

Directors' Report



On behalf of the Board of Directors, I am pleased to present the audited accounts of the Modaraba for the year ended June 30, 2015.

Profit before management fee	353,395,989
Modaraba company remuneration	(35,339,599)
Less: Sales tax on Management company remuneration	(5,300,940)
Less: Workers Welfare Fund	(6,255,109)
Profit for the year	306,500,341
Un-appropriated profit B/F	17,711,178
Profit available for appropriation	324,211,519
Earning per certificates of Rs. 5/- each	1.52

APPROPRIATIONS

Cash dividend @ 22%	221,760,000
Transfer to Statutory Reserve	76,625,085
Unappropriated Profit C/F	25,826,434
	324,211,519

Dividend payment

The board of directors has pleased to declare cash dividend of 22% i.e. Rs.1.10 per certificate of Rs.5/- each for the period ended 30th June, 2015



Economic Review

After reaching a peak in 2007 when Pakistan achieved the distinction of being one of fastest growing emerging economies, the last seven years recorded a downward trend for country's economy, reaching its lowest in 2012-13. Pakistan could not manage to maintain the progress like other countries of South East Asia such as India, Bangladesh and Sri Lanka. . However, in last two year we can see better outlook in Pakistan's economy. Global image has also improved which has supported multilateral agencies and fund donors to once again look at Pakistan as promising country. .

In outgoing year 2014-15 Pakistan's economy has achieved good growth rate i.e., 4.24% which is slightly higher than the 4.03% of 2013-14 but less than the target. of 5.1%.According to statistics, the economic stability has been reflected to some extent. Slowdowns in inflation number, improvement in external outlook, sound position of foreign exchange reserve are witnessed of better economic indicator.

Government remained focused on the agenda of reviving of the economy. Try to resolving the energy crisis, improving security situation, and providing ample opportunities to all stakeholders to boost up their socio-economic condition. Government has pursued growth oriented economic policies and introduced comprehensive structural reforms to achieve these objectives. Due to continuous efforts the situation started

improving as key economic indicators showing positive signals for economic agents. During first year, the government succeeded in averting fear of default in foreign exchange reserves and in second year achieved macroeconomic stability.

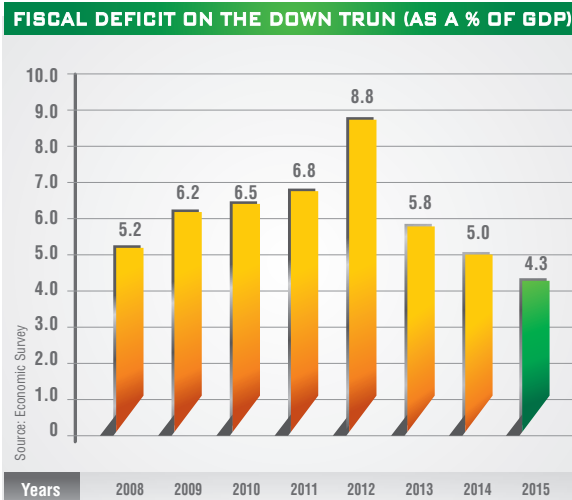
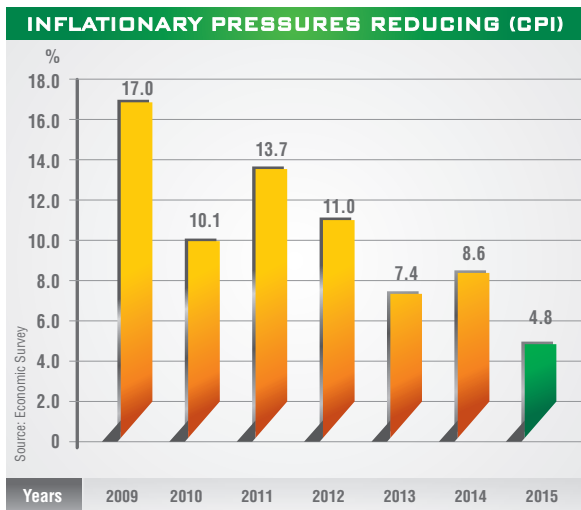
The present government has also succeeded to pass on more benefits of decline in international oil prices to general public which has slightly provided a relief to the common man, remarkable improvement in workers' remittances, good foreign exchange reserve, successful launching of Euro Bond and Sukuk Bond after 9 years and all

supported by an Extended Fund Facility (EFF) arrangement. According IMF, Pakistan has made progress in toward macroeconomic stabilization despite significant legal, political, and security challenges. Macroeconomic

imbalances are being gradually addressed and planned fiscal adjustment is appropriate. Building on these gains, continued efforts are to needed to make the economic reform more targeted and sustainable for future growth.

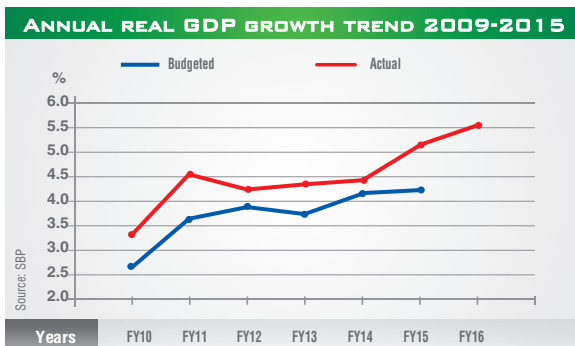
Due to low inflation and current macroeconomic stability, the State Bank of Pakistan (SBP) initiated monetary easing to support economic activity by cutting its policy rate to a historic low. In last monetary policy of May, 2015, the SBP further cut the discount rate by 1% to 7%. During the year discount rate has been decreased by 300bps. It is expected that with drastic reduction in interest rate will further support credit expansion and enhancement of investment for economic growth.

Pakistan's economy on the other hand is threatened with some serious weaknesses and challenges. Pakistan's domestic and foreign debt is rising and reached on its highest level, non-ending circular debt, continued subsidy to sustain loss-making business enterprises in the



time high of Stock Exchange have given overall better outlook of the country's overall economic performance.

The reform process agreed under the IMF program is broadly on track, and performance target have almost met. The Fund completed the seventh review of Pakistan's economic performance under a three-year program





public sector, energy crisis and poor governance continue to pull back the desired economic growth. Foreign Direct Investment (FDI) is also not at satisfactory level which dilutes the foreign participation and transfer of technology and expertise.

Despite significant improvement in key economic indicators, there is a need to focus on some long-standing structural issues, which have been constraining the performance of various sectors. Our exports are also stagnated and not improving despite the best efforts of present government. This is due to low export order, droop in international demand and the persisting power shortages. Due to low export earning our trade deficit also surged in 2014-15. Exports as a prime source of foreign exchange have been dwindled and on the contrary import bill has been increased due to import of high volumes of oil, machineries and food products. Furthermore, growth in tax collections continued to be a challenge. Our tax collection ratio to GDP is lowest in the region, which

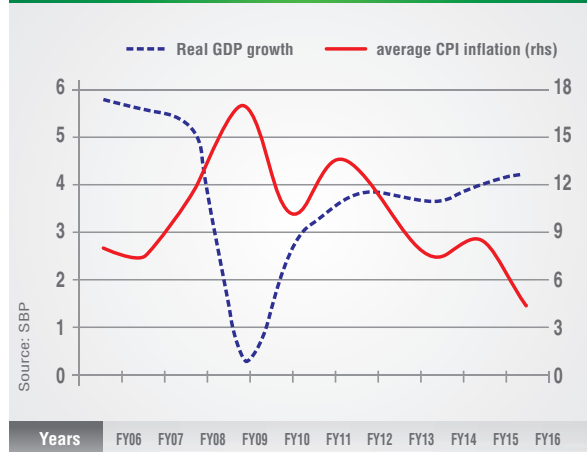
needs to enhance to cut down continued budgetary deficit. In fact, low growth in tax revenues and high share of non-discretionary spending impact on fiscal space to accelerate growth.

Keeping in view of present better country perception around the world it is right time to attract foreign investment for economic growth. The announcement of an economic corridor between China and Pakistan is the biggest achievement of this government. Recently Pakistan signed with China several Memorandum of Understanding for cooperation of in different fields.

This corridor is linking Kasghar and Gwadar through multi-modal communication lines is an encouraging sign for a weakened economy and is a long awaited step in the right direction. This corridor will benefit all provinces and areas in Pakistan, and transform our country into a regional hub and support to further expand economic activity.

Going forward, it is expected higher consumption in low interest rate environment, planned increase in development spending, private sector credit

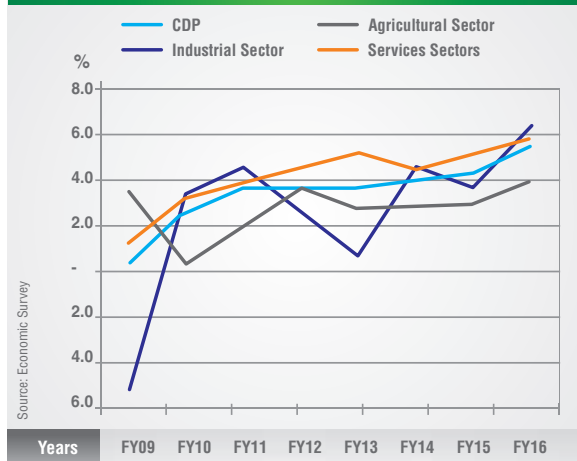
GDP GROWTH AND HEADLINE INFLATION (IN PERCENT)



expansion and budgetary incentives for construction sector could provide some room for growth. With the implementation of stabilization policies during the past two years and ensuing marked improvement in macroeconomic indicators in this fiscal year signed for better progress.

Moreover, implementation of infrastructure projects planned under CPEC and addressing structural issues especially related to energy and security would create favorable investment environment which is necessary to sustain economic development over the medium to long term and supports for positive business sentiments for strengthening of real GDP growth in future.

REAL GDP GROWTH AND ITS COMPONENTS





Business Review of FHM

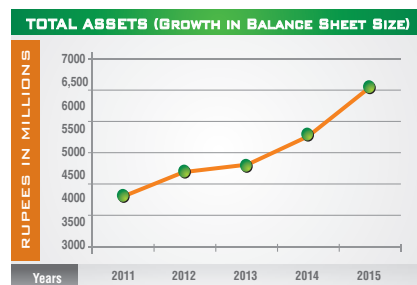
The Year 2014-15 remained challenging year marked with several issues particularly high competition, slow growth in industrial sector, persistent and energy crisis. However, on the back of significant falloff international oil prices, economic fundamentals slightly improved especially towards the end of the year with falling inflation and interest rates, stable currency, rising home remittances and record growth in the Stock Markets

Alhamdulillah, performance of FHM remained satisfactory despite challenging and difficult operating environment. By the grace of God, three decades of successful business operation of FHM has been completed as non-bank Islamic financial institutions within the Modaraba sector. By the blessing of Allah Subhanahuwata'ala we have again stand by with our pledge and full filled our commitment and gave satisfactory financial result with better return to our Certificate Holders. The team of FHM has demonstrated business and operational strength which well reflected both in business volume and profitability despite of highly competitive environment within the Islamic financial sector. FHM strategic focus on growth in prudent manner, commitment to deliver customer centric solutions, well define corporate policies and coordinated action with team work are continuously delivering positive results and give long term and sustainable development.

Consistency in distribution of dividends among the certificate holders along with increase in certificate holders' equity has made FHM a sound and well performing Modaraba within the sector.

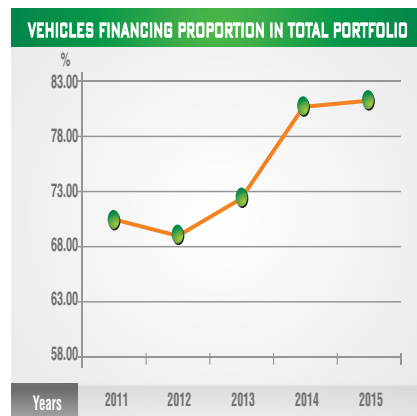
We have completed our financial year with satisfactory performance and achievement of all major targets. During the year we have made disbursement of Rs.3.019 billion

which is the highest disbursement in any single year in the history of FHM. By the grace of God, the size of balance sheet has also reached to Rs.6.378 billion which is again highest



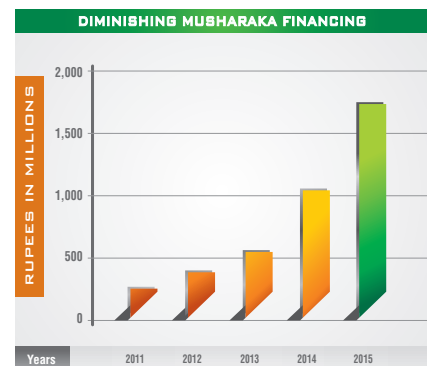
since the business operations of FHM.

During the year under review the disbursements with respect to lease financing and Diminishing Musharkah financing were made of Rs.1,745.0 million and Rs.1,274.0 million respectively. Major portion of financing remain within the assets category of motor vehicle i.e. 83% of total financing with healthy sectors such as Pharmaceuticals, Services, Food & Allied and Chemicals . Size of balance sheets has also been enhanced by 19% over last year as



compared to 11% increase in 2013-14.

Our vehicle financing portfolio is continuously rising which minimize risk of assets in case of non-performance and litigation. This is also is in line with our credit risk strategy for sound and quality assets portfolio.



Out of total financing, disbursement of around 43% was made in Diminishing Musharkah financing as compared to 41% of last year. This is also in line with our business strategy of product diversification.

According to our business strategy, we are continuously expanding our financing portfolio through our branches outside Karachi. Our branches Lahore, Islamabad and Multan again made significant contributions in overall disbursement during the year. Shares of these branches were remained around 53%. These branches have not only added good financing asset but they also introduced good corporate customers having sound market reputation and satisfactory business performance.

Our branches have also successfully enhanced the base of deposit under the scheme of Certificate of Musharkah (COM). COM rose to Rs.2.333 billion from the last year figure of Rs.1.533 billion. The COM portfolio has been enhanced by around 50% which is again excellent achievement of branches and highest amount in the business history of FHM. We believe that without low cost and long term generations of deposit portfolio, it would not be possible to enhance quality assets portfolio.

Alhamdulillah, during the year recovery on our financing portfolio remain at satisfactory level due to our continuous cautious approach of credit expansion

Awards and achievements



Credit Rating

By the grace of God, credit rating of FHM has also been maintained with the stable rating scales. The rating scale of AA+ and A1+ for short term and long term assigned by M/s Pakistan Credit Rating Agency (private) Limited, (PACRA) in December, 2014. AA+ has been maintaining by FHM since last 8 years.

The rating agency again showed their comfort on continuous sound and stable position of FHM. As per PACRA's assessment, these ratings reflect FHM's sound risk absorption capacity emanating from low leveraged financial structure and sustained profitability. Good management quality, strengthening risk management systems, and strong control environment provide strength to FHM's profile. PACRA further stated that FHM's prudent business strategy has enabled the Modaraba to maintain impressive asset quality even in volatile economic conditions.

Alhamdulillah, FHM has been maintaining "A" category rating since last 16 years and for last eight consecutive years PACRA is assigning rating band of "AA+".

Awards and achievements

Alhamdulillah, once again FHM has

earned a series of accolades from prestigious institutions.

Best performing Modaraba award from NBF and Modaraba Association of Pakistan

For the financial year ended 30th June, 2014, the NBF and Modaraba Association of Pakistan, has awarded best performing Modaraba award to FHM within the Modaraba sector. So far FHM has received 14 awards from Modaraba Association of Pakistan within last 16 years.

Best Corporate & Sustainability Report Award from ICAP/ICMAP

The joint committee of Institute of Chartered Accountant of Pakistan (ICAP) and Institute of Cost & Management Accountant Pakistan (ICMAP) in their ceremony held on 19th September, 2014, has awarded "Best Corporate Report Award" to FHM under the category of NBFs sector.

According to sector segmentation the NBFs sector consisting on Insurance, Leasing, Investment banks, and Modarabas. Within the NBFs sector five listed entities were selected and awarded for best report. Alhamdulillah, FHM is one of them.

By the grace of God, this is fifth consecutive years for best corporate

award and FHM is the only Modaraba in entire Modaraba sector who has been receiving this award. . We thank Almighty Allah for his continuous blessing and bestowing upon us of this success.

Best Presented Account Award from "SAFA"

South Asian Federation of Accountants (SAFA) in its award ceremony held in India 4th December, 2014, awarded SAFA BPA "Certificate of Merit" award to First Habib Modaraba (FHM) from the category of "Financial Services Sector" for "Best Presented Accounts" and "Corporate Governance Disclosures" for the year 2013.

Within this sector, FHM was only nominee from Pakistan. This is fourth consecutive "Certificate of Merit" award to Habib Modaraba from SAFA committee.

SAFA is an Apex Body of South Asian Association for Regional Co-operation (SAARC) and represents membership of the national chartered accountancy, cost, and management accountancy institutions in South Asian Countries namely Bangladesh, India, Nepal, Sri Lanka and Pakistan. By the grace of God, this is again a great achievement not only for FHM, but certainly an honor for entire Modaraba and NBF sector as well.

Business Development Activity

To add good assets and sound cliental is our ongoing business strategy which we follow every year. Again this year we have successfully added good quality of assets and clientele. According to our credit policy we always induct sound corporate entities having good size of balance sheets.

However, this year we also went in good SME segments of those having sound financial and good products segments irrespective of their size of balance sheets. During the year we have gathered few small and medium size enterprises within our customer base. Their financing volume is very small in terms of financing of other large base customer but we are confident that by adding these segment will support us for expanding our customer base and growth of business volume as well.

Out of total financing, disbursement of around 43% was made in Diminishing Musharkah financing as compared to 41% of last year. This is in line with our business strategy for product diversification to divide our financing portfolio equally in product segments for broadening of financing base and provide variety of products to our prospective customers.

Our auto financing segment to individual corporate employee is gradually expanding. However, progress in this section is not satisfactory. The weak development could be due to our stringent credit appraisal parameters and high competition with commercial bank as presently banks are aggressively marketing for consumer car financing offering good rates.

We have also started exploring good entities of commercial vehicle



financing and very small portion of financing made in these segments.

Few commercial banks have also entered in this business and marketing aggressively for fleet financing. We understand that this section of financing is very difficult and need extra care due to high credit risk. However, as per our market analysis corporate culture in this sector is gradually developing. Pakistan freight forwarding industry has lot of potential as there are heavy movements of goods from one end to another end within the country. Furthermore, the importance of this sector will be further enhanced due to priority of present government on Public Sector Development Program.

For satisfactory disposal of said business activities, continuous flow of funds plays a very significant role. In resource mobilization segment good progress has been made during the year and total deposit were grew by around 52% under the scheme of

Certificate of Modaraba. We are further enlarging the area of resource mobilization particularly in retail business segment for continuous availability of funds on long term basis.

Risk Management Framework

Effective risk management strategies allow to identify our institution's strengths, weaknesses, opportunities and threats. By planning for unforeseen events we can be ready to manage whenever it arises. In order to ensure success it necessary to define how it will be handled upon its occurrence.

We manage our risk through a framework of sound risk management principles. Risk is an integral part of the financing business and risk management entails adoption of several measures to strengthen ability to cope with the dynamics of a complex business environment in which we operate.

Disciplined risk management and control are essential to our success. The approach to risk is grounded on the strong practices of Corporate Governance that are intended to strengthen FHM's enterprise risk management framework and also position the Modaraba to manage the changing business environment in an effective and efficient manner. Risk management is an essential pillar of our business strategy and critical in fulfilling the objective of the Modaraba.

The governance of risk management starts with our Board, which plays an important role in reviewing and approving risk management policies and practices. The firm's governance structure provides the protocol and responsibilities for decision-making on risk management issues and ensures their adequate implementation.

We maintain a strong inter-departmental communication link on risk factors and encourage culture of collaboration in decision-making amongst all departments.

FHM's risk management capabilities are circle around a strong management structure sound information system, an effective risk-

rating system and robust policies. The primary objective of risk management is to maintain the Company's financial strength and ensure efficient capital deployment to support business growth.

Risk types

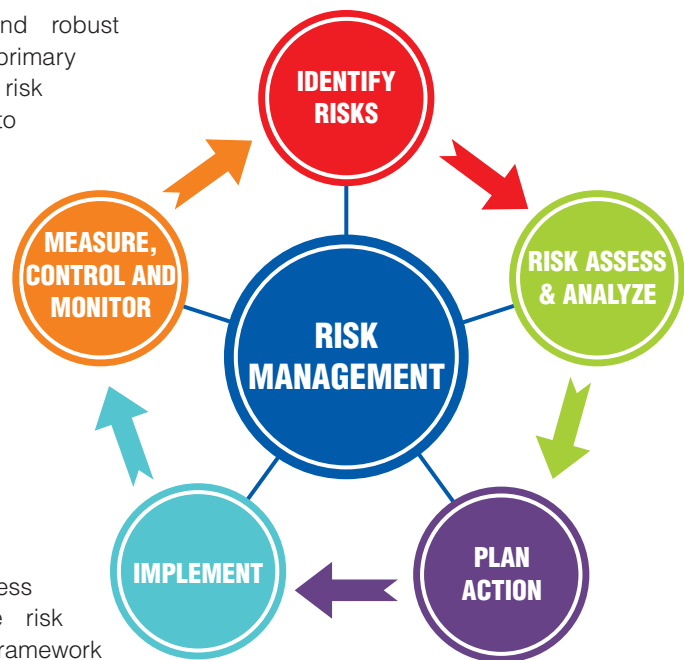
At FHM, we possess a comprehensive risk management framework that enables us to monitor, evaluate and manage the risks we assume in conducting our day-to-day activities. These include credit, market, liquidity and operational risk exposures which we can define as follows.

Credit risk: The risk of loss arising from the failure of a client or counterparty to meet their contractual obligations. At FHM, credit risk may arise on account of the following:

- Default risk
- Credit concentration risk
- Recovery risk
- Counter-party risk
- Related-party risk
- Environmental risk

Market risk: The risk of loss arising from changes in market variables such as interest rates, security prices, equity index levels, exchange rates, commodity prices and general credit spreads.

Liquidity and funding risk: The risk of being unable to either meet our payment obligations on maturity or to borrow funds from the market at an acceptable price to fund actual or proposed commitments.

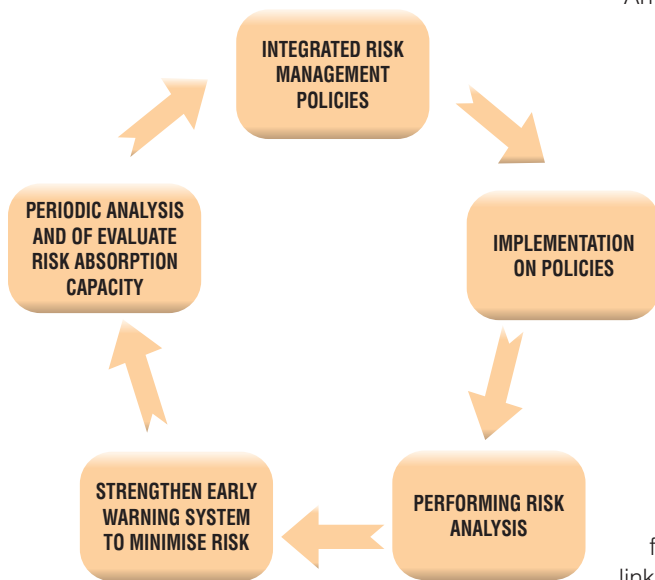


Operational risk: The risk of loss arising from inadequate or failed internal processes, people and systems, or the risk of loss resulting from external causes, whether deliberate, accidental or natural. Other related operational risks include:

- Legal risk
- Shariah noncompliance risk
- Reputational risk
- Compliance risk
- Strategic risk

Credit risk management

- Thoroughly analyze approved facilities before disbursement.
- Assess the risk of financing assets and its marketability.
- Assessment of availability of recourse in case of default of counter party.
- Measuring the firm's current and potential credit exposure and losses resulting out of counterparty default.
- Reporting of credit exposures to the senior management and Board, risk mitigates including its controls.



- An interest rate risk management review process.
- Appropriate limits on risk taking.
- Adequate systems of risk measurement.
- A comprehensive interest rate risk reporting system and effective internal controls.

At present our majority financing portfolio is linked with floating rate which review on quarterly/half yearly basis. This rate review support for interest rate risk management in case of volatile rate in the market. FHM has an adequate system of internal controls to ensure the integrity of its interest rate risk management processes and to promote effective and efficient operations, reliable financial and regulatory reporting and compliance with relevant laws, regulations and institutional policies.

Asset-liability management: We assess anticipated holding periods for our assets and their expected liquidity in a stressed environment. We manage maturities and diversity of our funding across markets, products and counter-parties and seek to maintain liabilities of appropriate tenor relative to our asset base.



Excess liquidity: We maintain substantially excess liquidity to meet a broad range of potential cash outflows and collateral needs in a stressed environment. We invest our liquid funds in a manner which emphasizes the need for security and liquidity.

Market risk management

At FHM, market risks may arise in the following forms:

- **Interest rate risk:** Interest rate risk is the exposure of FHM's financial condition to adverse movements in interest rates arising from re-pricing and/ or maturity mismatches, changes in underlying rates and other characteristics of assets and liabilities in the normal course of business.
- **Equity price risk:** Results from exposures to changes in prices and volatility of individual equities, baskets of equities and equity indices.

The Company's Asset Liability Management Committee (ALCO) regularly meets to assess prevailing market risks. ALCO members analyze the changes in interest rates and market conditions and conduct an analysis on the asset-liability maturity gap and product re-pricing thereby taking effective measures to monitor and control interest rate risks. These include maintaining of:

Liquidity risk management

Liquidity is of critical importance to financial institutions. Insufficient liquidity has been the cause behind most recent failures of financial institutions. FHM possesses a comprehensive and conservative set of liquidity and funding policies to address both firm-specific and broader industry/ market liquidity events. Our principal objective is to create a well-capitalized firm with a strong inherent ability of our core businesses to continue to generate revenue, even under adverse circumstances.

We manage liquidity risks according to the following principles:

Liquidity requirements are managed on a regular basis by the relevant department which is also responsible to ensure that sufficient funds are available to meet short-term obligations, even in a crisis scenario. We aim to maintain a sound liquidity position to meet our liabilities when due, whether under normal or stressed conditions.

The Company possesses adequate internal controls over its liquidity risk management process. An effective system has created a strong control environment with an in-built process of identifying and evaluating liquidity risks. It also possesses an adequate information system that produces regular independent reports and evaluations to review adherence with established policies and procedures.



Risk Management and control principles

For effective risk management around the business and operations we focus on following areas which support us towards achieving an appropriate balance between risk and return.

- Comprehensive and transparent risk disclosure mechanism to senior management at all levels.
- Independent control functions which monitor the effectiveness of the business's risk management capabilities and also oversee risk-taking activities.
- Monitor and control risk exposures at level of individual customer at specific portfolio and at aggregate firm wide level across all risk type.

We are continuously up dating our process and control in line with business requirements, regulatory compliance and directives under board of directors. Following are broader area of approaches which go through with the process during the year.

- Improving risk management approaches and methodologies.
- Regular testing of disaster recovery sites (DR) through mock exercises.
- Refining understanding of key staff members about risks being faced in daily operations.
- Refresh and reinforce stress-testing capabilities and embedding them across the operations.
- Enhancing security and control aspects of security documents.
- Strengthen security wall on application and hardware.
- Strengthen recovery process through regular review of customer's repayment behavior.
- Regular review of customers borrowing trend through eCIB.
- Improve Shariah audit mechanism to minimize risk of Shariah non-compliance.
- Enhancing staff skills by providing training on an ongoing basis.
- Strengthen of credit risk of financing portfolio which includes customer appraisals, assets valuations and inspections, analysis of sector and products.
- Upgrade system to provide quick information obligor's financial health and relevant sector.
- Strengthen credit approval, credit reviews and monitoring functions and develop early warning mechanism.
- Give required training to staff members for effectively handling risk management functions.

Proper risk management has become essential part of any institution and it demand higher priority today than it was a few years ago. We do realize the importance of this key segment of business and aligning the same in accordance with need and requirement for smooth and risk operations of businesses

SHARE OF FHM IN THE MODARABA SECTOR

Following table shows the market share of FHM as per the NBF1 & Modaraba Association of Pakistan Year Book 2014 for the financial year ended 30th June 2014.

(Rupees in million)

	Combine Position of 21 Modarabas	FHM Shares	% of FHM share in Modarabas
Total Equity	14,488	3,208	22%
Total Assets	30,212	5,392	18%
Lease Financing Assets	8,938	2,868	32%
Net Profit	1,545	285	18%

Information Technology

Information technology infuses all aspects of modern life. The growth of digital information continues at an unprecedented rate and it has become core segment of financial sector which greatly supports for efficient operations and fast and accurate customer solution. The impact of Information and Communication Technology has been felt in almost all sectors that are particularly important in modern financial sector.

Information Technology supports sophisticated product development, enhancement of infrastructure, implementation of reliable techniques for control of risks, promotes cost efficiencies and helps the financial intermediaries to reach diversified markets. Internet has significantly impacted delivery channels of the financial institutions. Internet has emerged as an important medium for delivery of banking and other products and services.

FHM has a network of online branches to uninterrupted online services to the networks which help for speedy service delivery to prospective customers. FHM has a comprehensive IT Security Policy to ensure consolidated platform which will enhance safety of customers' data and facilitate execution of financial transactions in a secured network environment.

In order to provide fast and visualize data for the better information, Business Intelligence (BI) play important role. Data is typically located in disparate transactional and ERP systems. BI form an integral part of a FHM strategy. BI allows FHM to pull together usable information from

disparate systems. BI tools provide the FHM with the ability to look at customer data and use it to drive business. Our professional IT developers began to create the different reports, dashboards, BI tool to assist the management in decision



making and strategic planning process of the corporation.

IT is the centerpiece of a successful financial business model. FHM technology Department aims to streamline processes, cut costs, eliminate human error, speed things up and boost productivity. In order to meet new challenges plan to invest in technology, upgrade technology infrastructure and deploy new technology solutions:

- Shariah compliant management Information system.
- Datacenters environments Revamp.

- Strength in Internet Segment.
- Network equipment upgrade at Branches end.
- Expansion of Telepresence solution.
- Media upgradation at Branch end upto 2Mbps.

We firmly believe that without the support of technology the innovation and growth in business cannot be achieved. The management is fully aware with the significance of technological advancement and pays their full attention on this segment on priority basis.

Training & Development

Human Resource Development (HRD) is a strategic and comprehensive management area that involves establishing policies, practices, and administrative structures that focus on an organization's most valuable resource i.e. their people.



The management of FHM is always believe that by investing on human resource for upgrading their professional knowledge support us for enhancement of their professional capacity which ultimately benefit to FHM. Despite the initial monetary costs, staff training always pays back our investment.

We understand that training adds flexibility and efficiency. It is also a retention tool. Our training focus not only remain on job training but we also encourage to develop them with rounded skills to make them more engaged and extract their hidden talent for further progress of institutions.

Internal Control

A system of effective internal controls is a critical component for any organization particularly for financial institutions. Sound and strong internal control can help to ensure that goal and objectivity of organization will be achieved which ultimately support for long term sustainability and profitability. Internal Control is a process designed to provide reasonable assurance regarding the achievement of objectives of organizations.

The management of FHM is responsible to establish and maintain an adequate and effective system of internal controls and procedures. The core objective of internal control is as follows:

- ◆ Effectiveness and efficiency of operations.
- ◆ ensure adherence to its policies and plans.
- ◆ Reliability of financial reporting.
- ◆ Safeguard its asset and resources.
- ◆ Compliance with applicable laws and regulations.
- ◆ Improved reporting throughout the organization.

Compliance and internal control functions are well intergraded and entrusted with the responsibilities to oversee operations and rectifications of irregularities and control lapses pointed out through audit reviews. Concerted efforts are made to improve the control environment at every level by continuous review and streamlining of procedures to prevent and rectify control lapses. The department also ensures the compliances of regulatory requirement, FHM's internal policies and procedures with specific emphasis on KYC, AML and Shariah audit mechanism. The scope of internal audit is independent function



which review and assess the adequacy and effectiveness of the control activities across the FHM as well as to ensure implementation of and compliance with all the prescribed policies and procedures.

All significant and material findings of the internal audit reviews are reported to the Audit Committee of the Board of Directors. The Audit Committee actively monitors implementation to ensure that identified risks are mitigated to safeguard the interest of the institutions.

During the year following control mechanism further strengthen:

- Risk and system based further improved through checks and system improvement.
- ERP and integrated control further increased.
- Branch Audit expanded and included surprise Audit using Risk Audit Methodology
- Shariah Governance related activities monitored closely for compliance with Shariah requirement

- Coordinating in new ERP application for system Control design and for its effective implementation

This has further enhanced compliance and control environment including quality of human resource and operational working.

Internal control activities are ongoing process that includes identification, evaluation and management of significant risks faced by FHM. Functions of said segment are continuously improving and strengthening in line with required regulatory compliances and best business practices.

Business Outlook



Global growth remains sluggish with uneven prospects across the main countries and regions. It is expected that growth will be slower this year due to low commodity & oil prices and slow growth of china. According latest report of IMF the low growth output remains an important medium-term risk in both advanced and emerging markets economies. Lower commodity prices also pose risks to the outlook in low income developing economies after many years of strong growth.

Pakistan's economy is moving in positive direction since last two years. In outgoing year the GDP growth remained 4.2% and for 2015-16 the target has been made around 5.5%.

However, according to the United Nations latest report on the economic outlook for Asia and the Pacific has feared that Pakistan's economy still constrained by macroeconomic imbalances despite better expected economic growth in the coming years.

In present circumstances, Pakistan needs enormous resources to enhance productive capacity of the economy by repairing damaged infrastructure and to create a favorable investment climate.

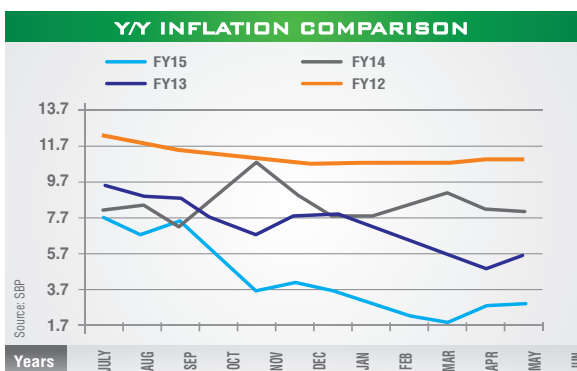
Progress of financial sector of Pakistan shows continuous positive trend. According to IMF the

Banking sector of Pakistan remains sound, with robust earnings and high solvency ratios.

However, the growth in the amount of loans remained relatively muted on a year-on-year basis. The advance-to-deposit ratio is very low and banks still prefer to keep investment in government securities.

Due to low inflation and current macroeconomic stability, the State Bank of Pakistan (SBP) initiated monetary easing to support economic activity by cutting its policy rate to a historic low. In last monetary policy of May, 2015, the SBP further cut the discount rate by 1% to 7%. It is expected that with drastic reduction in interest rate will support credit expansion and enhancement of investment for economic growth.

Islamic banking and finance in Pakistan has witnessed significant growth during the last decade and now constitutes around 10.4 percent of the country's banking system with an asset base. However, there is huge market of Islamic finance is still untapped in Pakistan and we are confident that through our focused business strategy we can further grow our businesses within Islamic Financial industry through Modaraba venture.



On a year-on-year basis, deposits of the banking sector increased around 10% which is notably higher than the 8% average growth recorded during the last five years.

Future Strategy

There are several ways to achieve success in business, but at the core is the fact that we should be realistic, both about what we can achieve with our existing resources and what opportunities the market has to offer. Likewise our corporate strategy is derived from our vision and mission statements and its primary objective is to make long term and sustainable development. The key elements of our corporate strategy have been to effectively employ available resources, develop business segments and maximize business opportunities by utilization available resources at maximum level.

As stated in our report that due to low inflation and current macroeconomic stability, the Central Bank has drastically reduced the discount rate from 10% to 7% during the year. The rate cut is historical low of past so many years. This extreme cut has already impacted our profitability and the same will also reduce our profits in current year as well.

Furthermore, with growth of Islamic finance industry, the intense competitions within the Islamic financial institutions particularly with Islamic commercial banks are also growing. We being non-banking financial institutions also struggling hard to cope with this challenge particularly generation of low cost funds whereas Islamic banks are enjoying this benefit at large level. Low cost funds support them for lending at very competitive rate whereas we as non-bank financial institution cannot offer such low lending rates.

Therefore, keeping in view of prevailing business challenges we have devised our business strategy on following lines for 2015-16.

- Target new business segments for diversification and better profit yield such as:



- ◆ Financing in logistics sector particularly in heavy & light duty commercial vehicles.
- ◆ Extend car financing facility to small segments of businesses such as traders, proprietor etc.
- ◆ Promote car financing with Residual Value (RV) scheme.
- ◆ Introduce mortgage financing products at small level for high corporate employee.
- ◆ Add Istisna financing product within the our financing products.
- Add new good customer within the portfolio.
- Expand market outreach through opening new locations particularly in Khyber Pakhtunkhwa (KP).
- Further enhance size of I deposit base particularly in retail deposits.
- Enhance size of investment in sound/ stable and dividend paying Shariah compliant listed securities.
- Further strengthen tool of risk management processes particularly in credit and operations.
- Further strengthen Shariah governance and compliance culture.
- Further develop operation capacity of human resource through proper training.
- Enhance the capacity of core application covering all latest aspects of technology.
- Introduce new tool for efficient operational processes better customer delivery.

Furthermore, being Islamic Financial Institutions, we are continuously aligning our corporate strategy to gain the maximum benefit of Islamic finance industry which is growing at good pace locally and worldwide. Our all business development strategies are focused on to tap potential of this segment for further business expansion in line with Shariah principles.



Shariah Compliance and Audit Mechanism

Alhamdulillah, our Shariah governance and compliance culture have been strengthened to the satisfaction level under guidance and supervision of our worthy Shariah advisor. However, room for its improvement is always there and our Shariah compliance department make dedicated efforts for further improvement and more perfection through:

1. Implementation of Shariah process flow
2. Surprise Check and audit
3. On job training and in house and outside workshops
4. Induction of HR having good basic knowledge of Islamic Finance.

We feel that Shariah governance is our utmost responsibility and our team is fully committed as their prime objective for its perfection and flawless processes.

A complete Shariah Audit report of Shariah Advisor for the period ended 30th June, 2015, is also attached with annual report.

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 an effective manner.

We always emphasis on culture of excellence, good governance, transparency, integrity and accountability.

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

FHM, being a socially responsible corporate entity, has been a regular contributor to the society and communities. It has been our primary concern to ensure that contributing to community development should be continuously carried out. Our belief is that positive contribution not only redresses human suffering but also address human development as well. When making our business decisions we do consider environmental and social impacts in it for sustainable performance within whole society and at national level as well.

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

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

1. Encourage staff members for avoiding of unnecessary wastage of resources such as excessive consumption of energy, less paper printing etc. Besides, an office of FHM is being made no smoking zone in order to make available better atmosphere within the premises and also support pollution free environment.
2. Motivate staff members for participation in activities which are beneficial for better environment at large.
3. Contribution on social community projects by staff members which are indeed a catalyst for any good corporate institution.
4. FHM believe in customer satisfaction has a prime concern and their association with the FHM for longer term witnesses the quality in itself. In order to

keep customer interest safe, FHM, from time to time address their grievances through their feedback and regular visits.

5. FHM encourage equal opportunity employment without any discrimination whether it is gender or any disability, we believe that every human mind having talent which can be benefited to the institutions.
6. Health and safety always remain an utmost concern of the management of FHM. Within the HR policy, the staffs of FHM are covered under health and group life insurance policies with renowned insurance companies. Besides, FHM has also provided best working infrastructure and safe drinking water etc.
7. Strong internal controls are the one of the main corporate objectives. FHM promote sound ethical practices within the staff members with Risk & Reward concept. FHM make stringent check on the staff working and immediately debar if any member found any unethical practice. Likewise appropriate reward also given on satisfactory performance and good behavior.
8. FHM being financial institution extends various types of financial services. While giving such services, we always make sure that business model of such customers should not involve in activity which may be harmful for environment or for the society as a whole.

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

The Board of Directors and Audit Committee

The following changes have taken place within Board of Directors of the Habib Modaraba Management (Pvt.)



Limited (the Company), the management company of First Habib Modaraba since the Directors' report for the year ended June 30, 2014.

- Due to personal engagements Mr. Muhammad Haroon Ahmed decided to step down and has resigned from the office of director of Habib Modaraba Management (Private) Limited.

The Board Places on record its appreciation for the valuable services rendered by Mr. Muhammad Haroon Ahmed during his association with the Company

Directors Training & Orientation

In order to comply with Code of Corporate Governance, the Board has arranged one training program for its directors last year and same will be followed in coming years as well.

Board Meeting Outside Pakistan

During the year, all board meetings have been arranged at Karachi in Management Company's office and none of the meeting conducted outside Pakistan in order to avoid any extra expenses of outside meeting.

Pattern of Certificate Holders

A Statement showing pattern of Certificate Holding of the Modaraba and additional information as at June 30, 2015 is included in this report.

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

Corporate and Financial Reporting Framework

The financial statements, prepared by the management of the modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

- Proper books of accounts of the modaraba have been maintained.

- Appropriate accounting policies have been consistently applied in preparation of financial statements. Accounting estimates used are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements and any departures there from have been adequately disclosed.
- The system of internal control, which is in place is sound in design and has been effectively implemented. It is being continuously reviewed by internal audit and other such procedures. The process of review will continue and any weakness in controls will be removed.
- Board is satisfied with the Modaraba's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data for the last six years in summarized form is included in this annual report.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as on June 30, 2015 except for those disclosed in the financial statements.

Provident Fund and Gratuity

The value of investments of provident fund and gratuity based on audited accounts as at December 31, 2014 are Rs. 36.549 million and Rs. 17.054 million respectively.

Attendance of Board meetings

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

Name of Directors	Number of meetings attended
Mr. Wazir Mumtaz Ahmed	4
Mr. Muhammad Shoaib	4
Mr. Abbas Ali Muhammad	4
Mr. Rasheed Akhtar	4
Mr. Haroon Ahmed	1
Mr. Mohammed Hashim	4

Auditors

Present auditors M/s MuniffZiauddin & Co. Chartered Accountant, are being eligible to offer themselves for reappointment as auditors for the financial year ending June 30, 2016. however their appointment will be subject to approval from Registrar Modaraba Office.

Conclusion

Due to present significant changes such as drastic cut in discount rate, increasing competition within Islamic financial sector, particularly with Islamic commercial bank and slowdown in big markets of the world particularly Chinese and emerging markets, we expect dilution in our future profits and business volume. However, we are hopeful that through our well targeted and focused business strategy, we will be able to manage our performance at satisfactory level.

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.

Muhammad Shoaib Ibrahim
Chief Executive Officer
Karachi: July 29, 2015



STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE – YEAR ENDED JUNE 30, 2015

In connection with your review of Statement of Compliance with the Best Practices of the Code of Corporate Governance (the Code) prepared by the Board of Directors of Habib Modaraba Management (Private) Limited (the Management Company) in respect of First Habib Modaraba (the Modaraba) for the year ended June 30, 2015, we confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your review:

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

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

1. At present the Board comprises of five directors of which four are non-executives and only the Chief Executive Officer is an Executive Director.

Mr. Syed Rasheed Akhtar	Non-Executive Independent Director
Mr. Muhammad Shoaib Ibrahim	Executive Director
Mr. Wazir Mumtaz Ahmed	Non-Executive Director
Mr. Abbasali Muhammad	Non-Executive Director
Mr. Muhammad Hashim	Non-Executive Director

The independent director meets the criteria of independence under clause i(b) of CCG.

2. The Directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Management Company.
3. All the resident directors of the Management Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurred during the year which will be filled in due course of time.
5. The Modaraba has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Modaraba along with its supporting policies and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the Board.
8. The Board has arranged one training program for its directors last year and same will be followed in coming years as well.



9. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, 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.
10. No new appointment of CFO, Company Secretary and Head of Internal Audit has been made during the year.
11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises three members, of whom all are non-executive directors including the Chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises three members, of whom all are non-executive directors including the Chairman of the committee.
18. The Board has set up an effective internal audit function.
19. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Modaraba's securities, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with.

Karachi: July 29, 2015

Muhammad Shoaib Ibrahim
Chief Executive Officer



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

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of **HABIB MODARABA MANAGEMENT (PRIVATE) LIMITED**, the Management Company of **FIRST HABIB MODARABA**, for the year ended June 30, 2015 to comply with the requirements of Listing Regulations No 35(Chapter XI) of the Karachi Stock Exchange Limited, Lahore Stock Exchange Limited and Islamabad Stock Exchange Limited where the Modaraba is listed.

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

As part of our audit of the financial statements we are required to obtain an understanding of the accounting and the internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Modaraba's corporate governance procedures and risks.

The Code requires the Management Company to place before the Audit Committee, and upon the recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba's compliance, in all material respects, with the best practices contained in the Code as applicable to the Modaraba for the year ended June 30, 2015.

Karachi : July 29, 2015

Muniff Ziauddin & Co.
Chartered Accountants
Engagement Partner
Muhammad Moin Khan



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

SHARIAH CERTIFICATE FOR FIRST HABIB MODARABA FOR THE PERIOD ENDED JUNE 2015

Alhamdulillah, by the Grace of Allah, the year under review was the 30th year of Islamic financing for First Habib Modaraba. During this year, the Modaraba executed a variety of new as well as established Islamic financing products and transactions after due vetting by the Sharia Compliance Department and approval from Sharia Advisor. During the year, the Shariah Compliance Department reviewed various products, concepts, transactions, processes and their Shariah-compliance, referred to them by the Shariah Advisor.

I conducted the Shari'ah review of First Habib Modaraba managed by Habib Modaraba Management (Pvt.) Ltd. for the year ended June 30, 2015 in accordance with requirement of the Shari'a Compliance and Shari'ah Audit Mechanism for Modaraba and I acknowledge that as Sharia Advisor of the Modaraba, it is my responsibility to ensure that the financial arrangements, contracts and transactions entered into by the company with its participants and customers and stakeholders are in compliance with the requirements of Sharia rules and principles.

Research & New Product Development

During the year the Modaraba remained focus on increasing the ratio of Shirkatul Milk based financing which is commendable.

In order to further strengthen the level of Sharia Compliance while executing various transactions, the Modaraba strictly focus and keep on to detailed Shariah Compliance Guidelines issued by Securities and Exchange Commission of Pakistan.

Alongside being a leading Modaraba, the FHM actively participated contributing in the efforts of Financing sector with our Vision of establishing Islamic Financing as financing of first choice.

Training & Development

Trained human Resource are very important in Islamic Finance Industry who has specialized knowledge and skill of Islamic ideology to promote the Islamic Finance as per Shariah. During the year I have regularly visit the FHM office to share practical knowledge for guidance and conducted specific training sessions on assets and liability side products. FHM also nominated its staff members for various seminars and workshop conducted by various institutions within the country.

An exercise of gauging the basic understanding of the staff about the structures and concepts of Islamic Banking & Finance was also conducted by way of interviews and on spot training sessions.

Review of Assets

The Modaraba primarily used Lease Financing and Diminishing Musharakah, for its financing activities during the year. It seems worthy to mention that a significant growth of 35% (approx.) in Diminishing Musharakah share in total financing portfolio was recorded. The Modaraba's total financing portfolio reached Rs.4.8 billion (gross) as of June 30, 2015. All these transactions were executed under my supervision.

It is encouraging to note that the Modaraba is intending to diversify its asset side portfolio by inducing new products like Murabaha, Istisna and Salam etc and reduce its reliance on Lease Financing, as it is evident from Modaraba's financing portfolio.

Review of Liabilities

On the liability side, the Modaraba offered Shariah-compliant deposit product based on the mode of 'Musharika'. During the year the Modaraba accepted deposits for liquidity management from corporate client and individuals. The total deposits of the Modaraba increased by 54% and reached a sum of Rs.2.4 billion (approx.) as at June 30, 2015.

It was observed that FHM has taken steps to bring further transparency in the profit payment mechanism for its Certificates of Musharika (COM) holder under direction of Sharia Advisor.

Throughout the year, announcement of overall profit sharing ratios for deposits; quarterly allocation of weightages and distribution of profit to COM holder was monitored and reviewed and updated in accordance with Shariah rules and principles.

Shariah Audit & Compliance Reviews

The Internal Shariah Audit function plays a vital role in achieving the objective of ensuring Shariah compliance by evaluating the adherence to Shariah guidelines in each and every activity undertaken by the Modaraba. The Shariah Audit function keeps a continuous check on all activities starting right from the time of opening of a branch and goes hand in hand at each step of product offering till the stage of final profit distribution to the customers.

Shariah Audit of all transactions and departments was conducted as a part of the Modaraba's efforts to strengthen the internal Shariah controls mechanism. These audits not only covered the transactions that the branches/departments undertook but also include an evaluation of the Sharia knowledge of staff.

During the year, credit approvals, restructuring of financing facilities, customer-specific transaction process flows, text of documents and security documents were reviewed to ensure Shariah compliance while offering financing products to the customers.

Moreover, random physical inspections and concrete measures were taken to verify the purchase evidences and invoices of financing transactions, thus further improving the quality of internal controls.

I am pleased to highlight that during the year 2014-15, direct payments for Lease Financing & Diminishing Musharika financings increased by previous year.

The internal shariah audit covered overall Shariah-compliance of the Modaraba's operation and their adherence with the guidelines given by Shariah Advisor and the SECP. In the process, following areas were looked into:

- Genuine purchase evidences were obtained to execute Agency Mode contracts to ensure that disbursements are not availed to set off previous balances with the supplier.
- All transactions Agreements for Lease financing Diminishing Musharakah were reviewed.
- Declarations, description of assets, relevant purchase invoices, sequence and order of the documents and time difference between purchases and declaration were reviewed to obviate the possibility of fictitious transactions.
- Sharia Compliance Checklist (SCC) of transaction was reviewed on random basis.
- All the investment were made in Shariah compliance Scripts.
- Other related documents and procedures followed by different functional areas.
- Profit-sharing ratio, profit weightages and distribution of profit to COM depositors.

Charity

During the year any amount received from customers due to late payment charges on financial transactions have been credit in Charity account and also witness the list of charitable institutions whom the FHM was paid from charity account.

Recommendation

Based on the review of various transactions and operations of the Modaraba, I recommend that:

- The Modaraba should evaluate the possibility of offering its more financing products with addition of further branches so as to make other people benefit from Islamic financing.
- Due care regarding the mind set and commitment towards the cause of Islamic financing should be taken during the process of hiring of new staff. Moreover, it is recommended to increase the scope of Islamic financing knowledge assessment process already implemented for new Branch Managers, department heads and new joiners at senior level.
- The Modaraba should continue its policy of expansion to spread Islamic financing and in this regard continue its focus on employees' training related to Islamic financing products and services offered by the Modaraba with specific focus on front line staff.
- The Modaraba should focus more on further increasing its Asset base through direct financing to businesses and individuals through the use of approved Sharia compliant modes and efforts

Conclusion

It is mandatory on the management and employees to ensure application of Shariah principles and guidelines issued by the Sharia Advisor and office of Registrar of SECP to ensure Shariah-compliance in all activities of the Modaraba. The prime responsibility for ensuring Shariah-compliance of the Modaraba's operations thus lies with the management.

Based on the extensive reviews of sample cases for each class of transaction, related documentation, processes, profit distribution mechanism for the depositors and management's representation made in this regard, in my opinion, the affairs, activities and transactions, performed by the Modaraba during the year comply with the rules & principles of Islamic Shariah in light of the guidelines and directives given by the Shariah Advisor and guidelines issued by office of the Registrar Modaraba, Security Exchange Commission of Pakistan (SECP).

May Allah bless us with the best Tawfeeq to accomplish His cherished tasks, make us successful in this world and in the Hereafter, and forgive our mistakes?

WassalamAlaikumWaRahmat Allah WaBarakatuh.

الخاطمني والصواب من منهم الصواب



Mufti Abdul Sattar Laghari
Shariah Advisor
First Habib Modaraba

Dated: 18th Ramazan-ul-Mubarak 1436 H / July 6, 2015



Auditors' Report To The Certificate Holders

We have audited the annexed balance sheet of First Habib Modaraba (the Modaraba) as at June 30, 2015 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

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

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

- a) In our opinion, proper books of account have been kept by the Modaraba Company in respect of First Habib Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI OF 1980), and 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 except for change in accounting policy as stated in note 4.1 to the accompanying financial statements, with which we concur;
 - ii) the expenditure incurred during the year was for the purpose of the Modaraba's business and
 - iii) the business conducted, investment made, and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- c) In our opinion and to the best of our information and according to explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof confirm with the approved accounting standards as applicable in Pakistan and give the information required by the Modaraba companies and the Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and the 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, 2014 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 Ushar Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Karachi : July 29, 2015

Muniff Ziauddin & Co.
Chartered Accountants
Engagement Partner
Muhammad Moin Khan



Balance Sheet

As at June 30, 2015

	Note	2015	2014
-----Rupees-----			
ASSETS			
NON-CURRENT ASSETS			
Fixed assets - tangible			
Lease financing assets	5	3,072,311,550	2,868,616,976
Assets in own use	5.2	8,637,666	11,204,147
		3,080,949,216	2,879,821,123
Intangible assets	6	661,638	1,500,691
Diminishing musharaka financing	7	1,029,713,235	616,572,857
Long term advances, deposits and prepayments	8	687,450	1,200,050
		4,112,011,539	3,499,094,721
CURRENT ASSETS			
Investments	9	985,220,547	975,232,743
Current portion of diminishing musharaka financing	7	699,404,010	444,546,723
Lease financing assets installments receivable	10	3,601,077	9,915,676
Advances and short term prepayments	11	3,571,280	8,455,814
Other receivables	12	42,784,358	53,303,169
Tax refund	13	59,184,873	31,314,018
Cash and bank balances	14	487,512,972	371,131,886
		2,281,279,117	1,893,900,029
TOTAL ASSETS		6,393,290,656	5,392,994,749
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Certificate capital :			
Authorized			
220,000,000 (2014: 220,000,000)			
certificates of Rs. 5/- each			
		1,100,000,000	1,100,000,000
Issued, subscribed and paid-up capital	15	1,008,000,000	1,008,000,000
Reserves	16	2,248,855,321	2,200,619,366
Certificate holders' equity		3,256,855,321	3,208,619,366
NON-CURRENT LIABILITIES			
Security deposits against lease financing assets	17	343,300,486	290,104,583
CURRENT LIABILITIES			
Certificates of musharaka (deposits)	18	2,360,079,584	1,533,668,767
Security deposits - current portion	17	75,200,074	81,132,842
Unearned lease financing assets and diminishing musharaka installments		13,002,325	3,979,895
Advance lease financing assets and diminishing musharaka installments		16,521,499	32,471,878
Trade and other payables	19	251,292,016	188,147,386
Profit payable on certificate of musharaka		48,570,764	28,379,755
Taxation		2,790,833	2,790,833
Unclaimed profit distribution		25,677,754	23,699,444
		2,793,134,849	1,894,270,800
CONTINGENCIES AND COMMITMENTS			
TOTAL EQUITY AND LIABILITIES	20	6,393,290,656	5,392,994,749

The annexed notes 1 to 43 form an integral part of these financial statements.

For Habib Modaraba Management (Private) Limited
(Management Company)

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR



Profit And Loss Account

For the year ended June 30, 2015

	Note	2015	2014
		-----Rupees-----	
Income from lease financing assets	21	286,085,820	297,916,695
Income on diminishing musharaka financing		154,250,675	93,591,278
		440,336,495	391,507,973
Administrative expenses	22	(74,774,955)	(70,750,329)
		365,561,540	320,757,644
Other income	23	127,339,888	124,150,840
Other operating charges	24	(537,300)	(651,171)
		492,364,128	444,257,313
Financial charges	25	(138,968,139)	(114,767,714)
		353,395,989	329,489,599
Modaraba Management Company's remuneration		(35,339,599)	(32,948,960)
Services sales tax on Managemet Company's remuneration	26	(5,300,940)	(5,271,834)
		312,755,450	291,268,805
Wokers Welfare Fund		(6,255,109)	(5,825,376)
Profit before taxation		306,500,341	285,443,429
Taxation		-	-
Profit for the year		306,500,341	285,443,429
Earnings per certificate - basic and diluted	37	1.52	1.42

The annexed notes 1 to 43 form an integral part of these financial statements.

**For Habib Modaraba Management (Private) Limited
(Management Company)**

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR



Statement Of Comprehensive Income

For the year ended June 30, 2015

	2015	2014
	-----Rupees-----	
Profit for the year	306,500,341	285,443,429
Movement in available for sale investments	(36,631,178)	71,152,023
Acturial gain on defined benefit plan	126,792	772,378
Total comprehensive income for the year	269,995,955	357,367,830

The annexed notes 1 to 43 form an integral part of these financial statements.

For Habib Modaraba Management (Private) Limited
(Management Company)

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR



Cash Flow Statement

For the year ended June 30, 2015

	Note	2015	2014
-----Rupees-----			
Cash flow from operating activities			
Cash generated from operations	39	1,625,589,202	1,505,079,518
Disbursement of lease financing assets		(1,742,092,567)	(1,400,901,865)
Proceeds from transfer of lease financing assets		406,242,415	281,632,637
Diminishing musharaka financing - net		(667,997,665)	(514,301,584)
Lessee's security deposits:			
Received		150,639,615	119,354,126
Refunded / adjusted		(103,376,480)	(67,740,228)
Net lessee's security deposits		47,263,135	51,613,898
Financial charges paid		(118,459,210)	(104,789,343)
Gratuity paid		(1,569,156)	(895,719)
Net cash outflow from operating activities		(451,023,846)	(182,562,458)
Cash flow from investing activities			
Purchase of owned assets (including intangibles)		(1,998,679)	(5,030,800)
Proceeds from disposal of owned assets		57,000	1,497,081
Purchase of investments - available for sale		(46,618,982)	(7,143,406)
Redemption of Ijarah Sukuk bonds		-	100,160,000
Proceeds from disposal of investments		730,149	47,259
Dividend received		8,093,717	5,779,663
Long-term advances, deposits and prepayments		512,600	1,292,600
Net cash (used in) / generated from investing activities		(39,224,195)	96,602,397
Cash flow from financing activities			
Profit distribution paid		(219,781,690)	(199,409,006)
Certificates of Musharaka (deposits)		826,410,817	525,861,038
Net cash inflow from financing activities		606,629,127	326,452,032
Net increase in cash and cash equivalents		116,381,086	240,491,971
Cash and cash equivalents at the beginning of the year		371,131,886	130,639,915
Cash and cash equivalents at the end of the year		487,512,972	371,131,886

The annexed notes 1 to 43 form an integral part of these financial statements.

**For Habib Modaraba Management (Private) Limited
(Management Company)**

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR



Statement Of Changes In Equity

For the year ended June 30, 2015

	Capital reserves			Revenue Reserves			Total reserves	Total
	Certificate capital	Certificate premium	Statutory reserve	General reserve	Unrealized gain on investments	Unappropriated profit		
	-----Rupees-----							
Balance as at July 01, 2013	1,008,000,000	378,000,000	777,452,032	50,000,000	36,683,068	802,716,436	2,044,851,536	3,052,851,536
Profit distribution for the year ended June 30, 2013 at 20%	-	-	-	-	-	(201,600,000)	(201,600,000)	(201,600,000)
Transfer to general reserve	-	-	-	590,000,000	-	(590,000,000)	-	-
Total comprehensive income for the year	-	-	-	-	71,152,023	286,215,807	357,367,830	357,367,830
Transfer to statutory reserve at 20%	-	-	57,088,686	-	-	(57,088,686)	-	-
Balance as on June 30, 2014	1,008,000,000	378,000,000	834,540,718	640,000,000	107,835,091	240,243,557	2,200,619,366	3,208,619,366
Balance as on July 01, 2014	1,008,000,000	378,000,000	834,540,718	640,000,000	107,835,091	240,243,557	2,200,619,366	3,208,619,366
Profit distribution for the year ended June 30, 2014 at 22%	-	-	-	-	-	(221,760,000)	(221,760,000)	(221,760,000)
Total comprehensive income for the year	-	-	-	-	(36,631,178)	306,627,133	269,995,955	269,995,955
Transfer to statutory reserve at 25%	-	-	76,625,085	-	-	(76,625,085)	-	-
Balance as at June 30, 2015	1,008,000,000	378,000,000	911,165,803	640,000,000	71,203,913	248,485,605	2,248,855,321	3,256,855,321

The annexed notes 1 to 43 form an integral part of these financial statements.

**For Habib Modaraba Management (Private) Limited
(Management Company)**

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR



NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2015

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 lease financing, Musharaka, Murabaha financing and other related business.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

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

2.2 Basis of measurement

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

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

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

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

2.3 Functional and presentation currency

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

2.4 Significant accounting estimates and judgments

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



Useful lives, pattern of flow of economic benefits and impairment

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

Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 19.3 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might effect unrecognized gains and losses in those years.

Provisions against non performing financing (Suspense income)

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

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

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

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

Standard, Interpretation or Amendment		Effective date (annual periods beginning on or after)
IAS 27	Separate financial statements (Amendments)	January 1, 2015
IFRS 10	Consolidated financial statements (Amendments)	January 1, 2015
IFRS 11	Joint Arrangements	January 1, 2015
IFRS 12	Disclosure of interests in other entities (Amendments)	January 1, 2015
IFRS 13	Fair value measurement	January 1, 2015

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

In addition to the above amendments and interpretations, improvements to the following accounting standards have also been issued by IASB. Such improvements are generally effective for accounting periods beginning on or after July 01, 2014.

Standard or Interpretation		Effective date (annual periods beginning on or after)
IFRS 8	Operating Segments	July 01, 2014
IAS 16	Property, plant and equipment - (Amendment)	July 01, 2014
IAS 38	Intangible Assets - (Amendment)	July 01, 2014
IAS 24	Related Party Disclosure	July 01, 2014
IAS 40	Investment Property	July 01, 2014



4 SIGNIFICANT ACCOUNTING POLICIES

4.1 Revenue recognition

lease financing assets installments are recognized on accrual basis.

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

Income on diminishing musharaka financing is recognized on accrual basis.

Income on Sukuk bond is recognized on accrual basis.

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

Return on deposit accounts is recognized on accrual basis.

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

4.2 Fixed assets – Tangible

(a) Lease financing assets

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

(b) Assets in own use

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

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

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

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

(c) Gain or loss on disposal

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

(d) Impairment

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

4.3 Intangible assets

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

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



4.4 Financial assets

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

i) Financial assets at fair value through profit or loss

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

ii) Held-to-maturity

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

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

iii) Loans and receivables

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

iv) Available-for-sale

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

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

4.5 Trade date accounting

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

4.6 Financial liabilities

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



4.7 Recognition and derecognition of financial instruments

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

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

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

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

4.8 Offsetting of financial assets and financial liabilities

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

4.9 Lease financing installments, Diminishing musharaka and Murabaha finance receivables

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

4.10 Cash and cash equivalents

Cash and cash equivalents are carried at cost.

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

4.11 Finance arrangements including Certificates of Musharaka (deposits)

These are carried at the balance sheet at the principal amount. The amount received by the modaraba from Certificate of musharaka holders is invested in the overall business activity of the modaraba on the basis of full participation in the profit and loss of the modaraba.

The profit shall be shared by certificate of musharaka holders and certificate holders in accordance with the agreed ratio. Profit on these arrangement are recognized as financial expense in the period in which they 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 quarter after determination of the actual rate.

4.12 Staff retirement benefits

(a) Gratuity scheme

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

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



(b) Provident fund

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

4.13 Compensated absences

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

4.14 Taxation

Current

Provision for current taxation is made on taxable income at the prevailing rates of tax after taking into account tax credits available, if any. Under clause 100 of Part - I of the Second Schedule to the Income Tax Ordinance, 2001, the income of non-trading modarabas is exempt from tax provided that not less than 90 percent of their profits are distributed to the certificate holders.

Deferred

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

4.15 Provisions

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

4.16 Profit distribution and other appropriations of profit

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

4.17 Related party transactions

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

	Note	2015	2014
-----Rupees-----			
5 lease financing assets			
lease financing assets	5.1	2,619,047,150	2,704,571,676
Advance against lease financing assets	5.1.1	453,264,400	164,045,300
		3,072,311,550	2,868,616,976



5.1 lease financing assets

Particulars	June 30, 2015								
	COST			DEPRECIATION			Impairment	Written down value as at June 30, 2015	Rate of depreciation %
	As at July 01, 2014	Additions / (disposals) during the year	As at June 30, 2015	As at July 01, 2014	Charge / (adjustments) for the year	As at June 30, 2015			
-----Rupees-----									
Plant, machinery and equipment	762,608,753	204,498,877	635,189,979	389,940,792	178,684,723	338,830,160	8,028,061	288,331,758	8.33 to 50
		(331,917,651)			(229,795,355)				
Vehicles	4,108,560,842	1,248,374,590	4,119,393,996	1,768,629,066	973,314,143	1,788,678,604	-	2,330,715,392	15 to 33.33
		(1,237,541,436)			(953,264,605)				
	4,871,169,595	1,452,873,467	4,754,583,975	2,158,569,858	1,151,998,866	2,127,508,764	8,028,061	2,619,047,150	
		(1,569,459,087)			(1,183,059,960)				

Particulars	June 30, 2014								
	COST			DEPRECIATION			Impairment	Written down value as at June 30, 2014	Rate of depreciation %
	As at July 01, 2013	Additions / (disposals) during the year	As at June 30, 2014	As at July 01, 2013	Charge / (adjustments) for the year	As at June 30, 2014			
-----Rupees-----									
Plant, machinery and equipment	888,742,978	204,100,516	762,608,753	497,541,640	191,642,073	389,940,792	8,028,061	364,639,900	8.33 to 50
		(330,234,741)			(299,242,921)				
Vehicles	3,525,994,153	1,471,847,326	4,108,560,842	1,406,674,561	1,020,319,736	1,768,629,066	-	2,339,931,776	15 to 33.33
		(889,280,637)			(658,365,231)				
	4,414,737,131	1,675,947,842	4,871,169,595	1,904,216,201	1,211,961,809	2,158,569,858	8,028,061	2,704,571,676	
		(1,219,515,378)			(957,608,152)				

5.1.1 Advance against lease financing assets

The lease financing assets cost includes an amount of Rs. 453.263 million (2014: Rs. 164.045 million) relating to advance against lease financing assets which have not yet been delivered to leasee.

5.2 Assets in own use

Particulars	June 30, 2015								
	COST			DEPRECIATION			Written down value as at June 30, 2015	Rate of depreciation %	
	As at July 01, 2014	Additions / (disposals) during the year	As at June 30, 2015	As at July 01, 2014	Charge / (adjustments) for the year	As at June 30, 2015			
-----Rupees-----									
Office equipment	13,203,846	649,515	12,478,096	9,253,303	2,640,443	10,518,554	1,959,542	25 to 33.33	
		(1,375,265)			(1,375,192)				
Furniture and fixture	8,649,519	493,930	7,898,362	7,352,604	631,938	6,739,516	1,158,846	20	
		(1,245,087)			(1,245,026)				
Vehicles	8,932,349	768,000	8,864,929	2,975,660	1,182,423	3,345,652	5,519,277	16.67	
		(835,420)			(812,431)				
	30,785,714	1,911,445	29,241,387	19,581,567	4,454,803	20,603,722	8,637,666		
		(3,455,772)			(3,432,649)				



Particulars	June 30, 2014							
	COST			DEPRECIATION			Written down value as at June 30, 2014	Rate of depreciation %
	As at July 01, 2013	Additions / (disposals) during the year	As at June 30, 2014	As at July 01, 2013	Charge / (adjustments) for the year	As at June 30, 2014		
-----Rupees-----								
Office equipment	12,490,609	1,040,037	13,203,846	6,630,340	2,907,251	9,253,303	3,950,543	25 to 33.33
		(326,800)			(284,288)			
Furniture and fixture	8,626,915	414,604	8,649,519	6,965,759	632,860	7,352,604	1,296,915	20
		(392,000)			(246,015)			
Vehicles	8,503,349	2,635,500	8,932,349	2,596,782	1,301,992	2,975,660	5,956,689	16.67
		(2,206,500)			(923,114)			
	29,620,873	4,090,141	30,785,714	16,192,881	4,842,102	19,581,567	11,204,147	
		(2,925,300)			(1,453,416)			

5.3 Disposal of assets in own use

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	-----Rupees-----					
Motor Cycle	41,920	31,441	10,479	18,000	Quotation	Memon Motors (Pvt.) Ltd Karachi
Motor Cycle	39,500	26,991	12,509	18,000	Quotation	Memon Motors (Pvt.) Ltd Karachi
Motor Vehicle	754,000	753,999	1	-	As per Company Policy	Mr. Amir Manzoor
Furniture & Fixture	232,367	232,365	2	14,000	Quotation	Orange interiors Karachi
Furniture & Fixture	987,720	987,663	57	-	Scrape	
Furniture & Fixture	25,000	24,998	2	-	As per Company policy	Mr. Intisar Usmani
Office Equipments	141,815	141,779	36	-	Scrape	
Office Equipments	675,350	675,329	21	7,000	Quotation	Information technology services Karachi
Office Equipments	558,100	558,084	16	-	Scrape	
	3,455,772	3,432,649	23,123	57,000		



6 INTANGIBLE ASSETS

Particulars	COST			DEPRECIATION			Written down value as at June 30, 2015	Rate of amortization %
	As at July 01, 2014	Additions / (disposals) during the year	As at June 30, 2015	As at July 01, 2014	Charge / (adjustments) for the year	As at June 30, 2015		
-----Rupees-----								
Computer software - 2015	3,329,785	87,234	3,417,019	1,829,094	926,287	2,755,381	661,638	33.33
Computer software - 2014	2,978,780	940,659 (589,654)	3,329,785	1,569,615	849,109 (589,630)	1,829,094	1,500,691	33.33

7 DIMINISHING MUSHARAKA FINANCING

	Note	2015	2014
-----Rupees-----			
Secured Diminishing musharaka financing	7.1	1,569,917,509	1,012,672,680
Less: Current portion shown in current assets		(699,404,010)	(444,546,723)
		870,513,499	568,125,957
Advance against diminishing musharaka financing		159,199,736	48,446,900
		1,029,713,235	616,572,857

7.1 This represents diminishing musharaka financing for a term of 1 to 5 years.

8 LONG-TERM ADVANCES, DEPOSITS AND PREPAYMENTS

Long-term deposits			
Security deposit to Central Depository Company of Pakistan Limited		150,000	150,000
Security deposit of Lahore office		120,000	120,000
Security deposit of Islamabad office		130,000	130,000
Security deposit of Store room		69,000	-
Security deposit to Habib Metropolitan Bank for locker		130,000	70,000
Miscellaneous deposits		66,850	65,850
		665,850	535,850
Prepayments			
Prepaid expenses		21,600	664,200
		687,450	1,200,050

9 INVESTMENTS

	Note	2015	2014
-----Rupees-----			
Available for sale			
Investment in shares	9.1	180,180,547	146,192,743
Investment in Ijarah Sukuk bonds	9.2	805,040,000	829,040,000
		985,220,547	975,232,743



9.1 Investment in Shares

Shares of listed companies	Name of company	2015	2015	2014	2014
		Average cost	Carrying value at fair value (Market price)	Average cost	Carrying value at fair value (Market price)
Number of shares		-----Rupees-----			
2015	2014				
Automobile and Parts					
330	330	1,750	143,850	1,750	90,384
Banks					
2,327,978	2,010,555	12,961,238	23,745,376	10,157,636	19,824,072
1,499,992	1,082,992	32,726,358	61,499,672	15,490,038	46,828,574
Equity Investment Instrument					
5,000	5,000	43,690	80,850	43,690	68,350
5,000	5,000	39,090	73,000	39,090	66,050
Pharma and Bio Tech					
1,000	1,000	46,348	667,310	46,348	572,320
Chemicals					
665	665	90,062	285,199	90,062	259,576
Food Producers					
647,857	602,857	12,912,178	27,106,337	11,109,831	22,004,281
Telecommunication					
500,000	5,000	10,118,291	10,250,000	76,788	127,350
Oil and Gas					
3,168	3,168	294,463	1,222,182	294,463	1,231,877
289,698	239,698	40,164,815	47,585,793	29,640,234	53,773,849
2,000	2,000	145,640	358,480	145,640	522,560
1,190	1,000	95,691	557,634	95,691	373,430
Cement					
1,000	1,000	126,129	519,620	126,129	410,300
Power Generation and Distribution					
25,000	-	1,498,192	2,339,250	-	-
Fertilizer					
1,000	1,000	40,262	55,320	40,262	39,770
24,700	-	2,712,438	3,690,674	-	-
		114,016,635	180,180,547	67,397,652	146,192,743

9.2 Investment in Ijarah Sukuk bonds

Investment in sukuk	800,000,000	805,040,000	800,000,000	829,040,000
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9.2.1 These Sukuk Bonds are issued by the Government of Pakistan with the maturity term of 3 years from the date of issue. The profit on the Sukuk shall be paid semi-annually on the basis of rental rate announced by the State Bank of Pakistan prior to start of each half year. The Modaraba has obtained permission from Registrar of Modarabas to treat the investment as part of redemption reserve fund to be set aside by the Modaraba to comply with the requirements of the Registrar of Modarabas for the issuance of certificate of Musharaka.



	Note	2015	2014
		-----Rupees-----	
10 LEASE FINANCING ASSETS INSTALLMENT RECEIVABLE			
Secured - considered good			
Lease financing assets installments due		3,601,077	11,808,772
Suspense lease financing assets installments	10.1		(1,893,096)
		3,601,077	9,915,676
10.1	Suspense lease financing assets installments represent amounts overdue on lease financing assets.		
11 ADVANCES AND SHORT TERM PREPAYMENTS			
Advances		84,000	5,965,428
Short term prepayments		3 487 280	2,490,386
		3,571,280	8,455,814
12 OTHER RECEIVABLES			
Unsecured - considered good			
Profit receivable on modaraba deposit accounts		1,361,073	2,720,553
Profit receivable on Ijarah Sukuk bond		15,807,792	20,152,910
Profit on TDR		106,164	-
Advance tax		23,729,509	29,105,854
Registration charges receivable		941,293	712,110
Other receivables		838,527	611,742
		42,784,358	53,303,169
13 TAX REFUND			
Income tax		59,184,873	31,314,018
		59,184,873	31,314,018
14 CASH AND BANK BALANCES			
Stamps in hand		684,131	483,421
Cash at banks			
Current account			
State Bank of Pakistan		14,750	58,740
With other banks		291,757	680,941
Deposit accounts			
Modaraba Deposit account Burj Bank Limited	14.1	-	-
Modaraba Deposit account HMB Islamic branch	14.2	336,512,333	369,908,783
Redemption fund for Certificates of Musharaka (deposits)	14.3	10,001	1
Term Deposit accounts Meezan Bank Limited	14.4	50,000,000	-
Term Deposit accounts Albaraka Bank Limited	14.4	50 000 000	-
Term Deposit accounts Soneri Islamic Banking	14.4	50,000,000	-
		486,522,334	369,908,784
		487,512,972	371,131,886

14.1 The profit on the above modaraba deposit account ranges between 2.90% to 4.75% per annum (2014: 5.48% per annum).

14.2 The profit on the above modaraba deposit account ranges between 6.04% to 8.80% per annum (2014: 7.56% to 9.02% per annum).

14.3 The profit on the above deposit account ranges between 6.04% to 8.80% per annum (2014: 7.56% to 9.02% per annum)

14.4 The profit on the above deposit account ranges between 6.00% to 8.80% per annum.



		Note	2015	2014
			-----Rupees-----	
15	ISSUED, SUBSCRIBED AND PAID-UP CAPITAL			
	2015	2014		
	(Number of certificates)			
	193,900,000	193,900,000	Certificates of Rs. 5/- each issued for cash	969,500,000
	7,700,000	7,700,000	Certificates of Rs. 5/- each issued as bonus	38,500,000
	201,600,000	201,600,000		1,008,000,000

16 RESERVES

Capital reserves				
Premium on issuance of certificates			378,000,000	378,000,000
Statutory	16.1		911,165,803	834,540,718
			1,289,165,803	1,212,540,718
Revenue reserves				
General			640,000,000	640,000,000
Unrealized gain on available-for-sale investments			71,203,913	107,835,091
Unappropriated profit			248,485,605	240,243,557
			959,689,518	988,078,648
			2,248,855,321	2,200,619,366

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

17 SECURITY DEPOSITS AGAINST LEASE FINANCING ASSETS

Leasee security deposits	17.1	418,500,560	371,237,425
Less: Current portion shown under current liabilities		(75,200,074)	(81,132,842)
		343,300,486	290,104,583

17.1 This represent deposits from leasee without any remuneration.

18 CERTIFICATES OF MUSHARAKA (DEPOSITS)

Unsecured			
Certificates of Musharaka (deposits)	18.1	2,360,079,584	1,533,668,767

in case of loss in Modaraba venture the Management Company is not entitled to claim any remuneration, the NBF1 and Modaraba Association, on behalf of various Modarabas, has filed a constitutional petition in Honorable High

19 TRADE AND OTHER PAYABLES

Accrued liabilities		42,814,510	21,381,652
Adjustable against lease financing assets contracts	19.1	113,318,449	91,045,949
Advance against sale of diminishing musharaka units		6,859,505	1,366,922
Workers' Welfare Fund		19,116,320	12,861,211
Management fee payable		35,339,599	32,948,960
Sales tax on management fee payable	19.2	33,843,633	28,542,693
Gratuity payable	19.3	-	-
		251,292,016	188,147,387



Court of Singh (SHC) and challenged said levy. Subsequently, the SHC its judgement dated February 02, 2015 directed to seek remedy from Appellate Tribunal of SRB which has been recently constituted.

Therefore, the management has filed an appeal with the Appellate Tribunal of Sindh Revenue Board and the matter is not decided as yet.

19.3 Staff retirement benefits - Defined benefit plan

a General description

As mentioned in note 4.12, the Modaraba operates an approved funded gratuity scheme for all of its permanent employees. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at June 30, 2014 using the Projected Unit Credit Method.

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at balance sheet date. The return on plan assets was assumed to equal the discount rate. Actual return on plan assets during the year was Rs.1.348 million (2014: Rs.1.514 million).

Expected

The expected gratuity cost charge for the year ending June 30, 2016 amounts to Rs.1.777 million. The actual cost will be determined after valuation of the Fund as at June 30, 2015 when the actuarial gains and losses arising during the year ending June 30, 2016 will be available.

	Note	2015	2014
		-----Rupees-----	
b	Reconciliation of balance due to defined benefit plan:		
	Present value of defined benefit obligation	19,230,519	17,838,624
	Fair value of plan assets	(19,230,519)	(17,838,624)
	Net defined liability/ (assets)	-	-
c	Amount charged to profit and loss account:		
	Current service cost	1,695,948	1,759,842
	Interest cost	2,407,624	2,042,524
	Expected return on plan assets	(2,407,624)	(2,134,269)
		1,695,948	1,668,097
d	Re-measurement recognized in other comprehensive income during the year		
	Actuarial gain on obligation	(1,186,377)	(1,342,769)
	Actuarial loss on assets	1,059,585	570,391
	Remeasurement gain recognized in OCI	(126,792)	(772,378)
	Total defined benefit cost recognized in P&L and OCI	1,569,156	895,719
e	Movement in the liability / (asset) recognized in the balance sheet:		
	Balance as at July 01	-	-
	Net charge for the year	1,695,948	1,668,097
	Re- measurement gain recongnised in OCI	(126,792)	(772,378)
	Contribution to the fund	(1,569,156)	(895,719)
	Balance as at June 30	-	-



	Note	2015	2014
		-----Rupees-----	
f	Movement in the present value of defined benefit obligation:		
	Balance as at July 01	17,838,624	18,720,102
	Current service cost	1,695,948	1,759,842
	Interest cost	2,407,624	2,042,524
	Actual benefits paid during the year	(1,525,300)	(3,341,075)
	Actuarial gain	(1,186,377)	(1,342,769)
	Balance as at June 30	19,230,519	17,838,624
g	Movement in the fair value of plan assets:		
	Balance as at July 01	17,838,624	18,720,102
	Expected return	2,407,624	2,134,269
	Contributions	1,569,156	895,719
	Actual benefits paid during the year	(1,525,300)	(3,341,075)
	Actuarial loss	(1,059,585)	(570,391)
	Balance as at June 30	19,230,519	17,838,624
h	Principal actuarial assumptions used are as follows:		
	Expected rate of long term salary increase per annum	10.25%	13.00%
	First year salary increase	13.00%	13.00%
	Valuation discount rate	10.25%	13.00%

	2015	2014	2013	2012	2011	
		-----Rupees-----				
i	Comparisons for past years:					
	As at June 30					
	Present value of defined benefit obligation	19,230,519	17,838,624	18,720,102	15,905,347	13,452,894
	Fair value of plan assets	(19,230,519)	(17,838,624)	(18,720,102)	(15,901,599)	(13,630,327)
	Deficit / (surplus)	-	-	-	3,748	(177,433)
	Experience (gain) / loss on obligation	(1,186,377)	(1,342,769)	(156,097)	364,558	113,585
	Experience (loss) / gain on plan assets	(1,059,585)	(570,391)	(578,516)	(577,403)	134,610

	Note	2015	2014
		-----Rupees-----	
	Major categories / composition of plan assets are as follows:		
	Bank Deposit	19,230,519	17,838,624

20 CONTINGENCIES AND COMMITMENTS

Contingencies

There were no contingencies as at the balance sheet date. (2014: Nil)

Commitments

Defined benefit plan

	Contribution for the year allocated to administrative expenses	1,569,156	895,719
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Commitments in respect of financing transactions amounted to Rs. 150.484 million (2014: Rs. 109.900 million).

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

27 REMUNERATION OF OFFICERS AND OTHER EMPLOYEES

	Note	2015	2014
-----Rupees-----			
19.4 The reconciliation of charity payable is as follows:			
Balance as at July 01		418,012	961,857
Addition during the year		2,594,875	1,456,155
Less: Paid to recognized charitable organisations		(1,309,562)	(2,000,000)
Balance as at June 30		1,703,325	418,012

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

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

28 LEASE FINANCING ASSETS INSTALLMENTS RECEIVABLE WITHIN ONE YEAR

21 INCOME FROM LEASE FINANCING ASSETS

Lease Financing installments		1,438,084,686	1,509,878,504
Less: Depreciation on lease financing assets		(1,151,998,866)	(1,211,961,809)
		286,085,820	297,916,695

22 ADMINISTRATIVE EXPENSES

Salaries, allowances and other benefits	27	41,641,594	40,712,407
Printing, stationery and advertising		4,179,999	3,627,516
Travelling and conveyance		763,625	786,705
Insurance		371,768	381,824
Utilities		3,404,912	1,811,092
Postage		919,496	472,877
Newspapers and periodicals		27,719	35,190
Repairs and maintenance		1,011,951	1,013,333
Telecommunication		752,827	760,605
Fees and subscriptions		3,518,986	3,514,193
Legal and professional charges		3,448,550	2,271,769
Donations	22.1	840,000	840,000
Depreciation on fixed assets in own use	5.2	4,454,803	4,842,102
Amortization on intangible assets	6	926,287	849,109
Certificate registrar expenses		1,437,623	1,541,375
Vehicle running expenses		1,245,368	1,673,461
Office expense		1,182,000	1,145,878
Staff training and workshop		192,150	280,360
Staff Hajj expenses		916,823	897,200
Rent expense		2,164,000	1,966,999
Information technology expenses		1,301,910	1,270,467
Miscellaneous		72,564	55,867
		74,774,955	70,750,329



Lease financing installments receivable in respect of existing Lease financing assets, in the subsequent financial year ending June 30, 2016 amounts to Rs.1,353.143 million (2014: Rs.1,200.511 million). Lease financing assets installments recoverable within the next twelve months shall be treated as current assets for the purpose of

	Note	2015	2014
		-----Rupees-----	
23 OTHER INCOME			
Dividend on shares		8,093,717	5,779,663
Gain on transfer of lease financing assets		19,843,288	19,671,587
Gain on sale of shares		730,149	15,256
Gain on sale of owned fixed assets - net		33,989	25,199
Profit on Modaraba'a deposit accounts		24,375,798	17,966,981
Profit on redemption reserve fund - COM		-	971
Profit on Sukuk		73,168,982	79,978,020
Miscellaneous income		1,093,965	713,163
		127,339,888	124,150,840

24 OTHER OPERATING CHARGES

Loss on sale of shares		-	16,171
Professional tax		-	100,000
Auditor's remuneration	24.1	537,300	535,000
		537,300	651,171

24.1 Auditor's remuneration:

Audit fee		300,000	300,000
Fee for review of half yearly financial statements and Statement of Compliance with Code of Corporate Governance		170,000	170,000
CDC monitoring compliance		10,000	10,000
Out of pocket expenses		57,300	55,000
		537,300	535,000

25 FINANCIAL CHARGES

Profit on certificates of musharaka		138,650,222	114,566,209
Bank commission and charges		317,917	201,505
		138,968,139	114,767,714

26 SERVICE SALES TAX ON MANAGEMENT COMPANY REMMUNERATION

Current year		5,300,940	5,271,834
		5,300,940	5,271,834



calculating current ratio (as per BPRD Circular No. 8 dated April 11, 1998).

29 TRANSACTIONS WITH RELATED PARTIES

	2015			2014		
	Officers	Other employees	Total	Officers	Other employees	Total
	-----Rupees-----			-----Rupees-----		
Salaries	17,222,268	6,437,207	23,659,475	17,959,506	6,831,489	24,790,995
House rent	2,232,900	1,142,100	3,375,000	2,284,200	1,080,900	3,365,100
Conveyance and other allowances	5,683,210	4,076,466	9,759,676	4,352,400	2,984,872	7,337,272
Group insurance	725,910	522,760	1,248,670	1,009,782	456,699	1,466,481
Gratuity Fund	1,200,764	495,184	1,695,948	1,370,493	297,604	1,668,097
Provident fund	1,388,310	514,515	1,902,825	1,429,726	654,736	2,084,462
	28,453,362	13,188,232	41,641,594	28,406,107	12,306,300	40,712,407
Number of persons	13	25	38	15	21	36

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

29.1 No remuneration in kind has been paid by the Modaraba to the Directors.

30 CAPITAL MANAGEMENT

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

Relationship	Nature of transaction	Note	2015	2014
			-----Rupees-----	
Balances with related parties				
Modaraba Management Company	Payable to modaraba management company		35,339,599	32,948,960
Modaraba Management Company	Sale tax on management fee payable		33,843,633	28,542,693
First Habib Modaraba Provident Fund	Investment in Certificate of Musharaka		27,203,828	28,341,245
Expense for the year				
Modaraba Management Company	Modaraba company's management fee		35,339,599	32,948,960
First Habib Modaraba Gratuity Fund	Gratuity fund		1,695,948	1,668,097
First Habib Modaraba Provident Fund	Provident fund		1,903,425	2,084,462
Payments made during the year				
First Habib Modaraba Gratuity Fund	Contribution to staff gratuity fund		1,569,156	895,719
First Habib Modaraba Provident Fund	Contribution to staff provident fund		3,806,850	4,168,924
Modaraba Management Company	Dividend paid		110,551,905	100,501,732
Modaraba Management Company	Management fee		32,948,960	115,023,395



31 FINANCIAL INSTRUMENTS

31.1 Risk management policies

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

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

- Credit Risk
- Liquidity Risk
- Market Risk.

31.2 Credit Risk

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

Exposure to Credit Risk

The maximum exposure to credit risk before any credit enhancements at June 30, 2015 is the carrying amount of the financial assets as set out below:

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.

	Note	2015	2014
-----Rupees-----			
Diminishing musharaka financing		1,729,117,245	1,061,119,580
Lease financing assets installments receivables		3,601,077	9,915,676
Investments		985,220,547	975,232,743
Deposits		665,850	535,850
Other receivables		19,054,849	24,197,315
Bank balances		487,512,972	371,131,886
		3,225,172,540	2,442,133,050

The aging of Lease financing assets installments receivables at the reporting date is:

Past due 1-30 days	3,601,077	9,410,578
Past due over 30-90 days	-	505,098
	3,601,077	9,915,676



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

Impaired Assets

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

31.3 Liquidity risk

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

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

Note 33 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 includes ijarah GOP Sukuk that are traded in an active market and can be readily disposed off. Only a limited proportion of its investments are not actively traded.

31.4 Market Risk

a Market Price Risk

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

Exposure

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

As at June 30, 2015, the fair value of equity and debt securities exposed to price risk was as follows:

Risk Management

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

b Profit rate risk

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

Particulars	Average Cost	Fair Value	Average Cost	Fair Value
	2015	2015	2014	2014
-----Rupees-----				
Equity securities	114,016,635	180,180,547	67,397,652	146,192,743
Ijarah GOP Sukuk bonds	800,000,000	805,040,000	800,000,000	829,040,000
	914,016,635	985,220,547	867,397,652	975,232,743

Risk exposure

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



As at June 30, 2015, the profile of the Modaraba's variable value financial instruments were as follows:

Fair value sensitivity analysis for variable rate instruments

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

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.

	Note	2015	2014
		-----Rupees-----	
Variable rate instruments			
Ijarah GOP Sukuk bonds		800,000,000	800,000,000
Islamic deposits		336,512,333	369,908,783
Diminishing musharaka financing		1,569,917,509	1,012,672,680
Liability			
Certificate of musharaka (deposits)		(2,360,079,584)	(1,533,668,767)
		346,350,258	648,912,696

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.

Asset / liability class (Having variable interest rates)	(Increase / Decrease) (+/-)	Changes in profit / (loss)	
		2015	2014
		-----Rupees-----	
Assets			
Ijarah GOP Sukuk bonds	100 basis points	8,000,000	8,000,000
Diminishing musharaka financing	100 basis points	15,699,175	10,126,727
Islamic deposits	100 basis points	3,365,123	3,699,088
Liability			
Certificate of musharaka (deposits)	100 basis points	(23,600,796)	(15,336,688)

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 variable 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 variable interest portfolio to pass the benchmark of the average duration.

31.5 Operational risks



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

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

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

32 FAIR VALUE OF FINANCIAL INVESTMENTS

The Modaraba's accounting policy on fair value measurements of the investments is detailed in note 4.5 to these financial statements.

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

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

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

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

As at June 30, 2015, all the investments were categorised in level 1 except for Sukuk bonds which are categorized in level 2.

33 MATURITIES OF ASSETS AND LIABILITIES

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

* Lease financing 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.

	2015			
	Total	Up to one year	Over one year to five years	Over five years
Rupees				
Assets				
Lease financing fixed assets - tangible	3,072,311,550	249,998,461	2,822,313,089	-
Owned fixed assets - tangible	8,637,666	-	8,637,666	-
Intangible assets	661,638	-	661,638	-
Long term advances, deposits and prepayments	687,450	-	687,450	-
Diminishing musharaka financing	1,729,117,245	699,404,010	1,029,713,235	-
Investments	985,220,547	985,220,547	-	-
Lease financing assets installments receivable	3,601,077	3,601,077	-	-
Advances and short term prepayments	3,571,280	3,571,280	-	-
Other receivables	42,784,358	42,784,358	-	-
Tax refund due from Government	59,184,873	59,184,873	-	-
Cash and bank balances	487,512,972	487,512,972	-	-
	6,393,290,656	2,531,277,578	3,862,013,078	-
Liabilities				
Security deposits against lease financing assets	418,500,560	75,200,074	343,300,486	-
Certificates of Musharaka (deposits)	2,360,079,584	2,360,079,584	-	-
Unearned Lease financing assets and diminishing musharaka installments	13,002,325	13,002,325	-	-
Advance Lease financing assets and diminishing musharaka installments	16,521,499	16,521,499	-	-
Trade and other payables	251,292,016	251,292,016	-	-
Profit payable on certificate of musharaka	48,570,764	48,570,764	-	-
Taxation	2,790,833	2,790,833	-	-
Unclaimed profit distribution	25,677,754	25,677,754	-	-
	3,136,435,335	2,793,134,849	343,300,486	-
	3,256,855,321	(261,857,271)	3,518,712,592	-
Represented by:				
Issued, subscribed and paid-up capital	1,008,000,000			
Reserves	2,248,855,321			
	3,256,855,321			

	2014			
	Total	Up to one year	Over one year to five years	Over five years
Rupees				
Assets				
Lease financing fixed assets - tangible	2,868,616,976	329,818,690	2,538,798,286	-
Owned fixed assets - tangible	11,204,147	-	11,204,147	-
Intangible assets	1,500,691	-	1,500,691	-
Long term advances, deposits and prepayments	1,200,050	-	1,200,050	-
Diminishing musharaka financing	1,061,119,580	444,546,723	616,572,857	-
Investments - available for sale	975,232,743	975,232,743	-	-
Lease financing assets installments receivable	9,915,676	9,915,676	-	-
Advances and short term prepayments	8,455,814	8,455,814	-	-
Other receivables	53,303,169	53,303,169	-	-
Tax refund due from Government	31,314,018	31,314,018	-	-
Cash and bank balances	371,131,886	371,131,886	-	-
	5,392,994,749	2,223,718,718	3,169,276,031	-
Liabilities				
Security deposits against lease financing assets	371,237,425	81,132,842	290,104,583	-
Certificates of Musharaka (deposits)	1,533,668,767	1,533,668,767	-	-
Unearned Lease financing assets and diminishing musharaka installments	3,979,895	3,979,895	-	-
Advance Lease financing assets and diminishing musharaka installments	32,471,878	32,471,878	-	-
Trade and other payables	188,147,387	188,147,386	-	-
Profit payable on certificate of musharaka	28,379,755	28,379,755	-	-
Taxation - net	2,790,833	2,790,833	-	-
Unclaimed profit distribution	23,699,444	23,699,444	-	-
	2,184,375,384	1,894,270,800	290,104,583	-
	3,208,619,365	329,447,918	2,879,171,447	-
Represented by:				
Issued, subscribed and paid-up capital	1,008,000,000			
Reserves	2,200,619,366			
	3,208,619,366			



34 FINANCIAL ASSETS AND LIABILITIES

	Profit bearing			Non-Profit bearing			Total
	Maturity upto one year	Maturity after one year upto five years	Sub-total	Maturity upto one year	Maturity after one year and upto five years	Sub-total	
Financial assets							
Cash and bank balances	486,522,334	-	486,522,334	990,638	-	990,638	487,512,972
Other receivables	-	-	-	19,054,849	-	19,054,849	19,054,849
Investments	805,040,000	-	805,040,000	180,180,547	-	180,180,547	985,220,547
Lease financing assets installments receivables	-	-	-	3,601,077	-	3,601,077	3,601,077
Advances	-	-	-	84,000	-	84,000	84,000
Long term deposits	-	-	-	-	665,850	665,850	665,850
Diminishing musharaka financing	699,404,010	1,029,713,235	1,729,117,245	-	-	-	1,729,117,245
	1,990,966,344	1,029,713,235	3,020,679,579	203,911,111	665,850	204,576,961	3,225,256,540
Financial liabilities							
Security deposits against Lease financing assets	-	-	-	75,200,074	343,300,486	418,500,560	418,500,560
Certificates of Musharaka (deposits)	2,360,079,584	-	2,360,079,584	-	-	-	2,360,079,584
Trade and other payables	-	-	-	111,997,742	-	111,997,742	111,997,742
Unclaimed profit distribution	-	-	-	25,677,754	-	25,677,754	25,677,754
	2,360,079,584	-	2,360,079,584	212,875,570	343,300,486	556,176,056	2,916,255,640
On balance sheet gap	(369,113,240)	1,029,713,235	660,599,995	(8,964,459)	(342,634,636)	(351,599,095)	309,000,900
Lease financing assets	249,998,461	2,822,313,089	3,072,311,550	-	-	-	3,072,311,550

(i) Yield / profit rate risk

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

(ii) Market risk

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

(iii) Fair values of financial assets and liabilities

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

35.1 Modaraba's operations are restricted to Pakistan only.

36 CREDIT RISK AND CONCENTRATION OF CREDIT RISK

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



35 SEGMENT BY CLASS OF BUSINESS OF FINANCING ASSETS

	2015		2014	
	Rupees	%	Rupees	%
Auto and Allied	140,293,469	2.92	58,131,173	1.48
Financial Institutions	90,012,139	1.87	126,385,902	3.22
Cable and Electric Goods	355,193,336	7.40	249,452,732	6.35
Fertilizer	184,294,844	3.84	156,427,333	3.98
Pharmaceutical	910,799,734	18.97	774,789,325	19.72
Individuals	116,029,947	2.42	84,058,596	2.14
Education	153,192,697	3.19	123,587,077	3.14
Steel and Engineering	108,371,955	2.26	31,300,431	0.80
Food and Allied	417,241,060	8.69	360,224,629	9.17
Fuel, Power and Energy	35,351,918	0.74	36,495,961	0.93
Glass and Ceramics	14,191,058	0.30	12,534,455	0.32
Health Care	147,843,795	3.08	77,404,137	1.97
Information Technology	195,549,060	4.07	228,492,847	5.81
Paper and Board	14,001,858	0.29	14,528,320	0.37
Services	641,058,971	13.35	592,676,253	15.08
Sugar and Allied	186,776,860	3.89	164,687,561	4.19
Oil & Gas Exploration	100,198,593	2.09	78,873,221	2.01
Textile	180,954,621	3.77	237,521,275	6.04
Cargo, Courier Logistic Services	266,632,606	5.55	114,399,679	2.91
Refinery, Luricant, Oil and Gas Marketing	73,690,228	1.53	48,715,145	1.24
Cement	11,883,420	0.25	15,810,684	0.40
Leather and Tennaries	21,830,831	0.45	28,320,477	0.72
Chemical	370,744,196	7.72	314,919,343	8.01
Construction	65,291,599	1.36	-	0.00
	4,801,428,795	100.00	3,929,736,556	100.00

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:

37 EARNINGS PER CERTIFICATE

37.1 Basic



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

	2015		2014	
	Advances, deposits, prepayments and other receivables	Lease Financing installments receivables	Advances, deposits, prepayments and other receivables	Lease Financing installments receivables
	-----Rupees-----			
Segment by class of business				
Financial institutions	19,024,029	-	29,178,463	-
Textile	-	151,511	-	505,098
Chemical and pharmaceutical	-	-	-	-
I.T and Telecommunications	21,600	2,619,549	62,400	7,234,868
Insurance	484,255	-	-	-
Food and allied	-	410,125	1,050	-
Fuel and energy	-	-	8,000	-
Pharmaceutical	-	45,961	-	-
FMCG	-	19,040	-	1,868,987
Others	941,293	354,891	1,394,786	306,723
Services	-	-	-	-
	20,471,177	3,601,077	30,644,699	9,915,676

37.2 Diluted

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

38 SEGMENT INFORMATION

	Note	2015	2014
		-----Rupees-----	
Profit for the year		306,500,341	285,443,429
Weighted average number of certificates of Rs. 5/-		201,600,000	201,600,000
Earnings per certificate		1.52	1.42

As per IFRS 8, "Operating Segments", operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision maker. The chief executive officer of the management company has been identified as the chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments.

The chief Executive officer is responsible for Modaraba's entire product portfolio and consider business to have a single operating segment. The Modaraba's assets allocation decisions are based on a single integrated investment strategy and the Modaraba's performance is evaluated on a overall basis.

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

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

40 PROFIT DISTRIBUTION AND APPROPRIATION

Subsequent to the year ended June 30, 2015 the Board of Directors of the Management Company has declared a final distribution of Re.1.1 per certificate, amounting to total profit distribution of Rs.221.760 million (2014: Re. 1.10 per certificate amounting to total profit distribution of Rs.221.760 million) in its meeting held on July 29, 2015.

41 DATE OF AUTHORIZATION FOR ISSUE



	Note	2015	2014
-----Rupees-----			
39 CASH GENERATED FROM OPERATIONS			
Profit for the year		306,500,341	285,443,429
Adjustment for:			
Gain on disposal of assets			
Lease financing assets		(19,843,288)	(19,671,587)
In own use		(33,989)	(25,199)
Depreciation fixed assets			
Lease financing assets		1,151,998,866	1,211,961,809
In own use		4,454,803	4,842,102
Loss on sale of shares		-	16,171
Owned assets sold / written off		111	25
Amortization of intangible assets		926,287	849,109
Provision for gratuity		1,695,948	1,668,097
Dividend income		(8,093,717)	(5,779,663)
Gain on disposal of investments		(730,149)	(15,256)
Profit paid to COM holder's		138,650,222	114,566,209
Movement in working capital	39.1	50,063,768	(88,775,728)
		1,625,589,203	1,505,079,518

39.1 Movement in working capital

Decrease / (increase) in current assets:			
lease financing assets installments receivable		6,314,599	(6,395,266)
Advances and short term prepayments		4,884,533	2,862,570
Tax refund due from Government		(27,870,855)	6,589,006
Other receivables		10,518,810	(20,329,454)
Increase / (decrease) in current liabilities:			
Advance lease financing assets and diminishing musharaka		(15,950,379)	12,667,802
Unearned lease financing assets and diminishing musharaka		9,022,430	(23,275,320)
Trade and other payables		63,144,629	(60,895,066)
		50,063,767	(88,775,728)

These financial statements were authorized for issue on 29th July 2015 by the Board of Directors of the Modaraba Management Company.

42 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. However no significant rearrangement or reclassification has been made in these financial statements during the current year.

43 GENERAL

Figures have been rounded off to the nearest rupee.

For Habib Modaraba Management (Private) Limited
(Management Company)

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR