First Habib Modaraba

(An Islamic Financial Institution)

ANNUAL REPORT 2009

IN THE NAME OF ALLAH THE MOST BENEFICENT
AND MERCIFUL

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DIVIDEND PAYOUT BY FHM 1986-2009

ABOUT FIRST HABIB MODARABA (FHM)

In the Financial sector of Pakistan, the concept of Modaraba emerged in early 80's as a result of the Government's initiatives towards Islamization of the economy. For this purpose, the Council of Islamic Ideology was set-up. This council was given the task of devising a blueprint for the Islamization of the economic and financial sectors. Thereafter, on their recommendation the Modaraba concept came in the Pakistan's financial market.

In Pakistan the Modaraba as entity promulgated through law called "Modaraba Companies and Modaraba (floatation & control) Ordinance 1980 (MCMO) and Modaraba Rules, 1981. These Ordinance and Rules provided an opening for establishment of Modaraba Companies as an entity. The thrust was to develop a corporate sector to conduct its business in conformity with the Sharia'h financial system. The FHM was floated in the year 1985 as Islamic Financial Institution under the Modaraba Ordinance 1980 and Modaraba Rules 1981.

FHM commenced its business operation in March 1985 with initial capital of Rs.25.0 million only. However, continuing with a solid, dynamic and prudent approach now Allhamdollilah, the FHM has a total equity base of around Rs.2.800 billion.

At present FHM is one of the best performing Modaraba in the Modaraba Sector. FHM being pioneer in the Modaraba and Non-Banking Islamic Financial sector played a very vital role for promotion of Islamic Finance in Pakistan's Islamic Financial Market.

FHM is a multipurpose Modaraba engaged in various Islamic Financial Services like Ijarah, Morabaha, Diminishing Musharaka and other Sharia'h Compliant financial activities. So far, the FHM has achieved considerable growth in size while maintaining solid assets portfolio, sound capital base and handsome return to stakeholders. FHM never failed to give dividend in any single year and profit has always been given in shape of cash dividend and stock dividend every year in 24 years of business operations.

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

In conclusion, we proudly say that at present the FHM is one of the best Islamic Financial Services Institutions within the non-banking sector in Pakistan. This has also been acknowledged by other reputed counters such as Rating Agency, Modaraba Association of Pakistan, Management Association of Pakistan and other stakeholders of FHM.

Our Vision

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

Our Mission

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

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.

Single source that caters both your business finance and investments, the Islamic way
First Habib Modaraba

QUALITY SERVICE
RESPONSIVE
CUSTOMER FIRST
CORPORATE GOVERNANCE
INTEGRITY
TEAMWORK

Corporate Values

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

Customer First

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

Integrity

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

Team Work

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

Corporate Governance

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

Responsive

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

Quality Service

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

DIRECTOR'S PROFILE

Wazir Mumtaz Ahmed -Chairman

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

Muhammad Shoaib – Managing Director & CEO

Mr. Muhammad Shoaib, is associate with First Habib Modaraba since very long time. His extensive working experience in Non-Banking Islamic Financial institutions for more than two decades makes him senior most person with such rich experience of Islamic Finance in Pakistan. This intense exposure gave him the insight into the financial and technical aspects of fund management in Islamic way.

He has done Master of Business Administration (MBA) in Finance. He has completed Post Graduate Diploma (PGD) in Islamic Banking and Finance from Centre of Islamic Economics (Darul Ulum), Karachi, Pakistan. He is also Certified Islamic banker from Professional's Institute of Excellence who are academic partner of University of Marathon U.S.A. and Pakistan Institute of Banking Studies, Pakistan.

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

Wazir Husain Jafree – Director

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

Sheikh Ehsanuddin – Director

Mr. Sheikh Ehsanuddin is a very seasoned banker his baking career spans over a period of 46 years splitted between Habib Bank Limited & BCCI. He remained on various senior positions & held many foreign postings for more than twenty six years. He possesses great wealth of knowledge & experience of financial sector. He has also been awarded fellowship of Institute of Bankers of Pakistan.

Abbas Ali Muhammad – Director

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

CORPORATE INFORMATION

Board of Directors

Mr. Wazir Mumtaz Ahmed	- Chairman
Mr. Muhammad Shoaib Ibrahim	- Managing Director & CEO
Mr. Wazir Husain Jafree	
Mr. Abbas Ali Muhammad	
Mr. Sheikh Ehsanuddin	

AUDITORS

BDO Ebrahim & Company
Chartered Accountants

LEGAL ADVISOR

Mohsin Tayebaly & Company

AUDIT COMMITTEE

Mr. Sheikh Ehsanuddin - Chairman
Mr. Wazir Mumtaz Ahmed - Member
Mr. Abbas Ali Muhammad - Member
Mr. Shakeel Ahmed - Secretary

COMPANY SECRETARY

Mr. Adnan Thanwey

BANKERS

Habib Metropolitan Bank Limited (Islamic Banking)
Bank Al Falah Limited (Islamic Banking)
Dawood Islamic Bank Limited
Meezan Bank Limited

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: 021-4325482-87

REGISTERED OFFICE

5th Floor, HBZ Plaza (Hirani Centre)
I.I. Chundrigar Road, Karachi.

WEB PRESENCE

Web: www.habibmodaraba.com

CONTACT

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Email: fhm@habibmodaraba.com

BOARD COMMITTEE

Audit Committee
Term of reference

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

i. To recommend to the Board of Directors the appointment of external auditors by the Modaraba's Certificate holders and consider any questions of resignation or removal of external auditors, audit fees and provision by external auditors of any service to the Modaraba in addition to audit of its financial statements;

ii. To review the quarterly, half-yearly and annual financial statements of the Modaraba, prior to their approval by the Board of Directors;

iii. To facilitate the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight;

iv. To review the management letter issued by external auditors and management's response thereto;

v. To ensure coordination between the internal and external auditors of the Modaraba;

vi. To review the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the Modaraba;

vii. To consider the major findings of internal investigation and management's response thereto;

viii. To ascertain that the internal control system including financial and operational control, accounting system and reporting structure are adequate and effective;

ix. To determine compliance with relevant statutory requirements; and

x. To monitor compliance with the best practices of corporate governance and identification of significant violation thereof;

The audit committee comprise of the following members:

Mr. Sheikh Ehsanuddin
Non Executive (Chairman)

Mr. Wazir Mumtaz Ahmed
Non Executive (Member)

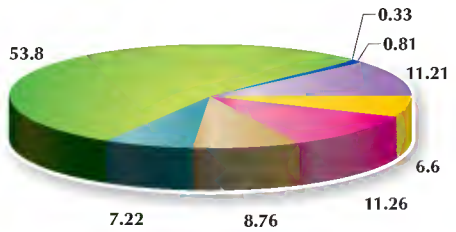
Mr. Abbasali Muhammad
Non Executive (Member)

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

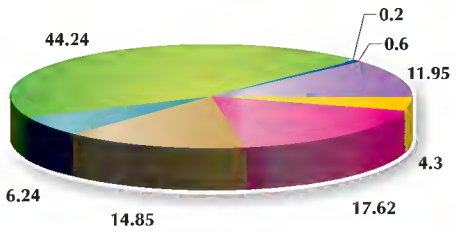
VALUE ADDED STATEMENT

	2009		2008	
	Rs.	(%)	Rs.	(%)
Value Added				
Revenue from operations	**355,169,823**		317,302,692	
Other income / charges	**36,654,537**		177,610,434	
Value added by Ijarah services	**391,824,360**		494,913,126	
Operating expense	**17,122,921**		16,414,802	
	374,701,439	100.00	478,498,324	100.00
Value Allocated				
To Employees				
Salaries, allowances & other benefits	**24,723,795**	6.60	20,565,347	4.30
To provider of finance				
As profit on Certificate of Musharaka	**42,202,806**	11.26	84,327,704	17.62
As financial charges on Murabaha / Musharaka	**32,812,320**	8.76	71,074,034	14.85
To Modarib				
As management fee	**27,068,056**	7.22	29,872,803	6.24
To certificate holders				
Dividend on Modaraba certificates	**201,600,000**	53.80	211,680,000	44.24
To Society				
Donation	**1,236,000**	0.33	936,000	0.20
To expansion & growth				
As Depreciation	**3,045,957**	0.81	2,867,208	0.60
As Reserve and Retained earning	**42,012,505**	11.21	57,175,228	11.95
	374,701,439	100.00	478,498,324	100.00

Value Allocated 2009



Value Allocated 2008



- Salaries, allowances & other benefits
- As profit on Certificate of Musharaka
- As financial charges on Murabaha / Musharaka
- As management fee
- Dividend on Modaraba certificates
- Donation
- As Depreciation
- As Reserve and Retained earning

- Salaries, allowances & other benefits
- As profit on Certificate of Musharaka
- As financial charges on Murabaha / Musharaka
- As management fee
- Dividend on Modaraba certificates
- Donation
- As Depreciation
- As Reserve and Retained earning

KEY FINANCIAL DATA
SIX YEARS AT A GLANCE

(Rupees in million)

KEY FINANCIAL DATA	2009	2008	2007	2006	2005	2004
Total Assets	3,281.20	4,025.65	5,000.90	3,889.85	2,657.05	2,131.82
Ijarah Assets	2,096.89	2,716.03	3,185.14	2,744.84	2,047.01	1,723.62
Gross Ijarah Disbursement	1,150.74	1,074.80	1,780.60	1,719.96	1,226.01	1,093.30
Current Assets	1,163.36	1,300.79	1,808.28	1,136.05	604.92	404.02
Current Liabilities	527.70	778.52	1,811.58	1,531.28	943.45	1,140.89
Total Liabilities	663.05	1,178.83	2,503.21	2,094.53	1,330.25	1,495.32
Paid-up Capital	1,008.00	1,008.00	504.00	504.00	504.00	252.00
Reserves	1,610.15	1,838.82	1,993.69	1,291.31	822.80	384.50
Certificate Holders' Equity	2,618.15	2,846.82	2,497.69	1,795.31	1,326.80	636.50
Gross Revenue	1,666.23	1,666.79	1,502.96	1,206.40	1,013.62	831.06
Net Profit	243.61	268.86	149.31	141.08	101.77	71.28
Earning Per Certificate - Rs.5/- each	1.21	1.50	1.36	1.40	1.42	1.35
Cash Dividend (%)	20	21	20	20	15	20

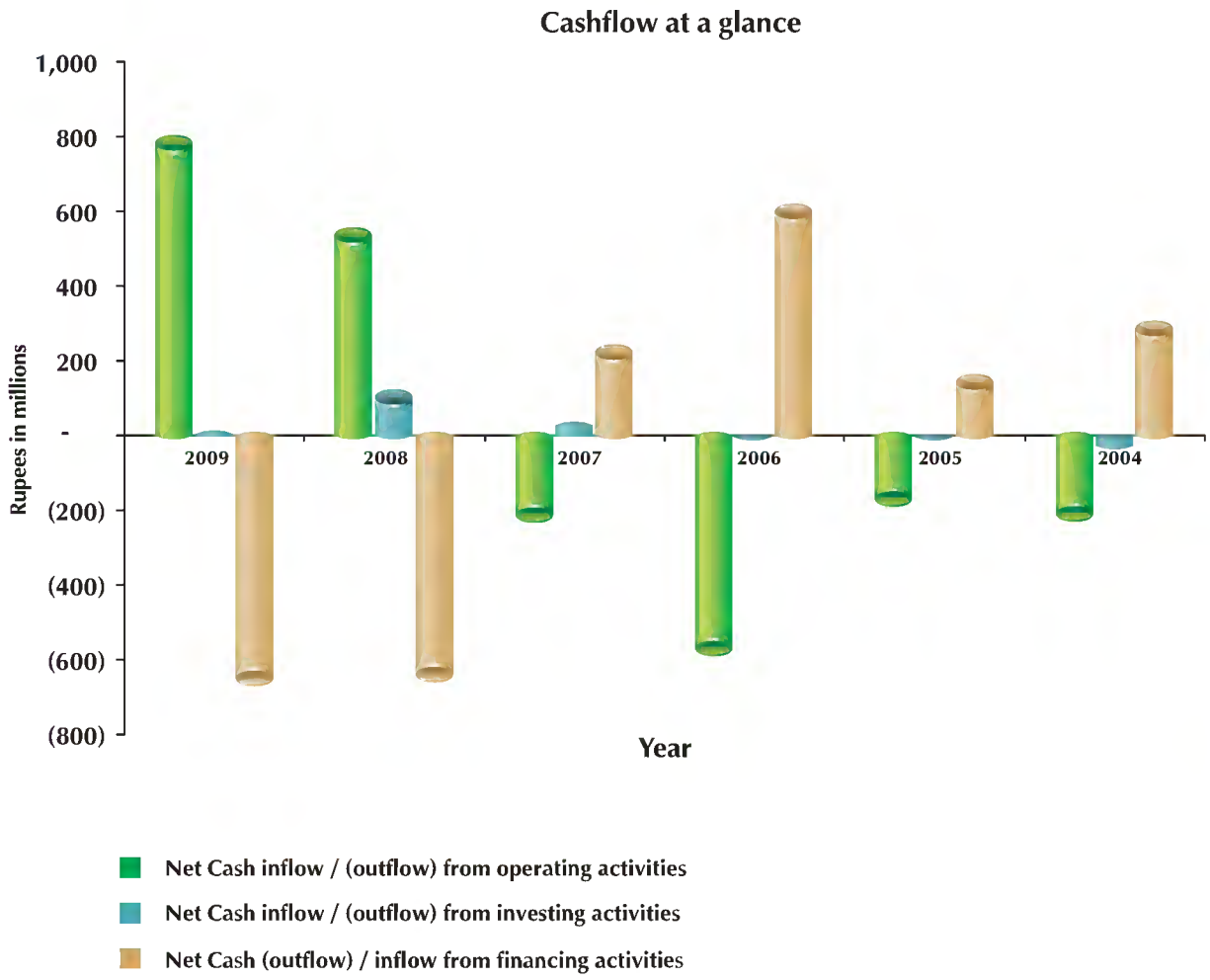
(Rupees in million)

STAKEHOLDER INFORMATION	2009	2008	2007	2006	2005	2004
Profit after tax ratio (%)	14.62	16.13	9.93	11.69	10.04	8.58
Return on assets	7.42	6.68	2.99	3.63	3.83	3.34
Return on equity	12.36	13.87	14.71	14.60	11.30	16.93
Return on capital employed	11.82	11.39	8.41	9.76	10.71	8.81
Asset Turnover Ratio (%)	50.78	41.40	30.05	31.01	38.15	38.98
Income / Expense ratio	1.12	1.08	1.05	1.11	1.10	1.09
Current ratio	2.20	1.67	1.00	0.74	0.64	0.35
Market Value per certificate (year end)	5.77	7.77	13.50	6.95	8.00	10.45
High	7.85	16.35	13.80	8.30	12.55	11.80
Low	4.37	7.39	6.55	6.50	7.50	7.10
EPS (Earning per share)	1.21	1.50	1.36	1.40	1.42	1.35
Net assets per certificate	12.99	14.12	24.78	17.81	13.16	12.63
Earning asset to total asset ratio	89.11	95.43	97.28	95.94	98.43	96.29
Price earning ratio	4.77	5.18	9.93	4.96	5.63	7.74
Dividend Yield ratio (%)	17.33	13.51	7.41	14.39	9.38	9.57
Dividend Payout ratio (%)	82.75	78.73	67.51	71.45	74.28	70.71
Cash dividend (%)	20.00	21.00	20.00	20.00	15.00	20.00
Cash dividend per certificate	1.00	1.05	1.00	1.00	0.75	1.00
Book Value per certificate	9.78	9.62	10.07	9.59	8.94	8.35

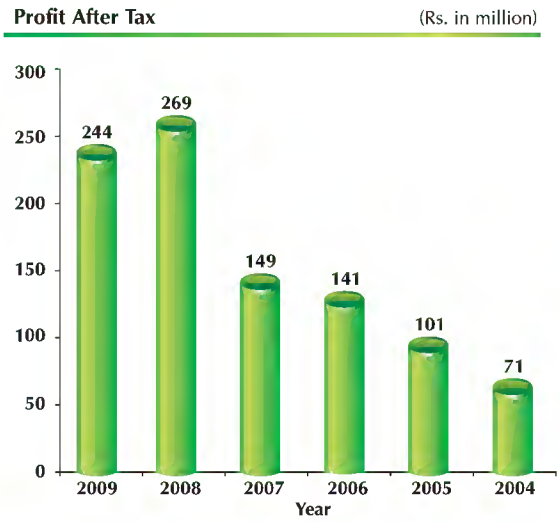
SUMMARY OF CASH FLOW

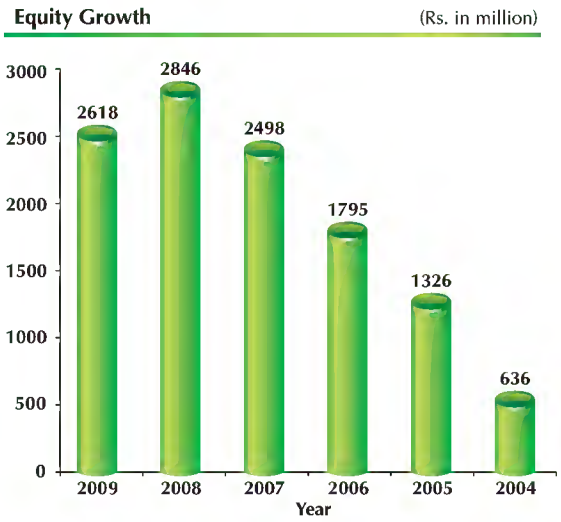
(in million rupees)

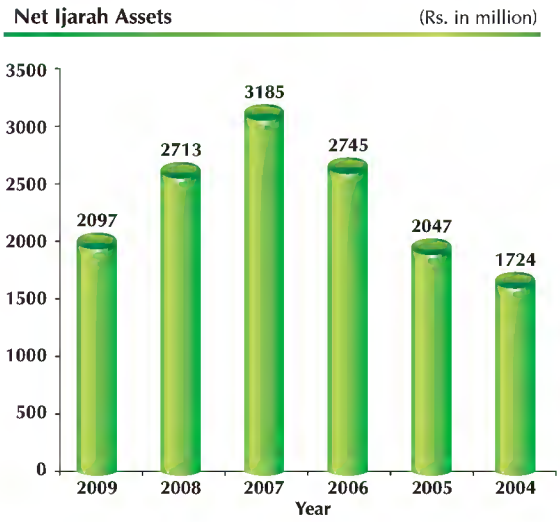
	2009	2008	2007	2006	2005	2004
Cash & cash equivalents at the beginning of the year	150	125	73	32	72	36
Net Cash inflow / (outflow) from operating activities	805	560	(233)	(589)	(189)	(231)
Net Cash inflow / (outflow) from investing activities	17	125	39	8	(18)	(43)
Net Cash (outflow) / inflow from financing activities	(670)	(660)	245	623	167	311
Net increase/decrease in cash & cash equivalent	152	25	52	42	(40)	37
Cash & cash equivalents at the end of the year	302	150	125	73	32	72

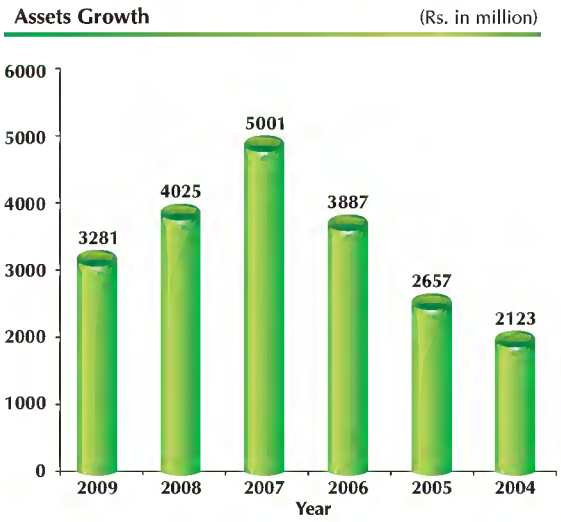


FINANCIAL SUMMARY AT A GLANCE



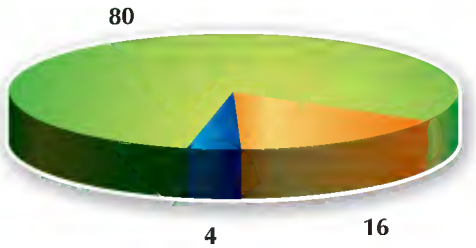






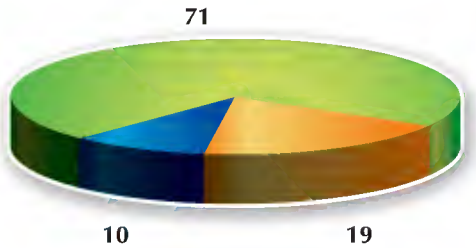
BALANCE SHEET COMPOSITION

Equity & Liabilities
2009



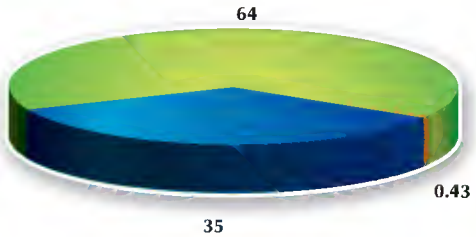
- Certificate Holders' Equity
- Current Liabilities
- Non-Current Liabilities

Equity & Liabilities
2008



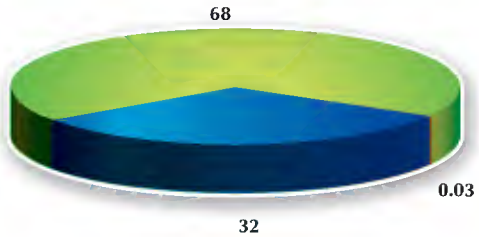
- Certificate Holders' Equity
- Current Liabilities
- Non-Current Liabilities

Assets
2009



- Fixed Assets
- Current Assets
- Long-term Assets

Assets
2008



- Fixed Assets
- Current Assets
- Long-term Assets

HORIZONTAL ANALYSIS

BALANCE SHEET (%)

	2009	2008	2007	2006	2005	2004
ASSETS						
NON-CURRENT ASSETS						
Fixed Assets - tangible						
Ijarah Assets	(23)	(15)	16	34	19	22
Assets in own use	(10)	23	(16)	78	41	(23)
Intangible Assets	(62)	(78)	(31)	8	119	(26)
Investment in diminishing musharaka	0	0	0	0	0	0
Long-term advances & deposits	(93)	4	(17)	76	(31)	9
CURRENT ASSETS						
Investments	(27)	(33)	70	74	73	143
Current maturity of diminishing musharaka	0	0	0	0	0	0
Short-term Murabaha finance	0	0	0	0	0	0
Ijarah rental receivable - secured, considered good	254	362	(51)	10	(4)	(0)
Loan & advances	(100)	39	(35)	(40)	135	(17)
Trade deposits & short-term prepayments	(33)	232	(85)	(40)	135	(17)
Other receivables	(42)	1,618	(45)	(40)	135	(17)
Cash & bank balances	101	20	70	130	(56)	102
TOTAL ASSETS	(18)	(20)	29	46	25	34
EQUITY & LIABILITIES						
CAPITAL & RESERVES						
Authorized Certificate capital	0	83	0	0	100	0
Issued, subscribed & paid-up capital	0	100	0	0	100	0
Reserves	(12)	(8)	54	57	114	75
Certificate holders' equity	(8)	14	39	35	108	35
NON-CURRENT LIABILITIES						
Long-term Murabaha finances	(100)	(62)	23	110	15	43
Certificates of Musharaka - unsecured	(85)	44	109	(79)	(24)	(34)
Security deposits against Ijarah assets	(32)	(14)	16	28	30	18
Deferred liability - Staff gratuity	0	0	0	0	0	0
CURRENT LIABILITIES						
Deferred Murabaha Income	0	0	0	0	0	0
Murabaha finances - current portion	(100)	(14)	20	55	(19)	187
Certificates of Musharaka - current portion	6	(72)	17	90	(35)	48
Security deposits - current portion	33	15	49	3	12	5
Short-term Musharaka finances - secured	0	(100)	(33)	(2)	0	0
Short-term Murabaha finances - secured	0	0	0	0	0	0
Unearned Ijarah rentals	265	0	0	0	0	0
Advance Ijarah rentals received	(9)	20	0	48	(5)	(11)
Trade & other payables	(33)	10	30	44	51	(18)
Taxation - net	(71)	(23)	11	(5)	(6)	(4)
Unclaimed profit distribution	12	12	10	8	11	14
Proposed profit distribution	0	0	0	0	0	0
TOTAL EQUITY & LIABILITIES	(18)	(20)	29	46	25	34

PROFIT & LOSS ACCOUNT (%)

	2009	2008	2007	2006	2005	2004
Ijarah rentals	(0.3)	11	25	19	22	13
Profit on diminishing musharaka	0	0	0	0	0	0
Profit on Murabaha finance	0	0	0	0	0	0
Depreciation on Ijarah assets	(3)	11	28	16	19	18
Administrative expenses	13	18	39	(9)	27	14
Other Income	(51)	92	170	79	67	(4)
Other charges	0	0	0	0	0	0
Financial charges	(52)	(14)	60	42	29	(13)
Modaraba company's management fee	(9)	80	6	39	43	2
Profit for the year	(9)	80	6	39	43	2

VERTICAL ANALYSIS

BALANCE SHEET (%)

	2009	2008	2007	2006	2005	2004
ASSETS						
NON-CURRENT ASSETS						
Fixed Assets - tangible						
Ijarah Assets	64	67	64	71	77	81
Assets in own use	0.21	0.19	0.12	0.19	0.15	0.14
Intangible Assets	0.00	0.00	0.00	0.01	0.01	0.00
Investment in diminishing musharaka	0.43	0.00	0.00	0.00	0.00	0.00
Long-term advances & deposits	0.43	0.00	0.00	0.00	0.00	0.00
CURRENT ASSETS						
Investments	25.20	27.97	33.59	25.37	21.39	15.43
Current maturity of diminishing musharaka	0.34	0.00	0.00	0.00	0.00	0.00
Short-term Murabaha finance	0.00	0.00	0.00	1.85	0.00	0.00
Ijarah rental receivable - secured, considered good	0.35	0.08	0.01	0.04	0.05	0.06
Loan & advances	0.00	0.04	0.03	0.05	0.12	0.07
Trade deposits & short-term prepayments	0.02	0.02	0.01	0.00	0.00	0.00
Other receivables	0.34	0.47	0.02	0.05	0.12	0.07
Cash & bank balances	9.21	3.73	2.50	1.89	1.20	3.39
TOTAL ASSETS	100	100	100	100	100	100
EQUITY & LIABILITIES						
CAPITAL & RESERVES						
Authorized Certificate capital	34	27	12	15	23	14
Issued, subscribed & paid-up capital	31	25	10	13	19	12
Reserves	49	46	40	33	31	18
Certificate holders' equity	80	71	50	46	50	30
NON-CURRENT LIABILITIES						
Long-term Murabaha finances	-	4	9	9	6	7
Certificates of Musharaka - unsecured	0.19	1.07	0.60	0.37	2.53	4.14
Security deposits against Ijarah assets	4	5	4	5	6	5
Deferred liability - Staff gratuity	-	-	-	-	-	0
	4	10	14	14	15	17
CURRENT LIABILITIES						
Deferred Murabaha Income	-	-	-	0.06	-	-
Murabaha finances - current portion	-	7	6	7	6	10
Certificates of Musharaka - current portion	10	8	23	25	20	37
Security deposits - current portion	3	2	1	1	1	2
Short-term Musharaka finances - secured	-	-	2	4	6	-
Short-term Murabaha finances - secured	-	-	1	-	-	-
Unearned Ijarah rentals	0.23	0.05	-	-	-	-
Advance Ijarah rentals received	1	1	0.39	0.49	0.49	1
Trade & other payables	1	2	1	1	1	1
Taxation - net	0.01	0.03	0.03	0.04	0.06	0.08
Unclaimed profit distribution	0.46	0.33	0.24	0.28	0.38	0.43
Proposed profit distribution	-	-	-	-	-	2
TOTAL EQUITY & LIABILITIES	100	100	100	100	100	100

PROFIT & LOSS ACCOUNT (%)

	2009	2008	2007	2006	2005	2004
Ijarah rentals	100	100	100	100	100	100
Profit on diminishing musharaka	0.22	-	-	-	-	-
Profit on Murabaha finance	-	-	0.17	0.48	0.47	0.26
Gross Revenues	100	100	100	100	100	100
Depreciation on Ijarah assets	79	81	81	79	81	82
Administrative expenses	3	2	2	2	3	3
Other Income	5	11	6	3	2	1
Other charges	3	0.02	-	-	-	-
Financial charges	5	9	12	9	8	7
Modaraba company's management fee	2	2	1	1	1	1
Profit for the year	15	16	10	12	10	9

CERTIFICATE HOLDERS' INFORMATION

Registered Office:
First Habib Modaraba
5th Floor, HBZ Plaza,
I.I. Chundrigar Road,
Karachi
Tel No.021-2635949-51
Fax: 021-2627373
Web: www.habibmodaraba.com

Share Registrar Office:
M/s. Noble Computer Services (Pvt.) Limited
Mezzanine Floor,
House of Habib Building,
(Siddiqsons Tower)
3-Jinnah Cooperative Housing Society,
Main Shahrah-e-Faisal,
Karachi - 75350
PABX: (92-21) - 4325482-87
Fax: (92-21) 4325442

Listing on Stock Exchanges

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

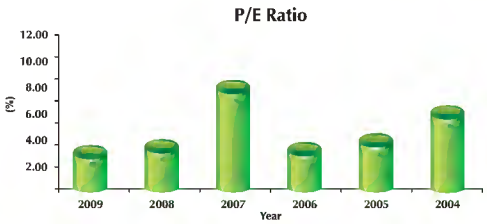
Listing Fees

The Annual Listing Fee for the financial year 2008-2009 has been paid to all the stock exchanges within the prescribed time limit.

Investor Service Centre

First Habib Modaraba Share department is operated by Noble Computer Services (Pvt.) Limited. It also functions as an Investor Service Centre and has been servicing nearly 5,500 Certificate holders. The Investor Service Centre is managed by a well-experienced team of professionals and is equipped with the necessary infrastructure in terms of computer facilities and comprehensive set of systems and procedures for conducting the Registration function. The team is headed by Mr. Raza Rajani at Registrar Office and Mr. Adnan Thanwey, Chief Manager & Company Secretary at First Habib Modaraba.

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



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

Contact Person:
Registrar Office:
Mr. Raza Rajani
General Manager

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

Services Standards

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

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

	Processing Time
Transfer of Certificates	45 days after receipt
Transmission ofCertificates	45 days after receipt
Issue of duplicate share certificate	45 days after receipt
Issue of duplicate dividend warrants	10 days after receipt
Issue of revalidated Dividend Warrants	10 days after receipt
Change of Address	5 days after receipt

Dividend Announcement:

The Board of Directors of the Management Company has approved Cash dividend of 20% (Re.1/- per Modaraba Certificate of Rs.5/- each) for the financial year ended 30th June, 2009.

Book Closure Dates.

The Certificate Transfer Book of the Modaraba will remain close from 09-09-09 to 15-09-09 (both days are inclusive).

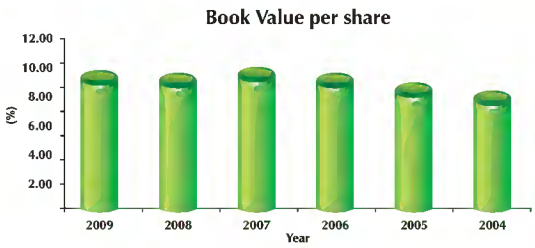
Payment of dividend

The dividend warrants will be sent to Modaraba Certificate Holders within statuary 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.

Withholding of Tax & Zakat on Dividend

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

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



Dividend Warrant.

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

Pattern Of Certificate Holdings As At 30th June, 2009
As Per Requirements Of Code Of Corporate Governance.

CATEGORY NO.	CATEGORIES OF CERTIFICATES HOLDERS	NUMBER OF CERTIFICATES HELD	CATEGORY WISE NO. OF CERTIFICATES HOLDERS	CATEGORY WISE CERTIFICATES HELD	PERCENTAGE
1	INDIVIDUALS		5,357	56,622,193	28.09
2	INVESTMENT COMPANIES		6	133,704	0.07 M
3	JOINT STOCK COMPANIES		57	5,268,400	2.61
4	DIRECTOR, CHIEF EXECUTIVE OFFICER, THEIR SPOUSE AND MINOR CHILDREN.		2	60,000	0.03
	MR. ABBAS ALI MUHAMMAD	40,000			
	MR. SHEIKH EHSANUDDIN	20,000			
5	EXECUTIVES		-	-	
6	NIT / ICP		3	3,221,756	1.60
	NATIONAL BANK OF PAKISTAN, TRUSTEE DEPT.	1,584,070			
	NBP-TRUSTEES - NI (U) T (LOC) FUND	1,631,726			
	INVESTMENT CORPORATION OF PAKISTAN	5,960			
7	ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES		7	99,597,622	49.40
8	PUBLIC SECTOR COMPANIES AND CORPORATIONS		-	-	-
9	BANKS, DFIS, NBFIS INSURANCE COMPANIES, MODARABA MANAGEMENT COMPANY & MUTUAL FUND		24	12,366,670	6.13
10	FOREIGN INVESTORS		4	4,700,800	2.33
11	COOPERATIVE SOCIETIES		2	16,353,547	8.11
12	CHARITABLE TRUSTS		6	1,143,808	0.57
13	OTHERS		11	2,131,500	1.06
	TOTAL		5,479	201,600,000	100

Pattern Of Certificate Holdings As At 30th June, 2009

Number of Certificate Holders	Certificate Holdings			Total Certificate Held
641	1	-	100	34,563
1162	101	-	500	364,690
756	501	-	1000	590,692
1617	1001	-	5000	3,878,102
469	5001	-	10000	3,592,089
170	10001	-	15000	2,076,327
127	15001	-	20000	2,342,057
87	20001	-	25000	1,995,025
57	25001	-	30000	1,602,236
32	30001	-	35000	1,031,528
46	35001	-	40000	1,775,016
42	40001	-	45000	1,762,948
41	45001	-	50000	2,003,932
16	50001	-	55000	828,308
13	55001	-	60000	762,756
4	60001	-	65000	250,280
3	65001	-	70000	202,880
10	70001	-	75000	738,796
5	75001	-	80000	387,140
7	80001	-	85000	568,372
7	85001	-	95000	640,972
28	95001	-	100000	2,779,584
5	100001	-	105000	513,800
6	105001	-	110000	654,640
1	110001	-	115000	112,500
5	115001	-	120000	585,340
4	120001	-	125000	488,960
3	125001	-	130000	380,508
4	130001	-	135000	523,588
4	135001	-	140000	557,088
6	140001	-	150000	886,782
4	150001	-	155000	608,400
1	155001	-	160000	160,000
6	160001	-	165000	969,840
5	165001	-	175000	864,560
2	175001	-	190000	375,824
2	190001	-	195000	387,000
4	195001	-	200000	800,000
3	200001	-	205000	605,644
2	205001	-	210000	416,000
4	210001	-	215000	851,656
1	215001	-	220000	217,500
1	220001	-	225000	220,500
1	225001	-	230000	226,800
2	230001	-	235000	463,364
2	235001	-	245000	481,944
1	245001	-	250000	249,000
1	250001	-	255000	255,000
2	255001	-	260000	515,780
2	260001	-	265000	520,796
3	265001	-	270000	805,000
1	270001	-	275000	270,200
2	275001	-	285000	564,480
1	285001	-	300000	300,000
1	300001	-	305000	301,024
2	305001	-	325000	645,120
1	325001	-	330000	326,000
1	330001	-	340000	336,000
3	340001	-	350000	1,048,299
1	350001	-	360000	359,000
1	360001	-	380000	379,500
1	380001	-	390000	387,000
3	390001	-	405000	1,204,900
1	405001	-	410000	408,500
1	410001	-	425000	424,500
1	425001	-	440000	437,500
1	440001	-	475000	472,600
1	475001	-	515000	514,000
1	515001	-	605000	602,400
1	605001	-	610000	606,000
1	610001	-	670000	668,400
1	670001	-	700000	700,000
1	700001	-	710000	706,000
1	710001	-	750000	750,000
1	750001	-	775000	772,500
2	775001	-	825000	1,649,808
2	825001	-	855000	1,705,500
1	855001	-	860000	858,500
1	1045001	-	1050000	1,049,500
1	1190001	-	1195000	1,194,000
1	1205001	-	1255000	1,250,800
1	1255001	-	1260000	1,255,500
1	1300001	-	1305000	1,300,192
1	1360001	-	1365000	1,361,500
1	1500001	-	1505000	1,505,000
1	1580001	-	1585000	1,584,070
1	1630001	-	1635000	1,631,726
1	1825001	-	1830000	1,828,000
1	2580001	-	2585000	2,581,500
1	2995001	-	3000000	3,000,000
1	3965001	-	3970000	3,969,000
1	16345001	-	16350000	16,346,252
1	20155001	-	20160000	20,160,000
1	20930001	-	20935000	20,930,684
1	58345001	-	58350000	58,348,438
5,479				201,600,000

Teamwork divides the task and multiplies success.

STAFF ACTIVITIES

Team FHM - Striving towards success

CUSTOMER SATISFACTION (FHM)

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

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

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

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

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

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

EDGE & ACHIEVEMENTS

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

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

Profitable Venture since Inception
By the grace of God, due to unmatched business & finance skills of the management the FHM remain profitable venture since the beginning. By applying strict risk management policies and best business practices Allhamdollilah, FHM has never incurred losses in any year during the business operations of last 24 years.

Credit Rating
During the year, rating of FHM has been upgraded from **AA** to **AA+** for long term and maintained **A1+** for short term. For more than 10 years, FHM has been maintaining **"A"** category rating from Pakistan Credit Rating Agency (private) Ltd.

Recipient of Corporate Excellence Award
During the year, the Management Association of Pakistan (MAP) has given **"Corporate Excellence Trophy Award"** to FHM in their ceremony held on 14th May, 2009. This award was given from the category of Leasing and Modaraba sector.

For the last 3 consecutive years, FHM has been receiving this recognition. In first two years, we had received "Excellence Certificate" and now we have received **"Excellence Trophy Award".** This trophy award is one-step ahead of Excellence Certificate.

Recipient of Best Performing Modaraba Award
During last 11 years, FHM has received 8 awards as best performing Modaraba from Modaraba Association of Pakistan. For the year 2008 FHM has received best performing Modaraba **"1st Position Award"** from above association.

Excellent investment portfolio
So far, FHM has developed a very lucrative investment portfolio, which is not only yielding good dividend return but also having outstanding unrealized gain. Presently, in so depressed Stock market still FHM has gain of more than Rs.600.0 million i.e. gain of around 200% on actual investment.

RECOGNITIONS / AWARDS

FHM secured The Best Performing Modaraba Award from Modaraba Association of Pakistan for the year 2008.This is the 8th award so far received by the FHM from MAP.

Following are the years of previous awards.

1999
2000
2001
2002
2005
2006
2007
2008

Mr. Muhammad Shoaib, Managing Director & CEO (Left) is receiving Best Performing Modaraba (1st Position Award) from Modaraba Association of Pakistan.

FHM has received various awards in last 10 years by Modaraba Assoction of Pakistan

26th map

Corporate Excellence Award From Management Association of Pakistan

Appraisal Focus

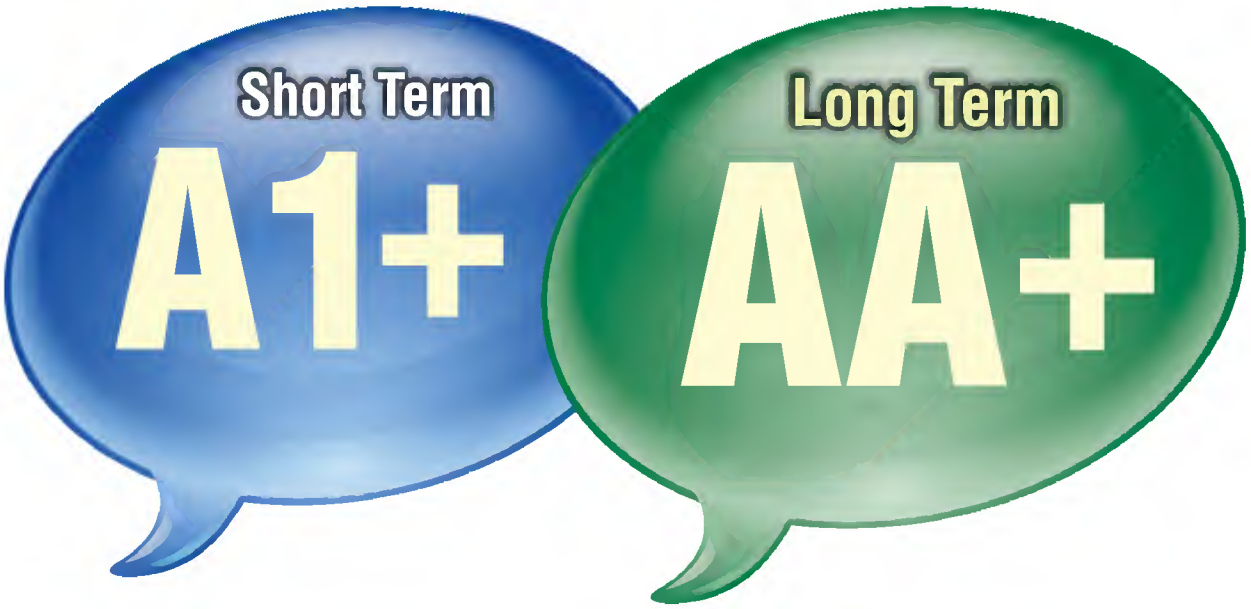
Corporate Governance
Information Management
Customer & Market Focus
Operation Management
Social Responsibility
Strategic Planning
Human Resource
Leadership

Mr. Muhammad Shoaib, Managing Director & CEO receiving the Corporate Excellence Trophy from Syed Saleem Raza, Governor State Bank of Pakistan

MANAGEMENT ASSOCIATION OF PAKISTAN
map
26TH CORPORATE
EXCELLENCE AWARD
IN
LEASING & MODARABAS SECTOR
FIRST HABIB MODARABA

PACRA
First Habib Modaraba
(An Islamic Financial Institution)
A journey of
Continuous Improvement
Rating Upgraded
From AA
To AA+

CREDIT RATINGS

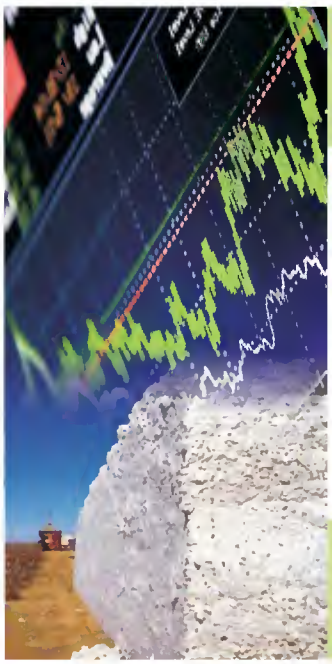


A1+ is the highest level in PACRA's rating scale for short term rating

PRODUCT RANGE

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.



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.

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.

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.

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.

DIMINISHING MUSHARAKAH

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

MUSHARKAH

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.

Financial Statements

DIRECTOR'S REPORT

Assalam o Alaikum Wa Rahmatullah Wa Barakatuhu,

The Directors of First Habib Modaraba are pleased to present Annual Report along with Audited Financial Statements for the year ended June 30, 2009.

(Rs. In million)

FINANCIALS

Profit before management fee	270,681
Modaraba company management fee	(27,068)
Profit for the year	243,613
Unappropriated profit B/F	8,048
Profit available for appropriation	251,661

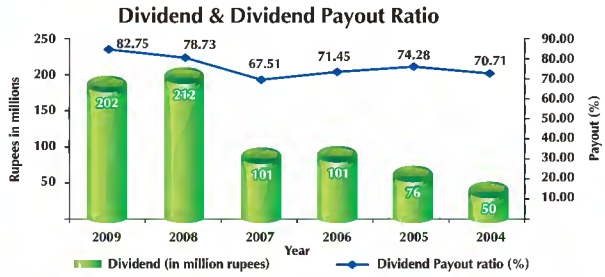
APPROPRIATIONS

Transfer to statutory reserve @ 20 %	48,723
Cash dividend @ 20 %	201,600
Unappropriated profit C/F	1,338
	251,661

Earning per certificates of Rs. 5/- each Rs. 1.21

DIVIDEND

The board is pleased to announce a cash dividend of 20% i.e. Re. 1/- of certificate of Rs.5/- each and continuing unbroken payout record since beginning of operations.



ECONOMIC REVIEW

The year 2008-09 marked the year of International financial turmoil and had serious impact not only for developed world's economy but for developing markets as well. The crisis is not limited to the meltdown of financial markets, the real economy at the national & international levels, institutions and other productive structures are being affected. The crisis began with Sub-prime mortgage crisis in USA that eventually led to the collapse of the financial giant Lehman Brothers and started the biggest downturn faced by the financial industry since the Great Depression of 1929.

During the year, the economic downturn in Pakistan also affected with massive trade & budget deficits. Financial Year 2008-09 witnessed unprecedented challenges for the domestic economy revolving around global financial crisis, unstable political environment, rise of extremism and the war against terrorism, depreciation of Rupee, energy shortfall and high inflation. Despite the challenges, economy managed a GDP growth of 2% and reached a moderate stabilization by the year-end due to IMF assistance. This growth in GDP is almost a 50% decline in last year's growth of 4.1%.

From positive side the inflation i.e. consumer price index (CPI) dropped to 20.77 in June 2009, from its peak of 34.10 percent during the year of 2008-09. In particular, a sharp downtrend in food inflation is a welcome development as this component of CPI affects low income groups the most.

Due to rapidly depleting foreign exchange reserves and adverse balance of payment, the Government of Pakistan agreed to enter IMF's Stabilization Program during first half FY08-09. Initial results were satisfactory and this assistance of IMF had stabilized the Rupee exchange rate to some extent and foreign exchange reserve beyond $11 billion.

But, despite improvement in the outlook of some important economic indicators, the path to sustainable medium term economic recovery remains uncertain. The economy needs further stimulus for satisfactory growth through addressing of basic issues such energy crisis, investment in public sector program etc.

factors adversely affected the earnings of NBFC sector in general and Mutual Fund in particular.

The SBP has kept its tight monetary policy stance during 2008-09. The policy rate was adjusted upward in November 2008 to reduce some aggregate demand from the economy and kept constant in January 2009. However, noticing visible

FINANCIAL SECTOR

During the year, the financial sector has also shown the signs of slow down. The period under review is marked with the significant translation of weakened macroeconomic fundamentals on the Pakistani financial system. Accordingly, the heightened credit risk transpired in significant increase in non-performing loans (NPLs) which associated with weak asset quality indicators. Besides, slowdown in economy has also dampened growth rate of the banking system but it is very encouraging that banks largely maintained their resilience and indicates stable key solvency indicators so far.

Non-banking financial institution (NBFC) has also been affected during the period and faced severe liquidity crisis. The appetite for credit remain subdued due to overall economic slow down coupled with tight liquidity, high interest rates and risk averse stance of the banking sector. All these

signs of demand compression enabled the SBP to reduce 100 basis points on April 20, 2009 to 14%. The further cut was expected in the monetary policy, which was supposed to be announced on 25th July, 2009, but due to certain reason it was further postponed till 15th August, 2009.

CAPITAL MARKET

The global economic slowdown has also affected the stock exchanges all over the world and consequently the domestic stock market had declined drastically during the year.

The unprecedented debacle of capital market and freeze of index in Stock Exchanges for almost 111 days had a negative impact on overall investment climate. The index fell to the level of 6,037 points against the all time high level of around 15,676 points. This has resulted significant diminution of market capitalization.

Due to this massive erosion the profitability of several financial institutions and mutual funds were badly affected.

BUSINESS REVIEW

By the Grace of Allah, despite adverse economic conditions globally and locally throughout the year, your Modaraba was able to demonstrate its resilience in terms of asset quality and profitability. In exceptional business circumstances during the year the performance of FHM remained satisfactory. The management of your Modaraba remained very proactive during this tough time. We adopted more conservative stance and acted very cautiously, which is evident from the following facts.

- Slow down the disbursement of Ijara and other financing.
- Equity related market activity successfully curtailed.
- High liquidity position in FHM was maintained.

At the same time substantial efforts was made on more strengthening risk management strategies on credit and other business operations.

The rental collection on Ijara financing was almost maintained as compared to collection of previous year i.e. Rs.1,662 million as against Rs. 1,667 million of last year. However, the profitability was slightly reduced by approximately 10% i.e. Rs. 244 million as compared to Rs. 269 million of previous year.

Recovery of Ijara Rental was remained satisfactory during the period. Due to good assets quality portfolio the collection of monthly lease rental and repayment of other financing facilities were remained up to the mark. By the grace of God, there

is no Non Performing Portfolio i.e. NPL for the period ended 30th June, 2009. However, as a cautious approach, we had provided a sum of Rs.14 M as impairment against slow moving Ijara Rental payment, which is less than 1% of total Ijara portfolio. This reflects an exceptional position of FHM amongst the Modaraba and NBFC sector.

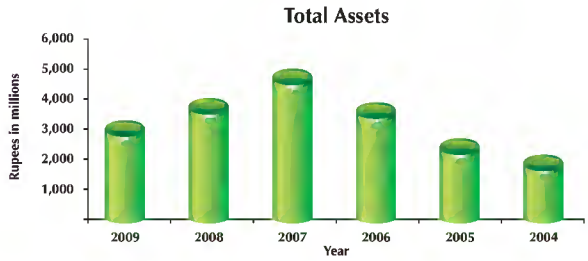
As a cautious approach, the FHM had only disbursed around Rs.1.100 billion against Ijara financing. Due to slow down in business, we remain selected not only in customers' quality but also in the quality of assets as well. In entire disbursement the portion of auto financing was more than 80%, which had support a lot for building of healthy assets portfolio.

The enhancement of paid up capital of FHM in previous year was also proved a very wise decision of the management of Modaraba. This strong equity base has provided a very strong support during the difficult operating business environment of 2008-09. This has not only curtailed the leveraging but also reduced financial cost of FHM drastically.

According to Year Book of 2008 of Modaraba Association of Pakistan, again FHM ranked No.1 in assets size, profitability and Equity. By the grace of

God, FHM is maintaining this position since last four consecutive years. Allhamdollilah, this equity base is not only the highest in Modaraba sector but also the highest in entire NBFC sector i.e. Leasing and Investment Banks.

We are confident that Inshallah, Modaraba will also hold same stature within the sector.



BUSINESS DIVERSIFICATION

As mentioned in our last report that Religious Board of Modaraba has approved 8 new Islamic Financial products for Modaraba sector. During the year FHM has worked on products namely, Salam, Istisna, Diminishing Musharaka etc. However, due to economic slow down we could not disburse in these products as targeted in the beginning of the year keeping in view of new nature of products and prevailing market condition. However, around Rs.34.0 million was disbursed in Diminishing Musharaka and Rs.20.0 million was disbursed in Sukuk.

We are fully gear up for diversification in new products and this year we are hopeful that reasonable disbursement will be made subject to availability of quality credit and revival of economic activity on desire level.

CREDIT RATING

We are glade to inform you that by the grace of Almighty Allah, rating of your Modaraba have been upgraded from AA to AA+ for long term and maintained A1+ for short term (highest rating scale) by the Pakistan Credit Rating Agency (Pvt.) Limited (PACRA). A+ is the highest rating as per PACRA's rating scale.

As per PACRA, the rating indicates FHM's established risk management framework has enabled the Modaraba to sustain its very good asset quality. The rating is also recognizing the well-conceived business strategy by the management of FHM, which is proactively aligned to challenges in the operating environment.

It is matter of great satisfaction that FHM has been maintaining "A" category rating since last more than 10 years. The enhancement of rating grade is great achievement of FHM particularly in this difficult business operating environment being faced by entire banking and non-banking financials sector.

We thank Almighty Allah for His blessing and bestowing upon us of this success.

MAP AWARD

Allhamdollilah, during the year, the Management Association of Pakistan (MAP) has given "Corporate Excellence Trophy Award" to FHM in their ceremony held on 14th May 2009. This award was given from the category of Leasing and Modaraba sector.

For the last 3 years, we have been receiving this recognition. In first two years, we had received "Excellence Certificate" and now we have received "Excellence Trophy Award". This trophy award is one step ahead of Excellence Certificate.

No doubt, this is a great achievement not only for FHM but also for entire Modaraba and leasing sector.

We thank Almighty Allah for his blessing and bestowing upon us of this success.

BEST PERFORMING MODARABA AWARD BY MODARABA ASSOCIATION OF PAKISTAN

For the financial year ended 30th June, 2008, the Modaraba Association of Pakistan has also awarded "1st Position Award" to FHM as best performing Modaraba within the Modaraba sector. We are sure that this will be a great satisfaction for our Certificate Holders that their Modaraba has been ranked as number one Modaraba within the Modaraba sector. So far, FHM has received almost 8 awards from Modaraba Association since last 10 years.

MARKET SHARE INFROMATION

Following table shows the market share of FHM as per the MAP Year Book 2008 (Modaraba Association of Pakistan) for the financial year ended 30th June, 2008.

(Rupees in million)

	Combine position of 24 Modarabas	FHM Share	% of FHM share to All Modarabas
Paid up Capital	7,175	1,008	14
Total Equity	11,456	2,845	25
Total Assets	29,281	4,026	14
Total Income	6,583	1,845	28
Ijarah Income	4,631	1,667	36
Other Income	1,327	178	13
Net Profit after Tax	962	269	28

RISK MANAGEMENT

The current economic downturn and increasing business volatility have led to a higher level of activity directed toward assessing, mitigating and monitoring of risks more carefully.

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

However, during the year FHM has paid extra attention on this segment and devised additional set of directives towards management of uncertainties and threats in the overall business operations.

The management of the Modaraba actively ensures that the risks are adequately identified, measured and managed. An independent and dedicated credit and risk management department guided by a prudent and a robust framework of risk management policies and guidelines are in place, which broadly includes-

CREDIT RISK

Well defined Credit Policy and Procedures are in place for managing Credit Risk. The Modaraba's Credit risk is managed on various ways such as-

1) Credit appraisal of proposal: This covers comprehensive analysis of counter party businesses and Risk Rating assessment.

2) Sector Assessment: This covers assessment of overall industry/sector, internal and external risk on particular industry/sector.

OPERATIONAL RISK

From time to time the FHM has designed and implemented various procedures and policies for better internal control on operational risk with growth of operations.

At present the management is studying to adopt Basic Indicator Approach of Basel II for further minimizing the overall operational & market risk. The related control to be deployed so that the process of identifying Key Risk Indicators will be in placed.

Although the Basel II has not applicable to Modaraba or NBFC, however, the objective of management to strengthen Modaraba's wide range Risk Management function through the support of Basel II guidelines.

LIQUIDITY RISK

Liquidity management always remains a key segment in financial institutions. Due to recent economic down turn, lot of banking and non-banking financial institutions faced difficulties in management of their liquidity affairs.

However, due to sound equity structure good assets quality, the short term and long term liquidity position of your Modaraba was remained satisfactory even in the worst period of the year i.e. from September till December, 08.

During the year the Liquidity Management policies have been readdressed to ensure that lending rate risk and liquidity gaps should remained within the acceptable level even under volatile market conditions. In this direction the "Assets Liability Management Committee" was also restructured so that liquidity risk management can be monitored more efficiently.

COMMITTESS

Besides, credit committee and risk management committee, more committees such as "Investment Committee" and "IT Steering committee" have also been established to manage the operational and business risk.

OUTLOOK 2009-10

Pakistan has averted an economic crisis, at least in the short term, owing to the disbursement of emergency financing from the IMF. The global financial crisis has provoked a liquidity crunch within the country. Its far-reaching consequences are visible in Pakistan's economy as majority of the business segments appear to be slowing down.

Going forward, we expect the economy will remain sluggish in its economic growth through 2009, as it evident in the global economy. This will further squeeze credit demand and we may see some sectors under perform during current year.

We are in Islamic Financial Services Industry and if we see this segment in global perspective, this industry has proved its resilience and has attracted world attention in this time of global financial turmoil. The principles of Islamic finance are now being attracting by the investors world over. The total assets of the Islamic financial system have now surpassed around $1 trillion, a fivefold increase over their magnitude just five years ago. Islamic Finance is now among the fastest growing financial segments in the world, with an estimated annual growth of 20 percent.

If we see Islamic financial market of Pakistan in world context, the Islamic assets size around 5% of total conventional assets size, whereas in few Muslim countries the market share of Islamic Finance is very high. This shows that Pakistan market of Islamic finance has great potential being one of the biggest countries in terms of Muslim population.

According to State Bank of Pakistan the current global economic turmoil may have forced many major economies to cut back on their development plans but for Pakistan, this seems like an opportune time to step up measures that could further beef up its financial sector particularly Islamic finance.

FUTURE STRATEGY

Keeping in view of growing demand of Islamic finance and its untapped market in Pakistan, we feel that changed scenario of new products in Modaraba sector would re-energize the business avenues within FHM which will ultimately support

for diversification and expansion of business under Sharia'h compliant mode of finances.

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

Our aim is to remain a best Islamic Service Institution and leading Modaraba within the Modaraba sector. We believe the measure of our progress is not just our financial achievements, but it is whether our customers are satisfied with our services, our employee are proud to work for us and sector in which we work values us a good venture. 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.

Our, this consistent commitment has been continuously endorsing by others as well. "Corporate Excellence Trophy Award" by Management Association of Pakistan and best performing Modaraba "First Position" by Modaraba Association Of Pakistan and up gradation of credit rating to AA+, are their valuable gesture and paying tributes to FHM.

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

DEVELOPMENT ACTIVITIES

As we mentioned in our earlier paragraph that during the year the management had opted its conservative stance due to instable business conditions throughout the country. However, during this period the management did not ignore their efforts for addition of quality assets and sound customers for portfolio of FHM.

Due to untiring efforts of our marketing team few very reputable entities were brought in customer list during this period. The names of these entities are good addition and we expect very quality business in coming years from them. New product i.e. Diminshing Mushrakah and Sukuk were also added in product line of Modaraba. Besides, more concentration was given on Lahore and Pindi branches and opening of further new branches in Multan and Sialkot are understudy.

The Management is also planning to launch a marketing campaign to target small investors for FHM's scheme of Certificate of Mushrakaha for those investors who wants to invest in Sharia'h compliant mode of investment.

Working on another product of deposit scheme i.e. "Certificate of Modaraba Sukuk" is also on advance stage at our end and will be sent to Registrar Modaraba Office for their approval in due course. This will support us for gearing of funds on competitive rates which will ultimately give help in building of quality assets of FHM.

HUMAN RESOURCE

Continuous development and grooming of team members is vital part of FHM corporate policy. FHM believes that human resources have a pivotal role for consistence and stable growth of any institution. The human asset always plays immense motivation

factor towards fetching any targeted objective. FHM has excellent blend of professionals who have committed and focused in fostering the Modaraba to conduct its affairs in professional manner in order to achieve maximum result.

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

Being Islamic Financial Institution, the emphasis was also given on enhancement of knowledge of Islamic Finance within the staff members, besides other areas i.e. HR, credit, IT, and marketing. During the year the staff members were sent in numbers of workshops and seminars covered almost 25 topics of various areas of banking and finance and others. These workshops and seminars were conducted by Institute of Bankers of Pakistan, Leasing Association of Pakistan and Modaraba Association of Pakistan.

INFORMATION TECHNOLOGY

The impact of information technology (IT) has been felt all over the world and in all areas of life. It has changed the world we live in and redesigned the way we work. Your management recongnize the importance of Technology in the conduct of business and its need for investing in new technology.

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

For this purpose research and development is in process with the aim to provide more innovative business solution to improve operations, add business value and present business re-engeering opportunities. The objective of this to improve quality and timing of information so that an effective decision can be made which ultimately support for even better internal control.

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.
- There has been no change in Board of Directors during the year except for appointment of Mr. Wazir Mumtaz Ahmed in place of (Late) Mr. Dara. F. Mirza
- The directors do not hold any interest in the certificates of Modaraba other then 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, 2009 is included in this report.

The Directors, CEO, CFO, Company Secretary and their spouses and minor children did not carry our 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, 2008 are Rs. 14.748 million and Rs. 8.804 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 Husain Jafree	3
Mr. Muhammad Shoaib	4
Mr. Wazir Mumtaz Ahmed	2
Mr. Sheikh Ehsanuddin	4
Mr. Abbas Ali Muhammad	4

AUDITORS

Present auditors M/s Ebrahim & Company, Chartered Accountants, are being eligible to offer themselves for re-appointment as auditors for the year June 30, 2010.

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
Managing Director & CEO

Karachi: August 07, 2009

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 15, 2009 at 9.00 a.m. at The Institute of Bankers, Moulvi Tamizuddin Road, Karachi, to review the performance of the Modaraba for the year ended June 30, 2009.

The certificate-holders whose names appear on the register of Certificate-Holders of FHM as on September 10, 2009 will be eligible to attend the Annual Review Meeting.

By order of the Board

Adnan Thanwey
Company Secretary

Karachi: August 13, 2009

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE – YEAR ENDED JUNE 30, 2009

This statement is being presented to comply with the code of Corporate Governance (CCG) contained in Regulation of Listing Regulations of Karachi Stock Exchange (Guarantee) Limited, the Chapter XIII of Listing regulations of Lahore Stock Exchange (Guarantee) Limited and Chapter XI of Listing Regulations of the Islamabad Stock Exchange (Guarantee)

Limited, for the purpose of establishing a frame of good governance, whereby a listed company is managed in compliancewith the best practices of corporate governance.

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

All the directors of the Management Company are non-executive directors except for the Chairman and Chief Executive.

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

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

During the year Mr. Wazir Mumtaz Ahmed has been appointed as Director in place of Mr. Dara. F. Mirza (Late).

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

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

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

The meetings of the Board were presided over by the Chairman and in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

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

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

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

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

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

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

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

The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

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

The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review programme of the institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

Muhammad Shoaib
Managing Director & CEO

Karachi
Date: August 07, 2009

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 before the year ended June 30, 2009 prepared by the Board of Directors of Habib Modaraba Management (Pvt.) Limited (the Management Company) in respect of First Habib Modaraba (the Modaraba) to comply with the Listing Regulation No.37 of the Karachi Stock Exchange (Guarantee) Limited, the chapter XIII of the listing Regulations of the Lahore Stock Exchange (Guarantee) Limited and chapter XI of Listing Regulations of Islamabad Stock Exchange (Guarantee) Limited, where the Modaraba is listed.

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

As part of our audit of 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 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.

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 respect, which the best practices contained in the Code of Corporate Governance, for the year ended June 30, 2009.

BDO Ebrahim & Company
Chartered Accountants

Karachi August 07, 2009

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of FIRST HABIB MODARABA (the Modaraba) as at June 30, 2009 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

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

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

a) In our opinion proper books of account have been kept by the Modaraba Company in respect of the Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;

b) In our opinion:
   i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation And Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of account and are further in agreement with accounting policies consistently applied;

   ii) the expenditure incurred during the year was for the purpose of the Modaraba's business, and

   iii) the business conducted, investments made and expenditure incurred during the year were in accordance with the objects, terms and condition of the Modaraba;

c) In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan and give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at June 30, 2009 and of the profit, its cash flows and changes in equity for the year then ended; and

d) In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980(XVIII of 1980), was deducted by the Modaraba and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

KARACHI : August 07, 2009

BDO Ebrahim & Company
Chartered Accountants

BALANCE SHEET AS AT JUNE 30, 2009

	Note	2009	2008
		Rupees	
ASSETS			
NON-CURRENT ASSETS			
Fixed assets - tangible			
Ijarah assets	3	**2,096,888,863**	2,716,030,513
Assets in own use	3.2	**6,830,618**	7,582,766
		2,103,719,481	2,723,613,279
Intangible assets	4	**12,695**	32,990
Investment in diminishing musharaka	5	**14,030,625**	-
Long-term advances and deposits	6	**80,000**	1,211,191
		2,117,842,801	2,724,857,460
CURRENT ASSETS			
Investments	7	**826,977,168**	1,125,791,101
Current portion of diminishing musharaka	5	**11,224,500**	-
Ijarah rentals receivables	8	**11,366,655**	3,208,133
Loans and advances	9	**-**	1,793,647
Trade deposits and short term prepayments	10	**656,300**	981,091
Other receivables	11	**10,999,726**	18,805,807
Cash and bank balances	12	**302,135,981**	150,213,968
		1,163,360,330	1,300,793,747
TOTAL ASSETS		**3,281,203,131**	4,025,651,207
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Certificate capital :			
Authorized			
220,000,000 (2008: 220,000,000) certificates of Rs.5/- each		**1,100,000,000**	1,100,000,000
Issued, subscribed and paid-up capital	13	**1,008,000,000**	1,008,000,000
Reserves	14	**1,610,149,245**	1,838,818,178
Certificate holders' equity		**2,618,149,245**	2,846,818,178
NON-CURRENT LIABILITIES			
Long-term Murabaha finances	15	**-**	168,804,108
Certificates of Musharaka	16	**6,373,379**	43,091,759
Security deposits against ijarah assets	17	**128,984,847**	188,420,765
		135,358,226	400,316,632
CURRENT LIABILITIES			
Murabaha finances - current portion	15	**-**	274,046,680
Certificates of Musharaka - current portion	16	**343,458,544**	324,276,744
Security deposits - current portion	17	**92,445,851**	69,427,491
Unearned ijarah rentals		**7,569,425**	2,074,553
Advance ijarah rentals received		**21,029,873**	23,166,095
Trade and other payables	18	**47,710,641**	70,792,803
Taxation - net		**370,495**	1,269,911
Unclaimed profit distribution		**15,110,831**	13,462,120
		527,695,660	778,516,397
CONTINGENCIES AND COMMITMENTS	19	**-**	-
TOTAL EQUITY AND LIABILITIES		**3,281,203,131**	4,025,651,207

The annexed notes 1 to 38 form an integral part of these financial statements.

-Sd-	-Sd-	-Sd-
CHIEF EXECUTIVE	DIRECTOR	DIRECTOR

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009	2008
		Rupees	
Ijarah rentals		**1,662,609,996**	1,666,786,130
Profit on diminishing musharaka		**3,624,695**	-
		1,666,234,691	1,666,786,130
Depreciation on Ijarah assets	3.1	**1,311,064,868**	1,349,483,438
Administrative expenses	20	**46,128,673**	40,783,357
		(1,357,193,541)	(1,390,266,795)
		309,041,150	276,519,335
Other income	21	**87,874,356**	177,951,166
Other operating charges	22	**(51,219,819)**	(340,732)
		345,695,687	454,129,769
Financial charges	23	**(75,015,126)**	(155,401,738)
		270,680,561	298,728,031
Modaraba company's management fee		**(27,068,056)**	(29,872,803)
Profit for the year		**243,612,505**	268,855,228
Earnings per certificate - basic and diluted	33	**1.21**	1.50

The annexed notes 1 to 38 form an integral part of these financial statements.

-Sd-
CHIEF EXECUTIVE

-Sd-
DIRECTOR

-Sd-
DIRECTOR

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009	2008
		Rupees	
Cash flow from operating activities			
Cash generated from operations	34	**1,621,154,136**	1,614,882,402
Purchase of Ijarah assets		**(1,150,740,752)**	(1,074,798,811)
Proceeds from transfer of Ijarah assets		**489,124,250**	210,360,040
Investment in diminishing musharaka		**(25,255,125)**	-
Musta'jir's security deposits:			
Received		**44,243,977**	48,185,379
Refunded / adjusted		**(80,661,535)**	(69,507,406)
Net Musta'jir's security deposits		**(36,417,558)**	(21,322,027)
Financial charges paid		**(89,277,547)**	(167,748,711)
Taxes paid		**(899,416)**	(378,793)
Gratuity paid		**(2,226,287)**	(1,373,070)
Net cash generated from operating activities		**805,461,701**	559,621,030
Cash flow from investing activities			
Purchase of owned assets (including intangibles)		**(2,664,230)**	(4,724,765)
Proceeds from disposal of owned assets		**473,000**	741,000
Purchase of investments - available for sale		**(24,088,660)**	(142,806,600)
Investment in Sukuk		**(20,000,000)**	-
Proceeds from disposal of investments		**45,402,585**	244,735,764
Dividend received		**16,625,083**	27,162,304
Long-term advances and deposits received / (disbursed)		**1,131,191**	(47,494)
Net cash generated from investing activities		**16,878,969**	125,060,209
Cash flow from financing activities			
Proceeds from right issue		**-**	756,000,000
Profit distribution paid		**(210,031,289)**	(99,385,077)
Long term murabaha finances		**(442,850,788)**	(318,473,543)
Certificates of Musharaka		**(17,536,580)**	(824,390,225)
Short term Murabaha finance		**-**	(173,370,990)
Net cash (outflow) from financing activities		**(670,418,657)**	(659,619,835)
Net increase in cash and cash equivalents		**151,922,013**	25,061,404
Cash and cash equivalents at the beginning of the year		**150,213,968**	125,152,564
Cash and cash equivalents at the end of the year		**302,135,981**	150,213,968

The annexed notes 1 to 38 form an integral part of these financial statements.

-Sd-
CHIEF EXECUTIVE

-Sd-
DIRECTOR

-Sd-
DIRECTOR

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2009

		Capital reserves		Revenue Reserves				
	Certificate capital	Certificate premium	Statutory reserve	General reserve	Unrealized gain on investments	Unappropriated profit	Total reserves	Total
	Rupees							
Balance as at July 01, 2007	504,000,000	126,000,000	229,311,396	50,000,000	1,482,936,046	105,443,736	1,993,691,178	2,497,691,178
Profit distribution for the year ended June 30, 2007 at 20 %	-	-	-	-	-	(100,800,000)	(100,800,000)	(100,800,000)
Issue of right certificates	504,000,000	-	-	-	-	-	-	504,000,000
Certificate premium received	-	252,000,000	-	-	-	-	252,000,000	252,000,000
Profit for the year	-	-	-	-	-	268,855,228	268,855,228	268,855,228
Net unrealized loss on investments - available for sale - net of realized gain	-	-	-	-	(574,928,228)	-	(574,928,228)	(574,928,228)
Transfer to statutory reserve at 20%	-	-	53,771,046	-	-	(53,771,046)	-	-
Balance as on June 30, 2008	1,008,000,000	378,000,000	283,082,442	50,000,000	908,007,818	219,727,918	1,838,818,178	2,846,818,178
Balance as on July 01, 2008	1,008,000,000	378,000,000	283,082,442	50,000,000	908,007,818	219,727,918	1,838,818,178	2,846,818,178
Profit distribution for the year ended June 30, 2008 at 20 %	-	-	-	-	-	(211,680,000)	(211,680,000)	(211,680,000)
Certificate premium received	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	243,612,505	243,612,505	243,612,505
Net unrealized loss on investments - available for sale - net of realized gain	-	-	-	-	(260,601,438)	-	(260,601,438)	(260,601,438)
Transfer to statutory reserve at 20%	-	-	48,722,501	-	-	(48,722,501)	-	-
Balance as at June 30, 2009	1,008,000,000	378,000,000	331,804,943	50,000,000	647,406,380	202,937,922	1,610,149,245	2,618,149,245

The annexed notes from 1 to 38 form an integral part of these financial statements.

-Sd-
CHIEF EXECUTIVE

-Sd-
DIRECTOR

-Sd-
DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

1. STATUS AND NATURE OF BUSINESS

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

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

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

The Modaraba Association of Pakistan under instruction from the SECP has advised its members to comply with the requirements of IFAS-2 (vide circular No.052 dated October 31, 2008). The Modaraba has adopted the above said Standard during this reporting period. There are no significant changes that have resulted from the adoption of IFAS-2 by the Modaraba since the accounting policy was already in line with guidelines prescribed in IFAS-2.

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

Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

Amendments to the following Standards and interpretations have been published that are mandatory to the financial statements of the Modaraba covering accounting periods beginning on or after the following effective date:

IFRS 3	Business Combinations	Effective from July 01, 2009
IFRS 2	Share-based Payment	Effective from July 01, 2009
IAS 1	Presentation of Financial Statements	Effective from January 01, 2009
IAS 23	Borrowing Costs	Effective from January 01, 2009
IAS 27	Consolidated and Separate Financial Statements	Effective from July 01, 2009

Adoption of the above amendments may only impact the extent of disclosures presented in the future financial statements.

2.2 Basis of preparation

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

Permissible Islamic financial products including Murabaha (as a liability) and Musharaka have been used by the Modaraba, in line with the similar industry practices. The accounting and presentation of the same are in line

with the substance of the transaction and are limited to the extent of actual amount of facility utilized and mutually agreed mark-up / profit thereon. Accordingly, purchases, sales and Musharaka profits / reserves are not reflected in these financial statements except for Murabaha facility (as an asset) which has been accounted for in line with Islamic Financial Accounting Standard - 1.

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

2.3 Significant accounting estimates and judgments

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

Useful lives, pattern of flow of economic benefits and impairment

Estimates with respect to residual values and depreciable lives and pattern of flow of economic benefits based on the analysis by the management of the Modaraba. Further, the Modaraba reviews the value of the assets for possible impairment on an 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 18.1 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might effect unrecognized gains and losses in those years.

Provisions against non performing financing (Suspense income)

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

2.4 Revenue recognition

Ijarah rentals are recognized on accrual basis.

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

Income on diminishing musharaka is recognized on accrual basis.

Income on Sukuk bond is recognized on accrual basis.

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

Return on deposit accounts is recognized on accrual basis.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

2.5 Fixed assets – Tangible

(a) Ijarah assets

Ijarah 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 lease period, which is considered to be the estimated useful life of the asset. In respect of additions and disposals during the year, depreciation is charged proportionately from the date of delivery of assets to the date of its maturity / termination.

(b) Assets in own use

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

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

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

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

(c) Gain or loss on disposal

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

(d) Impairment

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

2.6 Intangible assets

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

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

2.7 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.

2.8 Trade date accounting

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

2.9 Financial liabilities

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

2.10 Recognition and derecognition of financial instruments

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

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

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

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

2.11 Offsetting of financial assets and financial liabilities

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

2.12 Ijarah rentals and Murabaha finance receivables

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

2.13 Cash and cash equivalents

Cash and cash equivalents are carried at cost.

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

2.14 Finance arrangements including Certificates of Musharaka

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

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

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

2.15 Staff retirement benefits

(a) Gratuity scheme

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

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

(b) Provident fund

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

2.16 Compensated absences

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

2.17 Taxation

Current

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

Deferred

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

2.18 Provisions

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

2.19 Profit distribution and other appropriations of profit

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

2.20 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	2009	2008
3. IJARAH ASSETS		Rupees	
Ijarah assets	3.1	**1,926,107,724**	2,713,510,513
Advance against ijarah assets	3.1.2	**170,781,139**	2,520,000
		2,096,888,863	2,716,030,513

3.1 Ijarah assets

Particulars	June 30, 2009								
	COST			DEPRECIATION			Impairment	Written down value as at June 30, 2009	Rate of depreciation
	As at July 1, 2008	Additions/ (disposals) during the year	As at June 30, 2009	As at July 1, 2008	Charge/ (adjustments) for the year	As at June 30, 2009			
	Rupees								%
Plant, machinery and equipment	3,122,770,839	322,859,690 (1,550,715,958)	1,894,914,571	1,615,006,960	728,900,401 (1,317,145,398)	1,026,761,963	13,926,919	854,225,689	8.33 to 50
Furniture and fixtures	8,981,933	- (19,434,764)	(10,452,831)	7,803,743	28,875 (18,535,525)	(10,702,907)	-	250,076	15 to 33.33
Vehicles	2,097,568,616	659,619,923 (825,217,155)	1,931,971,384	893,000,172	582,135,592 (614,796,339)	860,339,425	-	1,071,631,959	15 to 33.33
	5,229,321,388	982,479,613 (2,395,367,877)	3,816,433,124	2,515,810,875	1,311,064,868 (1,950,477,262)	1,876,398,481	13,926,919	1,926,107,724	

Particulars	June 30, 2008								
	COST			DEPRECIATION			Impairment	Written down value as at June 30, 2008	Rate of depreciation
	As at July 1, 2007	Additions/ (disposals) during the year	As at June 30, 2008	As at July 1, 2007	Charge/ (adjustments) for the year	As at June 30, 2008			
	Rupees								%
Plant, machinery and equipment	3,360,003,559	445,811,295 (683,044,015)	3,122,770,839	1,387,041,952	824,022,813 (596,057,805)	1,615,006,960	-	1,507,763,879	8.33 to 50
Furniture and fixtures	17,652,633	1,211,506 (9,882,206)	8,981,933	17,341,228	33,316 (9,570,801)	7,803,743	-	1,178,190	15 to 33.33
Vehicles	1,931,809,293	625,256,010 (459,496,687)	2,097,568,616	719,939,893	525,427,309 (352,367,030)	893,000,172	-	1,204,568,444	15 to 33.33
	5,309,465,485	1,072,278,811 (1,152,422,908)	5,229,321,388	2,124,323,073	1,349,483,438 (957,995,636)	2,515,810,875	-	2,713,510,513	

3.1.1 Due to numerous disposals, the management is of the opinion that it is impractical to provide details of disposals as required by Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Modaraba Companies and Modaraba Rules, 1981. The list of disposals is available with the Modaraba.

3.1.2 Advance against ijarah assets

The ijarah assets cost includes an amount of Rs. 170.781 million (2008: Rs. 2.520 million) relating to advance against ijarah assets which are not yet been delivered to Mustajir's.

3.2 Assets in own use

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Particulars	June 30, 2008							
	COST			DEPRECIATION			Written down value as at June 30, 2008	Rate of depreciation
	As at July 1, 2007	Additions/ (disposals) during the year	As at June 30, 2008	As at July 1, 2007	Charge/ (adjustments) for the year	As at June 30, 2008		
	Rupees							%
Office equipment	3,711,344	377,621 (10,000)	4,078,965	2,187,143	898,048 (1,944)	3,083,247	995,718	25 to 33.33
Furniture and Fixture	6,315,475	579,500 (45,000)	6,849,975	5,093,148	473,131 (44,995)	5,521,284	1,328,691	20
Vehicles	5,189,514	3,767,642 (1,057,186)	7,899,970	1,769,149	1,381,760 (509,296)	2,641,613	5,258,357	16.67
	15,216,333	4,724,763 (1,112,186)	18,828,910	9,049,440	2,752,939 (556,235)	11,246,144	7,582,766	

3.3 Disposal of assets in own use

	Cost Rupees	Accumulated depreciation Rupees	Net book value Rupees	Sale proceeds Rupees	Mode of disposal	Particulars of purchaser
Motor vehicle - Coure	497,000	124,250	372,750	450,000	Insurance claim	EFU Insurance
Yokohama tyres	41,450	23,488	17,962	5,000	Negotiation	Tyre world
Office equipment						
General split A.C	137,525	137,524	1	7,000	Negotiation	Bilal Refrigeration
General split A.C	137,525	137,524	1	7,000	Negotiation	Bilal Refrigeration
LCD 17"	19,000	18,999	1	2,000	Exchange	Micron Electronics
LCD 17"	19,000	18,999	1	2,000	Exchange	Micron Electronics
	851,500	460,784	390,716	473,000		

4. INTANGIBLE ASSETS

Particulars	COST			AMORTIZATION				
	As at July 1, 2008	Additions/ (disposals) during the year	As at June 30, 2009	As at July 1, 2008	Charge/ (adjustments) for the year	As at June 30, 2009	Written down value as at June 30, 2008	Rate of depreciation
	Rupees							%
Computer software	502,854	16,300	519,154	469,864	36,595	506,459	12,695	33.33
2008 :	502,854	-	502,854	355,595	114,269	469,864	32,990	

	Note	2009	2008
		Rupees	
5. INVESTMENT IN DIMINISHING MUSHARAKA			
Secured			
Investment in diminishing musharaka	5.1	25,255,125	-
Less: Current portion shown in current assets		(11,224,500)	-
		14,030,625	-

5.1 This represent investment in diminishing musharaka for a term of 3 years. This investment is secured by way of corporate guarantee. The investment carries profit at the rate of six months KIBOR+2% having ceiling of 22% and floor of 12% and reviewed on a quarterly basis (June 30, 2008: nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009	2008
		Rupees	
6. LONG-TERM ADVANCES AND DEPOSITS			
Advances to staff - secured, considered good			
Officers		-	2,186,967
Other employees		-	737,871
	6.1 & 6.2	-	2,924,838
Less: Current portion	9	-	1,793,647
		-	1,131,191
Long-term deposits			
Security deposit to Central Depository Company		**50,000**	50,000
Security deposit to Habib Metropolitan Bank for locker		**30,000**	30,000
		80,000	80,000
		80,000	1,211,191

6.1 During the year all staff advances have been transferred to the Provident Fund.

6.2 Maximum amount due from the officers and other employees of Modaraba at the end of any month during the year was Rs. 2.11 million and Rs. 0.74 million (2008: Rs.2.35 million and Rs.0.93 million) respectively.

7. INVESTMENTS - available for sale

Investment in shares	7.1	**806,977,168**	1,125,791,101
Investment in Ijarah Sukuk bonds	7.2	**20,000,000**	-
		826,977,168	1,125,791,101

7.1 Investment in shares

Shares of listed companies		Name of company	2009 Average cost	2009 Carrying value at fair value (Market price)	2008 Average cost	2008 Carrying value at fair value (Market price)
Number of shares			Rupees			
2009	2008					
		Auto and Allied Engineering				
330	330	Pak Suzuki Motor Company Limited	1,750	22,407	1,750	39,531
		Banks				
12,773,959	10,418,792	Bank Al-Habib Limited	79,058,159	325,608,215	82,214,555	439,881,398
18,729,606	14,998,685	Metropolitan Bank Limited	63,134,991	464,681,525	63,198,195	617,495,861
100,000	500,000	Bank Islami Limited	658,355	637,000	7,154,810	7,405,000
100,000	210,000	Meezan Bank Limited	1,038,695	1,100,000	6,230,266	6,402,900
		Mutual Funds				
5,000	5,000	UTP Large Capital Fund	42,550	15,550	42,550	44,550
		Chemical and Pharmaceutical				
1,000	564	Abbott Laboratories Pakistan Limited	46,348	80,200	10,400	100,054
2,000	560	Engro Chemical Pakistan Limited	202,218	256,860	30,775	157,254
		Food and Allied Industry				
60	60	CPC Rafhan Limited	7,200	81,900	7,200	151,905
40	40	Unilever Pakistan Food Limited (formerly Rafhan Best Foods Limited)	4,800	54,200	4,800	70,800
		Fuel and Energy				
2,000	651	Pakistan State Oil Company Limited	294,463	427,300	14,300	271,623
-	42,500	National Refinery Limited	-	-	14,228,475	12,642,475
49,000	37,500	Pakistan Petroleum Limited	10,877,308	9,287,460	9,513,125	9,224,625
2,000	10,000	Oil and Gas Development Company	145,640	157,280	1,190,900	1,243,600
-	25,033	Pakistan Refinery Limited	-	-	5,057,361	3,789,496

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Shares of listed companies		Name of company	2009 Average cost	2009 Carrying value at fair value (Market price)	2008 Average cost	2008 Carrying value at fair value (Market price)
Number of shares						
2009	2008			Rupees		
		Synthetic and Rayon				
110	110	Gatron Industries Limited	2,805	6,655	2,805	9,039
115	115	Rupali Polyester Limited	2,875	3,387	2,875	4,830
		Sugar				
176,000	132,000	Habib Sugar Mills Limited	4,043,333	4,540,800	4,043,333	5,854,200
		Power Generation				
-	410,000	Hub Power Company Limited	-	-	14,357,368	11,726,000
		Fertilizer				
-	260,000	Fauji Fertilizer Bin Qasim	-	-	10,470,300	9,261,200
		Textile Composite				
423	369	Gul Ahmed Textile Mills Limited	9,298	16,429	7,138	14,760
			159,570,788	806,977,168	217,783,281	1,125,791,101

7.2 Investment in Ijarah Sukuk bonds

Investment in sukuk	20,000,000	20,000,000	-	-

7.2.1 These Sukuk Bonds are issued by the Government of Pakistan with the maturity term of 3 years from the date of issue. 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.

	Note	2009	2008
		Rupees	
8. IJARAH RENTALS RECEIVABLES			
Secured- considered good			
Ijarah rentals due		**19,957,008**	3,208,133
Suspense Ijarah rentals	8.1	**(8,590,353)**	-
		11,366,655	3,208,133

8.1 Suspense Ijarah rentals represent amounts overdue on Ijarah assets.

9. LOANS AND ADVANCES			
Advances			
to officers and employees - secured	6	-	1,793,647
		-	1,793,647
10. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS			
Trade deposits		**57,550**	37,550
Short term prepayments		**598,750**	943,541
		656,300	981,091
11. OTHER RECEIVABLES			
Unsecured- considered good			
Profit receivable on PLS accounts		**5,541,910**	3,615,909
Receivable against sale of shares		-	15,189,898
Profit receivable on Ijarah Sukuk bond		**650,827**	-
Profit on Islamic Investment Certificate		**4,602,740**	-
Excess payment receivable from gratuity fund		**204,249**	-
		10,999,726	18,805,807

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009	2008
		Rupees	
12. CASH AND BANK BALANCES			
Stamps in hand		**47,600**	50,100
Cash at banks			
State Bank of Pakistan			
Cash reserve account		**40,000**	40,000
Current account		**55,717**	124,925
		95,717	164,925
On current accounts		**51,606**	5,994,043
Deposit accounts			
Modaraba Deposit account Dawood Islamic bank	12.1	**10,000**	4,900
Modaraba Deposit account HMB Islamic branch	12.2	**201,931,058**	125,000,000
Islamic Investment Certificate	12.3	**100,000,000**	-
Redemption fund for Certificates of Musharaka		**-**	19,000,000
		301,941,058	144,004,900
		302,135,981	150,213,968

12.1 The profit in accordance with weightages on the above modaraba deposit account ranges between 8.5 % to 8.7 % per annum (2008: 8.5 % to 8.7 % p.a).

12.2 The profit in accordance with weightages on the above modaraba deposit account ranges between 10 % to 13 % per annum (2008: 8 % to 8.5 % p.a).

12.3 The profit in accordance with weightages on the above modaraba deposit account (term) is 14 % per annum (2008:nil).

13. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2009	2008		2009	2008
No. of Certificates				
193,900,000	93,100,000	Certificates of Rs. 5/- each issued for cash	**969,500,000**	465,500,000
-	100,800,000	Issued during the year	**-**	504,000,000
193,900,000	193,900,000		**969,500,000**	969,500,000
7,700,000	7,700,000	Certificates of Rs.5/- each issued as bonus certificates	**38,500,000**	38,500,000
201,600,000	201,600,000		**1,008,000,000**	1,008,000,000

14. RESERVES

	Note	2009	2008
Capital reserves			
Premium on issuance of certificates		**378,000,000**	378,000,000
Statutory	14.1	**331,804,943**	283,082,442
		709,804,943	661,082,442
Revenue reserves			
General		**50,000,000**	50,000,000
Unrealized gain on available-for-sale investments		**647,406,380**	908,007,818
Unappropriated profit		**202,937,922**	219,727,918
		900,344,302	1,177,735,736
		1,610,149,245	1,838,818,178

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009	2008
		Rupees	
15. LONG-TERM MURABAHA FINANCES			
Secured			
From financial institutions	15.1	-	442,850,788
Less: Current maturity shown under current liabilities		-	274,046,680
		-	168,804,108

15.1 During the year, the Modaraba has repaid total outstanding amount of murabaha finance.

16. CERTIFICATES OF MUSHARAKA			
Unsecured			
Certificates of Musharaka	16.1	**349,831,923**	367,368,503
Less: Current maturity shown under current liabilities		**(343,458,544)**	(324,276,744)
		6,373,379	43,091,759

16.1 The estimated share of profit payable on the above unsecured finance ranges between 10.75% to 14% per annum (2008: 8% to 11%) per annum.

17. SECURITY DEPOSITS AGAINST IJARAH ASSETS			
Musta'jir's security deposits	17.1	**221,430,698**	257,848,256
Less: Current portion shown under current liabilities		**(92,445,851)**	(69,427,491)
		128,984,847	188,420,765

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

18. TRADE AND OTHER PAYABLES			
Accrued liabilities		**4,757,446**	9,179,880
Staff gratuity	18.1	**-**	1,426,287
Profit payable on:			
Certificates of Musharaka		**15,885,139**	17,156,833
Murabaha finance		**-**	13,157,000
		15,885,139	30,313,833
Management fee payable	18.2	**27,068,056**	29,872,803
		47,710,641	70,792,803

18.1 Staff retirement benefits

Defined benefit plan

As mentioned in note 2.15, the Modaraba operates an approved funded gratuity scheme for all of its permanent employees. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at June 30, 2009.

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

Present value of defined benefit obligation	**9,665,996**	8,396,952
Fair value of plan assets	**(9,870,245)**	(6,970,665)
(Receivable)/liability recongnised in the balance sheet	**(204,249)**	1,426,287

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009	2008
		Rupees	
Amount charged to profit and loss account:			
Current service cost		**1,035,106**	672,724
Interest cost		**1,202,026**	670,719
Expected return on plan assets		**(1,225,149)**	(536,587)
Actuarial loss recognized		**-**	619,431
		1,011,983	1,426,287

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

Movement in the liability recognized in the balance sheet:		
Balance as at July 01	**1,426,287**	1,373,070
Net charge for the year	**595,751**	1,426,287
Contribution to the fund	**(2,226,287)**	(1,373,070)
Balance as at June 30	**(204,249)**	1,426,287
Movement in the present value of defined benefit obligation:		
Balance as at July 01	**8,396,952**	6,497,766
Current service cost	**975,379**	672,724
Interest cost	**1,047,362**	670,719
Actuarial (gain) / loss	**(753,697)**	802,743
Actual benefits paid during the year 2008-2009	**-**	(247,000)
Balance as at June 30	**9,665,996**	8,396,952
Movement in the fair value of plan assets:		
Balance as at July 01	**6,970,665**	5,124,696
Expected return	**882,032**	536,587
Contributions	**2,226,287**	1,373,070
Actuarial (loss) / gain	**(208,739)**	183,312
Actual benefits paid during 2008-2009	**-**	(247,000)
Balance as at June 30	**9,870,245**	6,970,665

Principal actuarial assumptions used are as follows:

Expected rate of increase in salary level	12%	10%
Valuation discount rate	12%	10%
Rate of return on plan assets	12%	12%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

	2009	2008	2007	2006
	Rupees			
Comparisons for past years:				
As at June 30				
Present value of defined benefit obligation	**9,665,996**	8,396,952	6,497,766	4,799,857
Fair value of plan assets	**(9,870,245)**	(6,970,665)	(5,124,696)	(3,373,664)
Less: Surplus	**(204,249)**	1,426,287	1,373,070	1,426,193
Experience adjustment on plan Liabilities	**753,697**	802,743	694,708	858,000
Experience adjustment on plan Assets	**(208,739)**	(183,312)	(2,947)	(55,000)
	544,958	619,431	691,761	803,000

	Note	2009	2008
		Rupees	
Major categories / composition of plan assets are as follows:			
Cash		**9,870,245**	6,970,665

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 2009 was Rs.0.673 million (2008: Rs1.34 million).

Defined contribution plan

Contribution for the year allocated to administrative expenses	**955,751**	1,426,287

18.2 The balance is payable to the Modaraba Management Company.

19. CONTINGENCIES AND COMMITMENTS

Contingencies

There are no contingencies as at the balance sheet date.

Commitments

Commitments in respect of Ijarah transactions amounting to Rs. 32.00 million (2008: Rs. 79.80 million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009	2008
		Rupees	
20. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits		**24,723,795**	20,565,347
Printing, stationery and advertising		**4,207,316**	3,693,827
Travelling and conveyance		**668,576**	447,253
Insurance		**537,178**	382,923
Utilities		**360,000**	360,000
Postage		**366,383**	558,414
Newspapers and periodicals		**46,042**	29,859
Repairs and maintenance		**1,375,562**	1,455,833
Telecommunication		**553,567**	546,422
Entertainment		**327,272**	189,161
Fee and subscription		**2,459,570**	3,476,260
Legal and professional charges		**1,131,780**	2,389,639
Donations	20.1	**1,236,000**	936,000
Depreciation on fixed assets in own use	3.2	**3,009,362**	2,752,939
Amortization on intangible assets	4	**36,595**	114,269
Certificate registrar expenses		**1,984,145**	1,858,176
Vehicle running expenses		**787,622**	436,041
Miscellaneous		**22,194**	128,048
Office expense		**345,039**	210,551
Staff training and workshop		**302,575**	252,395
Staff Hajj expenses		**652,900**	-
Rent		**995,200**	-
		46,128,673	40,783,357

20.1 The directors of the management company do not have any interest in any donees' fund to which donations were made.

21. OTHER INCOME			
Dividend on shares		**16,625,083**	27,162,304
Gain on sale of Ijarah assets		**44,233,635**	15,932,769
Gain on sale of shares - net		**-**	122,808,096
Gain on sale of fixed assets		**82,284**	185,049
Profit on Modaraba'a deposit accounts		**18,706,239**	11,161,908
Profit on redemption reserve fund-COM		**746,825**	-
Profit on Sukuk		**1,953,789**	-
Profit on Islamic Investment Certificates		**5,114,795**	-
Miscellaneous income		**411,706**	443,716
Documentation charges		**-**	201,835
Excess Ijarah rentals		**-**	55,489
		87,874,356	177,951,166
22. OTHER OPERATING CHARGES			
Loss on sale of shares - net		**36,898,570**	-
Impairment of ijarah assets	22.1	**13,926,919**	-
Auditor's remuneration	22.2	**394,330**	340,732
		51,219,819	340,732

22.1 Impairment has been recorded on Ijarah assets on the basis of future recoverability of cash flows.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009	2008
		Rupees	

22.2 Auditors' remuneration:

Audit fee	**250,000**	200,000
Fee for review of half yearly financial statements and statement of compliance with Code of Corporate Governance	**120,000**	120,000
Out of pocket expenses	**24,330**	20,732
	394,330	340,732

23. FINANCIAL CHARGES

Profit on:		
Musharaka finances	**-**	1,583,169
Certificates of Musharaka	**42,202,806**	84,327,704
Short term Murabaha finance	**-**	2,003,011
Long term Murabaha finances	**32,646,047**	65,547,213
	74,848,853	153,461,097
Bank commission and charges	**166,273**	1,940,641
	75,015,126	155,401,738

24. REMUNERATION OF OFFICERS AND OTHER EMPLOYEES

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

	2009			2008		
	Officers	Other employees	Total	Officers	Other employees	Total
	Rupees			Rupees		
Salaries	9,434,678	6,634,650	16,069,328	7,020,475	6,292,692	13,313,167
House rent	1,248,906	1,251,294	2,500,200	1,261,125	1,011,100	2,272,225
Conveyance and other allowances	1,691,394	1,682,706	3,374,100	922,000	881,750	1,803,750
Group insurance	412,268	503,882	916,150	296,066	444,100	740,166
Gratuity	452,770	142,981	595,751	1,090,092	336,195	1,426,287
Provident fund	738,697	529,569	1,268,266	552,528	457,224	1,009,752
	13,978,713	10,745,082	24,723,795	11,142,286	9,423,061	20,565,347
Number of persons	9	23	32	9	23	32

Certain officers are also provided with use of Modaraba cars.

25. IJARAH RENTALS RECEIVABLE WITHIN ONE YEAR

Ijarah rentals receivable in respect of existing Ijarah, in the subsequent financial year ending June 30, 2010 amounts to Rs. 1,054 million (2009: Rs. 1,404 million). Ijarah rentals recoverable within the next twelve months as disclosed in the notes to the annual audited financial statements shall be treated as current assets for the purpose of calculating current ratio (as per BPRD Circular No.8 dated April 11, 1998).

26. TRANSACTIONS WITH RELATED PARTIES

The related parties and associated undertakings comprise the 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:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Relationship	Nature of transaction	2009	2008
		Rupees	
Balances with related parties			
Staff Retirement Benefit Fund	Receivable / payable to staff gratuity fund	**204,249**	1,426,287
Modaraba Management Company	Payable to modaraba management company	**27,068,056**	29,872,803
First Habib Modaraba Provident Fund	Investment in Certificate of Musharaka	**12,435,000**	2,740,000
Expense/Fee for the year			
Modaraba Management Company	Modaraba company's management fee	**27,068,056**	29,798,735
Staff retirement benefits	Gratuity fund	**595,751**	1,426,287
	Provident fund	**1,268,266**	1,009,752
Payments made during the year			
Staff Retirement Benefit	Contribution to staff gratuity fund	**2,226,287**	1,373,070
	Contribution to staff provident fund	**1,268,266**	1,009,752
Modaraba Management Company	Dividend paid	**117,664,441**	51,426,968
Modaraba Management Company	Management fee	**29,798,735**	16,590,048

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

27. CAPITAL MANAGEMENT

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

28. FINANCIAL INSTRUMENTS

28.1 Risk management policies

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

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

28.2 Credit Risk

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

Exposure to Credit Risk

The maximum exposure to credit risk before any credit enhancements at June 30, 2009 is the carrying amount of the financial assets as set out below:

	Note	2009	2008
		Rupees	
Nature of Financial Assets			
Ijarah rentals receivables		**11,224,500**	3,208,133

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 32 to the financial statements.

Impaired Assets

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

28.3 Liquidity risk

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

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

Note 29 to the financial statements summarizes the maturity profile of the Modaraba's financial instruments.

Mitigating / managing the risk

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

28.4 Market Risk

a Market Price Risk

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

Exposure

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

As at June 30, 2009, the fair value of debt securities exposed to price risk was as follows:

Particulars	Average Cost 2009	Fair Value 2009	Average Cost 2008	Fair Value 2008
	Rupees			
Exposure classified as Available-for-sale	**159,570,788**	**806,977,168**	217,783,281	1,125,791,101
Ijarah Sukuk bonds	**20,000,000**	**20,000,000**	-	-
	179,570,788	**826,977,168**	217,783,281	1,125,791,101

Risk Management

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

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

b Profit rate risk

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

Risk Exposure

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

As at June 30, 2009, the profile of the Modaraba's variable value financial instruments were as follows:

	Note	2009	2008
		Rupees	
Variable rate instruments			
Ijarah Sukuk bonds		**20,000,000**	-
Islamic deposits		**302,135,981**	150,213,968
		322,135,981	150,213,968

Fair value sensitivity analysis for variable rate instruments

An increase of 100 basis points in KIBOR rates would have increased the profit and loss by the amounts shown below. Reduction in KIBOR 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 Class (Having variable interest rates)	(Increase / Decrease)	Changes in profit / (loss) 2009	2008
	(+/-)	Rupees	
Ijarah Sukuk bonds	100 basis points	**200,000**	-
Investment in Diminishing musharaka	100 basis points	**252,551**	-
Ijarah rentals	100 basis points	**16,626,100**	16,667,861
Islamic deposits	100 basis points	**3,019,411**	1,440,049
		20,098,062	18,107,910

*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.

29. MATURITIES OF ASSETS AND LIABILITIES

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

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

	2008			
	Total	Up to one year	Over one year to five years	Over five years
	Rupees			
Assets				
Ijarah Fixed assets - tangible	2,713,510,513	91,012,817	2,622,497,696	-
Owned Fixed assets - tangible	7,582,766	-	7,582,766	-
Fixed assets - intangible	32,990	-	32,990	-
Long term advances and deposits	1,211,191	-	1,211,191	-
Investments - available for sale	1,125,791,101	1,125,791,101	-	-
Ijarah rentals receivable	3,208,133	3,208,133	-	-
Loans and advances	4,313,647	4,313,647	-	-
Trade deposits and short term prepayments	981,091	981,091	-	-
Other receivables	18,805,807	18,805,807	-	-
Cash and bank balances	150,213,968	134,000,131	16,213,837	-
	4,025,651,207	1,378,112,727	2,647,538,480	-
Liabilities				
Security deposits against Ijarah assets	257,848,256	69,427,491	188,420,765	-
Murabaha and Musharaka finances	442,850,788	274,046,680	168,804,108	-
Certificates of Musharaka	367,368,503	324,276,744	43,091,759	-
Advance Ijarah rentals received	23,166,095	23,166,095	-	-
Trade and other payables	72,867,356	72,867,356	-	-
Taxation - net	1,269,911	1,269,911	-	-
Unclaimed profit distribution	13,462,120	13,462,120	-	-
	1,178,833,029	778,516,397	400,316,632	-
	2,846,818,178	599,596,330	2,247,221,848	-
Represented by:				
Issued, subscribed and paid-up capital	1,008,000,000			
Reserves	1,838,818,178			
	2,846,818,178			

30. SEGMENT BY CLASS OF BUSINESS OF MAJOR IJARAH ASSETS

	Ijarah Assets			
	2009		2008	
	Rupees	%	Rupees	%
Auto and engineering	**165,051,569**	**8.57**	190,792,049	7.03
Banks and financial institutions	**209,057,179**	**10.85**	780,069,954	28.75
Cable and electric goods	**144,529,384**	**7.50**	101,178,031	3.73
Cement	**3,003,094**	**0.16**	11,727,299	0.43
Chemical and pharmaceutical	**334,461,866**	**17.36**	278,521,090	10.26
Communications	**3,720,450**	**0.19**	10,462,247	0.39
Construction	**34,225,822**	**1.78**	55,305,626	2.04
Consumer	**29,935,505**	**1.55**	32,256,164	1.19
Education	**6,689,018**	**0.35**	13,004,846	0.48
Engineering	**41,816,225**	**2.17**	58,774,557	2.17
Food and allied	**102,398,496**	**5.32**	97,032,411	3.58
Fuel and energy	**139,175,387**	**7.23**	179,512,791	6.62
Glass and ceramics	**14,829,835**	**0.77**	21,355,839	0.79

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

	Ijarah Assets			
	2009		2008	
	Rupees	%	Rupees	%
Health	**21,767,647**	**1.13**	55,549,147	2.05
Information Technology	**90,462,265**	**4.70**	54,995,959	2.03
Jute	**7,391,979**	**0.38**	15,348,118	0.57
Leather and tanneries	**834,950**	**0.04**	2,817,220	0.10
Paper and board	**38,674,988**	**2.01**	23,158,937	0.85
Services	**273,919,696**	**14.22**	323,835,470	11.93
Sugar and allied	**50,557,645**	**2.62**	41,281,765	1.52
Synthetic and rayon	**36,173,659**	**1.88**	52,086,065	1.92
Textile	**137,967,038**	**7.16**	260,371,386	9.60
Transport	**13,380,595**	**0.69**	25,726,890	0.95
Miscellaneous	**26,083,432**	**1.35**	28,346,653	1.04
	1,926,107,724	**100.00**	2,713,510,514	100.00

30.1 Modaraba's operations are restricted to Pakistan only.

31. FINANCIAL ASSETS AND LIABILITIES

	Profit bearing			Non-Profit bearing			
	Maturity upto one year	Maturity after one year upto five years	Sub-total	Maturity upto one year	Maturity after one year and upto five years	Sub-total	Total
Financial assets							
Cash and bank balances	301,941,058	-	301,941,058	194,923	-	194,923	302,135,981
Loans and advances	-	-	-	-	-	-	-
Other receivables	10,999,726	-	10,999,726	-	-	-	10,999,726
Investments - available for sale	806,977,168	-	806,977,168	-	-	-	806,977,168
Ijarah rentals receivables							
- secured, considered good	-	-	-	11,366,655	-	11,366,655	11,366,655
Trade deposit and short term prepayments	-	-	-	656,300	-	656,300	656,300
Investment in diminishing musharaka	11,224,500	14,030,625	25,255,125	-	-	-	25,255,125
	1,131,142,452	14,030,625	1,145,173,077	12,217,878	-	12,217,878	1,157,390,955
Financial liabilities							
Security deposits against ijarah assets	-	-	-	92,445,851	128,984,847	221,430,698	221,430,698
Murabaha and Musharaka finances	-	-	-	-	-	-	-
Certificates of Musharaka	343,458,544	6,373,379	349,831,923	-	-		349,831,923
Advance Ijarah rentals received	-	-	-	21,029,873	-	21,029,873	21,029,873
Trade and other payables	-	-	-	47,710,641	-	47,710,641	47,710,641
Unclaimed profit distribution	-	-	-	15,110,831	-	15,110,831	15,110,831
	343,458,544	6,373,379	349,831,923	176,297,196	128,984,847	305,282,043	655,113,966
On balance sheet gap	787,683,908	7,657,246	795,341,154	(164,079,318)	(128,984,847)	(293,064,165)	502,276,989
Ijarah assets	239,844,343	1,686,263,381	1,926,107,724	-	-	-	1,926,107,724

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

(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, hence, the Modaraba is not considered exposed to yield / profit rate risk.

(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 rentals receivable against Ijarah assets, other assets, other liabilities and other items cannot be calculated with sufficient reliability due to absence of current active market of such assets and liabilities.

32. 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:

	2009		2008	
	Advances, deposits, prepayments and other receivables	Ijarah rentals receivables	Advances, deposits, prepayments and other receivables	Ijarah rentals receivable
	Rupees			
Segment by class of business				
Banks and Financial institutions	10,795,477	-	3,645,909	-
Auto and Allied	-	306,979	-	-
Cable and Electrical Goods	-	142,531	-	-
Textile	-	4,536,012	2,520,000	1,529,064
Chemical and Pharmaceutical	-	83,981	-	-
Communications	46,000	23,480	-	-
Construction	-	321,081	-	-
FMCG	-	300,966	-	-
Food and Allied	1,050	217,421	1,050	-
Fuel and Energy	8,000	358,703	8,000	-
Glass and Ceramics	-	101,043	-	-
Insurance companies	598,750	207,726	943,541	-
Others	204,249	373,763	15,189,898	1,679,069
Services	82,500	4,392,969	78,500	-
Advance to staff	-	-	2,924,838	-
	11,736,026	11,366,655	25,311,736	3,208,133

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

33. EARNINGS PER CERTIFICATE

33.1 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	2009	2008
		Rupees	
Profit for the year		**243,612,505**	268,855,228
Weighted average number of certificates		**201,600,000**	179,363,520
Earnings per certificate		**1.21**	1.50

33.2 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.

34. CASH GENERATED FROM OPERATIONS

Profit for the year		**243,612,505**	268,855,228
Adjustment for:			
Gain on disposal of assets			
Ijarah		**(44,233,635)**	(15,932,769)
In own use - net		**(82,284)**	(185,049)
Depreciation fixed assets			
Ijarah assets		**1,311,064,868**	1,349,483,438
In own use		**3,009,362**	2,752,939
Impairment of ijarah assets		**13,926,919**	-
Owned assets written off		**-**	5
Amortization of intangible assets		**36,595**	114,269
Provision for gratuity		**595,751**	1,426,287
Dividend income		**(16,625,083)**	(27,162,304)
Loss / (gain) on disposal of investments - net		**36,898,570**	(122,808,096)
Profit on:			
Musharaka		**-**	1,583,169
Certificates of Musharaka		**42,202,806**	84,327,704
Murabaha finance		**32,646,047**	67,550,224
		74,848,853	153,461,097
Movement in working capital	34.1	**(1,898,285)**	4,877,357
		1,621,154,136	1,614,882,402

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009	2008
		Rupees	
34.1 Movement in working capital			
(Increase)/decrease in current assets:			
Ijarah rentals receivable		**(8,158,522)**	(2,514,111)
Loans and advances		**1,793,647**	(504,467)
Trade deposits and short term prepayments		**324,791**	(685,811)
Other receivables		**8,010,330**	(17,710,968)
Increase/(decrease) in current liabilities:			
Advance Ijarah rentals received		**(2,136,222)**	3,859,228
Unearned ijarah rentals		**5,494,872**	-
Trade and other payables		**(7,227,181)**	22,433,486
		(1,898,285)	4,877,357

35. PROFIT DISTRIBUTION AND APPROPRIATION

Subsequent to the year ended June 30, 2009 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 (2008: Re. 1.05/- per certificate amounting to total profit distribution of Rs. 211.680 million) in its meeting held on 07-08-2009

36. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 07-08-2009 by the Board of Directors of the Modaraba Management Company.

37. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison.

From	To	Amount	Reason
Loan and advances	Advance against ijarah assets	2,520,000	For presentation in accordance with IFAS-2
Administrative expenses	Other operating charges	340,732	For better presentation

However no significant reclassification has been made except the following:

38. GENERAL

Figures have been rounded off to the nearest rupee.

-Sd-
CHIEF EXECUTIVE

-Sd-
DIRECTOR

-Sd-
DIRECTOR