



First Punjab Modaraba  
An Islamic Financial Institution

# Annual Report 2010



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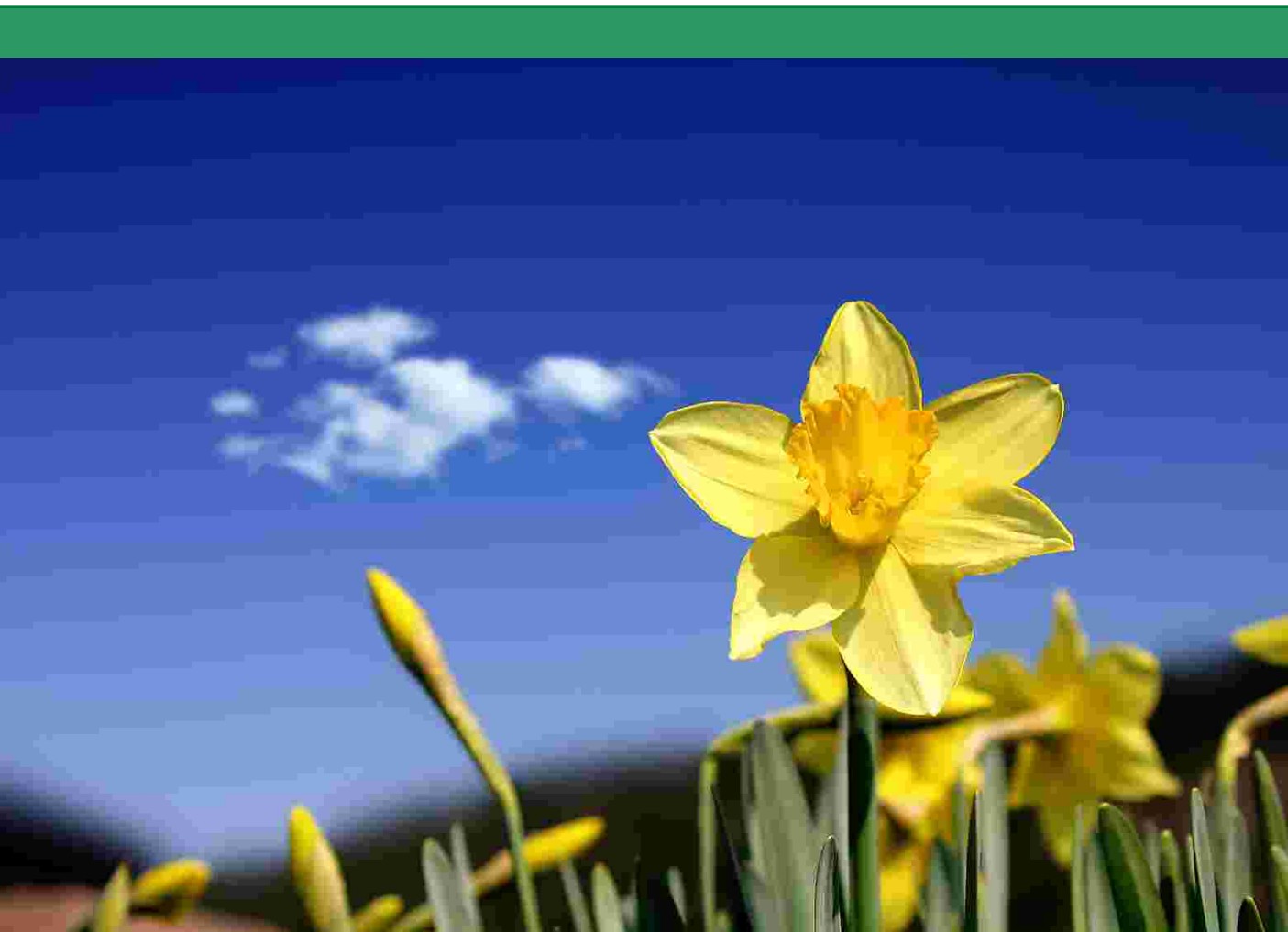


## Our Vision

To be in the forefront for providing Islamic products in the financial sector.

## Our Mission

To provide competitive shariah compliant solutions for our clients and investors through an inspirationally committed team of professionals and, in so doing, create maximal value for all stakeholders.



## Core Values

- **GOOD GOVERNANCE** - such that highest premium is set on best business practices and uncompromising professionalism.
- **INTEGRITY** - such that there is zero tolerance for unethical conduct.
- **TEAM WORK** - such that there exists camaraderie amongst team members who are both trustworthy and trusted.
- **CREATIVITY** - such that there pervades a spirit to explore and innovate in the nascent Islamic financial sector.
- **TRUST** - such that all stakeholders can readily repose and vouch for.



## Corporate Profile

### Board of Directors

Punjab Modaraba Services (Pvt.) Ltd.

Khalid Siddiq Tirmizey	Chairman
Khaqan Hasnain Ibrahim	Chief Executive
Mujahid Eshai	Director
Nadeem Amir	Director

### Chief Financial Officer & Company Secretary

Mudassar Kaiser Pal

### Audit Committee

Mujahid Eshai	Chairman
Nadeem Amir	Member
Muhammad Mustafa	Secretary

### Auditors of the Modaraba

KPMG Taseer Hadi & Co.  
Chartered Accountants

### Auditors of the Management Company

Hameed Chaudhri & Co.  
Chartered Accountants

### Bankers

The Bank of Punjab  
Bank Alfalah Limited  
Emirates Global Islamic Bank Limited

### Registrar

Hameed Majeed Associates (Pvt) Ltd.  
H.M. House, 7-Bank Square,  
The Mall, Lahore  
Tel: 7235081-2

### Registered Office

152, Abu Bakar Block, New Garden Town, Lahore.  
Tel: 5913609-14, Fax: 5913615  
URL: [punjabmodaraba.com.pk](http://punjabmodaraba.com.pk)



## Board of Directors



Left to Right

- |                           |                   |
|---------------------------|-------------------|
| 1. Khalid Siddiq Tirmizey | (Chairman)        |
| 2. Khaqan Hasnain Ibrahim | (Chief Executive) |
| 3. Mujahid Eshai          | (Director)        |
| 4. Nadeem Amir            | (Director)        |



## Management

1. Muhammad Mustafa (Head of Internal Audit)
2. Nasrullah Khan (Head of CAD)
3. Mudassar Kaiser Pal (Chief Financial Officer & Company Secretary)
4. Khaqan Hasnain Ibrahim (Chief Executive)
5. Shafqat Pervaiz (Country Business Head)
6. Ch. Muhammad Asghar (Head of SAM & Legal Affairs)
7. Zafar Iqbal (Credit & Risk Manager)



# Six Years at a Glance

(Amounts in '000)

	June-05	June-06	June-07	June-08	June-09	June-10
<b>BALANCE SHEET</b>						
Authorized Capital	500,000	500,000	500,000	500,000	500,000	500,000
Equity:						
Issued, Subscribed & Paid Up Capital	340,200	340,200	340,200	340,200	340,200	340,200
Reserves	87,277	100,336	105,578	110,683	110,683	114,199
Loss on re-valuation of Investment	(8,176)	(3,177)	(4,129)	(21,079)	-	-
Un-appropriated Profit	158	52,391	22,329	13,830	(87,885)	(84,370)
<b>Total</b>	<b>419,459</b>	<b>489,750</b>	<b>463,978</b>	<b>443,634</b>	<b>362,998</b>	<b>370,030</b>
Liabilities:						
Redeemable Capital	207,800	216,400	937,880	1,381,345	743,722	693,688
Musharikh Arrangements	523,017	704,869	213,591	938,710	1,092,682	885,036
Morabaha Arrangements	-	150,000	-	388,668	392,093	102,000
Diminishing Musharikh	-	-	-	-	-	160,000
Accrued, Deferred & Other Liabilities	184,424	177,105	182,700	442,247	454,546	454,344
<b>Total</b>	<b>915,241</b>	<b>1,248,374</b>	<b>1,334,171</b>	<b>3,150,970</b>	<b>2,683,043</b>	<b>2,295,069</b>
<b>Total Equity &amp; Liabilities</b>	<b>1,334,700</b>	<b>1,738,124</b>	<b>1,798,149</b>	<b>3,594,604</b>	<b>3,046,041</b>	<b>2,665,098</b>
Operating Assets:						
Ijarah Assets	674,222	777,218	792,315	1,802,881	1,633,184	1,447,816
Short Term Investments-Available for sale	89,243	72,857	106,756	94,737	58,739	-
Musharikh Investment	81,000	70,875	-	23,059	52,505	45,175
Morabaha Investment	392,728	724,389	662,972	1,379,620	960,715	686,743
<b>Sub Total</b>	<b>1,237,193</b>	<b>1,645,339</b>	<b>1,562,043</b>	<b>3,300,297</b>	<b>2,705,143</b>	<b>2,179,734</b>
Other Assets:						
Assets in own use	10,686	6,208	5,915	53,424	55,694	54,532
Deposits, Prepayments & other receivables	76,144	74,760	181,970	202,273	258,765	388,580
Cash & Bank Balances	10,677	11,817	48,221	38,610	26,434	42,247
<b>Sub Total</b>	<b>97,507</b>	<b>92,785</b>	<b>236,106</b>	<b>294,307</b>	<b>340,893</b>	<b>485,359</b>
<b>Total Assets</b>	<b>1,334,700</b>	<b>1,738,124</b>	<b>1,798,149</b>	<b>3,594,604</b>	<b>3,046,041</b>	<b>2,665,098</b>
<b>PROFIT &amp; LOSS ACCOUNT</b>						
Operating Income	290,390	401,079	432,133	668,910	1,093,793	939,756
Other Income	22,127	28,101	3,181	47,075	33,664	50,510
<b>Total Income</b>	<b>312,517</b>	<b>429,180</b>	<b>435,314</b>	<b>715,985</b>	<b>1,127,457</b>	<b>990,266</b>
Operating Expenses & Provisions	204,831	257,404	287,517	471,129	834,607	701,441
Financial Charges	47,795	99,230	118,675	225,948	383,679	281,013
Management Fee	5,989	7,255	2,912	1,890	-	781
<b>Total Expenses</b>	<b>258,615</b>	<b>363,889</b>	<b>409,104</b>	<b>698,967</b>	<b>1,218,286</b>	<b>983,235</b>
Profit before Taxation	53,902	65,291	26,210	17,018	(90,829)	7,031
Taxation	-	-	-	-	-	-
<b>Profit for the year</b>	<b>53,902</b>	<b>65,291</b>	<b>26,210</b>	<b>17,018</b>	<b>(90,829)</b>	<b>7,031</b>
DISTRIBUTION:						
Cash Dividend(%)	13.00	15.00	6.00	3.20	-	1.00
Bonus (%)	-	-	-	-	-	-
RATIOS:						
Breakup Value (Rs.)	12.33	14.40	13.64	13.04	10.67	10.88
Earning per Certificate (Rs.)	1.58	1.92	0.77	0.50	(2.67)	0.21
Return on Equity (Rs.)	12.85	13.33	5.65	3.84	(25.02)	1.90





## Directors' Report

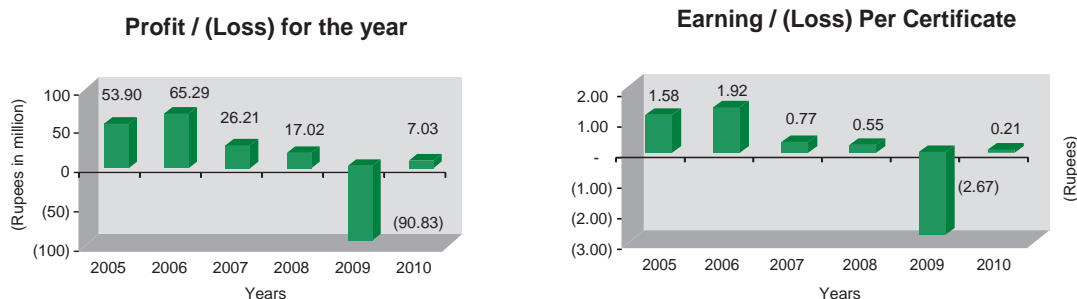
The Board of Directors of Punjab Modaraba Services (Pvt.) Limited, the management company of First Punjab Modaraba (the Modaraba) is pleased to present the 17th Directors' Report of the Modaraba, together with audited financial statements and auditors' report for year ended June 30, 2010.

### Review of Operations

The year under review witnessed the Modaraba go through a difficult phase. While the Modaraba had suffered a sizable loss of Rs. 90.8 million last year, the financial sector as a whole strived to find its bearings in a struggling national economy in the back drop of a global economic downturn.

As the year progressed, there were improvements in several macroeconomic indicators which in turn impacted positively on certain sectors of the economy. However, energy shortages and security threats, more so in the Punjab and the north, did not let businesses operate in an environment of certainty or at optimal levels.

The Modaraba, as envisaged earlier, focused on consolidation adopting a circumspect approach towards credit risk. Fresh credit was subjected to more rigorous appraisal and was booked to maintain a reasonable level of portfolio.



Modaraba's consumer financing through Ijara of household appliances had yielded good returns although this business required higher maintenance. Fresh business in this segment, in spite of attractive yields offered, was avoided this year owing to available risk coverage being inadequate.

Liquidity constraints in the financial sector notwithstanding, the Modaraba was able to reduce its financial cost both in absolute terms and in terms of basis points.

Inspite of high inflationary pressures over the year, the Modaraba succeeded in containing HR costs increase to less than 7% and also in not letting overall operating expenses to increase beyond 10%.

### Financial Results

The financial results of the Modaraba are summarized below

	2010 Rupees	2009 Rupees
Profit / (Loss) for the year	7,031,191	(90,829,058)
Un-appropriated Profit – Brought Forward	(87,885,124)	2,943,934
Profit available for appropriation	7,031,191	-
<b>Appropriations</b>		
Profit Distribution in cash @ Rs: 0.10 (2009@Rs:Nil)	3,402,000	-
Transfer to statutory reserve	3,515,596	-
Un-appropriated profit / (loss) - carried to balance sheet	(87,771,529)	(87,885,124)
Earning per certificate	0.21	2.67

### Profit Distribution

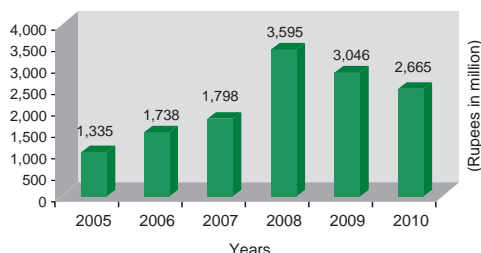
The Board at its meeting held on October 15, 2010 has approved distribution of profit of Rs.3,402,000/- @ 1% per certificate of Rs.10/- each, subject to deduction of zakat and tax at source, where applicable, for the year ended June 30, 2010.



Profit Distribution



Total Assets



An Amount of Rs.3,515,596/- has been transferred to statutory reserve in compliance with Prudential Regulations for Modarabas, issued by the Securities & Exchange Commission of Pakistan.

#### Economic Outlook and Future Prospects

In the wake of a series of reforms and especially following IMF's USD 11.3bn package the national economy was steadily showing indications of revival -- GDP growing at 4.1% in FY10, improved rates of growth in manufacturing and services sectors, FX reserves exceeding USD 16 billion and even inflation sliding down.

However, the recent floods in the country have caused colossal damage to the economy threatening to undo most of the gains and derail the growth process. The scale of devastation is huge - displacement of 20million people, destruction of houses, roads, bridges and power infrastructure, losses in agriculture especially cotton and some other crops --- estimated to be around USD 15bn .

The government has already revised its projections - growth rate to slow down to 2% of GDP in FY11 from 4.1% in FY10, inflation to shoot up due to agricultural losses fuelled further by disruption in supplies owing to breakdown of transport infrastructure.

In this background, the financial sector will also be adversely affected in several ways. One, tight liquidity and resource mobilization will be a challenge especially for smaller players. Two,

businesses especially those that are more related to agriculture and certain services will be hurt. Similarly, businesses dependent upon developmental budgets of federal and provincial governments have already begun to suffer. Repayment capacities of all such businesses will get diluted and this will put strain on the financial institutions.

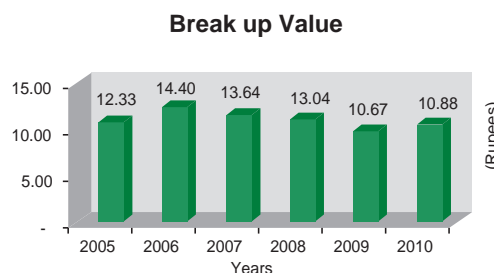
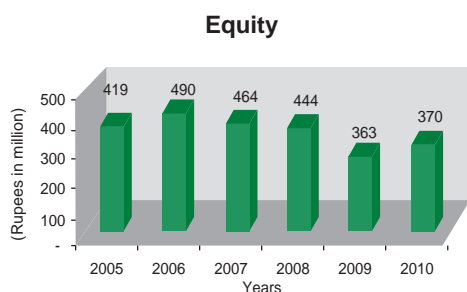
We will therefore need to counter all these pressures by concerted efforts towards recoveries, rescheduling/restructuring wherever feasible, while at the same time endeavoring to increase the book size prudently and cautiously. We are confident that we would be able to find our way through the turbulence during the course of the year.

#### FPM Financial Strength Rating

The Pakistan Credit Rating Agency (Pvt.) Limited (PACRA) has assigned the Modaraba long term rating of "A - " and short term rating of "A2", based on its potential of growth and sustainability.

#### 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 account of the Modaraba have been maintained.



- Accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements.
- Thereof system of internal control is sound in design and has been effectively implemented and monitored.
- There is no doubt about the 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 of the Modaraba for the last six years in summarized form is annexed.
- There are no outstanding demands of statutory payments on account of taxes, duties, levies and charges as at 30 June, 2010, except for those disclosed in financial statements.
- The value of investments of the staff provident fund, based on un-audited accounts, was Rs.2, 255,734/- as at 30 June, 2010.
- During the year, six meetings of the Board of Directors were held. Attendance by each director was as follow:

Name of Directors	No. of Meetings Attended
-------------------	--------------------------

Mr. Khalid Siddiq Tirmizey	5
Mr. Naveed Masud (Resigned)	5
Mr. Mujahid Eshai	6
Mr. Nadeem Amir	6
Mr. Khaqan Hasnain Ibrahim	6

#### Role of Certificate-Holders

The Board aims to ensure that the Modaraba's certificate holders are kept informed about major developments affecting the Modaraba's state of affairs. To achieve this objective, information is communicated to certificate holders through quarterly, half-yearly and annual reports. The Board appreciates certificate-holders' active participation at annual review meeting to ensure high level of accountability.





#### Auditors

The present auditors M/s. KPMG Taseer Hadi & Company, Chartered Accountants, being eligible for appointment and upon their consent to act as auditors, have been appointed auditors of the Modaraba for financial year ending June 30, 2011.

#### Compliance with the Code of Corporate Governance

The requirements of the Code of Corporate Governance set out by the Karachi, Lahore, and Islamabad stock exchanges in their listing regulations, relevant for year ended June 30, 2010 have been duly complied with. A statement to this effect is annexed with this report.

#### Staff

The team of the Modaraba consists of trained and professional staff. The Modaraba takes due cognizance of this fact and continues to further invest in staff training and grooming.

The Board has belief in abilities and commitment of its staff and foresees bright future of the Modaraba in conjunction with their hard work. The continued support extended by management of the Bank of Punjab during the year is also a great source of comfort for the Modaraba.

#### Statement of Ethics and Business Practices

The Board has adopted The Bank of Punjab's Code of Conduct that sets out core values relating to lawful and ethical conduct of business. All

employees have a copy of this code of conduct and are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulations. This forms a part of the Modaraba's compliance structure as advised by the Bank of Punjab.

#### Social, Ethical and Environmental Responsibilities

The Board is conscious of social, ethical and environmental matters and is planning for its continued participation in these areas of public interest.

#### Acknowledgments

The Board acknowledges the invaluable guidance and support extended by the Registrar Modarabas and the Securities & Exchange Commission of Pakistan during the year and wishes to enjoy the same in future as well.

The Board is also thankful to its valued certificate holders and investors for their patronage and trust reposed in the Modaraba.

For and on behalf of the Board

**Khaqan Hasnain Ibrahim**  
Chief Executive

Lahore: October 15, 2010



## Statement of Compliance

### With the Best Practices of Corporate Governance to the certificate Holders of First Punjab Modaraba

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

The Modaraba applies principles contained in the Code in the following manner:

1. The management company has 4 directors which include 3 non-executive directors. All directors are nominated by The Bank of Punjab, the holding company of the Modaraba's Management Company.
2. The directors have confirmed that none of them is serving as a director in ten or more listed companies, including the management company.
3. All the directors of the management company are registered as tax payers and to the best of our knowledge none of them have 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. The casual vacancies occurring in the Board were filled up by the directors within the stipulated time.
5. A Statement of Ethics and Business Practices' has been adopted by the Modaraba, which has been duly signed by all the directors of the Management Company and employees of the Modaraba.
6. The Board has developed a vision/mission statement, overall corporate strategy and policies of the Modaraba. However, the Modaraba policies, procedures and systems are being reviewed for updating/revision wherever required.



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 CFO/Company Secretary and Head of Internal Audit have been taken by the board.
8. The Meetings of the Board were presided over by the Chairman and, in his absence by a director elected by the Board for this purpose and the Board met at least once in every quarter, written notices of the Board meetings, along-with agenda and working papers, were circulated.
9. The directors are fully aware of the relevant laws applicable to the Modaraba, its policies and procedures and provisions of the Memorandum and Articles of Association to manage the affairs of the Modaraba on behalf of the certificate holders. Modaraba could not conduct any orientation course during the year due to non availability of all directors.
10. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
11. The Financial statements of the Modaraba were duly endorsed by the CEO and CFO before approval of the Board.
12. The CEO, directors and executives do not hold any interest in the certificates of the Modaraba other than the disclosed in the pattern of certificate holding.
13. The Modaraba has complied with all the corporate and financial reporting requirements of the Code.
14. The Board has formed an Audit Committee. It comprises three members, who are non-executive directors of the Management company including the Chairman of the Committee. One member has resigned whose vacancy will be filled by the board.
15. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
16. The Board has employed adequate personnel for internal audit function to ensure the establishment and maintenance of sound and effective internal controls, compliance and review policies and procedures.
17. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan (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.
18. 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.
19. All material information, as described in clause (xxiii) of the code is disseminated to the stock exchange and Securities and Exchange Commission of Pakistan in a timely fashion.
20. The Modaraba has complied with requirements as stipulated in the newly inserted clause (xiii) (a) relating to related party transactions.
21. We confirm that all other material principles contained in the code have been complied with.

For and on behalf of the Board

**Khaqan Hasnain Ibrahim**  
Chief Executive

Lahore: October 15, 2010



## Review Report to the Certificate Holders on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Punjab Modaraba Services (Private) Limited ("the Modaraba Company") in respect of First Punjab Modaraba ("the Modaraba") to comply with the listing regulations of the stock exchanges where the Modaraba is listed.

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

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

Further, Sub- Regulation (xiii a) of Listing Regulation No. 35 (previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee.

We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Modaraba for the year ended 30 June 2010.

Lahore: October 15, 2010

KPMG Taseer Hadi & Co.  
Chartered Accountants  
(Kamran Iqbal Yousafi)





## Notice of Book Closure & Annual Review Meeting

The Certificate Holders are hereby notified that the Certificate Transfer Books shall remain closed from 09.11.2010 to 15.11.2010 (both days inclusive), for the purpose of entitlement of cash dividend and attending Annual Review Meeting. All transfers received in order upto the close of business hours on November 08, 2010 with our Registrars' office, M/s. Hameed Majeed Associates (Pvt.) Ltd., H.M. House, 7-Bank Square, Lahore, will be considered in time.

The Annual Review Meeting (ARM) of the Certificate-holders will be held at 10:30 a.m. on Monday, November 15, 2010 at Hotel Holiday Inn, 25-26 Egerton Road, Lahore to review the performance of the Modaraba for the year ended June 30, 2010 in terms of Prudential Regulation No. 11, Part IV for Modarabas.

By the Order of  
Board of Directors

Mudassar Kaiser Pal  
Company Secretary



## Pattern of Certificate Holders as at June 30, 2010

Number of Certificate holders	Certificate Holding		Total No. of Certificates held	Percentage of total capital
	From	To		
916	1 -	100	42,799	0.13
1551	101 -	500	431,363	1.27
1186	501 -	1000	969,072	2.85
752	1001 -	5000	1,727,885	5.08
138	5001 -	10000	1,009,298	2.97
46	10001 -	15000	573,367	1.69
32	15001 -	20000	568,265	1.67
23	20001 -	25000	521,855	1.53
10	25001 -	30000	272,556	0.80
6	30001 -	35000	186,563	0.55
7	35001 -	40000	260,481	0.77
5	40001 -	45000	211,086	0.62
3	45001 -	50000	143,628	0.42
2	50001 -	55000	105,896	0.31
4	55001 -	60000	231,243	0.68
1	60001 -	65000	61,127	0.18
4	65001 -	70000	274,050	0.81
3	70001 -	75000	218,020	0.64
2	75001 -	80000	156,000	0.46
3	80001 -	85000	252,000	0.74
2	85001 -	90000	180,000	0.53
3	95001 -	100000	300,000	0.88
2	100001 -	105000	205,029	0.60
1	105001 -	110000	106,000	0.31
2	110001 -	115000	226,189	0.66
3	115001 -	120000	352,846	1.04
1	125001 -	130000	125,500	0.37
1	130001 -	135000	130,583	0.38
2	135001 -	140000	280,000	0.82
1	145001 -	150000	150,000	0.44
1	150001 -	155000	151,000	0.44
1	155001 -	160000	155,509	0.46
2	160001 -	165000	325,020	0.96
1	165001 -	170000	166,001	0.49
1	175001 -	180000	178,500	0.52
1	185001 -	190000	188,000	0.55
3	195001 -	200000	597,644	1.76
1	205001 -	210000	208,693	0.61
1	220001 -	225000	225,000	0.66
1	245001 -	250000	249,935	0.73
1	250001 -	255000	251,833	0.74
1	295001 -	300000	300,000	0.88
1	300001 -	305000	302,000	0.89
1	320001 -	325000	325,000	0.96
1	345001 -	350000	350,000	1.03
1	350001 -	355000	353,500	1.04
1	360001 -	365000	362,000	1.06
1	365001 -	370000	367,500	1.08
1	370001 -	375000	371,726	1.09
2	455001 -	460000	919,500	2.70
1	705001 -	710000	706,413	2.08
1	935001 -	940000	938,020	2.76
1	1165001 -	1170000	1,168,034	3.43
1	1265001 -	1270000	1,265,777	3.72
1	5230001 -	5235000	5,232,194	15.38
1	8085001 -	8090000	8,088,500	23.78
4,742			34,020,000	100.00

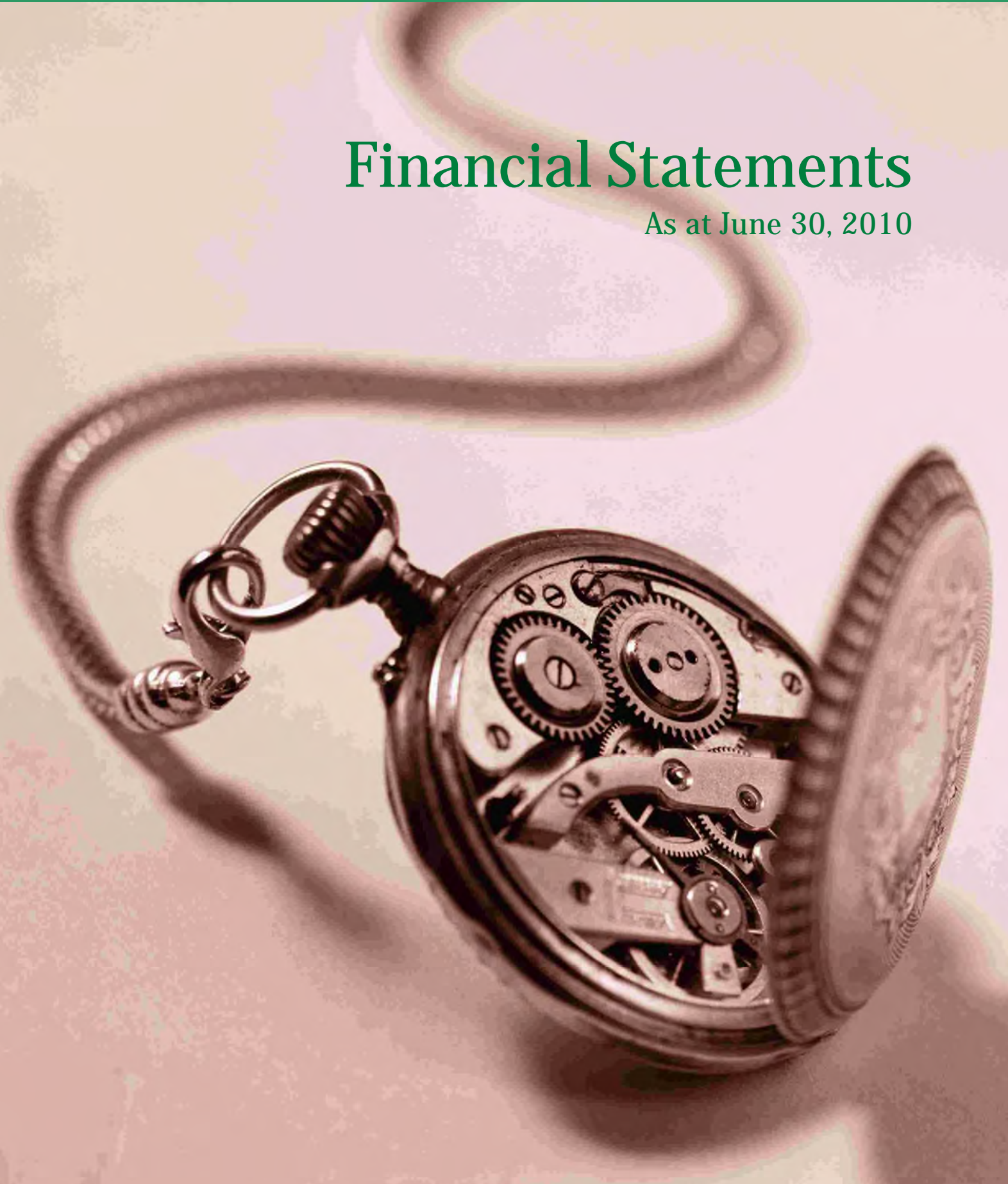


## Classification of Certificate Holders by Categories as at June 30, 2010

Sr#	Category	No of Holders	Certificates Held	Percentage of Capital
1	Associated Companies, Undertakings and Related Parties	3	13,570,629	39.8901
2	NIT and ICP	5	1,200,138	3.5277
3	Banks, Development Financial Institutions, Non Banking Financial Institutions	24	1,029,536	3.0263
4	Insurance Companies	2	1,265,949	3.7212
5	Modarbas and Mutual Funds	8	178,624	0.5251
6	General Public (Local)	4,650	16,061,472	47.2119
7	General Public (Foreign)	4	714	0.0021
8	Joint Stock Companies	44	702,749	2.0657
9	Others	2	10,189	0.0300
	<b>TOTAL</b>	<b>4,742</b>	<b>34,020,000</b>	<b>100.0000</b>

# Financial Statements

As at June 30, 2010



# AUDITOR'S REPORT TO THE CERTIFICATE HOLDERS



We have audited the annexed balance sheet of First Punjab Modaraba ("the Modaraba") as at 30 June 2010 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Modaraba Company in respect of the Modaraba as required by Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;
- b) in our opinion:
  - (i) the balance sheet and the profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba.
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at 30 June 2010 and of the loss, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Lahore:  
October 15, 2010

**KPMG Taseer Hadi & Company**  
Chartered Accountants  
(Kamran Iqbal Yousafi)

# Balance Sheet

As at June 30, 2010



ASSETS	Note	2010 Rupees	2009 Rupees
<b>Non current assets</b>			
Tangible fixed assets	5		
Ijarah assets		1,447,816,251	1,633,184,559
Assets in own use		9,531,813	10,694,566
Card and room	6	45,000,000	45,000,000
Long term musharikhah investment - secured	7	19,552,548	38,032,234
Long term deposits		165,060	131,560
		<b>1,522,065,672</b>	<b>1,727,042,919</b>
<b>Current assets</b>			
Short term investments - available for sale	8	-	58,739,891
Short term morabaha investment - secured	9	684,742,763	958,375,723
Current maturity of long term investments	10	27,622,700	16,813,259
Advances, deposits, prepayments and other receivables	11	386,602,274	257,004,876
Tax refundable		1,818,104	1,630,779
Cash and bank balances	12	42,246,793	26,434,250
		<b>1,143,032,634</b>	<b>1,318,998,778</b>
<b>TOTAL ASSETS</b>		<b>2,665,098,306</b>	<b>3,046,041,697</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Certificate capital	13	340,200,000	340,200,000
Reserves	14	29,829,639	22,798,448
		<b>370,029,639</b>	<b>362,998,448</b>
<b>Non current liabilities</b>			
Security deposits	15	213,395,671	245,780,904
Long term musharikhah finances - secured	16	885,035,859	1,012,682,385
Redeemable capital - participatory and unsecured	17	80,850,000	73,950,000
		<b>1,179,281,530</b>	<b>1,332,413,289</b>
<b>Current liabilities</b>			
Current maturity of non current liabilities	18	100,091,187	134,203,404
Deferred morabaha income		19,238,582	26,463,835
Short term finances - secured	19	262,000,000	472,093,000
Redeemable capital - participatory and unsecured	20	609,988,404	569,772,305
Mark up payable	21	55,439,069	88,993,708
Trade and other payables	22	56,997,142	47,000,616
Unclaimed profit		12,032,753	12,103,092
		<b>1,115,787,137</b>	<b>1,350,629,960</b>
<b>Contingencies and commitments</b>	23		
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,665,098,306</b>	<b>3,046,041,697</b>

The attached notes 1 to 36 form an intergral part of these financial statements.

**Chief Executive**  
Punjab Modaraba Services  
(Private) Limited

**Director**  
Punjab Modaraba Services  
(Private) Limited

**Director**  
Punjab Modaraba Services  
(Private) Limited

# Profit and Loss Account

For the year ended June 30, 2010



First Punjab Modaraba

	Note	2010 Rupees	2009 Rupees
<b>Income</b>			
Ijarah rentals	24.1	848,945,513	937,222,741
Profit on morabaha investment	24.2	61,450,461	150,527,601
Profit on musharikhah investment	24.3	2,249,189	6,042,879
Return on investments		-	63,580
Gain on disposal of fixed assets		8,087,488	7,043,208
Gain on sale of investment		19,023,290	741,643
Other income	25	50,510,047	25,815,828
		<b>990,265,988</b>	<b>1,127,457,480</b>
<b>Expenses</b>			
Operating expenses	26	26,650,227	24,129,086
Depreciation of ijarah assets	5.1	646,280,559	728,096,191
Finance cost	27	281,013,041	383,679,124
		<b>953,943,827</b>	<b>1,135,904,401</b>
<b>Operating profit before provision and impairment</b>		<b>36,322,161</b>	<b>(8,446,921)</b>
Provision for morabaha investment		11,837,043	17,870,509
Provision for impairment of ijarah assets		10,954,473	2,809,755
Provision for musharikhah investment		2,617,200	-
Impairment on assets		-	1,100,000
Impairment on available for sale investments		-	59,370,242
Other provisions		3,101,011	1,231,631
		<b>28,509,727</b>	<b>82,382,137</b>
<b>Operating profit after provision and impairment</b>		<b>7,812,434</b>	<b>(90,829,058)</b>
Modaraba Company's management fee		781,243	-
<b>Profit / (Loss) for the year</b>		<b>7,031,191</b>	<b>(90,829,058)</b>
<b>Earnings / (loss) per certificate - basic and diluted</b>	28	<b>0.21</b>	<b>(2.67)</b>

The attached notes 1 to 36 form an integral part of these financial statements.

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(Private) Limited

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(Private) Limited

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Punjab Modaraba Services  
(Private) Limited

# Cash Flow Statement

For the year ended June 30, 2010



First Punjab Modaraba

	Note	2010 Rupees	2009 Rupees
<b>Cash flow from operating activities</b>			
Cash (used in) / generated from operations	33	631,899,886	862,233,657
Finance cost paid		(110,636,686)	(159,849,490)
Profit paid on morabaha / musharikh finances		(203,930,994)	(210,165,865)
Income tax paid		(187,325)	(3,404,572)
<b>Net cash (used in) / generated from operating activities</b>		<b>317,144,881</b>	<b>488,813,730</b>
<b>Cash flow from investing activities</b>			
Proceeds from disposal of fixed assets		637,826	253,670
Fixed capital expenditure		(2,102,562)	(5,980,360)
Dividend received		-	3,855,980
Investments made		(28,345,475)	(14,511,562)
Proceeds from sale of investments		106,108,616	12,961,003
Investment in morabaha		5,500,000	42,038,285
Investment in mosharika		4,713,023	(49,445,649)
<b>Net cash used in investing activities</b>		<b>86,511,428</b>	<b>(10,828,633)</b>
<b>Cash flow from financing activities</b>			
Finances under musharikh arrangements		(207,646,526)	153,971,826
Finances under morabaha		(130,093,000)	3,424,861
Redeemable capital		(50,033,901)	(637,622,695)
Profit distribution to certificate holders		(70,339)	(9,935,821)
<b>Net cash generated from financing activities</b>		<b>(387,843,766)</b>	<b>(490,161,829)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>15,812,543</b>	<b>(12,176,732)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>26,434,250</b>	<b>38,610,982</b>
<b>Cash and cash equivalents at the end of the year</b>	12	<b>42,246,793</b>	<b>26,434,250</b>

The attached notes 1 to 36 form an intergral part of these financial statements.

**Chief Executive**  
Punjab Modaraba Services  
(Private) Limited

**Director**  
Punjab Modaraba Services  
(Private) Limited

**Director**  
Punjab Modaraba Services  
(Private) Limited



# Statement of Comprehensive Income

For the year ended 30 June 2010



First Punjab Modaraba

	2010 Rupees	2009 Rupees
<b>Income/ (Loss) for the year</b>	<b>7,031,191</b>	<b>(90,829,058)</b>
Net unrealized loss on investments - available for sale	-	21,079,211
<b>Total comprehensive Income/ (loss) for the year</b>	<b>7,031,191</b>	<b>(69,749,847)</b>

The attached notes 1 to 36 form an integral part of these financial statements.

**Chief Executive**  
Punjab Modaraba Services  
(Private) Limited

**Director**  
Punjab Modaraba Services  
(Private) Limited

**Director**  
Punjab Modaraba Services  
(Private) Limited

# Statement of Changes in Equity

For the year ended 30 June 2010



First Punjab Modaraba

	Certificate capital	Statutory reserve	(Deficit) on remeasurement of investment - available for sale	Unappropri- ated profit/(accum- ulated loss)	Total
	Rupees	Rupees	Rupees	Rupees	Rupees
<b>Balance as at 30 June 2008</b>	<b>340,200,000</b>	<b>110,683,572</b>	<b>(21,079,211)</b>	<b>13,830,334</b>	<b>443,634,695</b>
Total comprehensive income for the year	-	-	21,079,211	(90,829,058)	(69,749,847)
Profit distribution for the year 2008 @ Rs 0.6 per certificate	-	-	-	(10,886,400)	(10,886,400)
<b>Balance as at 30 June 2009</b>	<b>340,200,000</b>	<b>110,683,572</b>	<b>-</b>	<b>(87,885,124)</b>	<b>362,998,448</b>
Total comprehensive income for the year	-	-	-	7,031,191	7,031,191
Transfer during the year @ 50%	-	3,515,596	-	(3,515,596)	-
<b>Balance as at 30 June 2010</b>	<b>340,200,000</b>	<b>114,199,168</b>	<b>-</b>	<b>(84,369,529)</b>	<b>370,029,63</b>

The attached notes 1 to 36 form an integral part of these financial statements.

**Chief Executive**  
Punjab Modaraba Services  
(Private) Limited

**Director**  
Punjab Modaraba Services  
(Private) Limited

**Director**  
Punjab Modaraba Services  
(Private) Limited

# Notes to the Financial Statements

## For the year ended 30 June 2010



### 1. Legal status and nature of business

First Punjab Modaraba (“the Modaraba”) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Rules framed there under and is managed by Punjab Modaraba Services (Private) Limited (wholly owned subsidiary of The Bank of Punjab), a Company incorporated in Pakistan. The Registered Office of the Modaraba is situated at the 152 Abubakar Block, New Garden Town, Lahore. The Modaraba commenced its business operations from 23 December 1992. The Modaraba is listed on all the Stock Exchanges in Pakistan.

The Modaraba is a perpetual, multi purpose and multi dimensional modaraba and is primarily engaged in the business of ijarah, musharikhah and morabaha financing, equity investment and other related business in accordance with the injunctions of Islam.

### 2. Basis of preparations

#### 2.1 Statement of compliance

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

The SECP vide Circular No. 10 of 2004 dated 13 February 2004 has deferred, till further orders, the applicability of the IAS 17 “Leases” with effect from 01 July 2003. Accordingly, this IAS has not been taken into consideration for the purposes of preparation of these financial statements.

#### 2.2 Basis of measurement

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

#### 2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees which is also the Company’s functional currency. All financial information presented in Pakistan Rupees has been rounded to the nearest thousand.

### 3. Initial application of a standard, amendment or an interpretation to an existing standard and forthcoming requirements

#### 3.1 Initial application

Starting 01 July 2009 the Modaraba has changed its accounting policy in the following area:

IAS 1 (Revised) - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the



income statement and the statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated balance sheet as at the beginning of comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.

The company has opted to present two statements; a profit and loss account (income statement) and a statement of other comprehensive income. Comparative information has also been represented so that it is in conformity with the revised standard. As this change only impacts presentation aspects, there is no impact on the earnings per share.

### **3.2 The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning on or after 1 January 2010.**

- Improvements to IFRSs 2009 – Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the required disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in IFRS 5. These amendments are unlikely to have an impact on the Modaraba’s financial statements.
- Improvements to IFRSs 2009 – Amendments to IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2010) . The amendments clarify that segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker. The amendment is not relevant to the Modaraba’s operations.
- Improvements to IFRSs 2009 – Amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the classification of the liability component of a convertible instrument as current or noncurrent is not affected by terms that could, at the option of the holder of the instrument, result in settlement of the liability by the issue of equity instruments. These amendments are unlikely to have an impact on the Modaraba’s financial statements.
- Improvements to IFRSs 2009 – Amendments to IAS 7 Statement of Cash Flows (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities. These amendments are unlikely to have a significant impact on the Modaraba’s financial statements other than increase in disclosures.
- Improvements to IFRSs 2009 – Amendments to IAS 17 Leases (effective for annual periods beginning on or after 1 January 2010). The IASB deleted guidance stating that a lease of land with an indefinite economic life normally is classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. The amendments clarify that when a lease includes both the land and building elements, an entity should determine the classification of each element based on paragraphs 7 – 13 of IAS 17, taking account of the fact that land normally has an indefinite economic life. The amendment is not relevant to the Modaraba’s operations.
- Improvements to IFRSs 2009 – Amendments to IAS 36 Impairment of Assets (effective for annual periods beginning on or after 1 January 2010). The amendments clarify that the largest unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria of IFRS 8. The amendments apply prospectively. The amendment is not relevant to the Modaraba’s operations.
- Improvements to IFRSs 2009 – Amendments to IAS 39 Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2010). The amendments provide additional guidance on determining whether loan prepayment penalties result in an embedded derivative that needs to be separated; clarify that the scope exemption in IAS 39 paragraph 2 (g) is restricted to forward contracts, i.e. not options, between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date within a reasonable period normally necessary to obtain any required approvals and to complete



the transaction; and clarify that the gains or losses on a cash flow hedge should be reclassified from other comprehensive income to profit or loss during the period that the hedged forecast cash flows impact profit or loss. The amendments apply prospectively to all unexpired contracts from the date of adoption. These amendments are unlikely to have an impact on the Modaraba's financial statements.

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010). The IASB provided additional optional exemptions for first-time adopters contains a lease if the same assessment as that required by IFRIC 4 was made under previous GAAP; and allow entities in the oil and gas industry to use their previous GAAP carrying amounts as deemed cost at the date of transition for oil and gas assets. The amendment is not relevant to the Modaraba's operations.
- Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). The IASB amended IFRS 2 to require an entity receiving goods or services (receiving entity) in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements. This principle even applies if another group entity or shareholder settles the transaction (settling entity) and the receiving entity has no obligation to settle the payment. Retrospective application is subject to the transitional requirements in IFRS 2.
- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 January 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. These amendments are unlikely to have an impact on the Modaraba's financial statements.

**3.3 The following standards, interpretations and amendments of approved accounting standards are not yet effective:**

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for accounting periods beginning on or after 1 July 2010). This interpretation provides guidance on the accounting for debt for equity swaps. The amendment is not relevant to the Modaraba's operations.
- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for accounting periods beginning on or after 1 July 2010). The amendment provides the same relief to first-time adopters as was given to current users of IFRSs upon adoption of the Amendments to IFRS 7. The amendment also clarifies the transitional provisions of the Amendments to IFRS 7. The amendment is not relevant to the Modaraba's operations.

**3.4 Improvements to IFRSs 2010 (effective for annual periods beginning on or after 1 July 2010). The IASB issued amendments to various standards effective. Below is a summary of the amendments that are effective for either annual periods beginning on or after 1 July 2010 or annual periods beginning on or after 1 January 2011:**

- Improvements to IFRSs 2010 – Amendments to IFRS 3 Business Combinations (effective for accounting periods beginning on or after 1 July 2010). The amendments clarify that contingent consideration arising in a business combination previously accounted for in accordance with IFRS 3 (2004) that remains outstanding at the adoption date of IFRS 3 (2008) continues to be accounted for in accordance with IFRS 3 (2004); limit the accounting policy choice to measure non-controlling interests upon initial recognition at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and that currently entitle the holder to a share of net assets in the event of liquidation; and expand the current guidance on the attribution of the market-based measure of an acquirer's share-based payment awards issued in exchange for acquiree awards between consideration transferred and post



combination compensation cost when an acquirer is obliged to replace the acquiree's existing awards to encompass voluntarily replaced unexpired acquiree awards. These amendments are unlikely to have an impact on the Modaraba's financial statements.

- Improvements to IFRSs 2010 – Amendments to IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2010). The amendments clarify that the consequential amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 and IAS 31 resulting from IAS 27 (2008) should be applied prospectively, with the exception of amendments resulting from renumbering. These amendments are unlikely to have an impact on the Modaraba's financial statements.
- IAS 24 Related Party Disclosures (revised 2009) (effective for accounting periods beginning on or after 1 January 2011). The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. These amendments are unlikely to have an impact on the Modaraba's financial statements other than increase in disclosures.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. These amendments are unlikely to have an impact on the Modaraba's financial statements.
- Improvements to IFRSs 2010 – IFRS 1 First-time Adoption of IFRSs (effective for accounting periods beginning on or after 1 January 2011). The amendments clarify that IAS 8 is not first IFRS financial statements; introduce guidance for entities that publish interim financial information under IAS 34 Interim Financial Reporting and change either their accounting policies or use of the IFRS 1 exemptions during the period covered by their first IFRS financial statements; extend the scope of paragraph D8 of IFRS 1 so that an entity is permitted to use an event-driven fair value measurement as deemed cost for some or all of its assets when such revaluation occurred during the reporting periods covered by its first IFRS financial statements; and introduce an additional optional deemed cost exemption for entities to use the carrying amounts under previous GAAP as deemed cost at the date of transition to IFRSs for items of property, plant and equipment or intangible assets used in certain rate-regulated activities. The amendment is not relevant to the Modaraba's operations.
- Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures (effective for accounting periods beginning on or after 1 January 2011) The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. These amendments would result in increase in disclosures in the financial statements of the Modaraba.
- Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2011). The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes.
- Improvements to IFRSs 2010 – IAS 34 Interim Financial Reporting (effective for accounting periods beginning on or after 1 January 2011). The amendments add examples to the list of events or transactions that require disclosure under IAS 34 and remove references to materiality in IAS 34 that describes other minimum disclosures.
- Improvements to IFRSs 2010 – IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 January 2011). The amendments clarify that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits.

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2013). IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

#### 4. Significant accounting policies

##### 4.1 Tangible fixed assets

###### Assets in own use

Property, plant and equipment except freehold land are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss

Depreciation on all property, plant and equipment is charged to profit on "straight line method", so as to write off the historical cost of an asset over its estimated useful life at annual rates mentioned in note 4.

Residual values and the useful lives of the assets are reviewed at least at each financial year end and adjusted if impact on depreciation is significant.

The Modaraba Company assesses at each balance sheet date whether there is any indication that property, plant and equipment 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 amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Modaraba and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

###### **Leased (Ijarah)**

Assets leased out under Ijarah are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Assets under Ijarah are depreciated over the period of lease term. However, in the event the asset is expected to be available for re-ijarah, depreciation is charged over the economic life of asset using straight line basis.

Ijarah income is recognized on an accrual basis as and when the rental becomes due.

##### 4.2 Impairment

The carrying amount of Modaraba's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and impairment losses are recognised.



#### 4.3 Cards and rooms

These are stated at cost less impairments, if any. The carrying amounts are reviewed at each balance sheet date to assess whether these are recorded in excess of their recoverable amounts, and where carrying value is in excess of recoverable amount, these are written down to their estimated recoverable amount.

#### 4.4 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand and cash with banks in current and deposit accounts.

#### 4.5 Financial instruments

##### Financial assets

Significant financial assets include short and long term finances, investments, advances and receivables, long term deposits and cash and bank balances. Finances and receivables from clients are stated at their nominal value as reduced by provision for doubtful finances and receivable, while other financial assets are stated at cost except for investments, which have been revalued as per accounting policies.

##### Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include short and long term borrowings, certificates of musharika, deposits against lease arrangements, trade and other payables and dividends payable. Markup based financial liabilities are recorded at gross proceeds received. Other liabilities are stated at their nominal value.

##### Recognition and derecognition

All the financial assets and financial liabilities are recognized at the time when the Modaraba becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the Modaraba loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognized when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

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

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

#### 4.6 Provisions

Provisions are recognised when the Modaraba has a legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

#### 4.7 Staff retirement benefit

##### Defined contribution plan

The Modaraba operates a recognized provident fund for all eligible employees. Equal monthly contributions @ 8.33% of the basic salary are made to the fund both by the Modaraba and employees.



#### 4.8 Provision against non performing financing (Suspense income)

The Modaraba reviews its overdue Ijara rentals at each reporting date to assess whether provision should be recorded in 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 the timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

#### 4.9 Revenue recognition

##### Ijarah

Ijarah rentals are recognized as income on accrual basis, as and when rentals become due.

Documentation charges, front-end fee and other Ijarah income are recognised as income on receipt basis. Unrealized lease income pertaining to non-performing leases is held in suspense account, where necessary, in accordance with the requirements of the Prudential Regulations (PR).

##### Morabaha transaction

Profit on morabaha transaction is recognized over the period the payment becomes due. The unearned portion is reflected as deferred morabaha revenue.

##### Musharikhah Finance

Profit on musharikhah arrangement is recognized under the effective markup rate based on the amount outstanding.

##### Income on bank deposits

Return on bank deposit are recognized on accrual basis, using the effective interest rate method.

##### Capital gain or losses on sale of investment

Capital gain / loss on investment is recognized on sale of the respective investments.

##### Dividend income

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

##### Commission income

Commission income is recognized on accrual basis.

#### 4.10 Trade date accounting

All 'regular way' purchases and sales of quoted equity securities are recognised 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.

#### 4.11 Ijarah rentals and Musharikhah investments

Ijarah rentals and Musharikhah investments are stated net of provision and suspense income. Provision is recognised for Ijarah rentals receivable and musharikhah investment, in accordance with the Prudential Regulations for Modarabas issued by Securities and Exchange Commission of Pakistan (SECP). Bad debts are written-off when identified.



#### **4.12 Finance arrangements including Certificates of Musharikah**

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

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

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

#### **4.13 Profit distribution and appropriations**

Profit distribution and appropriation to reserves are recognized as liability in the financial statements in the period 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.

#### **4.14 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. The income of non-trading modarabas is exempt from tax provided that not less than 90% of their profits are distributed to the certificate-holders. The Modaraba has decided to continue availing the tax exemption and hence no provision has been made in these financial statements for tax liability for the current year.

##### Deferred

The Modaraba accounts for deferred taxation 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 timing differences will not reverse in the foreseeable future due to the fact that the Modaraba intends to continue availing the tax exemption.

#### **4.15 Morabaha Investments**

Morabaha investments are stated net of provision. Provision is recognized for Morabaha Investments in accordance with the Prudential Regulations for Modaraba's issued by the Securities and Exchange Commission of Pakistan. Bad debts are written off when identified.

Morabaha receivable are recorded by the Modaraba at the invoiced amount and disclosed as such in the balance sheet.

Purchase and sales under Morabaha and the resultant profit are accounted for on the culmination of Morabaha transaction.

The profit on that portion of sales revenue not due for payment are deferred by accounting for a debit to "Unearned Morabaha Income" account with the corresponding credit to "Deferred Morabaha Income" account and shown in the balance sheet as a liability.

#### **4.16 Related party transaction**

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.



## 5 Tangible fixed assets

### 5.1 Ijarah assets

Description	Plant and machinery	Vehicle	Cessna aircraft	Consumer products	Consumer products to staff	Total
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
<b>Net carrying value as at 01 July 2009</b>						
Opening net book value (NBV)	1,347,624,539	194,397,753	19,417,852	71,287,795	456,620	1,633,184,559
Additions	427,069,532	85,291,195	-	3,491,507	-	515,852,234
Transfers (at NBV)	(35,909,666)	(7,871,956)	-	(203,888)	-	(43,985,510)
Depreciation charged	(495,246,727)	(73,287,409)	(6,491,638)	(71,041,725)	(213,060)	(646,280,559)
Impairment	(10,823,048)	(131,425)	-	-	-	(10,954,473)
<b>Balance at 30 June 2010 (NBV)</b>	<b>1,232,714,630</b>	<b>198,398,158</b>	<b>12,926,214</b>	<b>3,533,689</b>	<b>243,560</b>	<b>1,447,816,251</b>
<b>Gross carrying value as at 30 June 2010</b>						
Cost	2,261,185,554	366,858,225	35,000,000	18,759,629	557,900	2,682,361,308
Accumulated depreciation	(1,014,838,121)	(168,328,642)	(22,073,786)	(15,225,940)	(314,340)	(1,220,780,829)
Accumulated impairment loss	(13,632,803)	(131,425)	-	-	-	(13,764,228)
<b>Net book value</b>	<b>1,232,714,630</b>	<b>198,398,158</b>	<b>12,926,214</b>	<b>3,533,689</b>	<b>243,560</b>	<b>1,447,816,251</b>
<b>Net carrying value as at 01 July 2008</b>						
Opening net book value (NBV)	1,303,595,007	208,755,216	34,706,147	254,745,089	1,080,097	1,802,881,556
Additions	537,304,464	58,678,000	-	61,829,150	866,875	658,678,489
Transfers (at NBV)	(80,615,499)	(7,988,560)	(4,207,060)	(3,549,712)	(1,108,709)	(97,469,540)
Depreciation charged	(409,849,678)	(65,046,903)	(11,081,235)	(241,736,732)	(381,643)	(728,096,191)
Impairment	(2,809,755)	-	-	-	-	(2,809,755)
<b>Balance at 30 June 2009 (NBV)</b>	<b>1,347,624,539</b>	<b>194,397,753</b>	<b>19,417,852</b>	<b>71,287,795</b>	<b>456,620</b>	<b>1,633,184,559</b>
<b>Gross carrying value as at 30 June 2009</b>						
Cost	2,014,729,967	309,284,511	35,000,000	200,884,576	810,400	2,560,709,454
Accumulated depreciation	(664,295,673)	(114,886,758)	(15,582,148)	(129,596,781)	(353,780)	(924,715,140)
Accumulated impairment loss	(2,809,755)	-	-	-	-	(2,809,755)
<b>Net book value</b>	<b>1,347,624,539</b>	<b>194,397,753</b>	<b>19,417,852</b>	<b>71,287,795</b>	<b>456,620</b>	<b>1,633,184,559</b>

5.1.1 Transfers represent the assets disposed through negotiation after expiry/termination of ijarah. However, in view of large number of disposals, detail of each disposal has not been given.



## 5.2 Assets in own use

Description	Office premises	Office equipment	Furniture and fixtures	Vehicles	Leasehold improvement	Total
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
<b>Net carrying value as at 01 July 2009</b>						
Opening net book value (NBV)	2,867,589	2,127,745	744,052	2,099,219	2,855,961	10,694,566
Additions	-	246,577	49,432	1,759,713	46,840	2,102,562
Transfers (at NBV)	-	(90,250)	-	(560,237)	-	(650,487)
Depreciation charged	(346,656)	(537,850)	(111,675)	(922,101)	(696,546)	(2,614,828)
<b>Balance at 30 June 2010 (NBV)</b>	<b>2,520,933</b>	<b>1,746,222</b>	<b>681,809</b>	<b>2,376,594</b>	<b>2,206,255</b>	<b>9,531,813</b>
<b>Gross carrying value as at 30 June 2010</b>						
Cost	6,937,864	3,685,162	1,158,656	4,848,923	3,485,923	20,116,528
Accumulated depreciation	(4,416,931)	(1,938,940)	(476,847)	(2,472,329)	(1,279,668)	(10,584,715)
<b>Net book value</b>	<b>2,520,933</b>	<b>1,746,222</b>	<b>681,809</b>	<b>2,376,594</b>	<b>2,206,255</b>	<b>9,531,813</b>
<b>Net carrying value as at 01 July 2008</b>						
Opening net book value (NBV)	3,326,414	785,681	308,443	2,903,824	-	7,324,362
Additions	-	1,792,221	713,156	35,900	3,439,083	5,980,360
Transfers (at NBV)	(112,170)	-	(151,367)	(26,000)	-	(289,537)
Depreciation charged	(346,655)	(450,157)	(126,180)	(814,505)	(583,122)	(2,320,619)
<b>Balance at 30 June 2009 (NBV)</b>	<b>2,867,589</b>	<b>2,127,745</b>	<b>744,052</b>	<b>2,099,219</b>	<b>2,855,961</b>	<b>10,694,566</b>
<b>Gross carrying value as at 30 June 2009</b>						
Cost	6,937,864	3,615,186	1,109,224	4,091,710	3,439,083	19,193,067
Accumulated depreciation	(4,070,275)	(1,487,441)	(365,172)	(1,992,491)	(583,122)	(8,498,501)
<b>Net book value</b>	<b>2,867,589</b>	<b>2,127,745</b>	<b>744,052</b>	<b>2,099,219</b>	<b>2,855,961</b>	<b>10,694,566</b>

### 5.2.1 Disposal of assets in own use

	2 0 1 0					Mode of disposal	Disposed to
	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain/(Loss)		
	Rupees	Rupees	Rupees	Rupees	Rupees		
Office equipment	109,200	61,338	47,862	35,000	(12,862)	Negotiation	Numerous people
Office equipment	67,400	25,012	42,388	32,000	(10,388)	As per terms of employment	Ex-Chief Executive, Modaraba Company
Vehicles	1,002,500	442,263	560,237	570,826	10,589	As per terms of employment	Ex-Chief Executive, Modaraba Company
	<b>1,179,100</b>	<b>528,613</b>	<b>650,487</b>	<b>637,826</b>	<b>(12,661)</b>		
	2 0 0 9					Mode of disposal	Disposed to
	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain/(Loss)		
	Rupees	Rupees	Rupees	Rupees	Rupees		
Furniture and Fixtures	394,085	242,718	151,367	115,500	(35,867)	Negotiation	Numerous people
	<b>394,085</b>	<b>242,718</b>	<b>151,367</b>	<b>115,500</b>	<b>(35,867)</b>		



	Note	2010 Rupees	2009 Rupees
<b>6. Card and room</b>			
Corporate membership of Lahore Stock Exchange		37,100,000	37,100,000
Less: Impairment		(1,100,000)	(1,100,000)
		<b>36,000,000</b>	36,000,000
Room at Lahore Stock Exchange		9,000,000	9,000,000
		<b>45,000,000</b>	45,000,000
<b>7. Long term musharikhah investment - secured</b>			
Musharikhah investment		47,792,448	52,505,471
Less: Current portion of long term musharikhah investment	10	(25,622,700)	(14,473,237)
Less: Provision on musharikhah investment		(2,617,200)	-
		<b>19,552,548</b>	38,032,234

**7.1** The profit charged on these facilities ranged from 14.41% to 20.07% (2009:13.40% to 20.07%). These facilities are secured by way of personal guarantees and mortgage of properties.



## 8. Short term investments - available for sale

All shares/certificates/units have face value of Rs. 10 each except as otherwise stated.

No. of shares / certificates/units		Name of investee company	June 2010		June 2009	
30 June 2010	30 June 2009		Cost	Carring value at market price	Cost	Carring value at market price
Number	Number		Rupees	Rupees	Rupees	Rupees
<b>QUOTED SECURITIES</b>						
<b>Mutual Funds</b>						
-	146,799	PICIC Investment Fund	-	-	2,699,376	559,304
-	63,580	JS Growth Fund	-	-	1,101,375	242,876
-	1,500,000	JS Large Capital Fund	-	-	15,000,000	4,665,000
<b>Investment &amp; Commercial Banks</b>						
-	33,952	SAMBA Bank Limited (Formerly Crescent Commercial Bank Limited)	-	-	1,311,626	101,177
-	526	KASB Bank Limited	-	-	5,954	5,428
-	47	Standard Chartered Bank Pakistan Ltd.	-	-	233	399
-	31,250	The Bank of Punjab (associated concern)	-	-	2,143,938	343,125
<b>Textile Spinning</b>						
-	10,000	Kohinoor Spinning Mills Ltd.	-	-	80,100	28,500
<b>Cement</b>						
-	100,000	Lafarge Pakistan Cement Ltd. (Formerly Pakistan Cement Company Limited)	-	-	1,059,710	270,000
<b>Chemical and Pharmaceutical</b>						
-	1,627	Searle Pakistan Limited	-	-	4,129	72,483
<b>UNQUOTED SECURITIES</b>						
<b>Open-ended mutual funds</b>						
-	30,290	UTP Islamic Fund ( Par value per unit Rs. 500)	-	-	22,901,962	9,015,508
-	1,693,159	Pakistan Capital Market Fund	-	-	23,000,000	14,019,357
-	225,996	Pakistan Stock Market Fund	-	-	18,000,000	10,748,370
-	86,530	United Stock Advantage Fund.	-	-	10,000,000	5,601,952
-	33,915	AKD Opportunity Fund.	-	-	2,000,000	1,193,809
-	81,699	UTP A30+ fund	-	-	5,000,000	2,169,118
-	275,042	Meezan Islamic Fund	-	-	17,292,401	9,703,485
			-	-	121,600,804	58,739,891



	Note	2010 Rupees	2009 Rupees
<b>9. Short term morabaha investment - secured</b>			
Gross Morabaha Investment		<b>909,869,350</b>	1,159,280,038
Add: Unearned morabaha income	9.2	<b>19,238,582</b>	26,123,813
		<b>929,107,932</b>	1,185,403,851
Less: Provision for doubtful finances	9.3	<b>(244,365,169)</b>	(227,028,128)
		<b>684,742,763</b>	958,375,723
<b>9.1</b>	These are secured against mortgage of properties, hypothecation and pledge of stocks, personal guarantees and demand promissory notes. The rate of profit on morabaha finances ranges from 16.10% to 19.69% (2009: 12.18% to 21.18%).		
<b>9.2</b>	These represent receivables against morabaha transactions on deferred payment basis at a specified profit margin.		
	Note	2010 Rupees	2009 Rupees
<b>9.3 Provision for doubtful debts</b>			
Opening balance		<b>227,028,128</b>	208,549,962
Additions during the year		<b>18,475,357</b>	17,870,509
Transferred/Reversed during the year		<b>(1,138,316)</b>	607,657
Closing balance		<b>244,365,169</b>	227,028,128
<b>10. Current maturity of long term investment</b>			
Morabaha investment	10.1	<b>2,000,000</b>	2,000,000
Unearned morabaha income		-	340,022
		<b>2,000,000</b>	2,340,022
Musharikah investment		<b>25,622,700</b>	14,473,237
		<b>27,622,700</b>	16,813,259
<b>10.1 Morabaha investment</b>			
Morabaha Investment		<b>11,500,000</b>	17,000,000
Less: Provision for doubtful morabaha investment	10.1.1	<b>(9,500,000)</b>	(15,000,000)
		<b>2,000,000</b>	2,000,000
<b>10.1.1 Provision for doubtful morabaha investment</b>			
Opening balance		<b>15,000,000</b>	15,000,000
Reversed during the year		<b>(5,500,000)</b>	-
Closing balance		<b>9,500,000</b>	15,000,000



	Note	2010 Rupees	2009 Rupees
<b>11. Advances, deposits, prepayments and other receivables</b>			
Profit receivable			
Morabaha investment	11.1	12,330,502	38,114,442
Musharikhah investment	11.2	283,704	4,251,999
		12,614,206	42,366,441
Ijarah rental receivables	11.3	308,730,111	189,544,144
Prepayments		165,356	218,382
Property acquired in satisfaction of claims	11.4	22,850,000	-
Other receivables		46,575,243	26,107,540
		390,934,916	258,236,507
Less: Provision for non performing assets		(4,332,642)	(1,231,631)
		386,602,274	257,004,876
<b>11.1 Morabaha profit receivable</b>			
Morabaha profit receivable-Gross		46,028,412	66,772,072
Less: Income transferred to suspense	11.1.1	(33,697,910)	(28,657,630)
		12,330,502	38,114,442
<b>11.1.1 Income transferred to suspense</b>			
Opening balance		28,657,630	11,987,774
Addition during the year		5,040,280	16,669,856
Closing balance		33,697,910	28,657,630
<b>11.2 Musharikhah profit receivable</b>			
Musharikhah profit receivable		6,810,677	4,251,999
Less: Income transferred to suspense		(6,526,973)	-
		283,704	4,251,999
<b>11.3 Ijarah rental receivables</b>			
Ijarah rental receivables		393,062,485	221,190,049
Less: Income transferred to suspense	11.3.1	(84,332,374)	(31,645,905)
		308,730,111	189,544,144
<b>11.3.1 Income transferred to suspense</b>			
Opening balance		31,645,905	2,706,476
Addition during the year		52,686,469	28,939,429
Closing balance		84,332,374	31,645,905
<b>11.4</b>			
This represents two plots acquired from a party against satisfaction of morabaha investment. These plots are not held for appreciation in value or for earning rentals and are to be sold to recover the amount in near future.			





		2010 Rupees	2009 Rupees
<b>12. Cash and bank balances</b>			
<b>Cash with banks:</b>			
Current accounts	12.1	3,207,064	2,335,689
Deposit accounts	12.2	37,591,780	22,000,000
Saving accounts		1,443,209	2,054,510
Current account with State Bank of Pakistan	12.3	4,084	18,784
		<b>42,246,137</b>	26,408,983
Cash in hand		656	25,267
		<b>42,246,793</b>	26,434,250

**12.1** The balance of Rs.3.181 (2009: Rs. 2.305) is maintained with The Bank of Punjab (the holding Company of the Modaraba's Management Company).

**12.2** Under the terms and condition for the issuance of certificates of musharikhah (both long & short term) , the Modaraba is required to maintain a Redemption Reserve Fund equal to at least 5% of the contribution received, which may be utilized for redemption purposes.The balance has been placed in liquid, shariah compliant instruments to comply with the requirement.

**12.3** This account has been opened for payment of online charges of the Credit Information Bureau of State Bank of Pakistan.

**12.4** The rate of profit on deposit and saving accounts ranges between 5% to 13% (2009: 5% to 15%).

		2010 Rupees	2009 Rupees
<b>13. Certificate capital</b>			
Authorized certificate capital			
50,000,000 modaraba certificates of Rs.10 each.		<b>500,000,000</b>	500,000,000
Issued, subscribed and paid-up certificate capital			
20,000,000 modaraba certificates of Rs 10 each			
fully paid up in cash		<b>200,000,000</b>	200,000,000
14,020,000 modaraba certificates of Rs 10 each			
issued as fully paid bonus certificates		<b>140,200,000</b>	140,200,000
		<b>340,200,000</b>	340,200,000

**13.1** As at 30 June 2010, The Punjab Modaraba Services (Private) Limited (The management company) held 13,325,482 (2009: 13,325,482) certificates of Rs. 10 each.



	Note	2010 Rupees	2009 Rupees
<b>14. Reserves</b>			
<b>Capital reserve</b>			
Statutory reserve	14.1	<b>114,199,168</b>	110,683,572
<b>Revenue reserves</b>			
Accumulated loss		<b>(84,369,529)</b>	(87,885,124)
		<b>29,829,639</b>	22,798,448

**14.1** This represents profit set aside to comply with the the Prudential Regulations for Modarabas issued by Securities and Exchange Commission of Pakistan requiring modaraba to transfer not less than 20% and not more than 50% of its profits after tax in such manner that reserves equal 100% of the paid up capital. Thereafter a sum not less than 5% of the profit after tax is to be set aside.

	Note	2010 Rupees	2009 Rupees
<b>15. Security deposits</b>			
Long term security deposits against Ijarah Margin against LG		<b>291,573,542</b>	279,984,308
Less: Current maturity of security deposits	18	<b>(97,241,187)</b>	(34,203,404)
		<b>213,395,671</b>	245,780,904
<b>16. Long term musharikhah finances - secured</b>			
Opening balance		<b>1,012,682,385</b>	788,710,559
Additions during the year		<b>2,923,804,871</b>	4,411,074,004
Less: Paid during the year		<b>(3,051,451,397)</b>	(4,187,102,178)
		<b>(127,646,526)</b>	223,971,826
Closing balance		<b>885,035,859</b>	1,012,682,385

**16.1** During the year the Modaraba has availed musharikhah finance facilities from commercial bank having approved limits of Rs.1,063 million (2009: Rs.1,140 million). These facilities are secured by way of hypothecation charge over present and future book debts and receivables of Modaraba for an amount of Rs. 1,900 million. The estimated share of profit payable on musharikhah facilities ranges from 13.29% to 15.50% (2009: 13.77% to 17.27%).

	Note	2010 Rupees	2009 Rupees
<b>17. Redeemable capital - participatory and unsecured</b>			
Redeemable capital -Long term	17.1	<b>83,700,000</b>	173,950,000
Less: Current portion of long term Redeemable capital	18	<b>(2,850,000)</b>	(100,000,000)
		<b>80,850,000</b>	73,950,000

**17.1** The share of profit payable on certificates of Musharikhah ranges from 13.00% to 16% (2009: 13.25% to 16%).



	Note	2010 Rupees	2009 Rupees
<b>18. Current maturity of non current liabilities</b>			
Security deposits	15	97,241,187	34,203,404
Redeemable capital -Long term	17	2,850,000	100,000,000
		<b>100,091,187</b>	134,203,404
<b>19. Short term finances - secured</b>			
Morabaha finances		262,000,000	392,093,000
Musharikah finances		-	80,000,000
	19.1	<b>262,000,000</b>	472,093,000

**19.1** These facilities have been availed from commercial banks. These facilities are secured by registered charge over fixed and current assets of Modaraba for Rs. 430 million. The estimated share of profit payable on these facilities ranges from 13.70% to 18.70% (2009: 14.54 % to 18.70%).

	2010 Rupees	2009 Rupees
<b>20. Redeemable capital - participatory and unsecured</b>		
Opening balance	569,772,305	1,281,345,000
Issued during the year	1,900,444,521	1,317,866,545
Less: Redeemed during the year	(1,860,228,422)	(3,360,454,491)
	<b>40,216,099</b>	(711,572,695)
Closing balance	<b>609,988,404</b>	569,772,305

**20.1** The share of profit payable on certificates of Musharikah ranges from 13% to 15.38% (2009: 9.5% to 19.5%).

	2010 Rupees	2009 Rupees
<b>21. Markup payable</b>		
Musharikah finances	29,165,227	36,440,103
Morabaha finances	16,511,785	32,289,825
Redeemable capital	9,762,057	20,263,780
	<b>55,439,069</b>	88,993,708



	Note	2010 Rupees	2009 Rupees
<b>22. Trade and other payables</b>			
Due to Modaraba management company		781,243	-
Accrued expenses		342,500	414,637
Advance ijarah rentals		774,120	1,796,541
Lease participation money		54,122	141,993
Tax deducted at source		3,033	39,308
Tax payable		266,780	266,780
Provident fund payable		-	584,551
Margin against LG	22.1	48,757,848	31,658,876
Other payables	22.2	6,017,496	12,097,930
		<b>56,997,142</b>	<b>47,000,616</b>

**22.1** It includes margin held on behalf of issuing bank against gurantees issued by the bank.

**22.2** These include Rs.162,000 (2009: Rs.162,000) charged as penalty @ Rs 0.05 per thousand rupees on daily product basis on amount not paid by the clients in time, as required by the provisions of morabaha agreements. This amount shall be utilized for charitable and religious purposes as recognized by the Shariah.

## 23. Contingencies and commitments

### 23.1 Contingencies

**23.1.1** The assessing officer, while finalizing assessments for the years 1997-98 and 1998-99, made add backs out of profit and loss account. The Modaraba had filed an appeal before the Commissioner of Income Tax (Appeals) (CIT-(A)), who has rejected the appeals. The Modaraba has filed an appeal, against the order of CIT-(A), before the honourable Income Tax Appellate Tribunal, which has been decided in favour of Modaraba, however Income Tax Department has filed appeal before honourable Lahore High Court.

**23.1.2** Taxation Officer/ Additional Commissioner issued order under section 122 (5A) of the Income Tax Ordinance, 2001, (the Ordinance) rejecting the exemption claimed from tax under Clause 100 of Part I of Second Schedule to the Ordinance and made additions on account of provision for bad debts, which resulted in a tax liability of Rs. 14,580,110. The Modaraba filed appeal before the CIT (Appeals) for tax year 2003 against this order. In this regard, after hearing of the appeal, the CIT (Appeals) by accepting the claim of exemption has issued a favorable order to the Modaraba while deleting the tax liability of Rs. 14,580,110 vide order No. 31 dated 27 June 2009. The income tax department has filed an appeal before Appellate Tribunal Inland Revenue against the order of CIT which is pending for adjudication.

**23.1.3** The Taxation Officer/ Additional Commissioner issued order under section 122 (5A) of the Ordinance by rejecting the claim of exemption in an arbitrary manner and assessing the taxable income at Rs. 60,845,840 and tax liability at Rs. 21,502,895. The Modaraba has filed a rectification application under section 221 of the Ordinance contesting that the taxation officer has charged tax at the rate of 35% whereas applicable rate in case of Modaraba is 25%. Moreover the Modaraba has filed an appeal before the Commissioner (Appeals) against the order of taxation officer by contesting that Modaraba has properly distributed more than 90% of its profit in this year and therefore the income of the Modaraba is exempt from tax under clause 100 Part I of Second Schedule to the Ordinance. The appeal is pending for adjudication.



## 23.2 Commitments

**23.2.1** Ijarah commitments approved but not disbursed as on balance sheet date amount to Rs.514.48 million (2009 : Rs. 169.49 million).

**23.2.2** Morabaha commitments approved but not disbursed as on balance sheet date amount to Rs.69.66 million (2009 : Rs. 602.84 million).

	Note	2010 Rupees	2009 Rupees
<b>24. Operating income</b>			
<b>24.1 Income from ijarah</b>			
Ijarah Income		901,631,980	966,162,170
Less: Rentals suspended		(52,686,467)	(28,939,429)
Total Income from ijarah		848,945,513	937,222,741
<b>24.2 Profit earned on Morabaha investment</b>			
Morabaha investment		66,490,741	167,197,457
Less: Suspension		(5,040,280)	(16,669,856)
Total Income from Morabaha investment		61,450,461	150,527,601
<b>24.3 Profit earned on Musharikah investment</b>			
Musharika investment		8,776,162	6,042,879
Less: Suspension		(6,526,973)	-
Total Income from Musharikah investment		2,249,189	6,042,879
		912,645,163	1,093,793,221
<b>25. Other income</b>			
<b>Income from financial assets</b>			
Profit on bank deposits		3,668,932	2,778,776
<b>Income from other than financial assets</b>			
Processing fee		35,601,555	20,471,040
Commission income		2,278,552	1,122,177
Miscellaneous income		8,961,008	1,443,835
		46,841,115	23,037,052
		50,510,047	25,815,828



	Note	2010 Rupees	2009 Rupees
<b>26. Operating expenses</b>			
Salaries, wages and other benefits	26.2	12,834,984	12,007,871
Depreciation on fixed assets - owned	5.2	2,614,828	2,320,619
Travelling and conveyance		2,245,045	2,317,729
Legal and professional		1,809,542	657,978
Printing and stationery		846,939	754,024
Insurance		551,351	229,410
Fee and subscription		689,086	628,409
Auditors' remuneration	26.3	567,437	439,640
Repair and maintenance		789,308	686,865
Power & utilitiles		1,184,636	764,755
Entertainment		403,277	279,307
Advertisement		112,000	539,240
Telephone and postage		669,187	690,116
Corporate Expenses		647,688	720,779
Staff training		53,289	65,890
Rent, rates and taxes		164,412	151,273
Security charges		221,000	385,806
Miscellaneous		246,218	489,375
		<b>26,650,227</b>	<b>24,129,086</b>
<b>26.1</b>	Office space expenses are borne by Punjab Modaraba Services (Private) Limited (the management company).		
<b>26.2</b>	Salaries and other benefits include Rs. 1.247 million (2009: Rs.0.807 million) on account of provident fund contribution.		
<b>26.3 Auditors' remuneration</b>			
Audit fee		500,000	275,000
Half yearly review and others		-	110,000
Out of pocket expenses		67,437	54,640
		<b>567,437</b>	<b>439,640</b>
<b>27. Financial charges</b>			
Profit on morabaha finances		40,502,246	74,970,468
Profit on musharikhah finances		140,375,832	167,934,166
Profit on redeemable capital		99,994,628	140,608,771
Bank and other charges		140,335	165,719
		<b>281,013,041</b>	<b>383,679,124</b>



		2010	2009
<b>28. Earnings / (Loss) per certificate - basic</b>			
Profit / (loss) for the year	<i>Rupees</i>	<b>7,031,191</b>	(90,829,058)
Weighted average number of ordinary certificates	<i>Numbers</i>	<b>34,020,000</b>	34,020,000
Earnings / (loss) per certificate	<i>Rupees</i>	<b>0.21</b>	(2.67)

**29. Future Ijarah rentals receivables**

Aggregate amount of future Ijarah rentals receivable on the basis of agreements executed upto June 30, 2010, are as follows:

	2010 Rupees	2009 Rupees
Upto one year	<b>664,676,960</b>	798,596,210
Above one year and upto five year	<b>839,805,325</b>	1,035,090,997
	<b>1,504,482,285</b>	1,833,687,207

**30. Transactions with related parties**

The related parties and associated undertakings comprise of Bank of Punjab and Punjab Modaraba Services (Pvt) Limited. Transactions with related parties and associated undertakings other than remuneration and benefits to key management personnel under the term of employment are as follows:

**30.1 Balance outstanding at the end of period**

**30.1.1 The Bank of Punjab (Holding company of the Modaraba's Management Company)**

	2010 Rupees	2009 Rupees
Musharikhah finances	<b>888,410,859</b>	1,012,682,385
Profit payable on musharikhah finances	<b>29,334,802</b>	35,964,487
Net book value of the assets leased to employees	<b>14,483,400</b>	18,739,691
Lease security deposits	<b>4,808,470</b>	4,970,200
Lease rentals receivables	<b>Nil</b>	51,584
Certificate of musharikhah	<b>300,000,000</b>	300,000,000
Profit payable on certificate of musharikhah	<b>3,322,877</b>	3,924,657

**30.1.2 BOP Employee Provident Fund**

Certificate of musharikhah	<b>75,000,000</b>	170,000,000
Profit payable on certificate of musharikhah	<b>3,723,836</b>	13,488,215

**30.1.3 Punjab Modaraba Services (Pvt) Limited (Modaraba's Management company)**

Due to management company	<b>781,243</b>	Nil
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	2010 Rupees	2009 Rupees
<b>30.2 Transactions during the year</b>		
<b>30.2.1 The Bank of Punjab (Holding company of the Modaraba's Management Company)</b>		
Lease rentals income	10,199,664	13,247,752
Profit charged on finances	134,327,703	146,554,960
Lease contracts entered during the period	5,710,200	-
Profit charged on certificate of musharikhah	40,235,754	51,238,358
<b>30.2.2 BOP Employee Provident Fund</b>		
Profit charged on certificate of musharikhah	24,970,942	26,954,522
<b>30.2.3 Punjab Modaraba Services (Pvt) Limited (Modaraba's Management company)</b>		
Management fee accrued	781,243	Nil
Profit distribution paid	Nil	4,262,622

**31. Remuneration of officers and other employees**

	2010		
	Officers	Other employees	Total
	Rupees	Rupees	Rupees
Remuneration	10,226,753	683,755	10,910,508
Medical allowance	656,769	36,105	692,874
Utility allowance	656,769	36,105	692,874
Provident Fund contribution	471,324	13,404	484,728
Expenses reimbursed	54,000	-	54,000
	<b>12,065,615</b>	<b>769,369</b>	<b>12,834,984</b>
Number of employees at the year end	<b>27</b>	<b>9</b>	<b>36</b>

	2009		
	Officers	Other employees	Total
	Rupees	Rupees	Rupees
Remuneration	9,189,643	697,751	9,821,160
Medical allowance	582,610	46,708	629,318
Utility allowance	582,610	46,708	629,318
Provident Fund contribution	767,855	39,986	807,841
Expenses reimbursed	54,000	-	228,234
	<b>11,176,718</b>	<b>831,153</b>	<b>12,115,871</b>
Number of employees at the year end	<b>27</b>	<b>9</b>	<b>36</b>



## 32. Financial instruments

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors of the management company has overall responsibility for the establishment and oversight of Modaraba's risk management framework.

### 32.1 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge an obligation. The risk is generally limited to the carrying to principal amounts and accrued profit thereon, if any. The company's policy is to enter into financial contracts in accordance with the internal risk management policies and the requirements of the Prudential Regulations. The carrying amount of the following financial assets represents the maximum credit exposure at the reporting date:

	<b>30 June 2010 Rupees</b>	30 June 2009 Rupees
Cash and bank balances	<b>42,246,793</b>	26,434,250
Investments	-	58,739,891
Musharikhah investment	<b>45,175,248</b>	52,505,471
Morabaha investment	<b>686,742,763</b>	960,715,745
Advances, deposits and other receivables	<b>363,586,918</b>	256,786,494
Tax refundable	<b>1,818,104</b>	1,630,779
Long term deposits	<b>165,060</b>	131,560
	<b>1,139,734,886</b>	1,356,944,190

#### 32.1.1 Description of Collateral held

The Company's Ijarah leases are secured against assets leased out. In a few leases additional collateral is also obtained in the form of mortgaged property.

Morabaha investments are secured by way of personal guarantees of the Directors, pledge of stocks, mortgage of properties and charge on the assets varying from case to case.

Musharika investments are secured by way of personal guarantees and mortgage of properties.



**32.1.2** Investment comprises of certificates of mutual funds and ordinary shares of listed companies. The analysis below summarizes the credit quality of the Modaraba's investments.

	2010	2009
<b>Mutual funds</b>		
PICIC Investment Fund	-	N/A
JS Growth Fund	-	A
JS Large Capital Fund	-	5 Star
<b>Investment &amp; Commercial Banks</b>		
SAMBA Bank Limited (Formerly Crescent Commercial Bank Limited)	-	A
KASB Bank Limited	-	A
Standard Chartered Bank Pakistan Ltd.	-	AAA
The Bank of Punjab (associated concern)	-	AA
<b>Textile Spinning</b>		
Kohinoor Spinning Mills Ltd.	-	N/A
<b>Cement</b>		
Lafarge Pakistan Cement Ltd. (Formerly Pakistan Cement Company Limited)	-	N/A
<b>Chemical and Pharmaceutical</b>		
Searle Pakistan Limited	-	BBB
<b>Open-ended mutual funds</b>		
UTP Islamic Fund ( Par value per unit Rs. 500)	-	4 Star
Pakistan Capital Market Fund	-	5 Star
Pakistan Stock Market Fund	-	5 Star
United Stock Advantage Fund.	-	N/A
AKD Opportunity Fund.	-	N/A
UTP A30+ fund	-	4 Star
Meezan Islamic Fund	-	5 Star

**32.1.3 Aging Analysis of Morabaha receivables**

<b>Past due</b>	<b>2010</b>			
	<b>Carrying Amount</b>	<b>Amount on which no suspension recognised</b>	<b>Amount on which suspension recognised</b>	<b>Suspension recognised</b>
	-----Rupees-----			
0 days	8,456,317	8,456,317	-	-
1 day - 89 days	1,059,472	1,059,472	-	-
90 days - 179 days	1,587,847	1,587,847	3,021,951	3,021,951
180 days - 364 days	-	-	7,448,352	7,448,352
1 year - less than 2 year	1,226,866	1,226,866	14,742,264	14,742,264
2 year - less than 3 year	-	-	1,741,350	1,741,350
3 year or more	-	-	6,743,993	6,743,993
<b>Total</b>	<b>12,330,502</b>	<b>12,330,502</b>	<b>33,697,910</b>	<b>33,697,910</b>

<b>Past due</b>	<b>2009</b>			
	<b>Carrying Amount</b>	<b>Amount on which no suspension recognised</b>	<b>Amount on which suspension recognised</b>	<b>Suspension recognised</b>
	-----Rupees-----			
0 days	20,223,860	20,223,860	-	-
1 day - 89 days	4,009,575	4,009,575	-	-
90 days - 179 days	13,881,007	13,881,007	6,706,032	6,706,032
180 days - 364 days	-	-	12,607,570	12,607,570
1 year - less than 2 year	-	-	11,569,930	11,569,930
2 year - less than 3 year	-	-	18,421,510	18,421,510
3 year or more	-	-	25,819,798	25,819,798
<b>Total</b>	<b>38,114,442</b>	<b>38,114,442</b>	<b>75,124,840</b>	<b>75,124,840</b>

Suspension is recognised by the Modaraba on the basis of requirements given under the Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

**32.1.4 Aging Analysis of Morabaha investment**

<b>Past due</b>	<b>2010</b>			
	<b>Carrying Amount</b>	<b>Amount on which no provision recognised</b>	<b>Amount on which provision recognised</b>	<b>Provision recognised</b>
	-----Rupees-----			
0 days	381,532,084	381,532,084	-	-
1 day - 179 days	53,900,000	53,900,000	-	-
180 days - 364 days	155,609,923	-	158,787,500	3,177,577
1 year - less than 2 year	25,609,168	-	39,712,500	14,103,332
2 year - less than 3 year	7,015,500	-	13,000,000	5,984,500
3 year or more	63,076,088	-	293,675,848	230,599,760
<b>Total</b>	<b>686,742,763</b>	<b>435,432,084</b>	<b>505,175,848</b>	<b>253,865,169</b>



<u>Past due</u>	2009			
	Carrying Amount	Amount on which no provision recognised	Amount on which provision recognised	Provision recognised
	-----Rupees-----			
0 days	568,474,710	568,474,710	-	-
1 day-179 days	310,500,000	310,500,000	-	-
180 days - 364 days	33,802,719	-	35,000,000	1,197,281
1 year - less than 2 year	15,938,548	-	20,000,000	4,061,452
2 year - less than 3 year	27,130,331	-	42,000,000	14,869,669
3 year and above	4,869,437	-	226,769,163	221,899,726
<b>Total</b>	<b>960,715,745</b>	<b>878,974,710</b>	<b>323,769,163</b>	<b>242,028,128</b>

Provision is recognised by the Company on the basis of provision requirements given under Prudential Regulations for Modaraba and subjective evaluation carried out on an ongoing basis.

### 32.1.5 Aging Analysis of Ijarah receivables

<u>Past due</u>	2010			
	Carrying Amount	Amount on which no suspension recognised	Amount on which suspension recognised	Suspension recognised
	-----Rupees-----			
0 days	10,969,085	10,969,085	-	-
1 day -179 days	82,668,908	82,668,908	-	-
180 days - 364 days	46,541,661	24,885,745	36,285,395	14,629,479
1 year - less than 2 year	93,366,295	-	141,141,744	47,775,449
2 year - less than 3 years	75,184,162	-	97,111,608	21,927,446
3 year or more	-	-	-	-
<b>Total</b>	<b>308,730,111</b>	<b>118,523,738</b>	<b>274,538,747</b>	<b>84,332,374</b>

<u>Past due</u>	2009			
	Carrying Amount	Amount on which no suspension recognised	Amount on which suspension recognised	Suspension recognised
	-----Rupees-----			
0 days	30,357,946	30,357,944	-	-
1 day -179 days	91,858,484	91,858,484	-	-
180 days - 364 days	26,756,427	-	41,223,295	14,466,866
1 year - less than 2 year	40,571,287	-	57,750,326	17,179,039
<b>Total</b>	<b>189,544,144</b>	<b>122,216,428</b>	<b>98,973,621</b>	<b>31,645,905</b>

Suspension is recognised by Modaraba on the basis of requirements given under the Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

**32.1.6 Aging Analysis of Musharikhah receivables and Musharikhah Investment**

<b>Past due</b>	2010			
	Carrying Amount	Amount on which no suspension recognised	Amount on which suspension recognised	Suspension recognised
	-----Rupees-----			
0 days	38,305	38,305	-	-
1 day -179 days	245,399	245,399	-	-
1 year - less than 2 year	-	-	6,526,973	6,526,973
	<b>283,704</b>	<b>283,704</b>	<b>6,526,973</b>	<b>6,526,973</b>

<b>Past due</b>	2009			
	Carrying Amount	Amount on which no suspension recognised	Amount on which suspension recognised	Suspension recognised
	-----Rupees-----			
0 days	550,888	550,888	-	-
1 day -89 days	323,714	323,714	-	-
90 days - 179 days	3,377,397	3,377,397	-	-
	<b>4,251,999</b>	<b>4,251,999</b>	-	-

Suspension is recognised by the Modaraba on the basis of requirements given under the Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

**32.1.7 Aging Analysis of Musharikhah investment**

<b>Past due</b>	2010			
	Carrying Amount	Amount on which no provision recognised	Amount on which provision recognised	Provision recognised
	-----Rupees-----			
0 days	10,595,336	10,595,336	-	-
1 day -364 days	1,197,112	1,197,112	-	-
1 year - less than 2 year	33,382,800	-	36,000,000	2,617,200
<b>Total</b>	<b>45,175,248</b>	<b>11,792,448</b>	<b>36,000,000</b>	<b>2,617,200</b>

<b>Past due</b>	2009			
	Carrying Amount	Amount on which no provision recognised	Amount on which provision recognised	Provision recognised
	-----Rupees-----			
0 days	51,739,245	51,739,245	-	-
1 day -179 days	766,226	766,226	-	-
<b>Total</b>	<b>52,505,471</b>	<b>52,505,471</b>	-	-

Provision is recognised by the Modaraba on the basis of provision requirements given under Prudential Regulations for Modaraba and subjective evaluation carried out on an ongoing basis.



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

Break down of credit risk exposure by class of business as at 30 June 2010 is as follows:

	<b>Ijarah Asset Rupees</b>	<b>Morabaha investment Rupees</b>	<b>Musharikah investment Rupees</b>	<b>2010 Total Rupees</b>	<b>% age</b>
Banks and NBFIs	21,978,961	-	-	21,978,961	1.01
Textiles spinning and composite	285,040,280	138,838,385	4,853,830	428,732,495	19.67
Sugar and allied	312,017,648	14,000,000	-	326,017,648	14.96
Electric goods	106,856,516	204,399,998	-	311,256,514	14.28
Chemicals and Pharmaceuticals	54,242,902	158,148,019	-	212,390,921	9.74
Paper and board	55,251,150	25,700,684	-	80,951,834	3.71
Food and allied	51,302,180	24,812,348	-	76,114,528	3.49
Individuals	30,799,125	-	2,553,558	33,352,683	1.53
Jute	-	-	34,453,017	34,453,017	1.58
Oil and Gas	41,600,437	16,628,827	-	58,229,264	2.67
Miscellaneous	255,066,437	36,714,502	3,314,843	295,095,782	13.54
Aviation and transport	2,868,651	-	-	2,868,651	0.13
Engineering	227,516,038	67,500,000	-	295,016,038	13.53
Cement	3,275,926	-	-	3,275,926	0.15
	<b>1,447,816,251</b>	<b>686,742,763</b>	<b>45,175,248</b>	<b>2,179,734,262</b>	<b>100</b>

Break down of credit risk exposure by class of business as at 30 June 2009 is as follows:

	<b>Ijarah Asset Rupees</b>	<b>Morabaha finance Rupees</b>	<b>Musharikah finance Rupees</b>	<b>2009 Total Rupees</b>	<b>% age</b>
Banks and NBFIs	23,709,887	-	-	23,709,887	0.90
Textiles spinning and composite	251,907,388	398,523,653	8,236,548	658,667,589	24.89
Sugar and allied	282,866,205	207,322,044	-	490,188,249	18.52
Electric goods	157,937,705	182,485,155	-	340,422,860	12.86
Chemicals and Pharmaceuticals	63,831,783	120,176,388	-	184,008,171	6.95
Paper and board	77,818,431	29,848,922	-	107,667,353	4.07
Food and allied	74,542,632	-	-	74,542,632	2.82
Individuals	87,374,865	-	1,996,448	89,371,313	3.38
Jute	-	-	36,000,000	36,000,000	1.36
Oil and Gas	82,372,997	-	-	82,372,997	3.11
Miscellaneous	128,133,550	22,359,583	6,272,475	156,765,608	5.92
Aviation and transport	19,656,210	-	-	19,656,210	0.74
Engineering	367,383,026	-	-	367,383,026	13.88
Cement	15,649,880	-	-	15,649,880	0.59
	<b>1,633,184,559</b>	<b>960,715,745</b>	<b>52,505,471</b>	<b>2,646,405,775</b>	<b>100</b>

## 32.2 Liquidity risk

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

### Financial liabilities

	2010					
	Carrying Amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years
-----Rupees-----						
Redeemable capital	693,688,404	784,839,060	386,992,716	304,946,759	92,899,585	-
Morabaha finance	262,000,000	296,516,800	296,516,800	-	-	-
Security deposits against lease	291,573,542	291,573,542	51,424,640	28,064,236	114,164,286	97,920,380
Musharika finance	885,035,859	1,006,993,800	-	1,006,993,800	-	-
Deferred morabaha income	19,238,582	19,238,582	19,238,582	-	-	-
Unclaimed profit distribution	12,032,753	12,032,753	12,032,753	-	-	-
Trade and other payable	56,997,142	56,997,142	56,997,142	-	-	-
Markup payable	55,439,069	55,439,069	55,439,069	-	-	-
	<b>2,276,005,351</b>	<b>2,523,630,748</b>	<b>878,641,702</b>	<b>1,340,004,795</b>	<b>207,063,871</b>	<b>97,920,380</b>

### Financial liabilities

	2009					
	Carrying Amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years
-----Rupees-----						
Redeemable capital	743,722,305	796,583,928	478,952,559	230,274,479	85,565,249	1,791,641
Morabaha finance	392,093,000	423,009,533	158,767,923	264,241,610	-	-
Security deposits against lease	279,984,308	279,984,308	14,648,221	19,555,183	63,379,207	182,401,697
Musharika finance	1,092,682,385	1,435,966,768	68,464,900	123,810,314	1,243,691,554	-
Deferred morabaha income	26,463,835	26,463,835	26,124,154	339,681	-	-
Unclaimed profit distribution	12,103,092	12,103,092	12,103,092	-	-	-
Trade and other payable	47,000,616	47,000,616	47,000,616	-	-	-
Markup payable	88,993,708	88,993,708	88,993,708	-	-	-
	<b>2,683,043,249</b>	<b>3,110,105,788</b>	<b>895,055,173</b>	<b>638,221,267</b>	<b>1,392,636,010</b>	<b>184,193,338</b>

**32.2.1** The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up rates effective as at year end (and includes both principal and profit payable thereon). The rates of mark-up have been disclosed in notes 16, 17, 19 and 20 to these financial statements.

### 32.2.2 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and equity prices will effect the Modaraba's income or the value of its holdings of financial instruments.



### 32.3 Market risk

Market risk is the risk that the value of a financial instrument will fluctuate due to changes in the market yield. The Modaraba has adopted appropriate policies to minimise its exposure to this risk. At the reporting date the interest rate profile of Modaraba's significant interest bearing financial instruments and the periods in which they mature is as follows:

	2010							2010 Total
	Within one year	Over one to two years	Over two to three years	Over three to four years	Over four to five years	Over five years	Non profit bearing	
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	
<b>Financial assets</b>								
Investments	-	-	-	-	-	-	-	-
Long term deposit	-	-	-	-	-	-	165,060	165,060
Musharikh investment	45,175,248	-	-	-	-	-	-	45,175,248
Morabaha investment	686,742,763	-	-	-	-	-	-	686,742,763
Advances, deposits and other receivables	317,011,675	-	-	-	-	-	46,575,243	363,586,918
Tax refundable	-	-	-	-	-	-	1,818,104	1,818,104
Cash and bank balances	42,246,793	-	-	-	-	-	-	42,246,793
	<b>1,091,176,479</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48,558,407</b>	<b>1,139,734,886</b>
<b>Financial liabilities</b>								
Redeemable Capital	612,638,404	81,050,000	-	-	-	-	-	693,688,404
Morabaha finances	262,000,000	-	-	-	-	-	-	262,000,000
Security deposits against leases	-	-	-	-	-	-	291,573,542	291,573,542
Musharikh finances	885,035,859	-	-	-	-	-	-	885,035,859
Deferred Morabaha Income	19,238,582	-	-	-	-	-	-	19,238,582
Unclaimed profit distribution	-	-	-	-	-	-	12,032,753	12,032,753
Trade and other payable	-	-	-	-	-	-	56,997,142	56,997,142
Markup payable	55,439,069	-	-	-	-	-	-	55,439,069
	<b>1,834,351,914</b>	<b>81,050,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>360,603,437</b>	<b>2,276,005,351</b>
<b>Profit rate sensitivity gap</b>	<b>(743,175,435)</b>	<b>(81,050,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(312,045,030)</b>	<b>(1,136,270,465)</b>
<b>Cumulative profit rate sensitivity gap</b>	<b>(743,175,435)</b>	<b>(81,050,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(312,045,030)</b>	<b>(1,136,270,465)</b>

	2010
<b>Financial assets</b>	
Bank balances	5 to 13.00 percent per annum
Finances under musharikh arrangements	14.41 to 20.07 percent per annum
Finances under morabaha arrangements	16.10 to 19.69 percent per annum
<b>Financial liabilities</b>	
Redeemable Capital	11.20 to 16.00 percent per annum
Finances under musharika arrangements	13.29 to 15.50 percent per annum
Finances under morabaha arrangements	12.65 to 19.68 percent per annum

	2009							2008 Total
	Within one year	Over one to two years	Over two to three years	Over three to four years	Over four to five years	Over five years	Non profit bearing	
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	
<b>Financial assets</b>								
Investments	58,739,891	-	-	-	-	-	-	58,739,891
Long term deposit	-	-	-	-	-	-	131,560	131,560
Musharika investment	52,505,471	-	-	-	-	-	-	52,505,471
Morabaha investment	960,715,745	-	-	-	-	-	-	960,715,745
Advances, deposits and other receivables	231,692,203	-	-	-	-	-	25,094,291	256,786,494
Tax refundable	-	-	-	-	-	-	1,630,779	1,630,779
Cash and bank balances	24,054,510	-	-	-	-	-	2,379,740	26,434,250
	<b>1,327,707,820</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29,236,370</b>	<b>1,356,944,190</b>
<b>Financial liabilities</b>								
Redeemable Capital	669,772,305	72,650,000	1,300,000	-	-	-	-	743,722,305
Morabaha finances	392,093,000	-	-	-	-	-	-	392,093,000
Security deposits against leases	-	-	-	-	-	-	279,984,308	279,984,308
Musharika finances	1,092,682,385	-	-	-	-	-	-	1,092,682,385
Deferred Morabaha Income	26,463,835	-	-	-	-	-	-	26,463,835
Unclaimed profit distribution	-	-	-	-	-	-	12,103,092	12,103,092
Trade and other payables	-	-	-	-	-	-	47,000,616	47,000,616
Markup payable	88,993,708	-	-	-	-	-	-	88,993,708
	<b>2,270,005,233</b>	<b>72,650,000</b>	<b>1,300,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>339,088,016</b>	<b>2,683,043,249</b>
<b>Profit rate sensitivity gap</b>	<b>(942,297,413)</b>	<b>(72,650,000)</b>	<b>(1,300,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(309,851,646)</b>	<b>(1,326,099,059)</b>
<b>Cumulative profit rate sensitivity gap</b>	<b>(942,297,413)</b>	<b>(72,650,000)</b>	<b>(1,300,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(309,851,646)</b>	<b>(1,326,099,059)</b>





**Effective profit rates**

	2009
<b>Financial assets</b>	
Bank balances	5 to 15.00 percent per annum
Finances under musharika arrangements	13.40 to 21.24 percent per annum
Finances under morabaha arrangements	12.18 to 21.18 percent per annum
<b>Financial liabilities</b>	
Redeemable Capital	9.5 to 19.5 percent per annum
Finances under musharika arrangements	13.77 to 18.00 percent per annum
Finances under morabaha arrangements	11.86 to 19.68 percent per annum

**Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the basis for 2009.

	Profit and loss 100 bps	
	Increase	Decrease
<b>As at 30 June 2010</b>		
Cash flow sensitivity-Variable rate financial assets	17,444,995	(17,572,981)
Cash flow sensitivity-Variable rate financial liabilities	(20,263,033)	20,151,853
Net effect	(2,818,038)	2,579,072
<b>As at 30 June 2009</b>		
Cash flow sensitivity-Variable rate financial assets	10,965,497	(10,965,497)
Cash flow sensitivity-Variable rate financial liabilities	(3,836,791)	3,836,791
Net effect	7,128,706	(7,128,706)

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

**32.4 Operational risk**

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 behaviour. 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 it is effective.



### 32.5 Fair value of financial instruments

The carrying values of the financial assets and financial liabilities approximate their fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### 32.6 Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investors, creditors 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 operation income divided by total capital employed. The Board of Directors also monitors the level of dividend payouts to certificate holders.

	2010 Rupees	2009 Rupees
<b>33. Cash generated from operations</b>		
Profit / (Loss) before taxation	7,031,191	(90,829,058)
Adjustment for non cash expenses and other items:		
Provision for morabaha investment	11,837,043	17,870,509
Provision for musharikhah investment	2,617,200	-
(Reversal) / provision for impairment of assets	10,954,473	2,809,755
Other provisions	3,101,011	1,231,631
Impairment on available for sale investments	-	59,370,242
Impairment on intangible assets	-	1,100,000
Depreciation of assets leased out	646,280,559	730,416,810
Depreciation on owned assets	2,614,828	
Finance cost	100,134,963	140,774,490
Profit on morabaha/musharikhah finances	180,878,078	242,904,634
Gain on disposal of assets under Ijarah arrangements	(8,100,148)	(7,043,208)
Gain on sale of investment	(19,023,290)	(741,643)
Loss on disposal of fixed assets in own use	12,661	35,869
Return on investments	-	(63,580)
Operating profit before working capital changes	938,338,569	1,097,836,451
<b>Working capital changes</b>		
<b>Decrease / (Increase) in current assets</b>		
Musharikhah investment	-	20,000,000
Morabaha investment	226,560,688	322,401,043
Purchase of assets under ijarah arrangements	(515,852,234)	(658,678,489)
Proceeds from disposal of assets under ijarah arrangement	52,085,696	107,603,158
Long term deposits	(33,500)	(60,560)
Advances, deposits, prepayments and other receivables	(109,848,409)	(61,148,927)
	(347,087,759)	(269,883,775)
<b>(Decrease) / Increase in current liabilities</b>		
Trade and other payables	29,059,842	26,712,875
Security deposit received against ijarah arrangements	33,155,826	53,616,705
Security deposit refunded against ijarah arrangements	(21,566,592)	(46,503,695)
	40,649,076	33,825,885
Net changes in operating assets and liabilities	(306,438,683)	(236,057,890)
Cash generated from/ (used in) operations	631,899,886	861,778,561



#### 34. Accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below:

##### 34.1 Provision against non-performing loans and advances

The Modaraba reviews its portfolio to assess amount of non-performing contracts and provision required there against on a quarterly basis. The provision is made in accordance with the prudential regulations issued by Securities and Exchange Commission of Pakistan.

##### 34.2 Income taxes

No provision has been made in these financial statements for income taxes as the Modaraba plans to distribute at least 90% of its profits to certificate-holders

#### 35. Date of authorization for issue

The financial statements of Modaraba were approved by the directors of Modaraba Management Company and authorized for issue on October 15, 2010.

#### 36. General

- Figures have been rounded off to the nearest rupee.
- Figures have been rearranged and reclassified where necessary for better presentation.

**Chief Executive**  
Punjab Modaraba Services  
(Private) Limited

**Director**  
Punjab Modaraba Services  
(Private) Limited

**Director**  
Punjab Modaraba Services  
(Private) Limited



# First Punjab Modaraba

An Islamic Financial Institution

Managed by:

Punjab Modaraba Services (Pvt) Ltd.

(A wholly owned subsidiary of The Bank of Punjab)

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