



## CONTENTS

|   |           |
|---|-----------|
| <b>CORPORATE INFORMATION</b>  | <b>2</b>  |
| <b>VISION AND MISSION STATEMENT</b>   | <b>3</b>  |
| <b>NOTICE OF 2<sup>ND</sup> ANNUAL REVIEW MEETING</b>   | <b>4</b>  |
| <b>DIRECTORS' REPORT</b>  | <b>5</b>  |
| <b>STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CORPORATE GOVERNANCE</b>                                    | <b>8</b>  |
| <b>REPORT ON IMPLEMENTATION OF TRANSFER PRICING POLICY</b>  | <b>10</b> |
| <b>CERTIFICATE ON TRANSFER PRICING POLICY</b>   | <b>12</b> |
| <b>AUDITOR'S REVIEW REPORT ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE</b> | <b>13</b> |
| <b>AUDITOR'S REPORT</b>   | <b>14</b> |
| <b>BALANCE SHEET</b>  | <b>15</b> |
| <b>PROFIT AND LOSS ACCOUNT</b>  | <b>16</b> |
| <b>CASH FLOW STATEMENT</b>  | <b>17</b> |
| <b>STATEMENT OF CHANGES IN EQUITY</b>   | <b>18</b> |
| <b>NOTES TO THE FINANCIAL STATEMENTS</b>  | <b>19</b> |
| <b>PATTERN OF CERTIFICATE HOLDING</b>   | <b>34</b> |

# CORPORATE INFORMATION

|                                |  |   |
|--------------------------------|--|---|
| <b>Board of Directors</b>      | Mr. S. Ali Raza<br>Mr. Shahid Anwar Khan<br>Mr. Asif A. Brohi<br>Mr. Tajammal H. Bokharee<br>Mr. Muhammad Nusrat Vohra<br>Mr. Wajahat A. Baqai<br>Mr. Qamar Hussain<br>Mr. Shafiq Khan | Chairman<br>Director<br>Director<br>Director<br>Director<br>Director<br>Director<br>Chief Executive |
| <b>Chief Financial Officer</b> | Ms. Bushra Azhar   |   |
| <b>Company Secretary</b>       | Mr. Adeel S. Ali   |   |
| <b>Audit Committee</b>         | Mr. Shahid Anwar Khan<br>Mr. Asif A. Brohi<br>Mr. Tajammal H. Bokharee   | Chairman<br>Member<br>Member  |
| <b>Auditors</b>                | M. Yousuf Adil Saleem & Co.<br>(an independent firm associated with Deloitte Touche<br>Tohmatsu)   |   |
| <b>Bankers</b>                 | National Bank of Pakistan<br>Al Baraka Islamic Bank<br>Standard Chartered Bank<br>Bank Alfalah Limited<br>Allied Bank Limited  |   |
| <b>Legal Advisor</b>           | Mandviwalla & Zafar, Advocates<br>Zafar Chambers, 7/B-1, Aziz Avenue<br>Canal Bank, Gulberg-V, Lahore<br>Tel.: 5715479-82, Fax: 5715483  |   |
| <b>Shares Registrar</b>        | Hameed Majeed Associates (Pvt.) Limited<br>H. M. House, 7-Bank Square<br>Tel: 7235081-2<br>Fax: 7358817  |   |
| <b>Registered Office</b>       | 5 <sup>th</sup> Floor, NBP RHQs Building,<br>26-McLagon Road, Lahore<br>Tel: 9211200<br>Fax: 9213247   |   |

## **VISION**

***PRESERVE TO REPLACE RIBA DRIVEN INSTRUMENTS WITH ISLAMIC MODES OF FINANCING IN A MANNER TO ACHIEVE OPTIMUM CUSTOMER SATISFACTION BY DEVELOPING SUSTAINABLE AND DEPENDABLE RELATIONSHIPS***

***TO BE AN INSTITUTION OF EXCELLENCE, WHICH WILL CREATE AND MAINTAIN AN ENVIRONMENT OF STATE-OF-ART MANAGEMENT SYSTEM AND A HIGH STANDARD OF INTEGRITY, EFFICIENCY PROFESSIONALISM AND INNOVATION***

***ATTAIN THE STATUS OF MOST PROFESSIONALLY AND PROFITABLY RUN MODARABA AMONG ITS COMPETITORS***

***IT SHALL PLACE A SPECIAL EMPHASIS ON HUMAN RESOURCES DEVELOPMENT, DIGNITY, SECURITY, WELFARE OF PEOPLE WHO OPERATE AND WORK FOR THE MODARABA***

## **MISSION**

***THE FUNDAMENTAL MISSION IS TO SEEK THE PLEASURE OF ALLAH THROUGH MAKING HUMBLE CONTRIBUTION IN THE TRANSFORMATION OF OUR MERCANTILE AND FINANCIAL SYSTEM AND BUSINESS DEALINGS IN ACCORDANCE WITH THE PRINCIPLES ENshrINED IN THE SHARIA***

***COMMITMENTS TO PROVIDE RIBA FREE INVESTMENT AND FINANCING OPPORTUNITIES TO THE INVESTORS, THE BUSINESS COMMUNITY AND INDUSTRY***

***IN ALL BUSINESS DEALINGS OF MODARABA, THE RIGHTS OF ALLAH, THE RIGHTS OF ALL CERTIFICATE HOLDERS AND ALL OTHER RIGHTS SHALL BE SINCERELY SAFEGUARDED***

# Notice of Annual Review Meeting

Notice is hereby given that the Second Annual Review Meeting of certificate holders of First National Bank Modaraba will be held on Monday, October 31, 2005 at 11:00 a.m. at 4<sup>th</sup> Floor, NBP RHQs Building, 26- Mc Lagon Road, Lahore to review the performance of the Modaraba for the year ended June 30, 2005.

The certificate holders whose names appear on the Register of certificate holders of First National Bank Modaraba as on October 24, 2005 will be eligible to attend the Annual Review Meeting.

**By order of the Board**

**Adeel S. Ali**

Company Secretary

National Bank Modaraba Management Company Limited

Managers of First National Bank Modaraba

Lahore: October 10, 2005

Note: CDC account holders will have to follow the under mentioned guidelines as laid down in Circular-1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan:

In case of individuals, the account holder and/ or person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate their identity by showing original National Identity Card (NIC) or original passport at the time of attending the meeting (CDC account holders are also requested to bring their participant ID number and account number in CDS).

In case of corporate entity, board of directors' resolution/ power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of meeting.

# Directors' Report

The Board of Directors of National Bank Modaraba Management Company Limited (NBMMCL), the Management Company of First National Bank Modaraba (FNBM), is pleased to present the directors' report on the 2<sup>nd</sup> annual accounts of FNBM for the period ended June 30, 2005. These accounts have been audited by the statutory auditors of the Modaraba and are accompanied by their audit report.

| <b>1. <u>Financial Results:</u></b> | <b>June 30, 2005<br/>(Rupees)</b> | <b>June 30, 2004<br/>(Rupees)</b> |
|-------------------------------------|-----------------------------------|-----------------------------------|
| Total Operating & Other Income      | <b>53,338,797</b>                 | 10,982,361                        |
| Operating and Financial Expenses    | <b>34,689,455</b>                 | 5,791,933                         |
| Profit for the period               | <b>18,469,342</b>                 | 5,190,428                         |
| Modaraba Company's Management Fee   | <b>1,864,934</b>                  | 519,043                           |
| Profit before Tax                   | <b>16,784,408</b>                 | 4,671,385                         |
| Taxation                            | <b>181,442</b>                    | 461,510                           |
| Net profit after tax                | <b>16,602,966</b>                 | 4,209,875                         |
| Transfer to Statutory Reserve       | <b>3,367,900</b>                  | 841,975                           |
| Earning per certificate (Rs.)       | <b>0.66</b>                       | 0.29                              |

## **2. Review of Operations:**

The major product of the Modaraba is lease finance/ Ijara. Net Investment in Lease finance/ Ijarah has tripled from Rs.250 million as on June 30, 2004 to Rs.791 million at the end of current year. This threefold increase has a corresponding impact on all related items of the annual accounts of the Modaraba like total income, net profit and balance sheet footing. During the year, Modaraba succeeded in diversifying its product mix by investing Rs. 267 million in morabaha facilities. The Modaraba has also been successful in managing to mobilize funds from various financial institutions at competitive rates as disclosed in the financial statements. This was not an easy task as the same was achieved amid tight liquidity position of the market and rising trend of profit rates.

The Modaraba posted a net profit after taxation amounting to Rs.16.6 million. This profit is satisfactory, because it was earned under the environment of cut throat competition and squeezing spreads.

We believe in steady and sustainable growth. This policy has resulted into modest but sustainable profitability coupled with sound and healthy leasing/ investment portfolio comprising of clients of good credit rating and lower level of risk.

The lease/ investment portfolio is fairly diversified in terms of segments, sectors, asset type and geographical dispersion. FNBM has managed to enter new sectors during the year and currently the Modaraba has exposure in industries like textile, cement, sugar, transport, auto parts, education, media and advertising etc. The lease investment in textile sector comprises of 42.71 % of total lease portfolio followed by 12.81% in sugar industry.

## **3. Profit Distribution:**

The Board has decided to plough back the earnings in the Modaraba, instead of distributing it as dividend. This decision has been taken keeping in view the fact that at this initial stage it is prudent to build some reserves to meet any contingency. If 100% of the profit is distributed to the certificate holders (45 paisa per certificate), the amount actually received by them after deductions will be very nominal. On the other hand the reserves will be reduced to zero. It has therefore been decided that by re-investing the amount back into the operations, the Modaraba will be in a better position to declare a considerable dividend in subsequent period.

#### **4. Entity Rating:**

JCR-VIS awarded long term entity rating of A- (A minus) and short term entity rating of A-2 to the Modaraba in February, 2005. The said rating agency has also changed the outlook of our rating from "Stable" to "Positive". Keeping in view the phenomenal growth of the Modaraba along with 100% recovery and future prospects, it is expected that the rating will improve in the next assessment.

#### **5. Economic Outlook and future prospects:**

Modaraba sector in Pakistan is facing a lot of challenges in the current scenario where virtually every commercial bank in the country is entering the Islamic financial market. FNBM plans to face this tough competition by offering a wider product range and exploring new market opportunities to increase its market share.

#### **6. Corporate and Financial Reporting Framework:**

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

Proper books of accounts of the modaraba have been maintained.

Accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

International accounting standards, as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements.

The system of internal control, which is sound in design is in place and is being continuously reviewed by internal audit. The process of review will continue and any weakness in controls will be removed.

Board is satisfied with the Modaraba's ability to continue as going concern.

There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

There are no statutory payments on account of taxes, duties, levies and charges, which are outstanding as on June 30, 2005 except those disclosed in the financial statements.

During the year, six (06) meetings of the Board of Directors were held. Attendance by each director is as follows:

|       | <b>Names of Directors</b> | <b>No of Attendance</b> |
|-------|---------------------------|-------------------------|
| i.    | Mr. S. Ali Raza           | 3                       |
| ii.   | Mr. Shahid Anwar Khan     | 5                       |
| iii.  | Mr. S.M. Rafique          | 4                       |
| iv.   | Mr. Wajahat Baqai         | 5                       |
| v.    | Mr. Qamar Hussain         | 5                       |
| vi.   | Mr. Tajammal H. Bokharee  | 3                       |
| vii.  | Mr. Muhammad Nusrat Vohra | 6                       |
| viii. | Mr. Shafiq Khan           | 6                       |

Leave of absence was granted to directors who could not attend some of the Board meetings.

The pattern of certificate holding is annexed.

**7. Board of Directors and Audit Committee:**

Mr. S.M. Rafique, member of Board of Directors and Chairman Audit Committee has retired from the service of National Bank of Pakistan and consequently has ceased to be a director of the company. In his place Mr. Asif. A. Brohi has been nominated by National Bank of Pakistan to act as member of the Board of Directors and Audit Committee.

**8. Auditors:**

The present auditors Messrs M. Yousuf Adil Saleem & Co., Chartered Accountants, being due for retirement, have offered themselves for re- appointment for the year ending June 30, 2006. Subject to approval by the Registrar of Modaraba Companies and Modarabas, their appointment has been confirmed by the Board.

**9. Acknowledgement:**

The Board would like to take this opportunity of expressing gratitude and thanks to our valued customers for their patronage and support, the Securities and Exchange Commission of Pakistan, Karachi Stock Exchange, Lahore Stock Exchange and Modaraba Association of Pakistan for their continued support and guidance.

Special thanks to our certificate holders for the trust and confidence reposed in us and the Modaraba's staff for their commitment and dedicated services.

For and on Behalf of the Board

**Shafiq Khan**  
Chief Executive Officer

**Lahore: October 10, 2005**

## **STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2005**

This statement is being presented to comply with the Code of Corporate Governance contained in the Regulations No.37 & 43 of Karachi and Lahore Stock Exchanges respectively for the purpose of establishing framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Board of Management Company presently comprises of eight directors including Chief Executive Officer and all are non-executive directors except CEO and are nominees of National Bank of Pakistan (Holding Company of National Bank Modaraba Management Company Limited).
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. All the resident directors of the company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFC or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. All casual vacancies are filled up by the holding company by nominating employees of National Bank of Pakistan on the Board of the Company and after getting the approval of Registrar of Modaraba Companies and Modarabas.
5. The Modaraba has prepared a "Statement of Ethics and Business Practices", which has been signed by all directors and employees of the Modaraba.
6. The Board has developed a vision/ mission statement. A complete record of overall corporate strategy and significant policies of the Modaraba along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board. The terms of appointment and remuneration package of the CEO and directors are not approved by the Board as they are employees and nominees of National Bank of Pakistan.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working paper were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and 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. Further all the directors are employees of NBP and holding key positions in the Bank, as such all directors have relevant experience and knowledge to manage the affairs of the Modaraba.
10. The Board has approved the appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit. The remuneration and terms and conditions of employment of Chief Financial Officer and Company Secretary have been approved by the Board, as determined by the Chief Executive Officer. The Head of Internal Audit is employee of NBP ( Holding Company) and is working on deputation.
11. 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.
12. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and Executives do not hold any interest in the shares of the Modaraba other than that disclosed in the pattern of holding of certificates.



14. The Modaraba has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee, which comprises of three members and all are non executive directors including the Chairman of the Committee.
16. The meetings of the audit committee are held at least once every quarter prior to approval of interim and final results of the Modaraba as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function.
18. The statutory auditors of the Modaraba had confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Modaraba and that the firm and all of its partners are in compliance with international Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the person 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. We confirm that all other material principles contained in the Code have been substantially complied with.

**Shafiq Khan**  
Chief Executive Officer

**Lahore: October 10, 2005**

## REPORT ON IMPLEMENTATION OF TRANSFER PRICING POLICY FOR THE YEAR ENDED JUNE 30, 2005

We take pleasure in presenting to our certificate holder the Report on Implementation of Transfer Pricing Policy of your Modaraba. During the year the Modaraba entered into following transactions with the related parties:

|  |   |
|--|---|
| <b>i. National Bank Modaraba Management Company Limited</b>  | NBP RHQs Building<br>26-Mc Lagon Road, Lahore |
| <b>Nature of Relationship:</b>   | Management Company                            |
| <b>Nature of Business:</b>   | Managing and Floatation of Modarabas          |
| <b>Transaction with Related Party:</b><br>Management Fee   | Rs 1,869,934                                  |
| <b>Terms and Conditions:</b><br>10% management fee is payable to National Bank Modaraba Management Company Limited, under section 18 of the Modaraba Companies & Modaraba (Floatation & Control) Ordinance, 1980 |   |
| <b>ii. National Bank of Pakistan</b>   | Main Branch, The Mall, Lahore                 |
| <b>Nature of Relationship:</b>   | Holding Company of Management Co.             |
| <b>Nature of Business:</b>   | Commercial Banking                            |
| <b>Transaction with Related Party</b><br>Currency of Transaction<br>Current Account (NIDA) Running Balance<br>Musharika Finances   | Pak Rupees<br>10,920,634<br>420,833,333       |

### **Terms and Conditions:**

#### ***Long Term Musharaka Finances***

These two facilities have been availed from National Bank of Pakistan. The limits are of Rs 250 million and Rs. 200 million. The first facility is repayable in six equal semi annual installments in arrears up to June 30, 2007. The repayments are inclusive of profit which has been determined taking into consideration KIBOR (prevailing 2 days prior to the commencement of the semi annual period for which profit is being charged) plus a spread of 1% p.a. with a floor of 3% and Ceiling of 5%p.a. The profit is payable semi annually in arrear. The facility is secured against first hypothecation charge on all present and future assets of the Modaraba for not less than 133% of the facility amount, ranking pari passu with other secured creditors. The second facility is payable in 10 equal quarterly installments in arrear after a grace period of six months ending on November 08, 2005, within a total period of three years from the date of drawdown. The repayments are inclusive of profit which has been calculated taking into consideration 3 months average KIBOR plus a spread of 0.5% p.a. The facility is secured against first pari passu hypothecation charge on leased assets amounting to Rs. 267 million.

#### ***Short Term Musharaka Finance***

The facility has been availed from National Bank of Pakistan having aggregate limit of Rs. 150 million. This facility is to be used to finance the Modaraba's working capital requirements and repayable within one year. The profit is payable quarterly which has been determined taking into consideration one month average KIBOR plus 0.50% p.a. The facility is secured against first pari passu hypothecation charge on assets.

#### **Method Adopted for Determining Transfer Price:**

Transactions are carried out at an arm's length in the normal course of business. The method used for computation of consideration is comparable uncontrolled price method.

iii. **Taurus Securities Limited**

Room No 618, 6th Floor, Karachi Stock  
Exchange Building, Karachi  
Subsidiary of National Bank of Pakistan

**Nature of Relationship**

**Nature of Business**

Member Karachi Stock Exchange and deals in shares brokerage

**Transaction with Related Party:**

Purchase and Sale of Listed Securities

51,000,000

**Terms and Conditions:**

Ordinary course of business

**Method Adopted for Determining Transfer Price:**

Transactions are carried out at an arms length basis in the normal course of business. The method used for computation of consideration is comparable uncontrolled price method.

For and on behalf of the Board of Directors

**Director**

**Director**

**Lahore: October 10, 2005**

## **CERTIFICATE ON TRANSFER PRICING POLICY**

It is hereby certified that the Modaraba has:

- i. recorded all transactions with related parties undertaken during the financial year ended June 30, 2005 on arm's length price using valuation modes, as admissible in the best interests of the Modaraba in the books of account of the Modaraba and the record of related party transactions;
- ii. duly filed with the Commission all required periodic returns in respect of related parties, which completely and fully disclosed all related parties and transactions with those related parties during the financial year;
- iii. provided all the aforesaid information, together with the minutes of the Board of Directors meetings wherein the valuation policy and the related party transactions were approved and the decisions of the Audit Committee ratifying the related party transactions, to the statutory auditors for the purposes of the audit.

For and on Behalf of the Board

**Shafiq Khan**  
Chief Executive Officer

**Lahore: October 10, 2005**

## **REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **National Bank Modaraba Management Company Limited** (the Management Company) in respect of **First National Bank Modaraba (the Modaraba)** to comply with the Listing Regulations of the Stock Exchanges in Pakistan where the Modaraba is listed.

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

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

Based on our review of the aspects of the Statement of Compliance with the best practices of Corporate Governance, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba's compliance to the Code of Corporate Governance to the extent it is presently applicable in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2005.

**Lahore: October 10, 2005**

**M. YOUSUF ADIL SALEEM & CO.**  
*Chartered Accountants*

# AUDITOR'S REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of **First National Bank Modaraba** as at **June 30, 2005** and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of accounts have been kept by the modaraba company in respect of **First National Bank Modaraba** as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;
- (b) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of accounts and are further in agreement with accounting policies
  - (ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at **June 30, 2005** and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Lahore: October 10, 2005

**M. YOUSUF ADIL SALEEM & CO.**  
*Chartered Accountants*

# BALANCE SHEET

## AS AT JUNE 30, 2005

|  | NOTE | 2005<br>RUPEES       | 2004<br>RUPEES     |
|--|------|----------------------|--------------------|
| <b>ASSETS</b>                                      |      |                      |                    |
| <b>CURRENT ASSETS</b>                              |      |                      |                    |
| Cash and bank balances                             | 4    | 11,079,558           | 32,425,549         |
| Advances, prepayments and other receivables        | 5    | 92,750,693           | 64,683,441         |
| Short term investments                             | 6    | 33,566,929           | 33,093,550         |
| Short term morabaha finances - secured             | 7    | 267,342,979          | -                  |
| Current portion of non-current assets              | 8    | 195,306,159          | 73,615,228         |
|  |      | <b>600,046,318</b>   | <b>203,817,768</b> |
| <b>NON - CURRENT ASSETS</b>                        |      |                      |                    |
| Net investment in lease / ijarah finance           | 9    | 596,898,560          | 177,100,245        |
| Long term loans and deposits                       | 10   | 589,093              | 326,740            |
| Deferred costs                                     | 11   | 6,829,205            | 8,818,325          |
| Fixed assets - Owned                               | 12   | 1,718,014            | 542,246            |
|  |      | <b>606,034,872</b>   | <b>186,787,556</b> |
|  |      | <b>1,206,081,190</b> | <b>390,605,324</b> |
| <b>LIABILITIES</b>                                 |      |                      |                    |
| <b>CURRENT LIABILITIES</b>                         |      |                      |                    |
| Creditors, advances, accrued and other liabilities | 13   | 19,784,414           | 1,418,703          |
| Short term finances - secured                      | 14   | 188,753,000          | 36,000,000         |
| Current portion of long term liabilities           | 15   | 140,000,000          | 25,000,000         |
| Provision for taxation                             | 16   | 453,069              | 461,510            |
|  |      | <b>348,990,483</b>   | <b>62,880,213</b>  |
| <b>LONG TERM SECURITY DEPOSITS</b>                 | 17   | <b>86,234,820</b>    | <b>27,331,798</b>  |
| <b>LONG TERM FINANCES - SECURED</b>                | 18   | <b>505,833,333</b>   | <b>50,000,000</b>  |
|  |      | <b>941,058,636</b>   | <b>140,212,011</b> |
| <b>NET ASSETS</b>                                  |      | <b>265,022,554</b>   | <b>250,393,313</b> |
| <b>REPRESENTED BY</b>                              |      |                      |                    |
| <b>CAPITAL AND RESERVES</b>                        |      |                      |                    |
| Authorized certificate capital                     | 19   | 600,000,000          | 600,000,000        |
| Issued, subscribed and paid up certificate capital | 19   | 250,000,000          | 250,000,000        |
| Reserves   |      | 15,022,554           | 393,313            |
|  |      | <b>265,022,554</b>   | <b>250,393,313</b> |
| <b>CONTINGENCIES AND COMMITMENTS</b>               | 20   | -                    | -                  |

*The annexed notes form an integral part of these financial statements*

CHIEF EXECUTIVE  
Lahore: October 10, 2005

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

# PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2005

|  | NOTE | 2005<br>RUPEES    | 2004<br>RUPEES |
|--|------|-------------------|----------------|
| <b>OPERATING REVENUE</b>                                     |      |                   |                |
| Income from lease/ ijarah                                    |      | 38,267,894        | 4,321,762      |
| Profit on musharaka investment                               |      | -                 | 502,609        |
| Profit on morabaha investment                                |      | 8,109,719         | -              |
| Profit on bank deposits                                      |      | 664,814           | 2,178,764      |
| Dividend income  |      | 2,896,350         | 144,375        |
| Gain on sale of shares                                       |      | 3,085,738         | 3,738,309      |
| Other income   | 21   | 314,282           | 96,542         |
|  |      | <b>53,338,797</b> | 10,982,361     |
| <b>OPERATING EXPENSES</b>                                    |      |                   |                |
| Operating expenses   | 22   | 11,025,253        | 5,108,345      |
| Financial charges  | 23   | 23,694,390        | 280,274        |
| (Reversal)/ provision for dimunition in value of investment  | 24   | (30,188)          | 403,314        |
|  |      | <b>34,689,455</b> | 5,791,933      |
| <b>PROFIT BEFORE MODARABA COMPANY'S MANAGEMENT FEE</b>       |      |                   |                |
|  |      | <b>18,649,342</b> | 5,190,428      |
| Modaraba Company's Management Fee                            |      | 1,864,934         | 519,043        |
| <b>PROFIT BEFORE TAX</b>                                     |      |                   |                |
|  |      | <b>16,784,408</b> | 4,671,385      |
| Provision for taxation                                       | 16   | 181,442           | 461,510        |
| <b>PROFIT AFTER TAX</b>                                      |      |                   |                |
|  |      | <b>16,602,966</b> | 4,209,875      |
| <b>UNAPPROPRIATED PROFIT BROUGHT FORWARD</b>                 |      |                   |                |
|  |      | <b>3,367,900</b>  | -              |
| <b>PROFIT AVAILABLE FOR APPROPRIATION</b>                    |      |                   |                |
|  |      | <b>19,970,866</b> | 4,209,875      |
| <b>Appropriation :</b>                                       |      |                   |                |
| Transfer to statutory reserve                                |      | 3,320,593         | 841,975        |
|  |      | <b>3,320,593</b>  | 841,975        |
| <b>UNAPPROPRIATED PROFIT CARRIED FORWARD</b>                 |      |                   |                |
|  |      | <b>16,650,273</b> | 3,367,900      |
| <b>EARNINGS PER MODARABA CERTIFICATE - BASIC AND DILUTED</b> |      |                   |                |
|  | 28   | <b>0.66</b>       | 0.29           |

*The annexed notes form an integral part of these financial statements*

CHIEF EXECUTIVE  
Lahore: October 10, 2005

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER



# CASH FLOW STATEMENT

## FOR THE YEAR ENDED JUNE 30, 2005

|  | NOTE     | 2005<br>RUPEES           | 2004<br>RUPEES           |
|--|----------|--------------------------|--------------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                       |          |                          |                          |
| Profit before tax  |          | 16,784,408               | 4,671,385                |
| Adjustment for:  |          |                          |                          |
| Depreciation/ amortization                                       |          | 600,130                  | 223,616                  |
| Amortization of deferred costs                                   |          | 1,989,120                | 1,127,227                |
| Provision for diminution in value of investments                 |          | (30,188)                 | 403,314                  |
| Gain on sale of shares   |          | (3,085,738)              | (3,738,309)              |
| Financial charges  |          | 23,694,390               | 280,274                  |
| Profit on bank deposits  |          | (664,814)                | (2,178,764)              |
| Dividend income  |          | (2,896,350)              | (144,375)                |
|  |          | <u>19,606,550</u>        | <u>(4,027,017)</u>       |
| <b>Cash flow from operations</b>                                 |          | <b>36,390,958</b>        | <b>644,368</b>           |
| <b>Changes in working capital</b>                                |          |                          |                          |
| Increase in advances, prepayments and other receivables          |          | (29,164,737)             | (63,525,717)             |
| Increase in creditors, accrued and other liabilities             |          | 9,162,134                | 1,138,429                |
|  |          | <u>(20,002,603)</u>      | <u>(62,387,288)</u>      |
| <b>Operating profit/ (loss) after changes in working capital</b> |          | <b>16,388,355</b>        | <b>(61,742,920)</b>      |
| Financial charges paid   |          | (14,490,813)             | -                        |
| Income taxes paid  |          | (144,514)                | -                        |
| Dividend income received   |          | 2,983,225                | -                        |
| Profit received on bank deposits                                 |          | 1,630,064                | 1,165,415                |
| <b>NET CASH FLOW FROM/ (USED IN) OPERATING ACTIVITIES</b>        |          | <b>6,366,317</b>         | <b>(60,577,505)</b>      |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>                       |          |                          |                          |
| Investment in lease/ ijarah finance - net                        |          | (541,384,503)            | (250,602,968)            |
| Security deposits from lessees                                   |          | 58,903,022               | 27,331,798               |
| Purchase of fixed assets   |          | (1,775,898)              | (765,862)                |
| Deferred expenses  |          | -                        | (9,945,552)              |
| Long term loans and deposits                                     |          | (367,096)                | (439,245)                |
| Short term morabaha investment                                   |          | (267,342,979)            | -                        |
| Short term investments - net                                     |          | 668,813                  | (33,575,117)             |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                     |          | <b>(751,298,641)</b>     | <b>(267,996,946)</b>     |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                       |          |                          |                          |
| Issue of modaraba certificates                                   |          | -                        | 250,000,000              |
| Long term finances obtained                                      |          | 625,000,000              | 75,000,000               |
| Payment of long term finances                                    |          | (54,166,667)             | -                        |
| Net increase in short term finances                              |          | 152,753,000              | 36,000,000               |
| <b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>                   |          | <b>723,586,333</b>       | <b>361,000,000</b>       |
| <b>NET (DECREASE)/ INCREASE IN CASH FLOWS DURING THE YEAR</b>    |          | <b>(21,345,991)</b>      | <b>32,425,549</b>        |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>    |          | <b>32,425,549</b>        | <b>-</b>                 |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>          | <b>4</b> | <b><u>11,079,558</u></b> | <b><u>32,425,549</u></b> |

*The annexed notes form an integral part of these financial statements*

CHIEF EXECUTIVE  
Lahore: October 10, 2005

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2005

The changes in equity are as follows:

|   | Capital reserve     |                   |   | Revenue reserve    | Total reserves    | Total equity       |
|---|---------------------|-------------------|---|--------------------|-------------------|--------------------|
|   | Certificate capital | Statutory reserve | Net unrealized losses in value of securities available for sale | Sub total          |                   |                    |
| Rupees  |                     |                   |   |                    |                   |                    |
| Certificate capital issued during the year                      | 250,000,000         | -                 | -   | -                  | -                 | <b>250,000,000</b> |
| Profit for the period   | -                   | -                 | -   | -                  | 4,209,875         | <b>4,209,875</b>   |
| Transfer to statutory reserve                                   | -                   | 841,975           | -   | 841,975            | (841,975)         | -                  |
| Net unrealized losses in value of securities available for sale | -                   | -                 | (3,816,562)   | (3,816,562)        | -                 | <b>(3,816,562)</b> |
| <b>Balance as at June 30, 2004</b>                              | <b>250,000,000</b>  | <b>841,975</b>    | <b>(3,816,562)</b>  | <b>(2,974,587)</b> | <b>3,367,900</b>  | <b>250,393,313</b> |
| Profit for the year   | -                   | -                 | -   | -                  | 16,602,966        | <b>16,602,966</b>  |
| Transfer to statutory reserve                                   | -                   | 3,320,593         | -   | 3,320,593          | (3,320,593)       | -                  |
| Net unrealized losses in value of securities available for sale | -                   | -                 | (1,973,725)   | (1,973,725)        | -                 | <b>(1,973,725)</b> |
| <b>Balance as at June 30, 2005</b>                              | <b>250,000,000</b>  | <b>4,162,568</b>  | <b>(5,790,287)</b>  | <b>(1,627,719)</b> | <b>16,650,272</b> | <b>265,022,554</b> |

*The annexed notes form an integral part of these financial statements*

CHIEF EXECUTIVE  
Lahore: October 10, 2005

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED JUNE 30, 2005

### 1 STATUS AND ACTIVITIES

First National Bank Modaraba "the Modaraba" is a multi purpose, perpetual and multi dimensional Modaraba formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and rules framed there under and is managed by National Bank Modaraba Management Company Limited (a wholly owned subsidiary of National Bank of Pakistan), incorporated in Pakistan under the Companies Ordinance, 1984 and registered with Registrar of Modaraba Companies. The registered office of the Modaraba is situated at 5<sup>th</sup> floor, National Bank of Pakistan, Regional Headquarters Building, 26 - Mc Lagon Road, Lahore. The Modaraba is listed on Karachi and Lahore stock exchanges. The Modaraba commenced its business operations on December 04, 2003.

The Modaraba is currently engaged in various Islamic modes of financing and business including Leasing/ Ijarah, Musharaka and Morabaha arrangements.

### 2 STATEMENT OF COMPLIANCE

These financial statements have been Prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules 1981 and Prudential Regulations issued by the Securities and Exchange Commission of Pakistan (The Modaraba Regulations). Approved accounting standards comprise of such International Accounting Standards (IASs) as notified under the provisions of the Companies Ordinance, 1984 and made applicable to Modarabas under Modaraba Companies, Modaraba (Flotation and Control) Ordinance, 1980. Wherever the requirements of relevant laws or directives issued by the Securities and Exchange Commission of Pakistan and the requirements of 'The Modaraba Regulations' differ from the requirements of these standards, the requirements of the relevant laws, directives and regulations take precedence.

### 3 SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 ACCOUNTING CONVENTION

These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments in accordance with the requirements of International Accounting Standard - 39 " Financial Instruments: Recognition and Measurement ", wherever applicable. The principal accounting policies adopted are set out below.

#### 3.2 REVENUE RECOGNITION

Revenue is recognized on the following basis:-

- i For leasing / ijarah transactions, the unearned finance income is deferred and amortized to income over the term of lease / ijarah, applying the annuity method to produce a constant rate of return on the net investment in lease/ ijarah. Unrealized lease/ ijarah income on potential lease losses is excluded from the income from leasing/ ijarah operations in accordance with the requirements of Prudential Regulations for Modaraba issued by Securities and Exchange Commission of Pakistan.
- ii Return on deposits with bank is recognized on accrual basis.
- iii Profit on finances under musharaka arrangements is recognized on accrual basis and additional profit, if any, is recognized on declaration by the investee company in accordance with the terms of issue.
- iv Dividend income is recognised when the right to receive dividend is established.
- v Income from fee and commission is recognised as and when it becomes due.

#### 3.3 OWNED FIXED ASSETS - TANGIBLE

Owned fixed assets (tangible) are stated at cost less accumulated depreciation and impairment in value, if any. Depreciation is charged to income applying the straight-line method whereby the cost of an asset is written off over its estimated useful life. Full year's depreciation is charged on assets acquired during the year, while no depreciation is charged in the year of disposal/ sale.

Maintenance and repairs are charged to income as and when incurred. Major renewals and improvements are capitalized. The assets replaced, if any, are retired.

Exchange differences in respect of foreign currency loans obtained for acquisition of fixed assets are charged to profit and loss account.

Gain or loss on disposal of fixed assets are taken to profit and loss account.

The carrying value of fixed assets are reviewed for impairment when events or changes in circumstances indicate that carrying value may not be recoverable. If such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to the recoverable amount. Where an impairment loss is recognized, the depreciation charge is adjusted in the future period to allocate asset's revised carrying amount over its estimated useful life.

### **3.4 OWNED FIXED ASSETS - INTANGIBLE**

Intangible assets are stated at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded when these assets are available for use using straight line method whereby the cost of an asset is written off over its estimated useful life.

### **3.5 LEASE/ IJARAH ACCOUNTING**

The Modaraba provides assets on lease/ ijarah arrangements to its clients under lease/ ijarah agreements as approved by the Religious Board. These lease/ ijarah are recorded in the books of accounts as finance lease in line with International Accounting Standard - 17 " Leases" as the "ijarah" arrangements approved by the Religious Board significantly resemble the "Finance Lease" as per IAS - 17. Amount due from lessees under finance leases are recorded as receivables at the amount of the net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

Net investment in Lease/Ijarah finance is stated at present value of minimum lease payments. Impairment losses on non-performing Leases/ Ijarah are recognised at higher of provision required in accordance with the Prudential Regulations for Modarabas or at a level which in the judgment of the management is adequate to provide for the potential Lease/ Ijarah losses. These losses can be reasonably anticipated as the difference between the carrying amount of receivables and present value of expected cash flows discounted at the rates implicit in the Lease/ Ijarah agreement.

### **3.6 TAXATION**

#### ***Current***

Under the current tax law, the income of non-trading Modarabas is exempt from Income Tax provided that they distribute ninety percent of its profits as cash dividend to the certificate holders out of current year's total profit after appropriating statutory reserves. Where such profit are not distributed, provision for tax is made on taxable income at the current tax rates applicable to Modaraba after taking into account the available tax exemptions and tax credits, if any.

#### ***Deferred***

Deferred tax is provided using the liability method for all temporary differences at the balance sheet date between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets, if any, are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax liability, if any, is based on the expected tax rates applicable at the time of reversal of temporary differences.

### **3.7 DEFERRED COSTS**

These are amortized over a period of five years from the month of occurrence on monthly basis.

### **3.8 OTHER RECEIVABLES**

Other receivables are stated net of impairment loss. Impairment loss is recognised for doubtful receivables on the basis of prudential regulations for Modarabas issued by SECP or based on the estimates of the management, whichever is higher. Bad debts are written off when identified.

### **3.9 ADVANCES**

All advances in the form of morabaha and musharaka finances are stated net of provision for doubtful debts. Provision for doubtful debts is made on the basis of Prudential Regulations for Modarabas or on the estimate of management whichever is higher.

### **3.10 CREDITORS AND OTHER LIABILITIES**

Creditors and other liabilities are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received whether billed to the modaraba or not.

### **3.11 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 consist of cash in hand, balances with banks in current and deposit accounts.

### **3.12 INVESTMENTS**

All Investments are initially recognized on trade-date at cost, comprising of fair value of consideration given and cost of transaction. Its classification is made on the basis of intended purpose of holding such investments. The subsequent measurement on the balance sheet date is carried out on the following basis:

#### ***Held for trading***

These are securities which are either acquired for generating a profit from short term fluctuation in prices or are securities included in a portfolio in which a pattern of short-term profit taking exists. These are measured at fair value and changes in carrying values are included in profit and loss account.

#### ***Available for sale***

These are investments that do not fall under held for trading or held to maturity. These are stated at fair value and the surplus/ (deficit) on revaluation of investments being unrealized gain/ (loss) is taken directly to equity until sold or otherwise disposed of at which time, the cumulative gain or loss previously recognized in equity is included in profit and loss account.

#### ***Held to maturity***

Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Modaraba has the positive intent and ability to hold to maturity. These are initially recognized at cost inclusive of transaction cost and are subsequently carried at amortized cost. Surplus/ deficit arising due to fluctuation in fair value is taken to profit and loss account.

The fair value for listed securities is the quoted market price. The securities, for which a quoted market price is not available, are measured at cost.

All investments are de-recognized when the rights to receive cash flows from the investments have expired or have been transferred and the Modaraba has transferred substantially all risks and rewards of ownership.

### **3.13 FINANCIAL INSTRUMENTS**

The particular recognition methods adopted by the Modaraba are disclosed in the individual policy statement associated with each item of financial instruments.

#### **Financial assets**

Financial assets are initially recognized at their cost which is the fair value of the consideration given for them at the time when the Modaraba becomes a party to the contractual provisions of the instruments and subsequent to initial recognition, financial assets are carried at fair value except any financial asset whose fair value can not be reliably measured.

A 'regular way' purchase or sale of financial asset is recognized using trade date accounting.

#### **Financial liabilities**

All financial liabilities are initially recognized at cost which is the fair value of consideration received at the time when the Modaraba becomes a party to the contractual provisions of the instruments. After initial recognition, financial liabilities are carried at fair value, amortized cost or original cost as the case may be.

### Off-setting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements when the Modaraba has a legally enforceable right to set off the recognized amounts or intend either to settle on net basis or to realize the assets and settle the liabilities simultaneously.

### De- recognition

Financial assets are de-recognised when the Modaraba loses control of the contractual rights that comprise the Financial liabilities are de-recognised when they are extinguished; that is, when the obligation specified in the contract is discharged, cancelled or expires.

### Recognition of gains / (losses)

Gains or losses, if any, on realization or settlement/ subsequent measurement and derecognition of financial assets and liabilities are included in net profit and loss in the period in which it arises.

### Impairment/ un-collectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is an evidence that the financial asset or the group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of the asset(s) is determined and impairment loss is recognized for the difference between the recoverable amount and the carrying amount.

## 3.14 RELATED PARTY TRANSACTIONS

Transactions with related parties are stated at arm's length prices based on the methods prescribed in the Companies Ordinance, 1984, computed on the basis of comparable uncontrolled price.

## 3.15 IMPAIRMENT

The carrying amounts of the assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or group of assets. If any such indication exists, the recoverable amount of that asset or group of assets is estimated and impairment losses are recognized in the profit and loss account.

|   |     | 2005<br>RUPEES    | 2004<br>RUPEES    |
|---|-----|-------------------|-------------------|
| <b>4 CASH AND BANK BALANCES</b>         |     |                   |                   |
| <b>Cash in hand</b>                     |     | -                 | -                 |
| <b>Cash with banks on:</b>              |     |                   |                   |
| - Current accounts - profit bearing     | 4.1 | 10,925,385        | 8,950,887         |
| - Current accounts - non profit bearing |     | 98,164            | -                 |
| - PLS Saving account                    |     | 56,009            | 23,474,662        |
|   |     | <u>11,079,558</u> | <u>32,425,549</u> |

4.1 The balances in profit bearing accounts carry profit ranging between 1% to 2.5% (2004: 1% to 3.65%)

## 5 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

|   |  |                   |                   |
|---|--|-------------------|-------------------|
| Advance for lease/ ijarah - secured and considered good         |  | 83,347,709        | 56,497,017        |
| Prepayments   |  | 296,408           | 62,500            |
| Receivables from sale of shares - unsecured but considered good |  | 3,013,350         | 6,730,428         |
| Other advances and receivables - unsecured but considered good  |  | 82,080            | 208,902           |
| Accrued profit  |  | 5,885,270         | 1,013,349         |
| Tax deducted at source  |  | 125,876           | 171,245           |
|   |  | <u>92,750,693</u> | <u>64,683,441</u> |

## 6 SHORT TERM INVESTMENTS

|                    |     | 2005<br>RUPEES    | 2004<br>RUPEES    |
|--------------------|-----|-------------------|-------------------|
| Held for trading   | 6.1 | 16,103,316        | 12,387,508        |
| Available for sale | 6.2 | 17,463,613        | 20,706,042        |
|                    |     | <u>33,566,929</u> | <u>33,093,550</u> |

|  | Average Cost      |                   | Market Value      |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 2005<br>RUPEES    | 2004<br>RUPEES    | 2005<br>RUPEES    | 2004<br>RUPEES    |
| <b>6.1 Investments held for trading - Quoted</b>   |                   |                   |                   |                   |
| <b>Commercial Banks:</b>   |                   |                   |                   |                   |
| National Bank of Pakistan<br>29,000 (2004: 50,000) Ordinary Shares of Rs. 10/- each                | 3,395,936         | 3,470,002         | 3,130,550         | 3,325,008         |
| MCB Bank Limited<br>1,650 (2004: Nil) Ordinary Shares of Rs. 10/- each                             | 123,900           | -                 | 130,845           | -                 |
| Union Bank Limited<br>20,000 (2004: Nil) Ordinary Shares of Rs. 10/- each                          | 829,833           | -                 | 800,000           | -                 |
| The Bank of Punjab<br>20,000 (2004: 50,000) Ordinary Shares of Rs. 10/- each                       | 1,472,464         | 2,578,216         | 1,675,000         | 2,612,500         |
| <b>Cement:</b>   |                   |                   |                   |                   |
| D. G. Khan Cement Company Limited<br>25,000 (2004: Nil) Ordinary Shares of Rs. 10/- each           | 1,403,854         | -                 | 1,397,500         | -                 |
| <b>Chemicals:</b>  |                   |                   |                   |                   |
| Pakistan PTA Limited<br>50,000 (2004: Nil) Ordinary Shares of Rs. 10/- each                        | 499,050           | -                 | 400,000           | -                 |
| <b>Energy and Petroleum:</b>   |                   |                   |                   |                   |
| Pakistan Oilfields Limited<br>10,000 (2004: Nil) Ordinary Shares of Rs. 10/- each                  | 2,789,029         | -                 | 2,820,000         | -                 |
| Pakistan Petroleum Limited<br>12,000 (2004: Nil) Ordinary Shares of Rs. 10/- each                  | 2,640,650         | -                 | 2,581,200         | -                 |
| <b>Oil and Gas Exploration :</b>   |                   |                   |                   |                   |
| Oil and Gas Development Company Limited<br>30,000 (2004: 100,000) Ordinary Shares of Rs. 10/- each | 3,321,726         | 6,742,604         | 3,168,221         | 6,450,000         |
|  | <u>16,476,442</u> | <u>12,790,822</u> | <u>16,103,316</u> | <u>12,387,508</u> |

|   | Average Cost      |                   | Market Value      |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | 2005<br>RUPEES    | 2004<br>RUPEES    | 2005<br>RUPEES    | 2004<br>RUPEES    |
| <b>6.2 Investments available for sale - Quoted</b>  |                   |                   |                   |                   |
| <b>Commercial Banks:</b>  |                   |                   |                   |                   |
| Faysal Bank Limited<br>22,000 (2004: Nil) Ordinary Shares of Rs. 10/- each                    | 1,352,685         | -                 | 1,183,600         | -                 |
| <b>Cement:</b>  |                   |                   |                   |                   |
| Maple Leaf Cement Factory Limited<br>125,000 (2004: 100,000) Ordinary Shares of Rs. 10/- each | 4,641,667         | 4,670,000         | 2,725,000         | 3,845,000         |
| <b>Power Generation:</b>  |                   |                   |                   |                   |
| The Hub Power Company Limited<br>200,000 (2004: 200,000) Ordinary Shares of Rs. 10/- each     | 7,259,548         | 7,259,551         | 5,280,013         | 6,470,002         |
| Japan Power Generation Limited<br>Nil (2004: 1,000,000) Ordinary Shares of Rs. 10/- each      | -                 | 6,752,525         | -                 | 5,300,000         |
| <b>Paper and Board:</b>   |                   |                   |                   |                   |
| Century Paper and Board Mills Limited<br>Nil (2004: 7,800) Ordinary Shares of Rs. 10/- each   | -                 | 840,528           | -                 | 716,040           |
| <b>Mutual Funds:</b>  |                   |                   |                   |                   |
| ICP ABAMCO Composite Fund<br>500,000 (2004: 500,000) Certificates of Rs. 10/- each            | 5,000,000         | 5,000,000         | 3,450,000         | 4,375,000         |
| Pakistan Strategic Allocation Fund<br>500,000 (2004: Nil) Certificates of Rs. 10/- each       | 5,000,000         | -                 | 4,825,000         | -                 |
|   | <u>23,253,900</u> | <u>24,522,604</u> | <u>17,463,613</u> | <u>20,706,042</u> |

|   | 2005<br>RUPEES     | 2004<br>RUPEES |
|---|--------------------|----------------|
| <b>7 SHORT TERM MORABAHA FINANCES - SECURED</b> | <u>267,342,979</u> | <u>-</u>       |

These represent finances to various customers under morabaha arrangements on deferred payment basis at specified profit margins. These carry profit ranging from 3.8% to 11.26% per annum (2004: Nil). These are secured against charge over fixed and current assets, personal guarantees of directors of the company, demand promissory notes and post dated cheques varying from case to case basis.

## 8 CURRENT PORTION OF NON- CURRENT ASSETS

|   |           |                    |                   |
|---|-----------|--------------------|-------------------|
| Net investment in lease/ ijarah finance | <b>9</b>  | 195,088,911        | 73,502,723        |
| Long term loans and deposits            | <b>10</b> | <u>217,248</u>     | <u>112,505</u>    |
|   |           | <u>195,306,159</u> | <u>73,615,228</u> |

## 9 NET INVESTMENT IN LEASE/ IJARAH FINANCE

|  |            |                    |                    |
|--|------------|--------------------|--------------------|
| <b>Minimum lease/ ijarah rentals receivable</b>                  | <b>9.1</b> | 848,809,549        | 260,145,133        |
| Residual value of leased assets                                  |            | <u>86,068,570</u>  | <u>20,451,915</u>  |
| <b>Gross investment in lease/ ijarah finance</b>                 |            | 934,878,119        | 280,597,048        |
| Less: unearned finance income                                    |            | <u>142,890,648</u> | <u>29,994,080</u>  |
| <b>Net investment in lease/ ijarah finance</b>                   | <b>9.2</b> | 791,987,471        | 250,602,968        |
| Less: current portion of net investment in lease/ ijarah finance |            | <u>195,088,911</u> | <u>73,502,723</u>  |
|  |            | <u>596,898,560</u> | <u>177,100,245</u> |



|   | 2005<br>RUPEES     | 2004<br>RUPEES     |
|---|--------------------|--------------------|
| <b>9.1 MINIMUM LEASE/ IJARAH RENTALS RECEIVABLE</b> |                    |                    |
| Due within one year                                 | 253,207,395        | 86,250,432         |
| Due after one year but not later than five years    | <u>595,602,154</u> | <u>173,894,701</u> |
|   | <u>848,809,549</u> | <u>260,145,133</u> |
| <b>9.2 NET INVESTMENT IN LEASE/ IJARAH FINANCE</b>  |                    |                    |
| Due within one year                                 | 195,088,911        | 73,502,723         |
| Due after one year but not later than five years    | <u>596,898,560</u> | <u>177,100,245</u> |
|   | <u>791,987,471</u> | <u>250,602,968</u> |

**9.3 GENERAL DESCRIPTION OF SIGNIFICANT LEASE / IJARAH ARRANGEMENTS**

The Modaraba has entered into various lease / ijarah arrangements with profit rates ranging from 5.0% to 12.76% ( 2004: 4.55% to 8.25%) per annum. The arrangements are for three to five years period. These are secured against leased assets, personal / corporate guarantees, promissory notes by the lessees and other collaterals.

**10 LONG TERM LOANS AND DEPOSITS**

|   |             |                |                |
|---|-------------|----------------|----------------|
| loans to employees - secured                          | <b>10.1</b> | 768,841        | 364,245        |
| Deposits with Central Depository Company Limited      |             | <u>37,500</u>  | <u>75,000</u>  |
|   |             | 806,341        | 439,245        |
| Less: current portion of long term loans to employees |             | <u>217,248</u> | <u>112,505</u> |
|   |             | <u>589,093</u> | <u>326,740</u> |

**10.1** These are loans given to employees for purchase of vehicles. These carry profit at the rate of 5% per annum (2004: 5%). Maximum aggregate balance due from employees at the end of any month during the year was Rs. 941,749 (June 30, 2004: Rs. 452,469).

**11 DEFERRED COSTS**

|                                 |                  |                  |
|---------------------------------|------------------|------------------|
| Preliminary expenses            | 8,818,325        | 9,945,552        |
| Less: amortized during the year | <u>1,989,120</u> | <u>1,127,227</u> |
|                                 | <u>6,829,205</u> | <u>8,818,325</u> |

**12 FIXED ASSETS - OWNED**

| Particulars               | Cost                |                  |                     | Depreciation/ amortization |                |                     | Written down value as at June 30, 2005 | Depreciation / amortization Rate |
|---------------------------|---------------------|------------------|---------------------|----------------------------|----------------|---------------------|--|----------------------------------|
|                           | As at June 30, 2004 | Additions        | As at June 30, 2005 | As at June 30, 2004        | For the year   | As at June 30, 2005 |  |                                  |
| Rupees                    |                     |                  |                     |                            |                |                     |  | %                                |
| <b>Tangible</b>           |                     |                  |                     |                            |                |                     |  |                                  |
| Vehicles                  | -                   | 1,598,460        | 1,598,460           | -                          | 319,692        | 319,692             | 1,278,768                              | 20                               |
| Computers and accessories | 341,100             | 159,938          | 501,038             | 113,693                    | 167,013        | 280,706             | 220,332                                | 33 1/3                           |
| Electric equipments       | 237,462             | 17,500           | 254,962             | 47,492                     | 50,992         | 98,484              | 156,478                                | 20                               |
| <b>Subtotal</b>           | <u>578,562</u>      | <u>1,775,898</u> | <u>2,354,460</u>    | <u>161,185</u>             | <u>537,697</u> | <u>698,882</u>      | <u>1,655,578</u>                       |                                  |
| <b>Intangible</b>         |                     |                  |                     |                            |                |                     |  |                                  |
| Software and license fees | 187,300             | -                | 187,300             | 62,431                     | 62,433         | 124,864             | 62,436                                 | 33 1/3                           |
| <b>Subtotal</b>           | <u>187,300</u>      | <u>-</u>         | <u>187,300</u>      | <u>62,431</u>              | <u>62,433</u>  | <u>124,864</u>      | <u>62,436</u>                          |                                  |
| <b>2005 - Total</b>       | <u>765,862</u>      | <u>1,775,898</u> | <u>2,541,760</u>    | <u>223,616</u>             | <u>600,130</u> | <u>823,746</u>      | <u>1,718,014</u>                       |                                  |
| 2004 - Total              | <u>-</u>            | <u>765,862</u>   | <u>765,862</u>      | <u>-</u>                   | <u>223,616</u> | <u>223,616</u>      | <u>542,246</u>                         |                                  |

| <b>13 CREDITORS, ADVANCES, ACCRUED AND OTHER LIABILITIES</b>                         | <b>2005<br/>RUPEES</b> | <b>2004<br/>RUPEES</b> |
|--|------------------------|------------------------|
| Payable against purchase of shares - unsecured                                       | 3,597,898              | 49,825                 |
| Advances from clients  | 3,050,906              | -                      |
| Modaraba Company's Management Fee - unsecured  | 2,383,977              | 519,043                |
| Payable to National Bank Modaraba Management Company Limited - unsecured <b>13.1</b> | 825,212                | 370,212                |
| Accrued expenses   | 9,629,081              | 395,072                |
| Tax deducted at source   | 111,271                | -                      |
| Others   | 186,069                | 84,551                 |
|  | <u>19,784,414</u>      | <u>1,418,703</u>       |

**13.1** The balance represents amount payable against utility services. Maximum aggregate amount due to the modaraba management company at the end of any month during the year was Rs. 825,212. (2004: Rs. 370,212).

#### **14 SHORT TERM BORROWINGS - SECURED**

|                   |                         |                   |
|-------------------|-------------------------|-------------------|
| Musharaka finance | <b>14.1</b> 25,000,000  | -                 |
| Morabaha finance  | <b>14.2</b> 163,753,000 | 36,000,000        |
|                   | <u>188,753,000</u>      | <u>36,000,000</u> |

**14.1** The facility has been availed from a commercial bank having aggregate limit of Rs. 150 million. This facility is to be used to finance the Modaraba's working capital requirements and repayable within one year. The profit is payable quarterly which has been determined taking into consideration one month average KIBOR plus 0.50% p.a. The facility is secured against first pari passu hypothecation charge on assets amounting to Rs. 200 million.

**14.2** The facility has been availed from Islamic Banking division of a bank having aggregate limit of Rs. 200 million. This facility is used for enhancement in lease/ ijarah portfolio and commodity financing under morabaha, repayable within one year. The morabaha finance is priced to yield a profit calculated as a Function of 1.008125 to 1.0125 times the purchase price on quarterly basis. The facility is secured against hypothecation charge over current assets of the Modaraba amounting to Rs. 267 million and such other securities as may reasonably be requested by the bank from time to time.

#### **15 CURRENT PORTION OF LONG TERM LIABILITIES**

|                                       |                              |                   |
|---------------------------------------|------------------------------|-------------------|
| Current portion of long term finances | <b>18</b> <u>140,000,000</u> | <u>25,000,000</u> |
|---------------------------------------|------------------------------|-------------------|

#### **16 TAXATION**

##### **16.1 Current**

|                 |                |                |
|-----------------|----------------|----------------|
| For the year    | 453,069        | 461,510        |
| For prior years | (271,627)      | -              |
|                 | <u>181,442</u> | <u>461,510</u> |

##### **16.1.1 Numerical reconciliation between the average tax rate and the applicable tax rate**

|   | <b>2005<br/>Percentage</b> | <b>2004<br/>Percentage</b> |
|---|----------------------------|----------------------------|
| Applicable tax rate as per Income Tax Ordinance, 2001 | 25.00                      | 25.00                      |
| Tax effect of:  |                            |                            |
| Lower tax rate on dividend income                     | (3.45)                     | (0.62)                     |
| Exempt income   | (4.60)                     | (3.79)                     |
| Separate taxation on lease income                     | (15.65)                    | (14.61)                    |
| Permanent differences                                 | 1.40                       | 3.90                       |
|   | <u>(22.30)</u>             | <u>(15.12)</u>             |
| Average effective tax rate                            | <u>2.70</u>                | <u>9.88</u>                |

**16.2 Deferred taxation**

|  | 2005<br>RUPEES | 2004<br>RUPEES |
|--|----------------|----------------|
|--|----------------|----------------|

Deferred tax liability calculated on the basis of liability method as given in note 3.6 amounts to Rs. 27,581,743 (2004: 863,864). No provision has been made for the same as the said liability is not expected to materialize in future as the management intends to avail the tax exemption in future by distributing 90% of the profits as cash dividend to the certificate holders.

|  |   |   |
|--|---|---|
|  | - | - |
|--|---|---|

**17 LONG TERM SECURITY DEPOSITS - SECURED**

|  |            |            |
|--|------------|------------|
|  | 86,234,820 | 27,331,798 |
|--|------------|------------|

These represent the profit free security deposits received from lessees under lease/ ijarah contracts and are repayable/ adjustable at the expiry of respective lease / ijarah periods. There is no current portion of these deposits in respect of the year ended on June 30, 2005.

**18 LONG TERM FINANCES - SECURED****Finances under musharaka arrangement**

|                        |      |             |            |
|------------------------|------|-------------|------------|
| Musharaka finance - I  | 18.1 | 195,833,333 | 75,000,000 |
| Musharaka finance - II | 18.2 | 200,000,000 | -          |
|                        |      | 395,833,333 | 75,000,000 |

**Finances under morabaha arrangement**

|                       |      |             |            |
|-----------------------|------|-------------|------------|
| Morabaha finance - I  | 18.3 | 200,000,000 | -          |
| Morabaha finance - II | 18.4 | 50,000,000  | -          |
|                       |      | 250,000,000 | -          |
|                       |      | 645,833,333 | 75,000,000 |
| Less: Current portion | 15   | 140,000,000 | 25,000,000 |
|                       |      | 505,833,333 | 50,000,000 |

**18.1** The facility has been availed from a commercial bank having aggregate limit of Rs. 250 million. The principal along with profit is repayable in six equal semi annual installments in arrear within three years from the date of withdrawal. Profit has been determined taking into consideration 6 months KIBOR plus a spread of 1% p.a. with a floor of 3% p.a. and ceiling of 5% p.a. The facility is secured against first pari passu charge on all present and future assets of the Modaraba amounting to Rs. 335 million.

**18.2** The facility has been availed from a commercial bank having aggregate limit of Rs. 200 million. The principal along with profit is repayable within three years from the date of withdrawal in ten equal quarterly installments in arrear after grace period (for principal only) of six months ending on November 08, 2005. Profit has been determined taking into consideration three months KIBOR plus a spread of 0.50% p.a. The facility is secured against first pari passu hypothecation charge on leased assets amounting to Rs. 267 million.

**18.3** The facility has been availed from a commercial bank having aggregate limit of Rs. 200 million. The principal along with profit is repayable semi annually and has an expiry of three years from the date of withdrawal. The facility is periodically renewable with the mutual consent of the Modaraba and bank. The repayments are inclusive of profit which has been determined taking into consideration 6 months KIBOR plus a spread of 0.80% p.a. with no floor and no cap. The facility is secured against first pari passu charge over leased assets and receivables amounting to Rs. 270 million.

**18.4** The facility has been availed from a commercial bank having aggregate limit of Rs. 100 million. Principal is repayable in six semi annual installments within three years from the date of withdrawal. Profit is payable quarterly and has been determined taking into consideration 6 months KIBOR plus a spread of 1.0% p.a. with no floor and no cap. The facility is secured against hypothecation charge over all present and future assets of the Modaraba amounting to Rs. 134 million.

|   | <b>2005</b>           | <b>2004</b>        |
|---|-----------------------|--------------------|
|   | <b>RUPEES</b>         | <b>RUPEES</b>      |
| <b>19 CERTIFICATE CAPITAL</b>   |                       |                    |
| <b>Authorized capital:</b>  |                       |                    |
| 60,000,000 (2004: 60,000,000) modaraba certificates of Rs. 10/- each  | <u>600,000,000</u>    | <u>600,000,000</u> |
| <b>Issued, subscribed and paid up capital:</b>  |                       |                    |
| 25,000,000 (2004: 25,000,000) modaraba certificates of Rs. 10/- each fully paid in cash                             | <u>250,000,000</u>    | <u>250,000,000</u> |
| <b>19.1</b> 7,500,000 (2004: 7,500,000) certificates are held by National Bank Modaraba Management Company Limited. |                       |                    |
| <b>20 CONTINGENCIES AND COMMITMENTS</b>   |                       |                    |
| <b>20.1 Contingencies</b>   |                       |                    |
| There are no known contingencies as at June 30, 2005 (2004: Nil).   |                       |                    |
| <b>20.2 Commitments</b>   |                       |                    |
| Lease contracts approved but not disbursed  | <u>103,377,492</u>    | <u>110,760,976</u> |
| <b>21 OTHER INCOME</b>  |                       |                    |
| Service charges   | 176,742               | 20,421             |
| Documentation charges   | 137,540               | 76,121             |
|   | <u>314,282</u>        | <u>96,542</u>      |
| <b>22 OPERATING EXPENSES</b>  |                       |                    |
| Salaries, allowances and benefits   | <b>22.1</b> 5,966,339 | 2,498,650          |
| Utility expenses  | 425,000               | 306,460            |
| Telephone, fax and internet charges   | 275,566               | 203,929            |
| Travelling and conveyance   | 279,084               | 49,370             |
| Vehicle running expenses  | 58,873                | 31,575             |
| Postage and stamps  | 69,698                | 21,998             |
| Advertisement   | 85,900                | 1,500              |
| Newspaper expenses  | 6,296                 | 2,960              |
| Legal and professional charges  | 284,752               | 168,076            |
| Auditor remuneration  | <b>22.2</b> 175,000   | 90,000             |
| Fee and subscription  | 125,648               | 16,100             |
| Brokerage commission  | -                     | 3,371              |
| Repairs and maintenance   | 129,015               | 93,091             |
| Insurance   | 95,388                | -                  |
| Stationary, printing and other expenses   | 269,881               | 66,636             |
| Depreciation / amortization   | 600,130               | 223,616            |
| Amortization of deferred costs  | 1,989,120             | 1,127,227          |
| Credit rating fee   | -                     | 155,674            |
| Central depository company charges  | 66,672                | 22,599             |
| Credit information bureau charges   | 17,500                | -                  |
| Valuation charges   | 11,672                | -                  |
| Entertainment   | 58,743                | 8,122              |
| Other sundry expenses   | 28,726                | 17,391             |
| Zakat   | 6,250                 | -                  |
|   | <u>11,025,253</u>     | <u>5,108,345</u>   |

## 22.1 Salaries, allowances and benefits

The aggregate amount charged for remuneration including all benefits to officers and employees of the Modaraba are as under:

|                      | Officers         |                  | Other employees  |                  |
|----------------------|------------------|------------------|------------------|------------------|
|                      | 2005             | 2004             | 2005             | 2004             |
|                      | <b>Rupees</b>    |                  |                  |                  |
| Salary               | 1,565,641        | 635,653          | 1,318,331        | 630,574          |
| House rent allowance | 704,539          | 286,043          | 593,235          | 283,753          |
| Utilities            | 156,562          | 63,563           | 131,822          | 63,040           |
| Bonus                | 30,000           | -                | 65,000           | -                |
| Expenses reimbursed  | 626,137          | 189,392          | 487,072          | 178,632          |
| Others               | -                | -                | 288,000          | 168,000          |
|                      | <u>3,082,879</u> | <u>1,174,651</u> | <u>2,883,460</u> | <u>1,323,999</u> |
| Number of persons    | 5                | 5                | 12               | 10               |

22.1.1 In addition to above, Chief Operating Officer, Chief Financial Officer and Marketing Head of the Modaraba were provided with free use of modaraba owned and maintained cars.

## 22.2 Auditor's remuneration

|   | 2005<br>RUPEES | 2004<br>RUPEES |
|---|----------------|----------------|
| Audit fee                                   | 125,000        | 70,000         |
| Half yearly review financial statements     | 25,000         | -              |
| Certificate on Code of Corporate Governance | 25,000         | 20,000         |
|   | <u>175,000</u> | <u>90,000</u>  |

## 23 FINANCIAL CHARGES

|                               |                   |                |
|-------------------------------|-------------------|----------------|
| Profit on long term finances  | 18,529,315        | 279,800        |
| Profit on short term finances | 5,124,317         | -              |
| Bank charges                  | 40,758            | 474            |
|                               | <u>23,694,390</u> | <u>280,274</u> |

## 24 (REVERSAL)/ PROVISION FOR DIMINUTION IN VALUE OF INVESTMENT

|   |                    |         |
|---|--------------------|---------|
| Provision for diminution at the beginning of the year | 403,314            | -       |
| (Reversal)/ provision during the year                 | (30,188)           | 403,314 |
| Provision for diminution at the end of the year       | <b>6.1</b> 373,126 | 403,314 |

## 25 MATURITY OF ASSETS AND LIABILITIES

|  | 2005              |                                |                               |                             |                           |                      |
|--|-------------------|--------------------------------|-------------------------------|-----------------------------|---------------------------|----------------------|
|  | Up to one month   | From one month to three months | From three months to one year | From one year to five years | From five years and above | Total                |
|  | <b>Rupees</b>     |                                |                               |                             |                           |                      |
| <b>Assets</b>                                      |                   |                                |                               |                             |                           |                      |
| Cash and bank balances                             | 11,079,558        | -                              | -                             | -                           | -                         | 11,079,558           |
| Advances, prepayments and other receivables        | 8,772,744         | 207,956                        | 83,769,993                    | -                           | -                         | 92,750,693           |
| Short term investments                             | -                 | -                              | 33,566,929                    | -                           | -                         | 33,566,929           |
| Short term morabaha finances                       | -                 | 177,099,000                    | 90,243,979                    | -                           | -                         | 267,342,979          |
| Net investment in lease / ijarah finance           | 35,340,486        | 17,304,034                     | 142,444,391                   | 596,898,560                 | -                         | 791,987,471          |
| Long term advances                                 | 18,104            | 54,312                         | 144,832                       | 589,093                     | -                         | 806,341              |
| Deferred costs                                     | 165,760           | 331,520                        | 1,491,840                     | 4,840,085                   | -                         | 6,829,205            |
| Fixed assets                                       | -                 | -                              | -                             | 1,718,014                   | -                         | 1,718,014            |
| <b>June 30, 2005</b>                               | <b>55,376,652</b> | <b>194,996,822</b>             | <b>351,661,964</b>            | <b>604,045,752</b>          | -                         | <b>1,206,081,190</b> |
| <b>June 30, 2004</b>                               | 47,615,280        | 14,533,029                     | 87,161,562                    | 241,295,453                 | -                         | 390,605,324          |
| <b>Liabilities</b>                                 |                   |                                |                               |                             |                           |                      |
| Creditors, advances, accrued and other liabilities | 13,524,319        | -                              | 3,209,189                     | 3,050,906                   | -                         | 19,784,414           |
| Short term borrowings                              | -                 | -                              | 188,753,000                   | -                           | -                         | 188,753,000          |
| Long term finances                                 | 2,875,300         | 85,000,000                     | 52,124,700                    | 505,833,333                 | -                         | 645,833,333          |
| Long term security deposits                        | -                 | -                              | 9,874,776                     | 76,360,044                  | -                         | 86,234,820           |
| Provision for taxation                             | -                 | -                              | 453,069                       | -                           | -                         | 453,069              |
| <b>June 30, 2005</b>                               | <b>16,399,619</b> | <b>85,000,000</b>              | <b>254,414,734</b>            | <b>585,244,283</b>          | -                         | <b>941,058,636</b>   |
| <b>June 30, 2004</b>                               | 44,897            | 454,763                        | 61,980,553                    | 77,331,798                  | -                         | 140,212,011          |
| <b>Net assets - 2005</b>                           | <b>38,977,033</b> | <b>109,996,822</b>             | <b>97,247,230</b>             | <b>18,801,469</b>           | -                         | <b>265,022,554</b>   |
| <b>Net assets - 2004</b>                           | 47,570,383        | 14,078,266                     | 25,181,009                    | 163,963,655                 | -                         | 250,393,313          |

## Represented by:

|  | 2005<br>RUPEES     | 2004<br>RUPEES     |
|--|--------------------|--------------------|
| Issued, subscribed and paid up certificate capital | 250,000,000        | 250,000,000        |
| Reserves   | 15,022,554         | 393,313            |
|  | <u>265,022,554</u> | <u>250,393,313</u> |

## 26 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### Fair value of assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability can be settled between knowledgeable willing parties in an arms length transaction.

Financial assets, except for investments, are stated at their nominal values as reduced by appropriate impairment loss for estimated irrecoverable amounts; investments are stated at fair values. The carrying values of financial liabilities reflected in the financial statements approximate their fair values.

### Yield / profit rate risk

The Modaraba manages this risk by matching the repricing of assets and liabilities. The Modaraba's profit rate sensitivity position, based on the earlier of contractual repricing or maturity dates, is as follows :

| 2005     |                 |                        |                    |                        |       |
|----------|-----------------|------------------------|--------------------|------------------------|-------|
| Note No. | Profit bearing  |                        | Non profit bearing |                        | Total |
|          | Within one year | One year to five years | Within one year    | One year to five years |       |
| Rupees   |                 |                        |                    |                        |       |

#### Financial assets

|   |   |             |             |            |   |               |
|---|---|-------------|-------------|------------|---|---------------|
| Cash and bank balances                      | 4 | 10,981,394  | -           | 98,164     | - | 11,079,558    |
| Advances, prepayments and other receivables | 5 | 83,347,709  | -           | 8,980,700  | - | 92,328,409    |
| Short term investments                      | 6 | -           | -           | 33,566,929 | - | 33,566,929    |
| Short term morabaha finances                | 7 | 267,342,979 | -           | -          | - | 267,342,979   |
| Net investment in lease / ijarah finance    | 9 | 545,995,762 | 245,991,709 | -          | - | 791,987,471   |
| <b>June 30, 2005</b>                        |   | 907,667,844 | 245,991,709 | 42,645,793 | - | 1,196,305,346 |
| <b>June 30, 2004</b>                        |   | 162,425,289 | 177,100,245 | 41,046,229 | - | 380,571,763   |

#### Financial liabilities

|  |    |             |             |             |   |             |
|--|----|-------------|-------------|-------------|---|-------------|
| Creditors, advances, accrued and other liabilities | 13 | -           | -           | 19,673,143  | - | 19,673,143  |
| Short term borrowings                              | 14 | 188,753,000 | -           | -           | - | 188,753,000 |
| Long term finances                                 | 18 | 533,333,333 | 112,500,000 | -           | - | 645,833,333 |
| <b>June 30, 2005</b>                               |    | 722,086,333 | 112,500,000 | 19,673,143  | - | 854,259,476 |
| <b>June 30, 2004</b>                               |    | 61,000,000  | 50,000,000  | 1,418,703   | - | 112,418,703 |
| <b>On balance sheet gap</b>                        |    | 185,581,511 | 133,491,709 | 22,972,650  | - | 342,045,870 |
| <b>Cumulative gap</b>                              |    | 185,581,511 | 319,073,220 | 342,045,870 | - |             |

### Effective mark up rate

The effective rate for the financial assets and the financial liabilities have been disclosed in their relevant notes.

### Credit risk management

Credit risk arises from the possibility that one party to a financial instrument fails to meet its obligations and causes the other party to incur financial loss. The Modaraba's credit risk exposure is not significantly different from that reflected in the financial statements. The management monitors and limits Modaraba's exposure to credit risk through monitoring of clients' credit exposure, reviews and conservative estimates of provisions for doubtful receivables, if any, and through the prudent use of collateral policy. The management is of the view that it is not exposed to significant concentration of credit risk as its financial assets are adequately diversified in organizations of sound financial standing covering various industrial sectors and segments.

### Liquidity risk management

Liquidity risk reflects an enterprise's inability in raising funds to meet its commitments. The Modaraba's management closely monitors the Modaraba's liquidity and cash flow position.

### Profit rate risk

Profit rate risk is the risk that value of a financial instrument will fluctuate in amounts due to changes in market profit rates. Changes in profit rates can adversely affect the rates charged on profit bearing liabilities. This can result an increase in profit expense relative to financial borrowings or vice versa. The Modaraba manages its risk by maintaining a fair balance between profit rates, financial assets and financial liabilities. The rate of profit and their maturity period has been disclosed in the relevant notes.

## 27 SEGMENT ANALYSIS

### 27.1 Geographical segments

The Modaraba's assets are employed and it's income is derived in Pakistan.

### 27.2 Business segments

#### 27.2.1 Net investment in finance lease/ ijarah finance

|                              | 2005   |             | 2004   |             |
|------------------------------|--------|-------------|--------|-------------|
|                              | %      | Rupees      | %      | Rupees      |
| Auto and assemblers          | 2.48   | 19,617,616  | -      | -           |
| Cement                       | 1.82   | 14,445,998  | -      | -           |
| Sugar                        | 12.81  | 101,460,807 | -      | -           |
| Textile                      | 42.71  | 338,231,024 | 55.53  | 139,160,452 |
| Transport                    | 3.59   | 28,422,787  | 12.69  | 31,800,000  |
| Engineering and construction | 6.17   | 48,904,249  | 12.19  | 30,538,766  |
| Knitwear                     | 10.16  | 80,497,632  | 11.03  | 27,645,553  |
| Chemical and pharmaceutical  | 1.61   | 12,726,576  | 1.27   | 3,194,717   |
| Information technology       | 0.30   | 2,410,522   | 1.18   | 2,961,886   |
| Education                    | 5.24   | 41,470,234  | 1.12   | 2,814,472   |
| Media and advertising        | 2.59   | 20,517,318  | -      | -           |
| Poultry feed                 | 4.15   | 32,845,287  | -      | -           |
| Fabrics                      | 4.42   | 35,021,318  | -      | -           |
| Miscellaneous                | 1.95   | 15,416,103  | 4.98   | 12,487,122  |
|                              | 100.00 | 791,987,471 | 100.00 | 250,602,968 |

## 27.2.2 Morabaha investment

|             | 2005   |             | 2004 |        |
|-------------|--------|-------------|------|--------|
|             | %      | Rupees      | %    | Rupees |
| Energy      | 1.77   | 4,725,489   | -    | -      |
| Spinning    | 31.79  | 85,000,000  | -    | -      |
| Textile     | 37.41  | 100,000,000 | -    | -      |
| Poultry     | 13.47  | 36,000,000  | -    | -      |
| Weaving     | 13.47  | 36,000,000  | -    | -      |
| Individuals | 2.10   | 5,617,490   | -    | -      |
|             | 100.00 | 267,342,979 | -    | -      |

## 28 EARNINGS PER MODARABA CERTIFICATE - BASIC AND DILUTED

There is no dilutive effect on the basic earning per certificate which is based on:

|   | 2005              | 2004              |
|---|-------------------|-------------------|
| Profit after tax (Rupees)                           | <u>16,602,966</u> | <u>4,209,875</u>  |
| Weighted average number of certificates outstanding | <u>25,000,000</u> | <u>14,383,562</u> |
| Earnings per certificate - basic (Rupees)           | <u>0.66</u>       | <u>0.29</u>       |

## 29 RELATED PARTY TRANSACTIONS

10% Modaraba management fee has been recorded as payable to National Bank Modaraba Management Company Limited, under section 18 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980.

Details of transactions with related parties and balances outstanding with them at the year end are as follows:

|  | 2005<br>RUPEES     | 2004<br>RUPEES     |
|--|--------------------|--------------------|
| <b>Balances outstanding at the year end:</b>                                 |                    |                    |
| NIDA with National Bank of Pakistan (running balance)                        | <u>10,920,634</u>  | <u>2,876,348</u>   |
| Finances under musharaka arrangement from National Bank of Pakistan          | <u>420,833,333</u> | <u>75,000,000</u>  |
| <b>Transactions during the year</b>  |                    |                    |
| Commission paid to Taurus Securities Limited                                 | <u>56,368</u>      | <u>267,750</u>     |
| Purchase and sale of listed securities from Taurus Securities Limited        | <u>51,000,000</u>  | <u>351,000,000</u> |
| Finances under musharaka arrangement obtained from National Bank of Pakistan | <u>400,000,000</u> | <u>75,000,000</u>  |
| Finances under musharaka arrangement repaid to National Bank of Pakistan     | <u>54,166,667</u>  | <u>-</u>           |
| <b>Profit/ expense during the year</b>                                       |                    |                    |
| Profit on finances from National Bank of Pakistan                            | <u>11,647,422</u>  | <u>280,274</u>     |
| National Bank Modaraba Management Company's fee                              | <u>1,864,934</u>   | <u>519,043</u>     |

Transactions with related parties are carried out at an arm's Length basis in the normal courses of business. The Method used for computation of consideration is comparable uncontrolled price method except the modaraba Company's management fee as mentioned above.



**30 STAFF STRENGTH**

Number of employees as at June 30,

**2005****2004**

17

15

**31 DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on October 10, 2005 by the Board of Directors of National Bank Modaraba Management Company Limited.

**32 COMPARATIVES**

Last year figures represent amounts for the first reporting period of seven months since the commencement of business operations.

**33 GENERAL**

- figures have been rounded off to the nearest rupee.
- corresponding figures have been rearranged wherever necessary for the purpose of comparison.

**CHIEF EXECUTIVE****DIRECTOR****DIRECTOR****CHIEF FINANCIAL OFFICER****Lahore: October 10, 2005**

**PATTERN OF CERTIFICATE HOLDING  
AS ON JUNE 30, 2005**

| Number of<br>Certificate Holders | Certificate Holding |         | Total Number of<br>Certificates Held | Percentage    |
|----------------------------------|---------------------|---------|--------------------------------------|---------------|
|                                  | From                | To      |                                      |               |
| 43                               | 1                   | 100     | 3,946                                | 0.02          |
| 631                              | 101                 | 500     | 302,654                              | 1.21          |
| 333                              | 501                 | 1000    | 313,163                              | 1.25          |
| 375                              | 1001                | 5000    | 1,090,737                            | 4.36          |
| 136                              | 5001                | 10000   | 1,159,300                            | 4.64          |
| 35                               | 10001               | 15000   | 458,400                              | 1.83          |
| 25                               | 15001               | 20000   | 450,000                              | 1.80          |
| 24                               | 20001               | 25000   | 557,200                              | 2.23          |
| 13                               | 25001               | 30000   | 356,700                              | 1.43          |
| 7                                | 30001               | 35000   | 228,500                              | 0.91          |
| 4                                | 35001               | 40000   | 156,000                              | 0.62          |
| 3                                | 40001               | 45000   | 130,600                              | 0.52          |
| 8                                | 45001               | 50000   | 395,500                              | 1.58          |
| 2                                | 50001               | 55000   | 102,400                              | 0.41          |
| 1                                | 55001               | 60000   | 58,500                               | 0.23          |
| 1                                | 60001               | 65000   | 63,500                               | 0.25          |
| 1                                | 65001               | 70000   | 66,800                               | 0.27          |
| 2                                | 70001               | 75000   | 146,000                              | 0.58          |
| 2                                | 75001               | 80000   | 155,500                              | 0.62          |
| 1                                | 80001               | 85000   | 82,000                               | 0.33          |
| 3                                | 95001               | 100000  | 300,000                              | 1.20          |
| 2                                | 100001              | 105000  | 210,000                              | 0.84          |
| 3                                | 110001              | 115000  | 340,500                              | 1.36          |
| 2                                | 115001              | 120000  | 240,000                              | 0.96          |
| 1                                | 140001              | 145000  | 141,000                              | 0.56          |
| 2                                | 145001              | 150000  | 300,000                              | 1.20          |
| 1                                | 150001              | 155000  | 153,000                              | 0.61          |
| 1                                | 155001              | 160000  | 159,800                              | 0.64          |
| 2                                | 195001              | 200000  | 400,000                              | 1.60          |
| 1                                | 200001              | 205000  | 201,000                              | 0.80          |
| 1                                | 290001              | 295000  | 292,000                              | 1.17          |
| 1                                | 395001              | 400000  | 400,000                              | 1.60          |
| 1                                | 400001              | 405000  | 400,500                              | 1.60          |
| 1                                | 450001              | 455000  | 452,900                              | 1.81          |
| 1                                | 480001              | 485000  | 480,900                              | 1.92          |
| 1                                | 500001              | 505000  | 504,500                              | 2.02          |
| 1                                | 595001              | 600000  | 600,000                              | 2.40          |
| 1                                | 755001              | 760000  | 757,500                              | 3.03          |
| 1                                | 890001              | 895000  | 893,000                              | 3.57          |
| 1                                | 975001              | 980000  | 978,000                              | 3.91          |
| 1                                | 1065001             | 1070000 | 1,068,000                            | 4.27          |
| 1                                | 1945001             | 1950000 | 1,950,000                            | 7.80          |
| 1                                | 7495001             | 7500000 | 7,500,000                            | 30.00         |
| <b>1,678</b>                     |                     |         | <b>25,000,000</b>                    | <b>100.00</b> |

**CATEGORIES OF CERTIFICATE HOLDERS AS ON 30-06-2005**

| <b>Sr. No.</b> | <b>Category</b>         | <b>Number of<br/>Certificate Holders</b> | <b>Number of<br/>Certificates</b> | <b>Percentage</b> |
|----------------|-------------------------|--|-----------------------------------|-------------------|
| 1              | Individuals             | 1,638                                    | 10,175,700                        | 40.7028           |
| 2              | Investment Companies    | 1  | 1,158                             | 0.0046            |
| 3              | Joint Stock Companies   | 23                                       | 1,611,342                         | 6.4454            |
| 4              | Financial Institutions  | 8  | 5,399,500                         | 21.5980           |
| 5              | Modarabas               | 2  | 36,300                            | 0.1452            |
| 6              | Modaraba Management Cos | 1  | 7,500,000                         | 30.0000           |
| 7              | Funds                   | 1  | 12,500                            | 0.0500            |
| 8              | Others                  | 3  | 213,500                           | 0.8540            |
| 9              | Insurance Companies     | 1  | 50,000                            | 0.2000            |
|                | <b>Total:</b>           | <b>1,678</b>                             | <b>25,000,000</b>                 | <b>100.00</b>     |

**Details of trading in the certificates by the Directors, CEO, CFO,  
Company Secretary and their spouses and minor children:**

None of the Directors, CEO, CFO, Company Secretary and their spouses and minor children have traded the certificates in the modaraba during the year under review.

**Associated companies, undertakings and related parties****Number of  
Certificates**

National Bank Modaraba Management Company Limited

7,500,000

| <b>Banks, Development Financial Institutions, Non Banking Financial Institutions, Modarabas, Mutual Funds &amp; Insurance Companies</b> | <b>Number of Certificates</b> |
|---|-------------------------------|
| Millenium Securities & Investmen (Pvt.) Limited   | 1,158                         |
| Fair Edge Securities (Pvt.) Limited   | 100                           |
| Rahat Securities Limited  | 100                           |
| Mega Securities (Pvt.) Limited  | 400                           |
| Excel Securities (Pvt.) Limited   | 500                           |
| Amz Securities (Pvt.) Limited   | 500                           |
| Lasani Securities (Pvt.) Limited  | 500                           |
| S.z. Securities (Pvt.) Limited  | 500                           |
| Maan Securities (Pvt.) Limited  | 500                           |
| Saz Capital Securities (Pvt.) Limited   | 700                           |
| Jamshaid & Hasan Securities (Pvt.) Limited  | 1,000                         |
| Jamshaid & Hasan Securities (Pvt.) Limited  | 1,300                         |
| Y.S. Securities & Services (Pvt.) Limited   | 2,100                         |
| Zahid Latif Khan Securities (Pvt.) Limited  | 3,742                         |
| Capital Vision Securities (Pvt.) Limited  | 5,000                         |
| ace securities (Pvt.) limited   | 5,900                         |
| Dosslani's Securities (Pvt.) Limited  | 8,100                         |
| Ali Husain Rajabali Limited   | 10,000                        |
| Zum Zum Soap Factory (Pvt.) Limited   | 15,000                        |
| A. Sattar Motiwala Securities (pvt.) Limited  | 16,300                        |
| Azee Securities (Pvt.) Limited  | 27,000                        |
| Live Securities (Pvt.) Limited  | 44,100                        |
| Live Securities (Pvt.) Limited  | 400,000                       |
| Asian Securities Limited  | 1,068,000                     |
| Prime Commercial Bank Limited   | 5,000                         |
| First Dawood Investment Bank Limited  | 16,000                        |
| Habib Bank Ag Zurich, London  | 200,000                       |
| Crescent Standard Investment Bank Limited   | 600,000                       |
| First Dawood Investment Bank  | 757,500                       |
| Orix Investment Bank Pakistan Limited   | 893,000                       |
| The Bank of Punjab  | 978,000                       |
| PICIC   | 1,950,000                     |
| First Fidelity Leasing Modaraba   | 1,300                         |
| First Alnoor Modaraba   | 35,000                        |
| National Bank Modaraba Management Company Limited   | 7,500,000                     |
| Trustees - Abbasi & Company (Pvt.) Limited (emps - P. Fund)   | 12,500                        |
| The Crescent Star Insurance Company Limited   | 50,000                        |