates of tax after taking into account tax credits available, if any. Under clause 100 of Part - I of the Second Schedule to the Income Tax Ordinance, 2001, the income of non-trading modarabas is exempt from tax provided that not less than 90 percent of their profits are distributed to the certificate holders. The Modaraba has decided to continue availing the tax exemption and hence no provision has been made in these financial statements for tax liability for the current year.

##### Deferred

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

#### 4.15 Provisions

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



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012



## 4.16 Profit distribution and other appropriations of profit

Profit distribution and other appropriations of profit are recognized in the year in which these are approved. Transfer to statutory reserve and any of the mandatory appropriations as may be required by law are recognized in the period to which these relate.

## 4.17 Related party transactions

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

	Note	2012 Rupees	2011 Rupees
<b>5 IJARAH (LEASE) ASSETS</b>			
Ijarah (lease) assets	5.1	2,182,335,126	2,203,316,226
Advance against ijarah (lease) assets	5.1.1	318,817,820	169,639,265
		<u>2,501,152,946</u>	<u>2,372,955,491</u>

## 5.1 Ijarah (lease) assets

Particulars	June 30, 2012								
	C O S T			D E P R E C I A T I O N			Impairment	Written down value as at June 30, 2012	Rate of depreciation %
	As at July 01, 2011	Additions / (disposals) during the year	As at June 30, 2012	As at July 01, 2011	Charge / (adjustments) for the year	As at June 30, 2012			
	Rupees								
Plant, machinery and equipment	1,168,486,320	282,741,584 (389,517,998)	1,061,709,906	638,814,111	281,444,153 (343,342,914)	576,915,350	8,028,061	476,766,495	8.33 to 50
Vehicles	2,837,890,273	1,033,357,384 (816,491,727)	3,054,755,930	1,158,689,068	791,143,905 (600,645,674)	1,349,187,299	-	1,705,568,631	15 to 33.33
	4,006,376,593	1,316,098,968 (1,206,009,725)	4,116,465,836	1,797,503,179	1,072,588,058 (943,988,588)	1,926,102,649	8,028,061	2,182,335,126	

Particulars	June 30, 2011								
	C O S T			D E P R E C I A T I O N			Impairment	Written down value as at June 30, 2011	Rate of depreciation %
	As at July 01, 2010	Additions / (disposals) during the year	As at June 30, 2011	As at July 01, 2010	Charge / (adjustments) for the year	As at June 30, 2011			
	Rupees								
Plant, machinery and equipment	1,619,384,019	281,872,819 (732,770,518)	1,168,486,320	880,941,356	419,183,604 (661,310,849)	638,814,111	1,381,894	528,290,315	8.33 to 50
Vehicles	2,552,863,164	1,015,818,200 (730,791,091)	2,837,890,273	1,084,340,438	671,805,368 (597,456,738)	1,158,689,068	4,175,294	1,675,025,911	15 to 33.33
	4,172,247,183	1,297,691,019 (1,463,561,609)	4,006,376,593	1,965,281,794	1,090,988,972 (1,258,767,587)	1,797,503,179	5,557,188	2,203,316,226	

### 5.1.1 Advance against ijarah (lease) assets

The ijarah (lease) assets cost includes an amount of Rs. 318.818 million (2011: Rs. 169.639 million) relating to advance against ijarah (lease) assets which have not yet been delivered to Mustajirs.

## 5.2 Assets in own use

Particulars	June 30, 2012							Rate of depreciation %
	C O S T			D E P R E C I A T I O N			Written down value as at June 30, 2012	
	As at July 01, 2011	Additions / (disposals) during the year	As at June 30, 2012	As at July 01, 2011	Charge / (adjustments) for the year	As at June 30, 2012		
	Rupees							
Office equipment	7,332,849	2,445,053 (153,000)	9,624,902	4,812,105	1,048,373 (142,373)	5,718,105	3,906,797	25 to 33.33
Furniture and fixture	8,004,045	514,235 (260,834)	8,257,446	6,427,093	594,611 (268,232)	6,753,472	1,503,974	20
Vehicles	7,977,718	2,356,120 (551,775)	9,782,063	6,471,814	1,228,610 (546,798)	7,153,626	2,628,437	16.67
Plant and machinery	-	-	-	-	-	-	-	
	23,314,612	5,315,408 (965,609)	27,664,411	17,711,012	2,871,594 (957,403)	19,625,203	8,039,208	

Particulars	June 30, 2011							Rate of depreciation %
	C O S T			D E P R E C I A T I O N			Written down value as at June 30, 2011	
	As at July 01, 2010	Additions / (disposals) during the year	As at June 30, 2011	As at July 01, 2010	Charge / (adjustments) for the year	As at June 30, 2011		
	Rupees							
Office equipment	5,444,328	2,050,221 (161,700)	7,332,849	4,191,758	782,046 (161,699)	4,812,105	2,520,744	25 to 33.33
Furniture and fixture	7,927,920	251,525 (175,400)	8,004,045	5,888,865	650,904 (112,676)	6,427,093	1,576,952	20
Vehicles	8,900,719	- (923,001)	7,977,718	5,861,086	1,533,726 (922,998)	6,471,814	1,505,904	16.67
Plant and machinery	1	- (1)	-	-	-	-	-	
	22,272,968	2,301,746 (1,260,102)	23,314,612	15,941,709	2,966,676 (1,197,373)	17,711,012	5,603,600	

## 5.3 Disposal of assets in own use

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	Rupees					
Motor vehicle						
Motor cycle	39,000	38,999	1	20,000	Quotation	Fayyaz Hussain Qazi
Motor cycle	37,300	32,327	4,973	15,000	Quotation	Ali Autos
Coure	475,473	475,471	2	300,000	Quotation	Jalal Uddin
Office equipment						
Fax machine	20,000	19,999	1	3,000	Quotation	United Business Machine
Photocopier machine	116,000	115,999	1	14,000	Quotation	General Traders
Attendance machine	17,000	13,782	3,218	-	-	Total loss
Furniture and fixture	116,184	116,183	1	6,000	Quotation	Muhammad Akhtar
Furniture and fixture	9,750	9,749	1	500	-	Scrap
Furniture and fixture	69,900	69,897	3	-	As per Company policy	Tehsin Abbas
Furniture and fixture	65,000	64,997	3	-	As per Company policy	Fayyaz Hussain Qazi
	965,607	957,403	8,204	358,500		

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012



## 6 INTANGIBLE ASSETS

Particulars	COST			AMORTIZATION			Rate of depreciation %	
	As at July 01, 2011	Additions / (disposals) during the year	As at June 30, 2012	As at July 01, 2011	Charge / (adjustments) for the year	As at June 30, 2012		Written down value as at June 30, 2012
	Rupees							
Computer software - 2012	645,354	2,245,254	2,890,608	550,109	214,940	765,049	2,125,559	33.33
Computer software - 2011	589,654	55,700	645,354	519,628	30,481	550,109	95,245	33.33

## 7 DIMINISHING MUSHARAKA FINANCING

Secured			
Diminishing musharaka financing	7.1	332,323,877	195,410,981
Less: Current portion shown in current assets		(148,365,839)	(71,094,740)
		183,958,038	124,316,241
Advance against diminishing musharaka financing		50,113,454	37,939,881
		234,071,492	162,256,122

7.1 This represents diminishing musharaka financing for a term of 3 to 5 years.

## 8 LONG-TERM ADVANCES, DEPOSITS AND PREPAYMENTS

Advances	8.1	508,800	508,800
Long-term deposits			
Security deposit to Central Depository Company of Pakistan Limited		150,000	150,000
Security deposit of Lahore office		120,000	120,000
Security deposit of Islamabad office		130,000	130,000
Security deposit to Habib Metropolitan Bank for locker		70,000	70,000
Miscellaneous deposits		18,050	18,050
		488,050	488,050
Prepayments			
Prepaid rent		520,000	1,840,000
		1,516,850	2,836,850

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

## 9 INVESTMENTS

Available for sale			
Investment in shares	9.1	1,086,001,027	1,131,322,307
Investment in Ijarah Sukuk bonds	9.2	100,000,000	120,000,000
Held to maturity			
Investments in Islamic Investment Certificates	9.3	300,000,000	50,000,000
		1,486,001,027	1,301,322,307

## 9.1 Investment in shares

Shares of listed companies		Name of company	2012 Average cost	2012 Carrying value at fair value (Market price)	2011 Average cost	2011 Carrying value at fair value (Market price)
Number of shares			Rupees			
2012	2011					
<b>Automobile and Parts</b>						
330	330	Pak Suzuki Motor Company Limited	1,750	31,591	1,750	20,642
<b>Banks</b>						
19,810,475	17,626,500	Bank Al-Habib Limited	74,038,186	564,004,223	75,757,355	519,452,955
968,555	866,089	Bank Islami Pakistan Limited	3,579,717	10,363,539	3,192,051	2,944,703
25,971,610	25,971,610	Habib Metropolitan Bank Limited	62,892,831	448,269,989	62,892,831	565,401,950
942,169	463,550	Meezan Bank Limited	14,535,199	27,247,527	6,881,355	8,098,219
<b>Equity Investment Instrument</b>						
5,000	5,000	Al-Meezan Mutual Fund Limited	43,690	64,100	43,690	55,500
5,000	5,000	Meezan Balanced Fund	39,090	63,500	39,090	47,000
<b>Pharma and Bio Tech</b>						
1,000	1,000	Abbott Laboratories (Pakistan) Limited	46,348	119,050	46,348	93,490
<b>Chemicals</b>						
-	2,638	Engro Corporation Limited	-	-	202,218	430,654
110	110	Gatron (Industries) Limited	2,805	10,280	2,805	5,786
1,000	-	ICI Pakistan Limited	135,430	131,070	-	-
<b>Food Producers</b>						
602,857	589,282	Habib Sugar Mills Limited	11,109,831	13,148,311	10,819,873	15,769,186
-	60	Rafhan Maize Products Company Limited	-	-	7,200	157,474
-	40	Unilever Pakistan Food Limited	-	-	4,800	59,200
<b>Telecommunication</b>						
5,000	-	Pakistan Telecommunication Limited	76,788	68,450	-	-
<b>Oil and Gas</b>						
2,000	2,000	Pakistan State Oil Company Limited	294,463	471,680	29,463	529,160
113,850	86,560	Pakistan Petroleum Limited	17,691,197	21,436,817	14,159,601	17,923,979
2,000	2,000	Oil and Gas Development Company Limited	145,640	320,880	145,640	305,980
1,000	-	Mari Gas Company Limited	95,691	93,810	-	-
<b>Personal Goods</b>						
-	423	Gul Ahmed Textile Mills Limited	-	-	9,298	21,882
-	115	Rupali Polyester Limited	-	-	2,875	4,547
<b>Cement</b>						
1,000	-	Lucky Cement	126,129	115,390	-	-
<b>Fertilizer</b>						
1,000	-	Fauji Fertilizer Bin Qasim	40,262	40,820	-	-
			<b>184,895,047</b>	<b>1,086,001,027</b>	<b>174,238,243</b>	<b>1,131,322,307</b>

## 9.2 Investment in Ijarah Sukuk bonds

Investment in sukuk	100,000,000	100,000,000	120,000,000	120,000,000
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**9.2.1** These Sukuk Bonds are issued by the Government of Pakistan with the maturity term of 3 years from the date of issue. The profit on the Sukuk shall be paid semi-annually on the basis of rental rate announced by the State Bank of Pakistan prior to start of each half year. The Modaraba has obtained permission from Registrar of Modarabas to treat the investment as part of redemption reserve fund to be set aside by the Modaraba to comply with the requirements of the Registrar of Modarabas for the issuance of certificate of Musharaka.

## 9.3 Investment in Islamic Investment Certificates

The investment in Islamic Investment Certificates carry projected profit at a rate of 11.50% per annum (2011: 12.50% per annum).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012



	Note	2012 Rupees	2011 Rupees
<b>10 IJARAH (LEASE) INSTALLMENTS RECEIVABLE</b>			
Secured - considered good			
Ijarah (lease) installments due		7,821,269	6,027,675
Suspense ijarah (lease) installments	10.1	(4,403,566)	(1,724,454)
		<u>3,417,703</u>	<u>4,303,221</u>
<b>10.1</b>	Suspense ijarah (lease) installments represent amounts overdue on ijarah (lease) assets.		
<b>11 ADVANCES AND SHORT TERM PREPAYMENTS</b>			
Advances		1,149,265	1,514,050
Short term prepayments		3,941,466	3,422,806
		<u>5,090,731</u>	<u>4,936,856</u>
<b>12 OTHER RECEIVABLES</b>			
Unsecured - considered good			
Profit receivable on modaraba deposit accounts		5,534,993	3,140,608
Ijarah (lease) insurance receivable		-	28,630
Profit receivable on Ijarah Sukuk bond		1,517,030	2,461,069
Profit on Islamic Investment Certificate		4,193,836	2,028,082
Advance tax		13,493,637	12,452,119
Registration charges receivable		58,000	535,080
Other receivables		52,112	46,531
Excess payment receivable from gratuity fund	20.3	-	177,433
		<u>24,849,608</u>	<u>20,869,552</u>
<b>13 TAX REFUND DUE FROM GOVERNMENT</b>			
Income tax refundable		24,306,337	17,412,658
Sales tax refundable from Sindh Revenue Board	20.2	4,089,418	-
		<u>28,395,755</u>	<u>17,412,658</u>
<b>14 CASH AND BANK BALANCES</b>			
Stamps in hand		50,421	72,800
Cash at banks			
State Bank of Pakistan			
Current account		93,481	17,524
On current accounts		341,707	909,233
Deposit accounts			
Modaraba Deposit account Burj Bank Limited	14.1	118,436	114,319
Modaraba Deposit account HMB Islamic branch	14.2	121,788,670	110,412,802
Redemption fund for Certificates of Musharaka	14.3	1,372	1,237
		<u>121,908,478</u>	<u>110,528,358</u>
		<u>122,394,087</u>	<u>111,527,915</u>

- 14.1** The profit on the above modaraba deposit account ranges between 5.00% to 5.30% per annum (2011: 5.00% to 5.25% per annum).
- 14.2** The profit on the above modaraba deposit account ranges between 10.50% to 11.00% per annum (2011: 9.00% to 10.50% per annum).
- 14.3** The profit on the above redemption fund account is 10.50% per annum (2011: 9.00% per annum).

		Note	2012 Rupees	2011 Rupees
<b>15</b>	<b>ISSUED, SUBSCRIBED AND PAID-UP CAPITAL</b>			
	<b>2012</b>			
	<b>2011</b>			
	<b>(Number of certificates)</b>			
	193,900,000		193,900,000	Certificates of Rs. 5/- each issued for cash
	7,700,000		7,700,000	Certificates of Rs. 5/- each issued as bonus certificates
	<u>201,600,000</u>		<u>201,600,000</u>	
			<u>969,500,000</u>	<u>969,500,000</u>
			<u>38,500,000</u>	<u>38,500,000</u>
			<u>1,008,000,000</u>	<u>1,008,000,000</u>

## 16 RESERVES

### Capital reserves

Premium on issuance of certificates		378,000,000	378,000,000
Statutory	16.1	578,891,321	440,873,447
		<u>956,891,321</u>	<u>818,873,447</u>

### Revenue reserves

General		50,000,000	50,000,000
Unrealized gain on available-for-sale investments		901,105,975	956,819,063
Unappropriated profit		211,198,749	225,931,937
		<u>1,162,304,724</u>	<u>1,232,751,000</u>
		<u>2,119,196,045</u>	<u>2,051,624,447</u>

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

		Note	2012 Rupees	2011 Rupees
<b>17</b>	<b>CERTIFICATES OF MUSHARAKA</b>			
	Unsecured			
	Certificates of musharaka	17.1	3,000,000	10,572,280
	Less: Current maturity shown under current liabilities		(3,000,000)	(7,572,280)
			<u>-</u>	<u>3,000,000</u>

**17.1** The estimated share of profit paid / payable on the above unsecured finance is 12.50% per annum (2011: 12.75% to 13.50% per annum).

## 18 SECURITY DEPOSITS AGAINST IJARAH (LEASE) ASSETS

Musta'jir's security deposits	18.1	266,960,222	240,474,064
Less: Current portion shown under current liabilities		(57,881,505)	(48,698,420)
		<u>209,078,717</u>	<u>191,775,644</u>

**18.1** These represent interest free deposits repayable at the maturity of respective ijarah (lease) terms.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012



## 19 CERTIFICATES OF MUSHARAKA

	Note	2012 Rupees	2011 Rupees
Unsecured Certificates of Musharaka	19.1	<u>966,290,959</u>	<u>602,717,612</u>

**19.1** The estimated share of profit paid / payable on the above unsecured finance ranges between 10.50% to 12.95% per annum (2011: 10.00% to 13.50% per annum).

## 20 TRADE AND OTHER PAYABLES

Accrued liabilities		12,076,724	8,065,141
Adjustable against ijarah (lease) contracts	20.1	48,509,949	36,538,724
Advance against sale of diminishing musharaka units		1,406,497	695,005
Workers' Welfare Fund		7,027,387	5,660,325
Management fee payable		38,338,298	30,880,220
Sales tax on management fee payable	20.2	4,089,418	-
Gratuity payable	20.3	3,748	-
		<u>111,452,021</u>	<u>81,839,415</u>

**20.1** This relates to withholding tax deposited pertaining to ijarah (lease) vehicles. The amounts are adjustable against ijarah (lease) contracts upon receipt of refunds from tax authorities.

**20.2** This represents balance payable to the Modaraba Management Company. The amount payable to Modaraba Management Company includes an amount of Rs. 4.089 million in respect of the levy of Sindh Sales Tax on management fee payable to Modaraba Management Company which has been recorded as per the provisions of The Sindh Sales Tax on Services Act, 2011. The Sindh Sales Tax on Services Act, 2011 (the Act) has been published as an Act of the Legislature of Sindh vide notification dated June 10, 2011. As per the advice obtained from the Tax Consultant, the levy is effective from the date of amendment made in the Second Schedule through Amendment Ordinance dated November 1, 2011. Due to the enforceability of the Act, the management fee payable to Modaraba Management Company has come under the ambit of the Act and is liable to levy of Sindh Sales Tax.

Based on advice from the Tax Consultant, provision for Sindh Sales Tax on management fee amounting to Rs. 4.089 million has been recorded in the financial statements. The levy has been recorded as Sales Tax Refundable on the basis of opinion received from the Tax Consultant advising that the excess input tax shall be adjustable against the output tax on other services subject to levy under Sindh Sales Tax on Services Act 2011 and any excess input tax shall be refundable.

## 20.3 Staff retirement benefits - Defined benefit plan

### a General description

As mentioned in note 4.12, the Modaraba operates an approved funded gratuity scheme for all of its permanent employees. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at June 30, 2012 using the Projected Unit Credit Method.

	2012 Rupees	2011 Rupees
<b>b Reconciliation of balance due to defined benefit plan:</b>		
Present value of defined benefit obligation	15,905,347	13,452,894
Fair value of plan assets	(15,901,599)	(13,630,327)
Payable / (Receivable) recognized in the balance sheet	<u>3,748</u>	<u>(177,433)</u>
<b>c Amount charged to profit and loss account:</b>		
Current service cost	1,314,892	1,166,138
Interest cost	2,010,369	1,438,428
Expected return on plan assets	(2,034,358)	(1,460,974)
Actuarial loss / (gain) recognized	<u>212,845</u>	<u>(21,025)</u>
	<u>1,503,748</u>	<u>1,122,567</u>
The charge for the year has been allocated to administrative expenses.		
<b>d Movement in the liability / (asset) recognized in the balance sheet:</b>		
Balance as at July 01	(177,433)	(188,099)
Net charge for the year	1,503,748	1,122,567
Contribution to the fund	(1,322,567)	(1,111,901)
Balance as at June 30	<u>3,748</u>	<u>(177,433)</u>
<b>e Movement in the present value of defined benefit obligation:</b>		
Balance as at July 01	13,452,894	10,910,565
Current service cost	1,314,892	1,166,138
Interest cost	2,010,369	1,438,428
Actuarial (gain) / loss	(364,558)	113,585
Actual benefits paid during the year	(508,250)	(175,822)
Balance as at June 30	<u>15,905,347</u>	<u>13,452,894</u>
<b>f Movement in the fair value of plan assets:</b>		
Balance as at July 01	13,630,327	11,098,664
Expected return	2,034,358	1,460,974
Contributions	1,322,567	1,111,901
Actuarial (loss) / gain	(577,403)	134,610
Actual benefits paid during the year	(508,250)	(175,822)
Balance as at June 30	<u>15,901,599</u>	<u>13,630,327</u>
<b>g Principal actuarial assumptions used are as follows:</b>		
Expected rate of long term salary increase per annum	13.50%	14.50%
First year salary increase	14.60%	14.50%
Valuation discount rate	13.50%	14.50%
Expected rate on plan assets	14.50%	12.75%



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012



	2012	2011	2010	2009	2008
<b>h Comparisons for past years:</b>					
As at June 30					
Present value of defined benefit obligation	15,905,347	13,452,894	10,910,565	9,665,996	8,396,952
Fair value of plan assets	(15,901,599)	(13,630,327)	(11,098,664)	(9,870,245)	(6,970,665)
Deficit / (surplus)	3,748	(177,433)	(188,099)	(204,249)	1,426,287
Experience loss / (gain) on obligation	364,558	113,585	447,437	(753,697)	(802,743)
Experience (loss) / gain on plan assets	(577,403)	134,610	47,519	(208,739)	183,312

	2012 Rupees	2011 Rupees
<b>Major categories / composition of plan assets are</b>		
Bank deposits	13,818,436	13,630,327

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at balance sheet date. The return on plan assets was assumed to equal the discount rate. Actual return on plan assets during the year was Rs. 1.457 million (2011: Rs. 1.492 million).

#### Defined benefit plan

Contribution for the year allocated to administrative expenses	1,503,748	1,122,567
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#### Expected charge for the year ending June 30, 2013

The expected gratuity cost charge for the year ending June 30, 2013 amounts to Rs. 1.442 million. The actual cost will be determined after valuation of the Fund as at June 30, 2013 when the actuarial gains and losses arising during the year ending June 30, 2013 will be available.

#### 20.4 The reconciliation of charity payable is as follows:

Balance as at July 01	-	-
Addition during the year	535,322	544,510
Less: Paid to recognized charitable organisations	(535,322)	(544,510)
Balance as at June 30	-	-

#### 21 CONTINGENCIES AND COMMITMENTS

##### Contingencies

There were no contingencies as at the balance sheet date.

##### Commitments

- a Commitments in respect of ijarah (lease) transactions amounted to Rs. 70.616 million (2011: Rs. 63.000 million).
- b Commitments in respect of ERP II Application Software amounted to nil (2011: Rs. 1.187 million).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012 Rupees	2011 Rupees
<b>22 INCOME FROM IJARAH (LEASING)</b>			
Ijarah (leasing) installments		1,405,982,435	1,418,326,712
Less: Depreciation on ijarah (lease) assets		(1,072,588,058)	(1,090,988,971)
		<u>333,394,377</u>	<u>327,337,741</u>
<b>23 ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances and other benefits	27	34,192,045	32,156,792
Printing, stationery and advertising		3,264,090	5,007,433
Travelling and conveyance		1,016,341	756,733
Insurance		435,836	402,628
Utilities		536,677	463,542
Postage		476,410	358,220
Newspapers and periodicals		67,202	45,189
Repairs and maintenance		2,533,421	1,834,902
Telecommunication		740,236	526,360
Entertainment		352,935	237,157
Fees and subscriptions		3,638,235	4,202,974
Legal and professional charges		848,180	989,259
Donations	23.1	936,000	840,000
Depreciation on fixed assets in own use	5.2	2,871,594	2,966,676
Amortization on intangible assets	6	214,940	30,481
Certificate registrar expenses		1,375,964	1,747,443
Vehicle running expenses		1,098,433	787,277
Office expense		803,989	582,213
Staff training and workshop		193,365	54,000
Staff Hajj expenses		667,800	598,800
Rent expense		1,524,500	1,047,600
Miscellaneous		94,385	75,434
		<u>57,882,578</u>	<u>55,711,113</u>

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

	Note	2012 Rupees	2011 Rupees
<b>24 OTHER INCOME</b>			
Dividend on shares		84,765,791	30,505,058
Gain on disposal of ijarah (lease) assets		27,548,025	11,816,743
Gain on sale of shares		11,572,775	14,012,689
Gain on sale of owned fixed assets - net		350,296	4,234,177
Profit on Modaraba'a deposit accounts		18,258,800	10,755,355
Profit on redemption reserve fund - COM		70	476,755
Profit on Sukuk		13,117,988	7,511,727
Profit on Islamic Investment Certificates		8,415,754	5,373,332
Miscellaneous income		131,960	167,710
Reversal of impairment on ijarah (lease) assets		5,557,188	6,791,650
		<u>169,718,647</u>	<u>91,645,196</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012



25 OTHER OPERATING CHARGES	Note	2012 Rupees	2011 Rupees
Workers' Welfare Fund		7,027,387	5,660,325
Impairment of ijarah (lease) assets	25.1	8,028,061	-
Professional tax		-	1,100,000
Auditor's remuneration	25.2	575,358	480,000
		15,630,806	7,240,325

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

**25.2 Auditor's remuneration:**

Audit fee	300,000	300,000
Fee for review of half yearly financial statements and Statement of Compliance with Code of Corporate Governance	170,000	150,000
CDC monitoring compliance	50,000	-
Out of pocket expenses	55,358	30,000
	575,358	480,000

**26 FINANCIAL CHARGES**

Profit on certificates of musharaka	91,643,343	66,087,351
Bank commission and charges	93,991	84,896
	91,737,334	66,172,247

**27 REMUNERATION OF OFFICERS AND OTHER EMPLOYEES**

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

	2012			2011		
	Officers	Other employees	Total	Officers	Other employees	Total
	Rupees			Rupees		
Salaries	16,154,550	4,553,667	20,708,217	13,810,875	6,582,108	20,392,983
House rent	2,295,000	781,200	3,076,200	1,136,700	1,541,250	2,677,950
Conveyance and other allowances	3,472,731	2,227,381	5,700,112	3,573,949	1,651,843	5,225,792
Group insurance	1,199,823	338,209	1,538,032	728,526	466,810	1,195,336
Gratuity Fund	1,173,903	329,845	1,503,748	895,842	226,725	1,122,567
Provident fund	1,307,821	357,915	1,665,736	1,117,884	424,280	1,542,164
	25,603,828	8,588,217	34,192,045	21,263,776	10,893,016	32,156,792
Number of persons	14	21	35	14	20	34

Certain officers are also provided with self maintained cars by the Modaraba.

**28 IJARAH (LEASE) INSTALLMENTS RECEIVABLE WITHIN ONE YEAR**

Ijarah (lease) installments receivable in respect of existing ijarah (lease), in the subsequent financial year ending June 30, 2013 amounts to Rs. 1,081.989 million (2012: Rs. 1,124 million). Ijarah (lease) installments recoverable within the next twelve months shall be treated as current assets for the purpose of calculating current ratio (as per BPRD Circular No. 8 dated April 11, 1998).

## 29 TRANSACTIONS WITH RELATED PARTIES

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

Relationship	Nature of transaction	2012 Rupees	2011 Rupees
<b>Balances with related parties</b>			
First Habib Modaraba Gratuity Fund	Receivable / payable to staff gratuity fund	<u>3,748</u>	<u>177,433</u>
Modaraba Management Company	Payable to modaraba management company	<u>38,338,298</u>	<u>30,880,220</u>
Modaraba Management Company	Sale tax on management fee payable	<u>4,089,418</u>	<u>-</u>
First Habib Modaraba Provident Fund	Investment in Certificate of Musharaka	<u>13,660,269</u>	<u>9,975,437</u>
<b>Expense for the year</b>			
Modaraba Management Company	Modaraba company's management fee	<u>38,338,298</u>	<u>30,880,220</u>
First Habib Modaraba Gratuity Fund	Gratuity fund	<u>1,500,000</u>	<u>1,122,567</u>
First Habib Modaraba Provident Fund	Provident fund	<u>1,665,736</u>	<u>1,542,164</u>
<b>Payments made during the year</b>			
First Habib Modaraba Gratuity Fund	Contribution to staff gratuity fund	<u>1,322,567</u>	<u>1,111,901</u>
First Habib Modaraba Provident Fund	Contribution to staff provident fund	<u>3,331,472</u>	<u>3,048,328</u>
Modaraba Management Company	Dividend paid	<u>109,596,324</u>	<u>104,411,077</u>
Modaraba Management Company	Management fee	<u>38,338,298</u>	<u>29,713,394</u>

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

## 30 CAPITAL MANAGEMENT

The Board's policy is to maintain a sound capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Modaraba defines as net profit after taxation divided by total Certificate holders' equity. The Board of Directors also monitors the level of dividend to ordinary Certificate holders. There were no changes to the Modaraba's approach to capital management during the year and the Modaraba is not subject to externally imposed capital requirements.

## 31 FINANCIAL INSTRUMENTS

### 31.1 Risk management policies

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012



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

- Credit Risk
- Liquidity Risk
- Market Risk.

## 31.2 Credit Risk

Credit risk is the risk that the counter party to a financial instrument will cause a financial loss for the Modaraba by failing to discharge an obligation. The Modaraba's policy is to enter into financial contracts with reputable counter parties in accordance with the internal guidelines and regulator requirements.

### Exposure to Credit Risk

The maximum exposure to credit risk before any credit enhancements at June 30, 2012 is the carrying amount of the financial assets as set out below:

	2012 Rupees	2011 Rupees
Diminishing musharaka financing	382,437,331	233,350,862
Ijarah (lease) installments receivables	3,417,703	4,303,221
Investments	1,486,001,027	1,301,322,307
Deposits	488,050	488,050
Other receivables	11,355,971	8,240,000
Bank balances	122,343,666	111,455,115
	<u>2,006,043,748</u>	<u>1,659,159,555</u>

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

Past due 1-30 days	1,849,996	2,282,999
Past due over 30-90 days	1,567,707	2,020,222
	<u>3,417,703</u>	<u>4,303,221</u>

### Concentration of Credit Risk

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

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

The Modaraba's portfolio of financial assets is broadly diversified and transactions are entered into with diverse credit worthy counterparties thereby mitigating any significant concentration of credit risk. Details of Modaraba's concentration of credit risk by industrial distribution are detailed in note 36 to the financial statements.

## Impaired Assets

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

### 31.3 Liquidity risk

Liquidity risk is the risk that the Modaraba will not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

In the case of Modaraba, the liquidity level of Modaraba remained on satisfactory level during the year and Modaraba did not face any difficulty or problem for generation of liquidity.

Note 35 to the financial statements summarizes the maturity profile of the Modaraba's financial instruments.

### Mitigating / managing the risk

Modaraba's policy is to invest the majority of its assets in investments that are traded in an active market and can be readily disposed off. Only a limited proportion of its investments are not actively traded.

### 31.4 Market Risk

#### a Market Price Risk

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

#### Exposure

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

As at June 30, 2012, the fair value of equity and debt securities exposed to price risk was as follows:

Particulars	Average Cost	Fair Value	Average Cost	Fair Value
	2012	2012	2011	2011
	Rupees			
Equity securities	184,895,047	1,086,001,027	174,503,243	1,131,322,307
Ijarah Sukuk bonds	100,000,000	100,000,000	120,000,000	120,000,000
	<u>284,895,047</u>	<u>1,186,001,027</u>	<u>294,503,243</u>	<u>1,251,322,307</u>

#### Risk Management

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012



## b Profit rate risk

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

### Risk exposure

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

As at June 30, 2012, the profile of the Modaraba's variable value financial instruments were as follows:

	2012 Rupees	2011 Rupees
<b>Variable rate instruments</b>		
Ijarah Sukuk bonds	100,000,000	120,000,000
Islamic deposits	421,907,106	160,527,121
Diminishing musharaka financing	332,323,877	195,410,981
<b>Liability</b>		
Certificate of musharaka	<u>(969,290,959)</u>	<u>(613,289,892)</u>
	<u>(115,059,976)</u>	<u>(137,351,790)</u>

### Fair value sensitivity analysis for variable rate instruments

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

Asset / liability class (Having variable interest rates)	(Increase / Decrease) (+/-)	Changes in profit / (loss)	
		2012 Rupees	2011 Rupees
<b>Assets</b>			
Ijarah Sukuk bonds	100 basis points	1,000,000	1,200,000
Diminishing musharaka financing	100 basis points	3,323,239	1,954,110
Islamic deposits	100 basis points	4,219,071	1,605,271
<b>Liability</b>			
Certificate of musharaka	100 basis points	(9,692,910)	(6,132,899)

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

### Risk Management / Mitigation

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

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

The average effective duration of the Modaraba's portfolio is a measure of the sensitivity of the fair value of the Modaraba's fixed interest securities to changes in market interest rates.

The Modaraba's policy refrains from holding interest bearing instruments that induce the average effective duration of the fixed interest portfolio to pass the benchmark of the average duration.

### 31.5 Operational risks

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

The Modaraba's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its objective of generating returns for certificate holders. The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors of the Management Company. This responsibility encompasses the controls in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

### 32 FAIR VALUE OF FINANCIAL INVESTMENTS

The Modaraba's accounting policy on fair value measurements of the investments is detailed in note 4.4 to these financial statements.

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

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

Level 2: Fair value measurements using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

As at June 30, 2012, all the investments were categorised in level 1 except for Sukuk bonds which are categorized in level 2.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012



## 33 MATURITIES OF ASSETS AND LIABILITIES

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

	2012			
	Total	Up to one year	Over one year to five years	Over five years
<b>Rupees</b>				
<b>Assets</b>				
Ijarah (lease) fixed assets - tangible	2,501,152,946	282,144,418	2,219,008,528	-
Owned fixed assets - tangible	8,039,208	-	8,039,208	-
Intangible assets	2,125,559	-	2,125,559	-
Long term advances, deposits and prepayments	1,516,850	-	1,516,850	-
Diminishing musharaka financing	382,437,331	148,365,839	234,071,492	-
Investments	1,486,001,027	1,486,001,027	-	-
Ijarah (lease) installments receivable	3,417,703	3,417,703	-	-
Advances and short term prepayments	5,090,731	5,090,731	-	-
Other receivables	24,849,608	24,849,608	-	-
Tax refund due from Government	28,395,755	28,395,755	-	-
Cash and bank balances	122,394,087	122,394,087	-	-
	<u>4,565,420,805</u>	<u>2,100,659,168</u>	<u>2,464,761,637</u>	<u>-</u>
<b>Liabilities</b>				
Security deposits against ijarah (lease) assets	266,960,222	57,881,505	209,078,717	-
Certificates of musharaka	969,290,959	969,290,959	-	-
Unearned ijarah (lease) and diminishing musharaka installments	17,501,347	17,501,347	-	-
Advance ijarah (lease) and diminishing musharaka installments	18,705,457	18,705,457	-	-
Trade and other payables	111,452,021	111,452,021	-	-
Profit payable on certificate of musharaka	31,712,221	31,712,221	-	-
Taxation	2,790,833	2,790,833	-	-
Unclaimed profit distribution	19,811,700	19,811,700	-	-
	<u>1,438,224,760</u>	<u>1,229,146,043</u>	<u>209,078,717</u>	<u>-</u>
	<u>3,127,196,045</u>	<u>871,513,125</u>	<u>2,255,682,920</u>	<u>-</u>
<b>Represented by:</b>				
Issued, subscribed and paid-up capital	1,008,000,000			
Reserves	2,119,196,045			
	<u>3,127,196,045</u>			

	2011			
	Total	Up to one year	Over one year to five years	Over five years
<b>Rupees</b>				
<b>Assets</b>				
Ijarah (lease) fixed assets - tangible	2,372,955,491	215,023,860	2,157,931,631	-
Owned fixed assets - tangible	5,603,600	-	5,603,600	-
Intangible assets	95,245	-	95,245	-
Long term advances, deposits and prepayments	2,836,850	-	2,836,850	-
Diminishing musharaka financing	233,350,862	71,094,740	162,256,122	-
Investments - available for sale	1,251,322,307	1,251,322,307	-	-
Investments - held to maturity	50,000,000	50,000,000	-	-
Ijarah (lease) installments receivable	4,303,221	4,303,221	-	-
Advances and short term prepayments	4,936,856	4,936,856	-	-
Other receivables	20,869,552	20,869,552	-	-
Tax refund due from Government	17,412,658	1,742,658	-	-
Cash and bank balances	111,527,915	111,527,915	-	-
	<u>4,075,214,557</u>	<u>1,730,821,109</u>	<u>2,328,723,448</u>	<u>-</u>
<b>Liabilities</b>				
Security deposits against ijarah (lease) assets	240,474,064	48,698,420	191,775,644	-
Certificates of musharaka	613,289,892	610,289,892	3,000,000	-
Unearned ijarah (lease) and diminishing musharaka installments	9,885,903	9,885,903	-	-
Advance ijarah (lease) and diminishing musharaka installments	20,596,188	20,596,188	-	-
Trade and other payables	81,839,415	81,839,415	-	-
Profit payable on certificate of musharaka	28,593,068	28,593,068	-	-
Taxation - net	2,790,833	2,790,833	-	-
Unclaimed profit distribution	18,120,747	18,120,747	-	-
	<u>1,015,590,110</u>	<u>820,814,466</u>	<u>194,775,644</u>	<u>-</u>
	<u>3,059,624,447</u>	<u>910,006,643</u>	<u>2,133,947,804</u>	<u>-</u>
<b>Represented by:</b>				
Issued, subscribed and paid-up capital	1,008,000,000			
Reserves	2,051,624,447			
	<u>3,059,624,447</u>			

## 34 SEGMENT BY CLASS OF BUSINESS OF MAJOR IJARAH (LEASE) ASSETS

	Ijarah (lease) assets			
	2012		2011	
	Rupees	%	Rupees	%
Auto and allied	71,171,950	3.29	127,623,260	5.79
Financial institutions	74,451,441	3.44	124,478,730	5.65
Cable and electric goods	60,173,860	2.78	40,075,607	1.82
Cement	-	0.00	83,928	0.00
Chemical and pharmaceutical	782,185,792	36.19	738,771,873	33.53
Communications	-	0.00	55,986,095	2.54
Construction	998,541	0.05	4,364,187	0.20
Consumer	46,248,456	2.14	51,771,634	2.35
Education	46,577,288	2.15	13,032,870	0.59
Engineering	46,063,447	2.13	33,900,738	1.54
Food and allied	163,717,937	7.57	99,425,730	4.51
Fuel and energy	120,089,194	5.56	161,018,401	7.31
Glass and ceramics	19,906,173	0.92	18,437,331	0.84
Health	32,955,170	1.52	34,335,830	1.56
Information technology	64,610,308	2.99	77,466,467	3.52
Paper and board	19,680,875	0.91	24,777,980	1.12
Services	382,200,003	17.68	321,912,481	14.61
Sugar and allied	109,455,636	5.06	122,141,066	5.54
Synthetic and rayon	1,931,357	0.09	3,791,873	0.17
Textile	100,253,260	4.64	131,976,467	5.99
Transport	697,500	0.03	1,838,500	0.08
Miscellaneous	17,994,035	0.83	16,105,178	0.73
	<u>2,161,362,223</u>	<u>100.00</u>	<u>2,203,316,226</u>	<u>100.00</u>

34.1 Modaraba's operations are restricted to Pakistan only.

## 35 FINANCIAL ASSETS AND LIABILITIES

	Profit bearing			Non-Profit bearing			Total
	Maturity upto one year	Maturity after one year upto five years	Sub-total	Maturity upto one year	Maturity after one year upto five years	Sub-total	
<b>Financial assets</b>							
Cash and bank balances	121,908,478	-	121,908,478	485,609	-	485,609	122,394,087
Other receivables	-	-	-	11,355,971	-	11,355,971	11,355,971
Investments	400,000,000	-	400,000,000	1,086,001,027	-	1,086,001,027	1,486,001,027
Ijarah (lease) installments receivables	-	-	-	3,417,703	-	3,417,703	3,417,703
Advances	-	-	-	1,149,265	-	1,149,265	1,149,265
Long term deposits	-	-	-	-	488,050	488,050	488,050
Diminishing musharaka financing	148,365,839	234,071,492	382,437,331	-	-	-	382,437,331
	<u>670,274,317</u>	<u>234,071,492</u>	<u>904,345,809</u>	<u>1,102,409,575</u>	<u>488,050</u>	<u>1,102,897,625</u>	<u>2,007,243,434</u>
<b>Financial liabilities</b>							
Security deposits against ijarah (lease) assets	-	-	-	57,881,505	209,078,717	266,960,222	266,960,222
Certificates of musharaka	969,290,959	-	969,290,959	-	-	-	969,290,959
Trade and other payables	-	-	-	54,508,188	-	54,508,188	54,508,188
Unclaimed profit distribution	-	-	-	19,811,700	-	19,811,700	19,811,700
	<u>969,290,959</u>	<u>-</u>	<u>969,290,959</u>	<u>132,201,393</u>	<u>209,078,717</u>	<u>341,280,110</u>	<u>1,310,571,069</u>
On balance sheet gap	(299,016,642)	234,071,492	(64,945,150)	970,208,182	(208,590,667)	761,617,515	696,672,365
Ijarah (lease) assets	282,144,418	2,219,008,528	2,501,152,946	-	-	-	2,501,152,946

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012



## (i) Yield / profit rate risk

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

## (ii) Market risk

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

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

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

## 36 CREDIT RISK AND CONCENTRATION OF CREDIT RISK

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

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

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

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

	2012		2011	
	Advances, deposits, prepayments and other receivables	Ijarah (lease) installments receivables	Advances, deposits, prepayments and other receivables	Ijarah (lease) installments receivables
	Rupees			
<b>Segment by class of business</b>				
Banks and financial institutions	11,245,859	43,412	7,629,759	-
Cable and electrical goods	-	-	-	41,862
Textile	-	100,000	-	-
Chemical and pharmaceutical	-	55,845	1,486,100	3,567,894
Communications	46,000	-	46,000	-
Consumer	-	-	-	39,088
Food and allied	1,050	3,158,773	1,050	193,066
Fuel and energy	8,000	-	8,000	-
Insurance companies	1,313,495	-	685,191	-
Others	4,255,615	59,673	2,583,410	200,252
Services	1,093,533	-	1,376,146	261,059
Transport	-	-	-	-
	<u>17,963,552</u>	<u>3,417,703</u>	<u>13,815,656</u>	<u>4,303,221</u>

## 37 EARNINGS PER CERTIFICATE

### 37.1 Basic

Basic earnings per certificate are calculated by dividing the net profit for the year by the weighted average number of certificates outstanding during the year as follows:

	Note	2012 Rupees	2011 Rupees
Profit for the year		345,044,686	277,921,978
Weighted average number of certificates		201,600,000	201,600,000
Earnings per certificate		1.71	1.38

### 37.2 Diluted

No figure for diluted earnings per certificate has been presented as the Modaraba has not issued any instruments which would have an impact on earnings per certificate when exercised.

## 38 CASH GENERATED FROM OPERATIONS

Profit for the year		345,044,686	277,921,978
Adjustment for:			
Gain on disposal of assets			
Ijarah (lease)		(27,548,025)	(11,816,743)
In own use - net		(350,296)	(4,234,177)
Depreciation fixed assets			
Ijarah (lease) assets		1,072,588,058	1,090,988,971
In own use		2,871,594	2,966,676
Impairment of ijarah (lease) assets		8,028,061	-
Owned assets sold / written off		-	3
Amortization of intangible assets		214,940	30,481
Reversal of impairment on ijarah (lease) assets		(5,557,188)	(6,791,650)
Provision for gratuity		1,503,748	1,122,567
Dividend income		(84,765,791)	(30,505,058)
Gain on disposal of investments		(11,572,775)	(14,012,689)
Profit on certificates of musharaka		91,643,343	66,087,351
Movement in working capital	38.1	20,924,628	(4,524,504)
		<u>1,413,024,983</u>	<u>1,367,233,206</u>

### 38.1 Movement in working capital

Decrease / (increase) in current assets:			
Ijarah (lease) installments receivable		885,518	439,848
Advances and short term prepayments		(153,875)	(3,265,411)
Tax refund due from Government		(10,983,097)	(16,413,108)
Other receivables		(4,157,489)	(12,808,287)
(Increase) / decrease in current liabilities:			
Advance ijarah (lease) and diminishing musharaka installments		(1,890,731)	(1,219,928)
Unearned ijarah (lease) and diminishing musharaka installments		7,615,444	(5,799,497)
Trade and other payables		29,608,858	34,541,879
		<u>20,924,628</u>	<u>(4,524,504)</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012



## 39 PROFIT DISTRIBUTION AND APPROPRIATION

Subsequent to the year ended June 30, 2012 the Board of Directors of the Management Company has declared a final distribution of Re. 1 per certificate, amounting to total profit distribution of Rs. 201.600 million (2011: Re. 1.10/- per certificate amounting to total profit distribution of Rs. 221.760 million) in its meeting held on July 25, 2012.

## 40 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on July 25, 2012 by the Board of Directors of the Modaraba Management Company.

## 41 CORRESPONDING FIGURES

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

Reclassification from components	Reclassification to components	Note	in "Rupees"
Cash and bank balances		14	50,000,000
	Investments	9	50,000,000

## 42 GENERAL

Figures have been rounded off to the nearest rupee.

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

