



First Punjab Modaraba
An Islamic Financial Institution

Annual Report 2013

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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
 Mudassar Kaiser Pal Chief Executive
 (Officiating)
 Nadeem Amir Director
 Tariq Maqbool Director
 Mahboob-ul-Hassan Director

Company Secretary

Saqib Shamim

Audit Committee

Mahboob-ul-Hassan Chairman
 Nadeem Amir Member
 Tariq Maqbool Member

Auditors of the Modaraba

Ernst & Young Ford Rhodes Sidat Hyder & Co.
 Chartered Accountants

Auditors of the Management Company

Hameed Chaudhry & Co.
 Chartered Accountants

Bankers

The Bank of Punjab
 Bank Alfalah Limited

Registrar

Hameed Majeed Associates (Pvt) Ltd.
 H.M. House, 7-Bank Square,
 The Mall, Lahore
 Tel: 37235081-2

Registered Office

8th Floor, M.M Tower, 28-A, Block-K, Gulberg II,
 Lahore, Pakistan
 PABX: (+92-42) 35817637-38
 Fax: (+92-42) 35817639
 E-mail: info@punjabmodaraba.com.pk
 URL: www.punjabmodaraba.com.pk



Six Years at a Glance

(Amounts in '000)

	June-08	June-09	June-10	June-11	June-12	June-13
BALANCE SHEET						
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	110,683	110,683	114,199	114,199	128,065	127,366
Loss on re-valuation of Investment	(21,079)	-	-	-	-	-
Un-appropriated Profit	13,830	(87,885)	(84,370)	(157,954)	(325,567)	(436,490)
Total	443,634	362,998	370,030	296,446	142,698	31,076
Liabilities:						
Redeemable Capital	1,381,345	743,722	693,688	1,046,762	429,715	301,000
Musharikhah Arrangements	938,710	1,092,682	885,036	878,487	1,041,532	971,664
Morabaha Arrangements	388,668	392,093	102,000	38,810	17,296	-
Diminishing Musharikhah	-	-	160,000	-	-	-
Accrued, Deferred & Other Liabilities	442,247	454,546	454,344	367,849	279,438	264,212
Total	3,150,970	2,683,043	2,295,069	2,331,908	1,767,981	1,536,879
Total Equity & Liabilities	3,594,604	3,046,041	2,665,098	2,628,354	1,910,680	1,567,955
Operating Assets:						
Ijarah Assets	1,802,881	1,633,184	1,447,816	1,187,331	721,624	519,567
Short Term Investments-Available for sale	94,737	58,739	-	-	-	-
Musharikhah Investment	23,059	52,505	45,175	91,328	78,305	89,689
Morabaha Investment	1,379,620	960,715	686,743	677,414	497,785	477,384
Sub Total	3,300,297	2,705,143	2,179,734	1,956,072	1,297,714	1,086,633
Other Assets:						
Assets in own use	53,424	55,694	54,532	57,156	67,610	53,051
Deposits, Prepayments & other receivables	202,273	258,765	388,580	432,710	486,841	9,351
Cash & Bank Balances	38,610	26,434	42,247	182,411	58,509	90,519
Sub Total	294,307	340,893	485,359	672,276	612,960	481,317
Total Assets	3,594,604	3,046,037	2,665,093	2,628,349	1,910,679	1,567,955
PROFIT & LOSS ACCOUNT						
Operating Income	668,910	1,093,793	939,756	831,529	571,751	339,695
Other Income	47,075	33,664	50,510	22,203	45,603	7,558
Total Income	715,985	1,127,457	990,266	853,732	617,354	347,252
Operating Expenses	471,129	834,607	701,441	652,924	567,876	318,611
Financial Charges	225,948	383,679	281,013	270,990	217,091	139,612
Management Fee	1,890	-	781	-	-	-
Total Expenses	698,967	1,218,286	983,235	923,914	784,967	458,223
Profit before Taxation	17,018	(90,829)	7,031	(70,182)	(167,613)	(110,970)
Taxation	-	-	-	-	-	651
Profit for the year	17,018	(90,829)	7,031	(70,182)	(167,613)	(111,622)
DISTRIBUTION:						
Cash Dividend(%)	3.20	-	1.00	-	-	-
Bonus (%)	-	-	-	-	-	-
RATIOS:						
Breakup Value (Rs.)	13.04	10.67	10.88	8.71	4.19	0.91
Earning per Certificate (Rs.)	0.50	(2.67)	0.21	(2.06)	(4.93)	(3.28)
Return on Equity (Rs.)	3.84	(25.02)	1.90	(23.67)	(117.46)	(359.19)



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 20th Directors' Report of the Modaraba, together with audited financial statements and auditors' report for year ended June 30, 2013.

Review of Operations

During the year under consideration, focus remained on recovery of regular as well as non performing assets. The recoveries made were utilized for retirement and servicing of debt and Modaraba was able to pay off majority of third party liabilities other than The Bank of Punjab (BOP) being the parent Company of the Modaraba's Management Company and the major creditor. Consequently the quantum of fresh assets remained inadequate to offset the impact of redemption of assets. The corresponding decrease in revenues resulted in increased operating loss as compared to previous year.

At the same time concerted efforts were made to keep operating costs under check. The results were visible in reduction of over - 3% in administrative cost despite inflationary pressure. The retirement of debt and reduction of financing rate on facilities extended by sponsoring bank contributed towards reduction of over 36% in financial cost. The net amount of provisioning against non performing assets also reduced substantially translating into an improved bottom line on year to year basis.

Financial Results

The financial results of the Modaraba are summarized below:

	2013 Rupees	2012 Rupees
Profit / (Loss) for the year	(111,621,816)	(167,613,052)
Un-appropriated Profit – Brought Forward	(325,566,608)	(157,953,556)
Profit available for appropriation	-	-
Appropriations		
Profit Distribution in cash @ Rs:Nil (2012@Rs:Nil)	-	-
Transfer to statutory reserve	-	-
Un-appropriated profit / (loss) – Carried Forward	(437,188,424)	(325,566,608)
(Loss) / Earning per certificate - Rs.	(3.28)	(4.93)



Profit Distribution

The Board at its meeting held on December 30, 2013 has approved Rs. Nil distribution of profit and Rs. Nil transfer to statutory reserve for the year ended June 30, 2013 keeping in view the Loss incurred during the year.

Economic Outlook and Future Prospects

The country's economy will remain under pressure due to the challenges of fiscal deficit, instability of forex market, institutional strengthening of tax authorities, need for balanced energy reforms, a strictly commercial orientation towards Public Sector Enterprises and immediate steps to increase power generation, which may require fresh liquidity to secure fuel supplies. To achieve sustainable and equitable economic growth, the government will have to firmly commit to bold economic reforms.

Going forward, BOP being the parent company of the Modaraba's Management Company and the exclusive secured creditor of the Modaraba has extended its due support in terms of deferral of repayment of credit lines to mitigate liquidity risk and application of subsidized profit rate to make Modaraba profitable. Further, BOP will also extend its support in recovery of non- performing assets.

On the basis of support and the arrangements as outlined above and the business plan prepared by the Management which has been approved by the Board of Directors, the Management is of the view that the Modaraba would have adequate resources to continue its business in the foreseeable future.

Explanation of qualified opinion

As fully explained in Note 6.2 to the financial statements, after the demutualization process, the members of Lahore Stock Exchange (LSE) have been issued ordinary shares and Trading Rights Entitlement Certificates (TREC's). As informed by LSE, the fair value of TREC's and room has not been determined yet.

The last auctions of TREC's and room, resulting from default by members, were Rs. 8.10 million. The management is of the view that such auctions are forced in nature which, in absence of any active market, are not representative of fair value.

In view of the above factors, management is not currently in a position to determine the extent of impairment required. Hence, no provision for impairment has been recorded.

FPM Financial Strength Rating

The Pakistan Credit Rating Agency (Pvt.) Limited (PACRA) has maintained long term rating of "BBB" and short term rating of "A3" with placement of Modaraba on rating watch.

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.



- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- As fully explained above as well as in note 1 to the financial statements, the Management is of the view that the Modaraba would have adequate resources to continue its business in the foreseeable future.
- 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, 2013, except for those disclosed in financial statements.
- The value of investments of the staff provident fund, based on audited accounts, was Rs.4,740,000/- as at 30 June, 2013.
- During the year, seven 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	7
Mr. Mujahid Eshai	5
Mr. Nadeem Amir	7
Mr. Tariq Maqbool	6
Mr. Khaqan Hasnain Ibrahim	7

- During the year, four meetings of the Audit Committee were held. Attendance by each member was as follow:

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

Mr. Mujahid Eshai	4
Mr. Nadeem Amir	4
Mr. Tariq Maqbool	2

- An amount of Rs.25,000/- was paid to one of the directors for attending meetings of the Board of Directors.
- The pattern of the holding by the certificate holders is included in this annual report.
- No trades in certificates of the Modaraba were carried out by the Directors, Executives or their spouses and minor children during the year ended June 30, 2013.

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. Ernst & Young Ford Rhodes Sidat Hyder, 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, 2014, subject to the approval of Registrar Modaraba.

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, 2013 have been duly complied with and any exceptions have been disclosed in the Statement of Compliance with the Best Practices of Corporate Governance.

Staff

The hard work and efforts of staff of the Modaraba during adversity and the continued support extended by management of the Bank of Punjab during the year remained the hallmark of 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

Mudassar Kaiser Pal
Chief Executive (Officiating)

Lahore: December 30, 2013



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 6 directors which include 5 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 seven 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 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 did not conduct any orientation course during the year. However, one of the members of the Board has been trainer at The Pakistan Institute of Corporate Governance.
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 those 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.
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 Board has not established Human Resource & Remuneration Committee keeping in view the size and other requirements of the Modaraba.
18. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review program of the 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.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. All material information, as described in clause(xx) of the code is disseminated to the stock exchange and Securities and Exchange Commission of Pakistan in a timely fashion.
21. The Modaraba has complied with requirements as stipulated in the clause (x) relating to related party transactions.

We confirm that all other material principles contained in the code have been complied with.

**For and on behalf of the Board
Chief Executive (Officiating)**

Lahore: December 30, 2013



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 (the Statement) contained in the Code of Corporate Governance (the Code) for the year ended 30 June 2013 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 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 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 systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls,

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement 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 2013.

Lahore: December 30, 2013

Ernst & Young Ford Rhodes Sidat Hyder & Co.
Chartered Accountants
(Farooq Hameed)



Notice of Book Closure & Annual Review Meeting

The Certificate Holders are hereby notified that the Certificate Transfer Books shall remain closed from 17.01.2014 to 23.01.2014 (both days inclusive), for the purpose of attending Annual Review Meeting. All transfers received in order upto the close of business hours on January 16, 2014 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 of the Certificate-holders will be held at 10:30 a.m. on Thursday, January 23, 2014 at Noorjahan Banquet Hall, 10-A-Aibak Block, Main Boulevard New Garden Town, Lahore to review the performance of the Modaraba for the year ended June 30, 2013 in terms of Prudential Regulation No. 11, Part IV for Modarabas.

By the Order of
Board of Directors

Saqib Shamim
Company Secretary



Pattern of Certificate Holders as at June 30, 2013

Number of Certificate holders	Certificate Holding		Total No. of Certificate Held	Percentage of Total Capital
	From	To		
924	1 -	100	42,065	0.12
1485	101 -	500	411,355	1.21
1143	501 -	1000	935,036	2.75
740	1001 -	5000	1,728,123	5.08
128	5001 -	10000	962,459	2.83
38	10001 -	15000	465,112	1.37
37	15001 -	20000	676,398	1.99
28	20001 -	25000	645,465	1.90
9	25001 -	30000	249,225	0.73
7	30001 -	35000	228,418	0.67
8	35001 -	40000	297,068	0.87
2	40001 -	45000	87,000	0.26
5	45001 -	50000	247,628	0.73
4	50001 -	55000	210,500	0.62
4	55001 -	60000	229,611	0.67
2	60001 -	65000	122,100	0.36
3	65001 -	70000	202,550	0.60
3	70001 -	75000	221,946	0.65
1	75001 -	80000	80,000	0.24
2	80001 -	85000	169,500	0.50
1	85001 -	90000	90,000	0.26
2	90001 -	95000	184,116	0.54
5	95001 -	100000	498,500	1.47
2	105001 -	110000	212,786	0.63
1	110001 -	115000	115,000	0.34
3	115001 -	120000	353,846	1.04
1	120001 -	125000	125,000	0.37
1	125001 -	130000	130,000	0.38
1	135001 -	140000	135,809	0.40
2	145001 -	150000	300,000	0.88
1	150001 -	155000	151,000	0.44
1	160001 -	165000	160,020	0.47
2	175001 -	180000	357,363	1.05
1	185001 -	190000	188,000	0.55
2	195001 -	200000	397,644	1.17
1	205001 -	210000	208,693	0.61
1	220001 -	225000	225,000	0.66
1	225001 -	230000	229,935	0.68
1	255001 -	260000	259,000	0.76
2	295001 -	300000	600,000	1.76
1	300001 -	305000	302,000	0.89
1	320001 -	325000	325,000	0.96
1	345001 -	350000	350,000	1.03
2	365001 -	370000	735,500	2.16
1	480001 -	485000	482,500	1.42
1	500001 -	505000	502,420	1.48
1	595001 -	600000	595,224	1.75
1	615001 -	620000	615,500	1.81
1	755001 -	760000	756,034	2.22
1	1265001 -	1270000	1,265,777	3.72
1	1635001 -	1640000	1,636,080	4.81
1	5230001 -	5235000	13,320,694	39.16
4,618			34,020,000	100.00



Categories of Certificate Holders As at June 30, 2013

Categories of Certificate Holders	Category Wise No. of Certificate Holders	Certificates Held	Percentage
INDIVIDUALS	4,542	16,724,508	49.1608
ASSOCIATED COMPANIES, UNDERTAKING AND RELATED PARTIES			
	4		
PUNJAB MODARABA SERVICES (PVT) LTD.		8,088,500	23.7757
THE BANK OF PUNJAB		4,788	0.0141
PUNJAB MODARABA SERVICES (PVT) LTD.		5,232,194	15.3798
THE BANK OF PUNJAB, TREASURY DIVISION.		229,935	0.6759
		13,555,417	39.8454
MUTUAL FUND			
	3		
PRUDENTIAL STOCKS FUND LIMITED		100	0.0003
SECURITY STOCK FUND LTD.		3,100	0.0091
NATIONAL BANK OF PAKISTAN-TRUSTEE DEPARTMENT NI(U)T FUND		756,034	2.2223
		759,234	2.2317
JOINT STOCK COMPANIES	34	553,211	1.6261
BANKS, DEVELOPMENT FINANCIAL INSTITUTIONS, NON BANKING FINANCIAL INSTITUTIONS, INSURANCE COMPANIES, TAKAFUL, MODARABAS AND PENSION FUNDS.			
	22	2,361,361	6.9411
OTHERS	13	66,269	0.1948
GRAND TOTAL	4,618	34,020,000	100.0000



Financial Statements

As at June 30, 2013



Auditor's Report to the Certificate Holders



We have audited the annexed balance sheet of First Punjab Modaraba ("the Modaraba") as at 30 June 2013 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended. We state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

These financial statements are the Modaraba management company's (Punjab Modaraba Services (Private) Limited) responsibility which is also responsible to establish and maintain a system of internal control, prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan, Islamic Financial Accounting Standards issued by Institute of Chartered Accountants of Pakistan, 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.

Except as discussed in the following paragraph, 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 management 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:

Basis for qualified opinion

As referred to in Note 6.2, the management was unable to determine the fair value of the intangible assets, consequently we were unable to satisfy ourselves with regard to the extent of impairment that may be required there against.

- a) in our opinion, proper books of account have been kept by the Modaraba management 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), 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, except for the changes referred to in note 3.1, with which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the Modaraba's business and;
 - (iii) the business conducted, 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, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to determine the amount of impairment required, and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, Islamic Financial Accounting Standards issued by Institute of Chartered Accountants of 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 2013 and of the loss, its comprehensive 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)

Without further qualifying our opinion we draw attention to note 1 to the financial statements which indicates that the Modaraba incurred a loss of Rs. 111,621,816 during the year, while the accumulated losses, net of reserves, as at 30 June 2013 amount to Rs. 309,123,759 which exceeds fifty percent of the total amount subscribed by the holders of the Modaraba Certificates and as of that date the Modaraba's current liabilities exceeded its current assets by Rs. 452,536,739. These conditions, along with other matters as explained in Note 1, indicate the existence of material uncertainty which may cast significant doubts about the Modaraba's ability to continue as a going concern.

Lahore:
December 30, 2013

Ernst & Young Ford Rhodes Sidat Hyder & Co.
Chartered Accountants
Audit Engagement Partner: Farooq Hameed



Annual Shari'ah Advisor's Report

I have conducted the Shari'ah review of First Punjab Modaraba managed by Punjab Modaraba Services (Pvt) Limited for the financial period ended June 30, 2013 in accordance with the requirements of the Shari'ah Compliance and Shari'ah Audit Mechanism for Modarabas and report that except the observations as reported in "Annexure A", in my opinion:

- i. the Modaraba has introduced a mechanism which has strengthened the Shari'ah compliance, in letter and spirit and the systems, procedures and policies adopted by the Modaraba are in line with the Shari'ah principles;
- ii. the agreement(s) entered into by the Modaraba are Shari'ah compliant and the financing agreement(s) have been executed on the formats as approved by the Religious Board and all the related conditions have been met;
- iii. to the best of my information and according to the explanations given to me, the business transactions undertaken by the Modaraba and all other matters incidental thereto are in conformity with the Shari'ah requirements as well as the requirements of the Prospectus, Islamic Financial Accounting Standards as applicable in Pakistan and the Shari'ah Compliance and Shari'ah Audit Regulations for Modarabas;
- iv. the earnings that have been realized from the sources or by means prohibited by Shari'ah have been credited to charity accounts.

Mufti Muhammad Iftikhar Baig
Shariah Advisor
First Punjab Modaraba
8th Floor, D.M. Tower 26-A, Block-K
Gulberg II Lahore.
Stamp of the Shari'ah Advisor

September 30, 2013

Annual Shari'ah Advisor's Report

Sr No.	Observation	Customer	Recommendation Name	Management Response	Conclusion
1	Shariah Advisor approved SOP's are not formulate by the Modaraba Management separately for all modes of business undertaken by it.	General	General Observation Modaraba should formulate its SOP's separately for all modes of business undertaken by it and get it approved by its Shariah Advisor.	SOP's have been finalized and expected to be approved by Shariah Advisor shortly.	SOP's must be formulate and approved by the Shariah Advisor on priority basis.
2	Takaful is not in practice where required and no efforts for implementation of Takaful is in process.	General	Takaful should be implemented as it is preferred mode of insurance.	Negotiation with clients for the adoption of takaful is in process.	Takaful should be arranged where possible.


Mufti Muhammad Ifkhar Baig
 Shariah Advisor
 First Punjab Modaraba
 8th Floor, B.M. Tower 28-A, Block-K
 Gulberg II Lahore.
 Stamp of the Shari'ah Advisor





Balance Sheet

As at June 30, 2013

	Note	2013 Rupees	2012 Rupees
ASSETS			
Non current assets			
Tangible fixed assets	5		
- Ijarah assets		519,559,593	721,624,239
- Assets in own use		16,884,260	21,833,357
Intangible assets	6	36,166,473	45,776,574
Shares- available for sale	7	9,351,243	-
Long term musharikhah investment - secured	8	26,972,355	21,622,127
Long term deposits	9	92,500	656,944
		609,026,424	811,513,241
Current assets			
Short term morabaha investment - secured	10	477,384,056	497,784,821
Current maturity of long term investments	11	63,273,038	56,682,963
Property acquired against satisfaction of claim	12	-	46,050,000
Advances, deposits, prepayments and other receivables	13	327,400,300	439,269,313
Tax refundable		352,938	869,896
Cash and bank balances	14	90,519,231	58,509,315
		958,929,563	1,099,166,308
TOTAL ASSETS		1,567,955,987	1,910,679,549
EQUITY AND LIABILITIES			
Capital and reserves			
Certificate capital	15	340,200,000	340,200,000
Reserves	16	(309,123,759)	(197,501,943)
		31,076,241	142,698,057
Non current liabilities			
Security deposits	17	125,413,444	145,583,264
Current liabilities			
Current maturity of non current liabilities	18	60,127,963	87,304,755
Deferred morabaha income		11,226,841	8,163,234
Short term musharikhah finance secured	19	971,664,436	1,041,532,173
Redeemable capital - participatory and unsecured	20	301,000,000	422,515,082
Mark up payable	21	24,582,782	34,103,874
Trade and other payables	22	30,740,848	16,596,331
Unclaimed profit		12,123,432	12,182,779
		1,411,466,302	1,622,398,228
Contingencies and commitments	23		
TOTAL EQUITY AND LIABILITIES		1,567,955,987	1,910,679,549

The annexed 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

Profit and Loss Account

For the year ended June 30, 2013



	Note	2013 Rupees	2012 Rupees
Income			
Ijarah rentals	24.1	310,545,374	532,507,577
Profit on morabaha investment	24.2	24,923,090	34,377,249
Profit on musharikhah investment	24.3	4,226,110	4,865,812
Gain on disposal of fixed assets		3,672,591	7,771,395
Other income	25	3,885,115	37,831,750
		347,252,280	617,353,783
Expenses			
Operating expenses	26	32,697,069	33,706,382
Depreciation of assets leased out	5.1	256,007,221	429,969,482
Finance cost	27	139,612,194	217,091,004
		428,316,484	680,766,868
Operating (loss) / profit before provision and impairment		(81,064,204)	(63,413,085)
(Reversal)/ provision for morabaha investment	10.3	(14,603,168)	47,312,604
Impairment loss on ijarah assets	5.1	40,572,069	51,086,240
Impairment loss on musharikhah investment	8.2	2,352,841	7,726,674
Other provisions	13.5	1,584,545	(1,925,551)
		29,906,287	104,199,967
Operating loss after provision and impairment		(110,970,491)	(167,613,052)
Taxation	28	(651,325)	-
Modaraba Company's management fee		-	-
Loss for the year		(111,621,816)	(167,613,052)
Loss per certificate - basic and diluted	29	(3.28)	(4.93)

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

Chief Executive
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(Private) Limited

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Director
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(Private) Limited



Cash Flow Statement

For the year ended June 30, 2013

	Note	2013 Rupees	2012 Rupees
Cash flow from operating activities			
Cash generated from operations	33	410,476,344	551,677,451
Profit on redeemable capital paid		(42,038,009)	(112,898,768)
Profit paid on morabaha / musharikhah finances		(107,079,732)	(90,328,437)
Income tax paid		(134,367)	(231,184)
Net cash generated from operating activities		261,224,236	348,219,062
Cash flow from investing activities			
Proceeds from disposal of fixed assets		671,760	83,120
Fixed capital expenditure		(195,500)	(369,735)
Cash margin L/G paid		-	(1,467,305)
Investment in musharikhah - net		(13,736,700)	5,295,813
Net cash generated / (used in) from investing activities		(13,260,440)	3,541,893
Cash flow from financing activities			
Finances under musharikhah arrangements		(69,883,282)	163,044,916
Finances under morabaha		(17,296,169)	(21,514,053)
Redeemable capital		(128,715,082)	(617,046,678)
Profit distribution to certificate holders		(59,347)	(146,533)
Net cash used in financing activities		(215,953,880)	(475,662,348)
Net (decrease) / increase in cash and cash equivalents		32,009,916	(123,901,393)
Cash and cash equivalents at the beginning of the year		58,509,315	182,410,708
Cash and cash equivalents at the end of the year	14	90,519,231	58,509,315

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

Chief Executive
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(Private) Limited

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(Private) Limited

Director
Punjab Modaraba Services
(Private) Limited

Statement of Comprehensive Income

For the year ended June 30, 2013



	2013 Rupees	2012 Rupees
Loss for the year	(111,621,816)	(167,613,052)
Other comprehensive income for the year		
Transferred from surplus on revaluation of fixed assets on account of incremental depreciation	698,496	-
Total comprehensive loss for the period	(110,923,320)	(167,613,052)

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

Chief Executive
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(Private) Limited

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Director
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(Private) Limited



Statement of Changes in Equity

For the year ended June 30, 2013

	Certificate capital Rupees	Capital reserves Rupees	Accumuated loss Rupees	Total Rupees
Balance as at 1 July 2011	340,200,000	114,199,168	(157,953,556)	296,445,612
Total comprehensive loss for the year	-	-	(167,613,052)	(167,613,052)
Surplus on revaluation of fixed assets	-	13,865,497	-	13,865,497
Balance as at 30 June 2012	340,200,000	128,064,665	(325,566,608)	142,698,057
Total comprehensive loss for the year	-	-	(111,621,816)	(111,621,816)
Transferred from surplus on revaluation of fixed assets on account of incremental depreciation	-	(698,496)	698,496	-
Balance as at 30 June 2013	340,200,000	127,366,169	(436,489,928)	31,076,241

The annexed 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



1. STATUS AND NATURE OF BUSINESS

First Punjab Modaraba (the Modaraba) was formed under the Modaraba Companies and Modaraba (Flotation 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 8th Floor, MM Tower, 28-A, Block K, Gulberg II, Lahore. The Modaraba commenced its operations from 23 December 1992. The Modaraba is listed on all stock exchanges in Pakistan.

The Modaraba is a perpetual and multi-dimensional Modaraba and is primarily engaged in the business of Ijarah, Musharikhah and Morabaha financing, equity investment and other related businesses in accordance with the injunctions of Islam.

During the year the Modaraba has incurred a loss of Rs. 111,621,816 while the accumulated losses, net of reserves, as at 30 June 2013 amount to Rs. 309,123,759 which exceeds fifty percent of the total amount subscribed by the holders of the Modaraba Certificates. Further the current liabilities of the Modaraba exceed its current assets by Rs. 452,536,739 as at 30 June 2013.

In order to address going concern issue in terms of section 23 of the Modaraba Companies and Modarabas (Flotation and Control) Ordinance, 1980 (the Modaraba Ordinance), The Bank of Punjab (BOP) being the parent company of the Modaraba's Management Company' and the exclusive secured creditor of the Modaraba has extended its due support in terms of deferral of repayment of credit lines to mitigate liquidity risk and application of subsidized profit rate to make Modaraba profitable. Further, BOP will also extend its support in recovery of non-performing assets.

On the basis of support and the arrangements as outlined above and the business plan prepared by the management which has been approved by the Board of Directors, the management is of the view that the Modaraba would have adequate resources to continue its business in the foreseeable future.

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 (Flotation 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 (Flotation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Companies Ordinance, 1984 shall prevail.

The SECP has issued directive (vide SRO 431 (1) / 2007 dated 22 May 2007) that Islamic Financial Accounting Standard 2 (IFAS-2) shall be followed in preparation of the financial statements by Companies and Modarabas while accounting for Ijarah (Lease) transactions as defined by the said standard. The Modaraba has adapted the said standard.



2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for the office premises which have been carried at fair value.

2.3 Functional and presentation currency

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

3. INITIAL APPLICATION OF NEW STANDARDS, INTERPRETATIONS OR AMENDMENTS TO EXISTING STANDARDS AND FORTHCOMING REQUIREMENTS

3.1 Standards, interpretations and amendments to published approved accounting standards effective in 2012

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as describe below:

The Modaraba has adopted the following amendments to IFRSs which became effective for the current year:

IAS 1 – Presentation of Financial Statements – Presentation of items of other comprehensive income (Amendment)

IAS 12 – Income Taxes - Recovery of Underlying Assets (Amendment)
The adoption of the above amendments did not have any effect on the financial statements.

3.2 New / revised accounting standards, amendments to published accounting standards, and interpretations that are not yet effective

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

Standard or Interpretation	Effective date (annual periods Beginning on or after)
IFRS 7 – Financial Instruments : Disclosures – (Amendments) -Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	01-Jan-13
IAS 19 – Employee Benefits –(Revised)	01-Jan-13
IAS 32 – Offsetting Financial Assets and Financial liabilities – (Amendment)	01-Jan-14
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	01-Jan-13

The Modaraba expects that the adoption of the above revisions and amendments of the standards will not materially affect the Company’s financial statements in the period of initial application.



Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard	IASB Effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	01-Jan-15
IFRS 10 – Consolidated Financial Statements	01-Jan-13
IFRS 11 – Joint Arrangements	01-Jan-13
IFRS 12 – Disclosure of Interests in Other Entities	01-Jan-13
IFRS 13 – Fair Value Measurement	01-Jan-13

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Tangible fixed assets

Assets in own use

Fixed assets except freehold land and office premises are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss. Office premises is stated at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation on all fixed assets 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 5.

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 assesses at each balance sheet date whether there is any indication that fixed asset 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 recognized 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 recognized, 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 recognized 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 recognized as an income or expense.



Ijarah Assets

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.

4.2 Impairment

The carrying amount of Modaraba's assets is 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 recognized.

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, savings and deposit accounts.

4.5 Financial instruments

Financial assets

Significant financial assets include short and long term investments, long term deposits, advances and receivables and cash and bank balances. Finances and receivables from clients are stated at their nominal value as reduced by provision for doubtful finances and receivables, 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 term borrowings, certificates of musharikhah, 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 recognized amounts and there is an intention to settle on net basis, or realize the asset and settle the liabilities simultaneously.

4.6 Provisions

Provisions are recognized 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 Ijarah 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 recognized 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.

Musharikah Finance

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



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

4.11 Ijarah rentals and Musharikah investments

Ijarah rentals and Musharikah investments are stated net of provision and suspense income. Provision is recognized for Ijarah rentals receivable and musharikah 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 recognized 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.

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.

	Note	2013 Rupees	2012 Rupees
5. TANGIBLE FIXED ASSETS			
Ijarah assets	5.1	519,559,593	721,624,239
Assets in own use	5.2	16,884,260	21,833,357
		536,443,853	743,457,596



5.1 Ijarah assets

2013

Description	COST			DEPRECIATION			IMPAIRMENT			NET BOOK VALUE				
	As at 1 July 2012	Additions	Transfer	As at 30 June 2013	As at 1 July 2012	Change for the year	Transfer	As at 30 June 2013	As at 1 July 2012	Change for the year	Transfer	As at 30 June 2013	As at 30 June 2013	Depreciation Rate - %
Plant and machinery	1,646,369,466	58,499,775	(133,206,546)	1,571,662,695	1,035,850,123	187,327,859	(116,356,934)	1,106,821,048	78,817,361	39,522,421	(74,003,792)	44,335,990	420,505,657	As per term
Vehicle	365,496,577	9,900,000	(123,864,131)	251,532,446	183,161,176	61,333,912	(92,747,200)	151,747,888	517,717	1,049,644	(97,582)	1,469,779	98,314,779	As per term
Cessna aircraft	13,552,604	-	-	13,552,604	7,536,054	6,016,550	-	13,552,604	-	-	-	-	-	As per term
Consumer products	6,365,961	-	(32,100)	6,333,861	4,318,476	1,288,362	(12,134)	5,594,704	-	-	-	-	739,157	As per term
Consumer products to staff	497,000	-	(497,000)	-	456,462	40,538	(497,000)	-	-	-	-	-	-	As per term
	2,032,281,608	68,399,775	(257,599,777)	1,843,081,606	1,231,322,291	256,007,221	(209,613,268)	1,277,716,244	79,335,078	40,572,065	(74,101,374)	45,805,769	519,559,593	

2012

Description	COST			DEPRECIATION			IMPAIRMENT			NET BOOK VALUE				
	As at 1 July 2011	Additions	Transfer	As at 30 June 2012	As at 1 July 2011	Change for the year	Transfer	As at 30 June 2012	As at 1 July 2011	Change for the year	Transfer	As at 30 June 2012	As at 30 June 2012	Depreciation Rate - %
Plant and machinery	2,137,363,880	89,310,275	(580,304,689)	1,646,369,466	1,138,830,986	338,373,894	(441,354,757)	1,035,850,123	31,077,319	50,699,948	(2,959,906)	78,817,361	531,701,982	As per term
Vehicle	348,955,377	78,176,600	(61,635,400)	365,496,577	144,114,212	83,187,617	(44,140,653)	183,161,176	131,425	386,292	-	517,717	181,817,684	As per term
Cessna aircraft	13,552,604	-	-	13,552,604	797,524	6,738,530	-	7,536,054	-	-	-	-	6,016,550	As per term
Consumer products	5,056,661	1,378,100	(68,800)	6,365,961	2,784,655	1,571,804	(37,983)	4,318,476	-	-	-	-	2,047,485	As per term
Consumer products to staff	534,900	-	(37,900)	497,000	396,725	97,637	(37,900)	456,462	-	-	-	-	40,538	As per term
	2,505,463,422	168,864,975	(642,046,789)	2,032,281,608	1,286,924,102	429,969,482	(485,571,293)	1,231,322,291	31,208,744	51,086,240	(2,959,906)	79,335,078	721,624,239	

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

2013

Description	COST			DEPRECIATION			NET BOOK VALUE		Depreciation Rate - %	
	As at 1 July 2012	Additions/ Transfers	Revaluation	Disposal/ Write off	As at 1 July 2012	Charge for the year	Disposal/ Write off/ Transfers	As at 30 June 2013		As at 30 June 2013
Office premises	20,803,361	(20,000)	-	(399,247)	5,803,361	1,670,000	(399,247)	7,061,453	13,322,661	10%
				(12,661)			(12,661)			
Office equipment	3,806,900	157,500	-	(102,320)	2,768,618	399,772	(94,878)	2,292,577	788,568	15% & 30%
				(780,935)			(780,935)			
Furniture and fixtures	1,419,270	38,000	-	(329,193)	801,379	230,129	-	1,005,172	521,944	15%
		399,039					(329,193)			
							302,857			
Vehicles	5,380,806	-	-	(994,105)	2,519,260	1,007,752	(350,252)	3,176,760	1,209,941	20%
Leasehold improvement	4,845,045	(379,039)	-	(390,254)	2,529,407	1,185,649	-	3,034,606	1,041,146	As per term
							(390,254)			
							(290,196)			
	36,255,382	195,500	-	(1,096,425)	14,422,025	4,493,302	(445,130)	16,570,568	16,884,260	
				(1,899,629)			(1,899,629)			

2012

Description	COST			DEPRECIATION			NET BOOK VALUE		Depreciation Rate - %	
	As at 1 July 2011	Additions	Revaluation	Disposal	As at 1 July 2011	Charge for the year	Disposal	As at 30 June 2012		As at 30 June 2012
Office premises	6,937,864	-	13,865,497	-	5,109,197	694,164	-	5,803,361	15,000,000	10%
Office equipment	3,830,349	255,051	-	(278,500)	2,463,445	562,255	(257,082)	2,768,618	1,038,282	15% & 30%
Furniture and fixtures	1,355,686	63,584	-	-	651,063	150,316	-	801,379	617,891	15%
Vehicles	5,383,706	51,100	-	(54,000)	1,532,202	1,041,058	(54,000)	2,519,260	2,861,546	20%
Leasehold improvement	4,845,045	-	-	-	1,477,364	1,052,043	-	2,529,407	2,315,638	As per term
	22,352,650	369,735	13,865,497	(332,500)	11,233,271	3,499,836	(311,082)	14,422,025	21,833,357	



5.2.1 Surplus on revaluation of fixed assets

Revaluation of office premises has been carried out on 30 June 2012 by Harvester Services Pvt Limited, professional valuers, on the basis of market value prevailing in that area as on that date. The revaluation has resulted in a surplus of Rs. 13.865 million. Had there been no revaluation, the carrying amount of office premises would have been as follows:

	2013 Rupees	2012 Rupee
Office premises	433,378	1,134,503

5.2.2 Disposal of assets in own use

	2 0 1 3						
	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain/ (Loss)	Mode of disposal	Particulars of Purchaser
	Rupees	Rupees	Rupees	Rupees	Rupees		
Office equipment	102,320	94,878	7,442	26,100	18,658	Negotiation	Time Digital
Vehicle	994,105	350,252	643,853	645,660	1,807	As per term	Razi ud Din Faiz - Ex employee
	1,096,425	445,130	651,295	671,760	20,465		

	2 0 1 2						
	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain/ (Loss)	Mode of disposal	Particulars of Purchaser
	Rupees	Rupees	Rupees	Rupees	Rupees		
Office equipment	278,500	257,082	21,418	64,120	42,702	Negotiation	Time Digital & Sufyan Computers
Vehicles	54,000	54,000	-	19,000	19,000	Negotiation	M. Abid Hussain
	332,500	311,082	21,418	83,120	61,702		

	Note	2013 Rupees	2012 Rupee
6. INTANGIBLE ASSETS			
Trading Rights Entitlement Certificates Room at Lahore Stock Exchange	6.1	26,648,757 9,000,000	36,000,000 9,000,000
Computer software	6.2 6.3	35,648,757 517,716	45,000,000 776,574
		36,166,473	45,776,574

6.1 This represents trading rights entitlement certificates (TREC) received against membership card pursuant to demutualization of the Lahore Stock Exchange (LSE). The Modaraba has allocated the carrying value of membership of LSE between TREC and shares in ratio of 0.74 : 0.26.

6.2 Management believes that auction of membership and rooms, resulting from default by members of LSE are not representative of fair value. Accordingly, in absence of active market, the management is not currently in position to determine the fair value of TREC and room and resultant impairment, if any. Hence no provision for impairment has been recorded.



	Note	2013 Rupees	2012 Rupees
6.3 Computer software			
Net Carrying value as at 01 July		776,574	1,036,142
Amortization Charged	26	(258,858)	(259,568)
Balance as at 30 June (NBV)		517,716	776,574
Rate of amortization		20%	20%
Gross Carrying value			
Cost		1,295,000	1,295,000
Accumulated Amortization		(777,284)	(518,426)
Net Book Value		517,716	776,574

7. SHARES- AVAILABLE FOR SALE

Unquoted

Lahore Stock Exchange Limited	7.1	9,351,243	-
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- 7.1** Pursuant to demutualization of the Lahore Stock Exchange (LSE), the ownership rights in a Stock Exchange were segregated from the right to trade on an exchange. As a result of such demutualization, the Modaraba received shares and TREC from the LSE against its membership card which was carried at Rs. 36,000,000 in the books of the Company.

The above arrangement has resulted in allocation of 843,975 shares at Rs. 10 each with a total face value of Rs. 8,439,750 and TREC to the Company by the LSE. Out of total shares issued by the LSE, the Modaraba has received 40% equity shares i.e. 337,590 shares in its CDC account. The remaining 60% shares have been transferred to CDC sub-account in the Modaraba's name under the LSE's participant IDs with the CDC which will remain blocked until these are divested/sold to strategic investor(s), general public and financial institutions and proceeds are paid to the Modaraba.

The Institute of Chartered Accountants of Pakistan in its technical guide dated May 29, 2013, concluded that the demutualization, in substance, had not resulted in exchange of dissimilar assets, and therefore no gain or loss should be recognized and the segregation of ownership rights and the trading rights should be accounted for by allocating the cost/carrying value of the membership card between the two distinct assets on a reasonable basis.

In absence of active market, these have been measured at break up value determined on the basis of financial statements of LSE for the year ending 30 June 2013.

	Note	2013 Rupees	2012 Rupees
8. LONG TERM MUSHARIKAH INVESTMENT - SECURED			
Musharikhah investment		106,923,178	93,186,478
Less: Current portion of long term musharikhah investment	11	(62,716,594)	(56,682,963)
Less: Provision against musharikhah investment	8.2	(17,234,229)	(14,881,388)
		26,972,355	21,622,127



8.1 The profit charged on these facilities ranged from 14.13% to 20.07% (2012: 14.02% to 20.07%). These facilities are secured by way of personal guarantees and mortgage of properties.

	2013 Rupees	2012 Rupees
8.2 Provision against musharikah investment		
Opening balance	14,881,388	7,154,714
Additions during the year	2,352,841	7,726,674
Transferred / reversed during the year	-	-
	2,352,841	7,726,674
Closing balance	17,234,229	14,881,388

9. LONG TERM DEPOSITS

Long term deposits	648,944	656,944
Less: Current portion of long term deposits	(556,444)	-
	92,500	656,944

10. SHORT TERM MORABAHA INVESTMENT - SECURED

Gross morabaha investment	790,661,808	828,729,348
Add: Unearned morabaha income	11,226,841	8,163,234
	801,888,649	836,892,582
Less: Provision for doubtful morabaha investment	(324,504,593)	(339,107,761)
	477,384,056	497,784,821

10.1 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 16.28% to 38.30% (2012: 15.23% to 18.87%).

10.2 These represent receivables against morabaha transactions on deferred payment basis at a specified profit margin.

	2013 Rupees	2012 Rupees
10.3 Provision for doubtful morabaha investment		
Opening balance	339,107,761	291,795,157
Additions during the year	5,723,973	47,312,604
Reversed during the year	(20,327,141)	-
	(14,603,168)	47,312,604
Closing balance	324,504,593	339,107,761



	Note	2013 Rupees	2012 Rupees
11. CURRENT MATURITY OF LONG TERM INVESTMENTS			
Morabaha investment	11.1	-	-
Musharikhah investment	8	62,716,594	56,682,963
Long term deposits	9	556,444	-
		63,273,038	56,682,963
11.1 Morabaha investment			
Morabaha Investment		8,800,000	8,800,000
Less: Provision for doubtful morabaha investment	11.1.1	(8,800,000)	(8,800,000)
		-	-
11.1.1 Provision for doubtful morabaha investment			
Opening balance		8,800,000	8,800,000
Addition/ (reversal) during the year		-	-
Closing balance		8,800,000	8,800,000
12. PROPERTY ACQUIRED AGAINST SATISFACTION OF CLAIM			
Opening balance		46,050,000	6,050,000
Addition during the year		-	40,000,000
Deletion during the year		(46,050,000)	-
Closing balance	12.1	-	46,050,000

12.1 This represented three plots acquired from parties against satisfaction of morabaha investment. During the year, these plots have been sold for Rs. 48.450 million.



	Note	2013 Rupees	2012 Rupees
13. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Profit receivable			
Morabaha investment	13.1	8,143,385	6,335,014
Musharikah investment	13.2	2,854,421	467,335
		10,997,806	6,802,349
Ijarah rental receivables	13.3	277,317,267	390,605,630
Prepayments		335,599	273,006
Other receivables	13.4	50,755,659	52,009,813
		339,406,331	449,690,798
Less: Provision for non performing assets	13.5	(12,006,031)	(10,421,486)
		327,400,300	439,269,312
13.1 Morabaha profit receivable			
Morabaha profit receivable		48,515,600	44,593,192
Less: Income transferred to suspense	13.1.1	(40,372,215)	(38,258,178)
		8,143,385	6,335,014
13.1.1 Income transferred to suspense			
Opening balance		38,258,178	37,855,228
Addition during the year		2,114,037	402,950
Closing balance		40,372,215	38,258,178
13.2 Musharikah profit receivable			
Musharikah profit receivable		23,680,349	18,952,025
Less: Income transferred to suspense	13.2.1	(20,825,928)	(18,484,690)
		2,854,421	467,335
13.2.1 Income transferred to suspense			
Opening balance		18,484,690	11,798,591
Addition / (reversal) during the year		2,341,238	6,686,099
Closing balance		20,825,928	18,484,690
13.3 Lease rental receivables			
Lease rental receivables		439,357,582	491,724,416
Less: Income transferred to suspense	13.3.1	(162,040,315)	(101,118,786)
		277,317,267	390,605,630



	2013 Rupees	2012 Rupees
13.3.1 Income transferred to suspense		
Opening balance	101,118,786	95,478,042
Addition during the year	7,941,604	5,640,744
Transfers during the year	70,890,112	-
Reversal during the year	(17,910,187)	-
Closing balance	<u>162,040,315</u>	<u>101,118,786</u>

13.3.2 Future lease rentals receivables

Aggregate amount of future lease rentals receivable on the basis of agreements executed upto 30 June 2013 are as follows:

	2013 Rupees	2012 Rupees
Up to one year	201,952,029	320,758,883
Above one year and up to five year	253,028,470	431,041,256
	<u>454,980,499</u>	<u>751,800,139</u>

13.4 This includes receivable from provident fund amounting to Rs. 564,267 (2012: Rs. Nil).

Size of the fund	4,852,004	5,356,479
Percentage of investments made	97.69%	90.17%
Fair value of investments	4,740,000	4,830,000
Cost of investments made	4,740,000	4,830,000

13.4.1 Break-up of investments in terms of amount and percentage of the size of the provident fund are as follows:

	Investments	Investment as a % of size of the fund	Investments	Investment as a % of size of the fund
	2013		2012	
	Rupees		Rupees	
Certificate of Musharikah	4,740,000	97.69%	4,830,000	90.17%

13.4.2 Investments out of provident fund have been made in accordance with the provisions of the section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

13.4.3 The above information is based on audited financial statements of the provident fund.



	2013 Rupees	2012 Rupees
13.5 Provision for non performing assets		
Opening balance	10,421,486	12,347,036
Additions during the year	1,584,545	1,430,864
Reversed during the year	-	(3,356,415)
	1,584,545	(1,925,551)
Closing balance	12,006,031	10,421,486

14. CASH AND BANK BALANCES

Cash with banks			
Current accounts	14.1	25,469,075	21,125,990
Deposit accounts	14.2 & 14.3	15,000,000	27,000,000
Saving accounts	14.3	50,042,209	10,375,033
Current account with State Bank of Pakistan	14.4	7,700	7,700
		90,518,984	58,508,723
Cash in hand		247	592
		90,519,231	58,509,315

14.1 The balance of Rs.25.461 million (2012: Rs. 0.902 million) is maintained with The Bank of Punjab (the holding Company of the Modaraba's Management Company).

14.2 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.

14.3 The rate of profit on deposit and saving accounts ranges between 7.19% to 11.75% (2012: 5% to 11.75%).

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



	2013 Rupees	2012 Rupees
15. CERTIFICATE CAPITAL		
Authorized certificate capital 50,000,000 modaraba certificates of Rs.10 each	500,000,000	500,000,000
Issued, subscribed and paid-up certificate capital 20,000,000 modaraba certificates of Rs. 10 each fully paid up in cash	200,000,000	200,000,000
14,020,000 modaraba certificates of Rs. 10 each issued as fully paid bonus certificates	140,200,000	140,200,000
	340,200,000	340,200,000

15.1 As at 30 June 2013, The Punjab Modaraba Services (Private) Limited (The management company) held 13,320,694 (2012: 13,320,694) certificates of Rs. 10 each.

	Note	2013 Rupees	2012 Rupees
16. RESERVES			
Capital reserve			
Statutory reserve	16.1	114,199,168	114,199,168
Surplus on revaluation of fixed assets	5.2.1	13,167,001	13,865,497
		127,366,169	128,064,665
Revenue reserves			
Accumulated loss		(436,489,928)	(325,566,608)
		(309,123,759)	(197,501,943)

16.1 This represents profit set aside to comply with 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	2013 Rupees	2012 Rupees
17. SECURITY DEPOSITS			
Long term security deposits against Ijarah	17.1	185,541,407	207,389,550
Less: Current maturity of security deposits	18	(60,127,963)	(62,808,586)
		125,413,444	144,580,964
Margin against LG		-	1,002,300
		125,413,444	145,583,264

17.1 This includes security deposit amounting to Rs. 82.7 million (2012: Rs. 82.7 million) against those Ijarahs where the customer has defaulted payments of rentals and the Modaraba has filed suits for recovery. The Modaraba expects the settlement of these security deposits after one year subject to the decision of court cases and therefore classified these security deposits as long term.



	Note	2013 Rupees	2012 Rupees
18. CURRENT MATURITY OF NON CURRENT LIABILITIES			
Security deposits	17	60,127,963	62,808,586
Morabaha finance		-	17,296,169
		60,127,963	87,304,755
19. SHORT TERM MUSHARIKAH FINANCE SECURED			
Opening balance		1,041,532,173	878,487,257
Additions during the year		955,292,203	2,868,118,774
Less: Paid during the year		(1,025,159,940)	(2,705,073,858)
		(69,867,737)	163,044,916
	19.1	971,664,436	1,041,532,173

19.1 During the year the Modaraba has availed musharikaah finance facilities from The Bank of Punjab having approved limits of Rs.1,060 million (2012: Rs.1,060 million). These facilities are secured by way of first pari passu charge over present and future fixed assets of Modaraba for amount of Rs. 860 million and first pari passu charge over present and future current assets of Modaraba for an amount of Rs. 1,040 million. The estimated share of profit payable on musharikaah facilities ranges from 9.28% to 11.95% (2012: 11.91% to 13.54%).

	Note	2013 Rupees	2012 Rupees
20. REDEEMABLE CAPITAL - PARTICIPATORY AND UNSECURED			
Opening balance		422,515,082	963,061,760
Issued during the year		1,327,852,466	1,337,354,284
Less: Redeemed during the year		(1,449,367,548)	(1,877,900,962)
		(121,515,082)	(540,546,678)
Closing balance	20.1	301,000,000	422,515,082

20.1 The share of profit payable on certificates of Musharikaah ranges from 9.01% to 13% (2012: 10.51% to 15.50%).



	Note	2013 Rupees	2012 Rupees
21. MARKUP PAYABLE			
Musharikah finances		22,067,714	26,735,342
Morabaha finances		-	1,884,385
Redeemable capital		2,515,068	5,484,147
		24,582,782	34,103,874
22. TRADE AND OTHER PAYABLES			
Accrued expenses		527,672	596,459
Lease participation money		40,500	40,500
Tax deducted at source		58,675	293
Margin against LG	22.1	1,079,850	77,550
Other payables	22.2	29,034,151	15,881,529
		30,740,848	16,596,331

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

22.2 These include Rs.229,613 (2012: Rs.1,210,190) charged as penalty at the rate of 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. During the year, penalties received from customers for delay payments were paid as donations to the following entities:

	2013 Rupees	2012 Rupees
Shaukat Khanum Memorial Cancer Hospital	500,000	412,112
Edhi Foundation	500,000	412,111
Layton Rehmatullah Benevolent Trust	500,000	412,111
Kaukab Mir Memorial Welfare Trust	-	150,000
Sindh Institute of Urology and Transplantation	-	188,409
	1,500,000	1,574,743

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 honorable Income Tax Appellate Tribunal, which has been decided in favor of Modaraba, however Income Tax Department has filed appeal before honorable Lahore High Court. Modaraba management company expects a favourable outcome of the case.



23.1.2 Additional Commissioner Inland Revenue (ACIR) issued order under section 122 (5A) of the Income Tax Ordinance, 2001, (the Ordinance) for tax year 2003 while 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. 27,410,608. The Modaraba filed a rectification application under section 221 of the Ordinance for reducing the tax rate from 35% to 25%, resultantly the rectification order passed by the tax department and reduced the tax liability to Rs. 14,580,110. The Modaraba also filed an appeal before the CIR (Appeals) for tax year 2003 against the order of ACIR. In this regard, after hearing of the appeal, the CIR (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 CIR (Appeals) which is pending for adjudication. Modaraba management company expects a favourable outcome of the case.

23.1.3 Additional Commissioner Inland Revenue (ACIR) issued order under section 122 (5A) of the Income Tax Ordinance, 2001, (the Ordinance) for tax year 2005 while rejecting the exemption claimed from tax under Clause 100 of Part I of Second Schedule to the Ordinance in an arbitrary manner and assessing the taxable income at Rs. 49,845,335 and tax liability at Rs. 17,667,886. The Modaraba filed a rectification application under section 221 of the Ordinance for reducing the tax rate from 35% to 25%. Further, the Modaraba has filed an appeal before the CIR (Appeals) for tax year 2005 against this order. In this regard, after hearing of the appeal, the CIR (Appeals) by accepting the claim of exemption has issued a favorable order to the Modaraba while deleting the tax liability of Rs. 17,667,886. The income tax department has filed an appeal before Appellate Tribunal Inland Revenue against the order of CIR (Appeals) which is pending for adjudication. Modaraba management company expects a favourable outcome of the case.

23.1.4 Claims not acknowledged by the Modaraba

Claim not acknowledged by the Modaraba that is filed at the banking court amounts to Rs. 25 million. Management is confident that the Modaraba shall not be liable to pay any of this claim.

23.1.5 Aggregate amount of guarantee given by a bank on behalf of the Modaraba in respect of the payment guarantee amounts to Rs. 6.682 million (2012: Rs. 7.199 million).

23.2 Commitments

23.2.1 Ijarah commitments approved but not disbursed as on balance sheet date amount to Rs. Nil (2012: Nil).

23.2.2 Morabaha commitments approved but not disbursed as on balance sheet date amount to Rs. Nil (2012 : Nil).



	Note	2013 Rupees	2012 Rupees
24. OPERATING INCOME			
24.1 Ijarah rentals			
Ijarah Income		300,576,791	538,148,321
Less: Rentals suspended		(7,941,064)	(5,640,744)
Add: Reversal of rentals suspended		17,910,187	-
Total income from ijarah		310,545,374	532,507,577
24.2 Profit on Morabaha investment			
Morabaha investment		27,037,127	34,780,199
Less: Suspension		(2,114,037)	(402,950)
Total income from Morabaha investment		24,923,090	34,377,249
24.3 Profit on Musharikah investment			
Musharikah investment		6,567,348	11,551,911
Less: Suspension		(2,341,238)	(6,686,099)
Total Income from Musharikah investment		4,226,110	4,865,812
		339,694,574	571,750,638
25. OTHER INCOME			
Income from financial assets			
Profit on bank deposits		2,241,259	4,833,729
Financial charges		-	7,690,565
Income from other than financial assets			
Processing fee		23,000	22,557,083
Commission income		48,124	931,561
Miscellaneous income		1,572,732	1,818,812
		1,643,856	25,307,456
		3,885,115	37,831,750



	Note	2013 Rupees	2012 Rupees
26. OPERATING EXPENSES			
Salaries, wages and other benefits	26.2	16,848,178	18,269,765
Depreciation on fixed assets - owned	5.2	4,493,302	3,499,836
Amortization of computer software	6.3	258,858	259,568
Travelling and conveyance		112,858	191,512
Legal and professional		1,973,847	1,326,233
Printing and stationery		648,225	656,031
Insurance		215,135	258,459
Fee and subscription		476,866	539,343
Auditors' remuneration	26.3	567,645	525,437
Repair and maintenance		1,314,948	1,125,140
Vehicle running and maintenance		2,881,519	2,974,826
Power and utilities		1,026,937	1,575,240
Entertainment		293,303	456,424
Advertisement		144,370	69,120
Telephone and postage		596,611	648,346
Corporate expenses		183,276	296,027
Staff training		-	380,000
Rent, rates and taxes		101,704	162,604
Security charges		313,534	312,600
Miscellaneous		245,953	179,871
		32,697,069	33,706,382
26.1	Office space expenses are borne by Punjab Modaraba Services (Private) Limited (the management company).		
26.2	Salaries and other benefits include Rs. 1.024 million (2012: Rs.1.530 million) on account of provident fund contribution.		
26.3 Auditors' remuneration			
Audit fee		300,000	300,000
Half yearly review and others		200,000	200,000
Out of pocket expenses		67,645	25,437
		567,645	525,437
27. FINANCE COST			
Profit on morabaha finances		35,127	4,885,658
Profit on musharikhah finances		100,492,592	112,134,886
Profit on redeemable capital		39,068,930	99,276,824
Bank and other charges		15,545	793,636
		139,612,194	217,091,004
28. TAXATION			
For the year:			
Current		184,124	-
Prior period		467,201	-
		651,325	-



		2013 Rupees	2012 Rupees
29. LOSS PER CERTIFICATE - BASIC AND DILUTED			
Loss for the year	Rupees	(111,621,816)	(167,613,052)
Weighted average number of ordinary certificates	Numbers	34,020,000	34,020,000
Loss per certificate	Rupees	(3.28)	(4.93)

30. TRANSACTIONS WITH RELATED PARTIES

The related parties and associated undertakings comprise of The 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:

		2013 Rupees	2012 Rupees
30.1 Balance outstanding at the end of period			
30.1.1 The Bank of Punjab (Holding company of the Modaraba's Management Company)			
Musharikhah finances		971,664,436	1,041,532,170
Profit payable on musharikhah finances		22,067,714	26,735,342
Net book value of the assets leased to employees		2,765,982	5,670,464
Lease security deposits		939,070	1,669,570
Certificates of musharikhah		300,000,000	300,000,000
Profit payable on certificates of musharikhah		2,515,068	3,143,836
30.1.2 BOP Employee Provident Fund			
Certificates of musharikhah		-	60,000,000
Profit payable on certificates of musharikhah		-	1,260,816
30.1.3 Punjab Modaraba Services (Pvt) Limited (Modaraba's Management company)			
Due to management company		-	-
30.2 Transactions during the year			
30.2.1 The Bank of Punjab (Holding company of the Modaraba's Management Company)			
Ijarah rentals income		2,632,013	4,566,553
Profit charged on finances		100,492,592	112,134,886
Profit charged on certificates of musharikhah		32,850,904	25,635,206
30.2.2 The Bank of Punjab Employee Provident Fund			
Profit charged on certificates of musharikhah		2,926,557	9,381,969

**31. REMUNERATION OF OFFICERS AND EXECUTIVES**

	2013		
	Officers	Other employees	Total
	Rupees	Rupees	Rupees
Remuneration	12,945,880	1,084,792	14,030,672
Medical allowance	753,613	58,957	812,570
Utility allowance	753,614	58,957	812,571
Provident Fund contribution	656,252	368,113	1,024,365
Expenses reimbursed	168,000	-	168,000
	15,277,359	1,570,819	16,848,178
Number of employees at the year end	14	6	20
Average Number of employees during the year	19	7	26
	2012		
	Officers	Other employees	Total
	Rupees	Rupees	Rupees
Remuneration	14,359,666	904,088	15,263,754
Medical allowance	932,006	53,433	985,439
Utility allowance	932,016	53,433	985,449
Provident Fund contribution	734,940	30,408	765,348
Expenses reimbursed	54,000	-	54,000
	17,012,628	1,041,362	18,053,990
Number of employees at the year end	23	7	30
Average Number of employees during the year	25	7	32



32. FINANCIAL INSTRUMENTS

The Modaraba 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 Modaraba 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:

	2013 Rupees	2012 Rupees
Cash and bank balances	90,518,984	58,508,723
Musharikhah investment	89,688,949	78,305,090
Morabaha investment	477,384,056	497,784,821
Advances, deposits and other receivables	327,064,701	438,996,307
Long term deposits	648,944	656,944
	985,305,634	1,074,251,885

32.1.1 Bank balances

The Modaraba kept its surplus funds with banks having good credit rating. Currently the surplus funds are kept with banks having medium to long term rating from AAA to A and short term rating from A1+ to A1.

32.1.2 Description of Collateral held

The Modaraba's Ijarah leases are secured against assets leased out and personal guarantees. 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.

**32.1.3 Aging Analysis of Morabaha receivables**

<u>Past due</u>	2013			
	Carrying Amount	Amount on which no suspension recognised	Amount on which suspension recognised	Suspension recognised
	-----Rupees-----			
0 days	4,042,097	4,042,097	-	-
1 day - 179 days	3,526,142	3,526,142	-	-
180 days - 364 days	387,509	387,509	-	-
1 year - less than 2 year	187,637	187,637	2,516,987	2,516,987
2 year - less than 3 year	-	-	-	-
3 year or more	-	-	37,855,228	37,855,228
Total	8,143,385	8,143,385	40,372,215	40,372,215

<u>Past due</u>	2012			
	Carrying Amount	Amount on which no suspension recognised	Amount on which suspension recognised	Suspension recognised
	-----Rupees-----			
0 days	6,016,889	6,016,889	-	-
1 day - 179 days	318,125	318,125	-	-
180 days - 364 days	-	-	402,950	402,950
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	-	-	14,627,621	14,627,621
3 year or more	-	-	23,227,607	23,227,607
Total	6,335,014	6,335,014	38,258,178	38,258,178

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

<u>Past due</u>	2013			
	Carrying Amount	Amount on which no provision recognised	Amount on which provision recognised	Provision recognised
	-----Rupees-----			
0 days	169,226,841	169,226,841	-	-
1 day -179 days	29,400,000	29,400,000	-	-
180 days- 364 days	25,704,146	25,704,146	-	-
1 year - less than 2 year	12,733,000	-	14,000,000	1,267,000
2 year - less than 3 year	-	-	-	-
3 year or more	240,320,069	72,000,000	500,357,663	332,037,593
Total	477,384,056	296,330,987	514,357,663	333,304,593



<u>Past due</u>	2012			
	Carrying Amount	Amount on which no provision recognised	Amount on which provision recognised	Provision recognised
	-----Rupees-----			
0 days	211,413,234	211,413,234	-	-
1 day -179 days	-	-	-	-
180 days- 364 days	60,003,200	46,510,000	14,000,000	506,800
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	136,700,354	72,000,000	112,500,000	47,799,646
3 year or more	89,668,033	2,651,685	386,617,663	299,601,315
Total	497,784,821	332,574,919	513,117,663	347,907,761

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

32.1.5 Aging Analysis of Ijarah receivables

<u>Past due</u>	2013			
	Carrying Amount	Amount on which no suspension recognised	Amount on which suspension recognised	Suspension recognised
	-----Rupees-----			
0 days	341,433	341,433	-	-
1 day -179 days	36,968,121	35,833,046	1,135,075	188,725
180 days - 364 days	21,433,671	5,662,470	15,771,201	3,349,440
1 year - less than 2 year	9,507,085	95,578	9,411,507	4,119,574
2 year - less than 3 years	43,722,953	3,211,262	43,722,953	29,290,397
3 year or more	327,384,319	11,384,521	315,999,798	125,092,179
Total	439,357,582	56,528,310	386,040,534	162,040,315

<u>Past due</u>	2012			
	Carrying Amount	Amount on which no suspension recognised	Amount on which suspension recognised	Suspension recognised
	-----Rupees-----			
0 days	25,402,418	25,402,418	-	-
1 day -179 days	24,101,756	24,101,756	-	-
180 days - 364 days	2,507,533	2,507,533	3,699,126	3,699,126
1 year - less than 2 year	37,290,809	37,290,809	3,105,138	3,105,138
2 year - less than 3 years	67,573,934	67,573,934	28,230,405	28,230,405
3 year or more	203,916,088	203,916,088	66,084,117	66,084,117
Total	360,792,538	360,792,538	101,118,786	101,118,786

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

<u>Past due</u>	2013			
	Carrying Amount	Amount on which no suspension recognised	Amount on which suspension recognised	Suspension recognised
	-----Rupees-----			
0 days	-	-	-	-
1 day -179 days	389,976	389,976	-	-
180 days - 364 days	-	-	5,854,613	5,854,613
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	-	-	298,279	298,279
3 year or more	2,464,445	-	17,137,481	14,673,036
	2,854,421	389,976	23,290,373	20,825,928

<u>Past due</u>	2012			
	Carrying Amount	Amount on which no suspension recognised	Amount on which suspension recognised	Suspension recognised
	-----Rupees-----			
0 days	176,854	176,854	-	-
1 day -179 days	290,480	290,480	-	-
180 days - 364 days	-	-	3,984,913	3,984,913
1 year - less than 2 year	-	-	298,279	298,279
2 year - less than 3 year	-	-	204,210	204,210
3 Year or more	-	-	13,997,288	13,997,288
	467,334	467,334	18,484,690	18,484,690

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

32.1.7 Aging Analysis of Musharikhah investment

<u>Past due</u>	2013			
	Carrying Amount	Amount on which no provision recognised	Amount on which provision recognised	Provision recognised
	-----Rupees-----			
0 days	31,470,351	31,470,351	-	-
1 day - 179 days	-	-	-	-
180 days -364 days	-	-	-	-
1 year - less than 2 year	34,903,151	16,443,114	19,500,000	1,039,963
2 year - less than 3 year	1,104,947	-	2,209,895	1,104,948
3 year or more	22,210,500	-	37,299,818	15,089,318
Total	89,688,949	47,913,465	59,009,713	17,234,229

<u>Past due</u>	2012			
	Carrying Amount	Amount on which no provision recognised	Amount on which provision recognised	Provision recognised
	-----Rupees-----			
0 days	12,921,040	12,921,040	-	-
90 days - 179 days	21,255,726	21,255,726	-	-
1 day -364 days	19,500,000	19,500,000	-	-
1 year - less than 2 year	1,767,916	-	2,209,895	441,979
2 year - less than 3 year	649,908	-	1,299,817	649,909
3 Year or more	22,210,500	-	36,000,000	13,789,500
Total	78,305,090	53,676,766	39,509,712	14,881,388



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. **32.1.8** 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 2013 is as follows:

	Asset leased out Rupees	Morabaha investment Rupees	Musharikhah investment Rupees	2013 Total Rupees	% age
Banks and NBFIs	2,765,449	-	-	2,765,449	0.25%
Textiles spinning and composite	92,863,226	82,704,145	-	175,567,371	16.16%
Sugar and allied	156,417,097	31,147,437	-	187,564,534	17.26%
Electric goods	64,269,542	138,748,038	-	203,017,580	18.68%
Chemicals and Pharmaceuticals	-	130,448,394	-	130,448,394	12.00%
Paper and board	27,388,674	-	-	27,388,674	2.52%
Food and allied	14,411,147	15,000,000	42,305,936	71,717,083	6.60%
Individuals	21,797,354	28,225,868	3,067,566	53,090,788	4.89%
Jute	-	-	22,210,500	22,210,500	2.04%
Oil and Gas	12,369,197	-	9,000,000	21,369,197	1.97%
Miscellaneous	84,395,274	21,629,820	13,104,947	119,130,041	10.96%
Aviation and transport	308,462	29,480,354	-	29,788,816	2.74%
Engineering, Steel & Construction	24,103,576	-	-	24,103,576	2.22%
Cement	18,470,595	-	-	18,470,595	1.70%
	519,559,593	477,384,056	89,688,949	1,086,632,598	100%

	Asset leased out Rupees	Morabaha finance Rupees	Musharikhah finance Rupees	2012 Total Rupees	% age
Banks and NBFIs	6,478,160	-	-	6,478,160	0.50
Textiles spinning and composite	126,294,982	85,210,932	-	211,505,914	16.30
Sugar and allied	226,535,568	31,907,637	-	258,443,205	19.92
Electric goods	39,620,309	155,190,599	-	194,810,908	15.01
Chemicals and Pharmaceuticals	9,849,565	125,440,521	-	135,290,086	10.43
Paper and board	35,721,065	12,328,783	-	48,049,848	3.70
Food and allied	34,171,098	16,556,899	50,350,235	101,078,232	7.79
Individuals	51,453,671	12,862,501	3,326,531	67,642,703	5.21
Jute	-	-	22,210,500	22,210,500	1.71
Oil and Gas	1,674,008	7,176,776	-	8,850,784	0.68
Miscellaneous	106,916,320	21,629,820	2,417,824	130,963,964	10.09
Aviation and transport	6,768,037	29,480,353	-	36,248,390	2.79
Engineering, Steel & Construction	62,765,063	-	-	62,765,063	4.84
Cement	13,376,393	-	-	13,376,393	1.03
	721,624,239	497,784,821	78,305,090	1,297,714,150	100

**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:

	2013					
	Carrying Amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years
	-----Rupees-----					
Financial liabilities						
Redeemable capital	301,000,000	306,392,429	306,392,429	-	-	-
Security deposits against lease	185,541,407	185,541,407	137,873,475	5,024,100	21,095,930	21,547,902
Margin against LG	1,079,850	1,079,850	1,079,850	-	-	-
Musharikhah finance	971,664,436	1,018,397,406	1,018,397,406	-	-	-
Deferred morabaha income	11,226,841	11,226,841	11,226,841	-	-	-
Unclaimed profit distribution	12,123,432	12,123,432	12,123,432	-	-	-
Trade and other payable	29,660,998	29,660,998	29,660,998	-	-	-
Markup payable	24,582,782	24,582,782	24,582,782	-	-	-
	1,536,879,746	1,589,005,145	1,541,337,213	5,024,100	21,095,930	21,547,902

	2012					
	Carrying Amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years
	-----Rupees-----					
Financial liabilities						
Redeemable capital	429,715,082	441,265,091	432,665,091	1,400,000	7,200,000	-
Morabaha finance	17,296,169	17,296,169	16,792,111	504,056	-	-
Security deposits against lease	207,389,550	207,389,550	124,297,337	22,194,733	18,843,770	42,053,710
Margin against LG	1,002,300	1,002,300	1,002,300	-	-	-
Musharikhah finance	1,027,330,894	1,089,218,433	1,089,218,433	-	-	-
Deferred morabaha income	8,163,234	8,163,234	8,163,234	-	-	-
Unclaimed profit distribution	12,186,163	12,186,163	12,186,163	-	-	-
Trade and other payable	18,654,155	18,654,155	18,654,155	-	-	-
Markup payable	34,103,874	34,103,874	34,103,874	-	-	-
	1,755,841,421	1,829,278,969	1,737,082,698	24,098,789	26,043,770	42,053,710

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.

32.3 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and equity prices will affect the Modaraba's income or the value of its holdings of financial instruments. The Modaraba has adopted appropriate policies to minimise its exposure to this risk.



32.3.1 Interest rate 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:

	2013	2012	2013	2012
	Effective interest rate (Percentage)		Carrying amount (Rupees)	
Financial assets				
Musharikhah investment	14.13 - 20.07	14.02 - 20.07	89,688,949	78,305,090
Morabaha investment	16.28 - 38.30	15.23 - 18.87	477,384,056	497,784,821
Cash and bank balances	7.19 - 11.75	5.00 - 11.75	90,518,984	58,508,723
			657,591,989	634,598,634
Financial liabilities				
Redeemable Capital	9.01 - 13.00	10.51 - 14.00	301,000,000	429,715,082
Musharikhah finances	9.28 - 11.95	11.91 - 13.54	971,664,436	1,041,532,173
			1,272,664,436	1,471,247,255

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in profit rates at the reporting date would have increased / (decreased) profit for the year by the 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 2013.

	Profit and loss 100 bps	
	Increase	Decrease
As at 30 June 2013		
Cash flow sensitivity-Variable rate financial assets	1,041,573	(1,041,573)
Cash flow sensitivity-Variable rate financial liabilities	(3,175,298)	3,175,298
Net effect	(2,133,725)	2,133,725
As at 30 June 2012		
Cash flow sensitivity-Variable rate financial assets	10,436,210	(10,510,180)
Cash flow sensitivity-Variable rate financial liabilities	(16,429,682)	16,279,671
Net effect	(5,993,472)	5,769,491

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

32.3.2 Currency risk

As at 30 June 2013, there is no foreign exchange exposure on Morabaha's balance sheet.



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 financial assets and financial liabilities reported in balance sheet approximate their fair values. The Modaraba measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Valuation techniques using significant unobservable inputs.

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.



	2013 Rupees	2012 Rupees
33. CASH GENERATED FROM OPERATIONS		
Loss before taxation	(110,970,491)	(167,613,052)
Adjustment for non cash expenses and other items:		
Provision for morabaha investment	(14,603,168)	47,312,604
Provision for musharikhah investment	2,352,841	7,726,674
Provision for impairment of Ijarah assets	40,572,069	51,086,240
Other provisions	1,584,545	(1,925,551)
Depreciation of assets leased out	256,007,221	429,969,482
Depreciation on owned assets	4,493,302	3,499,836
Amortization on Intangible assets	258,858	259,568
Profit on redeemable capital	39,068,930	99,276,824
Bank and other charges	15,545	793,636
Profit on morabaha/ musharikhah finances	100,527,719	117,020,544
Gain on disposal of fixed assets	(3,672,591)	(7,771,395)
Reversal of financial charges	-	(7,690,565)
Operating profit before working capital changes	315,634,780	571,944,845
Working capital changes		
Decrease / (Increase) in operating assets		
Morabaha arrangements	38,067,540	133,669,593
Purchase of assets under Ijarah arrangements	(142,501,153)	(168,864,975)
Proceeds from disposal of assets under Ijarah arrangement	50,729,069	161,225,284
Long term deposits	8,000	-
Proceeds against banking claim	46,959,566	(40,000,000)
Advances, deposits, prepayments and other receivables	110,284,468	(11,974,084)
	103,547,490	74,055,818
(Decrease) / Increase in operating liabilities		
Trade and other payables	13,142,217	(43,439,390)
Security deposit received against Ijarah arrangements	450,000	6,305,760
Security deposit refunded against Ijarah arrangements	(22,298,143)	(57,189,578)
	(8,705,926)	(94,323,208)
Net changes in operating assets and liabilities	94,841,564	(20,267,386)
Cash generated from operations	410,476,344	551,677,451



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.

The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

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

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.

However, due to loss for the year, no provision for taxation has been made in these financial statements.

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 December 30, 2013.

36. GENERAL

- Figures have been rounded off to the nearest rupee.

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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