



ANNUAL REPORT 2006



First National Bank Modaraba

Managed By: National Bank Modaraba Management Company Limited

(A wholly owned subsidiary of National Bank of Pakistan)

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CORPORATE INFORMATION

Board of Directors	Mr. S. Ali Raza Mr. Shahid Anwar Khan Dr. Asif A. Brohi Mr. Tajammal H. Bokharee Mr. Muhammad Nusrat Vohra Mr. Wajahat Baqai Mr. Qamar Hussain Mr. Shafiq Khan	Chairman Director Director Director Director Director Director Chief Executive
Chief Financial Officer	Ms. Bushra Azhar	
Company Secretary	Mr. Adeel S. Ali	
Audit Committee	Mr. Shahid Anwar Khan Dr. Asif A. Brohi Mr. Tajammal H. Bokharee	Chairman Member Member
Auditors	M. Yousuf Adil Saleem & Co. (An independent firm associated with Deloitte Touche Tohmatsu)	
Bankers	National Bank of Pakistan Al Baraka Islamic Bank Standard Chartered Bank Bank Alfalah Limited Habib Bank Limited Allied Bank Limited MCB Bank Limited	
Legal Advisor	Cornelius Lane & Mufti Advocates and Solicitors Nawa-i-Waqt House 4 Shahrah-e-Fatima Jinnah, Lahore Tel.: 6360824, Fax: 6303301	
Shares Registrar	Hameed Majeed Associates (Pvt.) Limited H. M. House, 7 Bank Square, Lahore Tel: 7235081-2, Fax: 7358817	
Registered Office	5 th Floor, NBP RHQs Building, 26 McLagon Road, Lahore Tel: 042-9211200, Fax: 042-9213247 URL: http://www.nbmodaraba.com E-mail: info@nbmodaraba.com	

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

THE FUNDAMENTAL MISSION IS TO SEEK THE PLEASURE OF ALLAH THROUGH

MISSION

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 3RD ANNUAL REVIEW MEETING

Notice is hereby given that the 3rd Annual Review Meeting of certificate holders of First National Bank Modaraba will be held on Tuesday, October 31, 2006 at 11:00 a.m. at 4th Floor, NBP RHQs Building, 26 McLagon Road, Lahore to review the performance of the Modaraba for the year ended June 30, 2006

The Certificate Transfer Book will remain closed from October 24, 2006 to October 31, 2006 (both days inclusive) for the purpose of entitlement of dividend. All transfers received in order, up to close of business on October 23, 2006 at our Registrar's Office, Hameed Majeed Associates (Pvt.) Limited, H.M House, 7 Bank Square, Lahore will be considered in time.

The certificate holders whose names appear on the Register of Certificate Holders of First National Bank Modaraba as on October 23, 2006 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 4, 2006

Note:

1. 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).
2. 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

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 4th annual accounts of FNBM for the period ended June 30, 2006. These accounts have been audited by the statutory auditors of the Modaraba and are accompanied by their audit report.

Financial Results:

Amounts in Rupees

	Year Ended June 30, 2006	Year Ended June 30, 2005	7 Months Ended June 30, 2004
Balance Sheet Size	2,046,360,472	1,206,081,190	390,605,324
Total Operating & Other Income	160,735,588	53,338,797	10,982,361
Operating & Financial Expenses	126,915,299	34,689,455	5,791,933
Profit for the period	33,820,289	18,649,342	5,190,428
Modaraba Company's Management Fee	3,382,029	1,864,934	519,043
Profit before Tax	30,438,260	16,784,408	4,671,385
Taxation	-	181,442	461,510
Net profit after tax	30,438,260	16,602,966	4,209,875
Transfer to Statutory Reserve	6,087,652	3,320,593	841,975
Earning per certificate	1.22	0.66	0.29
Breakup value per certificate	11.81	10.60	10.01

Sector Outlook:

Financial sector in Pakistan experienced significant growth in the period under review. The major focus of banks and financial institutions remained on increasing the volume of the business and improving the returns. Due to tight monetary controls exercised by State Bank of Pakistan, a steep rise was witnessed in the mark up rates. On the other hand there was reciprocal increase in the cost of borrowing and deposits.

Modaraba sector, being a small segment of the financial sector, got affected from the said developments. Modaraba sector has great reliance on banks and financial institutions to meet its appetite for the funds. As a result of rising trend in the KIBOR and cost of funds of the banks, the financial cost of the Modaraba sector also increased. The other major challenge, currently faced by the Modaraba sector in Pakistan, is the entry of every commercial bank in the Islamic banking segment, which used to be the specialty of Modaraba sector. The direct competition with commercial banks is hindering the growth and profitability of the Modaraba sector. This scenario has fixed the Modaraba sector in a difficult situation. Nevertheless, the Modaraba sector is striving to get its due share in the financial sector by bringing shifts to its strategies from time to time to cope with these adverse circumstances.

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Review of Operations:

During the period under review, FNBM continued its journey on the path of steady growth. The major product of the Modaraba is lease finance/ Ijarah. A tremendous growth has been recorded in Net Investment in Lease finance/ Ijarah which increased by 51% from Rs. 792 million as on June 30, 2005 to Rs. 1.192 billion at the end of current year. This increase has a corresponding impact on related items of the Income Statement, like total income and net profit. The total income of the Modaraba increased 200% from Rs. 53 million in the last year to Rs. 161 million in the current year. Similarly net profit increased by 81% from Rs. 18.65 million to Rs. 33.82 million. To diversify its product mix, FNBM has also increased its Morabaha investments significantly, which increased from Rs. 267 million to Rs. 588 million.

The Modaraba posted a net profit after taxation amounting to Rs. 30.438 million, which is 81% higher than the profit of Rs. 16.784 million earned during the last year. This profit would have been even higher if FNBM did not have to face and take some hit due to sudden steep decline in stock market during the year. Nevertheless, this profit is satisfactory, because it was earned despite the environment of cut throat competitive, squeezing spreads and decline in stock market.

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.

We believe in steady and sustainable growth backed by the policy of low risk. 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 both in terms of sector, 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, energy, sugar, transport, auto parts, media and advertising etc.

Profit Distribution:

The Board in its meeting held on October 04, 2006 has decided to distribute its profits, amounting to One rupee (10%) per certificate subject to Zakat and tax deduction at source as applicable.

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 April, 2006 with a "Positive" outlook. Keeping in view the phenomenal growth of the Modaraba along with healthy recovery and future prospects, it is expected that the rating may improve in the next assessment.

Future Outlook:

The major sectors of the economy, like textile, cement and sugar have recently completed their ever highest expansions. FNBM was successful in getting its due share by booking some good leases in the said sectors. However, their appetite for long term financing may not be that high in the coming year. Nevertheless, we believe that the activity of their routine BMR will continue. We are looking forward to tap that BMR as our target market. Besides, efforts will be made to add some new clientele in the portfolio to sustain the existing level of growth.

First National Bank Modaraba

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, 2006 except those disclosed in the financial statements.

During the year four (04) meetings of the Board of Directors were held. Attendance by each directors is as follows:

Names of Directors:	No of Attendance
Mr. S. Ali Raza	4
Mr. Shahid Anwar Khan	3
Dr. Asif A. Brohi	2
Mr. Wajahat Baqai	2
Mr. Qamar Hussain	4
Mr. Tajammal H. Bokharee	4
Mr. Muhammad Nusrat Vohra	4
Mr. Shafiq Khan	4

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

The pattern of certificate holders is annexed.

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, 2007. Subject to approval by the Registrar of Modaraba Companies and Modarabas, their appointment has been confirmed by the Board.

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 continuous 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

Dated: October 4, 2006

STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2006

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 presently comprises of eight directors including Chief Executive Officer and all are non-executive directors and are nominees of National Bank of Pakistan (Holding Company of National Bank Modaraba Management Company Ltd).
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 of employees of National Bank of Pakistan on the Board of the Company 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, 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 on the Board. The terms of appointment and remuneration package of the CEO and directors are not approved by the Board as they are 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.

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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, Internal auditor and Company Secretary have been approved by the Board, as determined by the Chief Executive Officer.
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

REPORT ON IMPLEMENTATION OF TRANSFER PRICING POLICY FOR THE YEAR ENDED JUNE 30, 2006

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

i. National Bank Modaraba Management Company Limited

NBP Regional HQ Building
26 - McLagon Road, Lahore

Nature of Relationship

Management Company

Nature of Business

Managing and Floatation of Modarabas

Transaction with Related Party

Management Fee

Rs. 3,382,029

Terms and Conditions

10% management fee is payable to National Bank Modaraba Management Company Limited, under section 18 of the Modaraba Companies & Modaraba (Floatation & Control) Ordinance, 1980

ii. National Bank of Pakistan

Main Branch, The Mall, Lahore

Nature of Relationship:

Holding Co. of Management Co.

Nature of Business:

Commercial Banking

Transaction with Related Party

Currency of Transaction

Pak Rupees

Current Account (NIDA) Running Balance

Rs, 9,133,036

Long Term Musharika Finance

Rs. 272,500,000

Short Term Musharika Finance

Rs, 133,636,991

Ijarah facility provided to National Bank

Rs. 14,865,073

Terms and Conditions:

Long Term Musharika Finance:

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. The repayments are inclusive of profit which has been determined taking into consideration six months 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 the First Hypothecation charge on all present and future assets of the Modaraba for not less than Rs. 278 million, 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, 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. 222 million.

Short Term Musharika Finance:

The facility has been availed from National Bank of Pakistan. The limit is of Rs 150 million to be used to finance the working capital requirements of the Modaraba, repayable within one year. The profit is payable quarterly which has been determined taking into consideration one month KIBOR (prevailing on the last day of the month prior to which profit is being charged) plus a spread of 0.5% p.a. The facility is secured against the First pari passu hypothecation charge on current assets of the Modaraba amounting to Rs. 167 million.

Ijarah facility to National Bank of Pakistan:

Modaraba has provided Ijarah facilities to National Bank of Pakistan for 4 vehicles during the year. The total tenure of the facilities is 3 years and the rentals are payable quarterly. The pricing ranges from 11.59% to 12% per annum.

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

Nature of Relationship

Subsidiary of National Bank of Pakistan

Nature of Business

Member Karachi Stock Exchange and
deals in shares brokerage

Transaction with Related Party

Purchase and Sale of Listed Securities

Rs. 964,086,000

Payment of Commission

Rs. 725,416

Terms and Conditions

Ordinary course of business

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.

For and on behalf of the Board of Directors

DIRECTOR

DIRECTOR

CERTIFICATE ON TRANSFER PRICING POLICY FOR THE YEAR ENDED JUNE 30, 2006

It is hereby certified that the Modaraba has:

- i. recorded all transactions with related parties undertaken during the financial year ended June 30, 2006 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

Dated: October 4, 2006

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance 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 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, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba's compliance in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Modaraba for the year ended June 30, 2006.

M. YOUSUF ADIL SALEEM & CO.
Chartered Accountants

Lahore: October 4, 2006

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of First National Bank Modaraba as at June 30, 2006 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 accordance with the accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the modaraba's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the modaraba;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the modaraba's affairs as at June 30, 2006 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
Date: October 4, 2006

M. YOUSUF ADIL SALEEM & CO.
Chartered Accountants

BALANCE SHEET AS AT JUNE 30, 2006

	Note	2006 Rupees	2005 Rupees
ASSETS			
Current Assets			
Bank balances	3	13,476,172	11,079,558
Advances, prepayments and other receivables	4	142,226,518	92,750,693
Short-term investments	5	42,573,263	33,566,929
Short-term morabaha investment	6	535,000,000	267,342,979
Short-term musharaka investment	7	30,000,000	-
Current portion of non-current assets	8	413,483,064	195,306,159
		1,176,759,017	600,046,318
Non - current assets			
Net investment in ijarah	9	837,157,393	596,898,560
Long-term morabaha investment	10	25,518,638	-
Long-term musharaka investment	11	-	-
Long-term loans and deposits	12	810,583	589,093
Deferred costs	13	4,840,085	6,829,205
Fixed assets	14	1,274,756	1,718,014
		869,601,455	606,034,872
Total Assets		2,046,360,472	1,206,081,190
LIABILITIES			
Current liabilities			
Creditors, accrued and other liabilities	15	42,068,357	19,784,414
Short-term finances	16	506,544,207	188,753,000
Current portion of long-term liabilities	17	291,720,326	140,000,000
Taxation	18	-	453,069
		840,332,890	348,990,483
Long - term loans and deposits			
Long-term security deposits	19	118,165,132	86,234,820
Long-term finance	20	792,500,000	505,833,333
Total Liabilities		1,750,998,022	941,058,636
NET ASSETS		295,362,450	265,022,554
Represented by:			
CAPITAL AND RESERVES			
Certificate capital	21	250,000,000	250,000,000
Reserves		45,362,450	15,022,554
CONTINGENCIES AND COMMITMENTS			
	22		
		295,362,450	265,022,554

The annexed notes from 1 to 35 form an integral part of these financial statements

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

Lahore: October 4, 2006

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2006**

	Note	2006 Rupees	2005 Rupees
REVENUE			
Income from ijarah		97,869,029	38,267,894
Profit on morabaha investment		45,651,733	8,109,719
Profit on musharaka investment		7,394,327	-
Profit on bank deposits		419,309	664,814
Dividend income		3,395,150	2,896,350
Gain on sale of short-term investments		5,691,256	3,085,738
Other income	23	314,784	314,282
		160,735,588	53,338,797
EXPENDITURES			
Finance cost	24	107,747,289	23,694,390
Operating expenses	25	12,794,114	11,025,253
Diminution / (Appreciation) in value of short-term investments	26	6,373,896	(30,188)
		126,915,299	34,689,455
		33,820,289	18,649,342
Modaraba company's management fee		3,382,029	1,864,934
PROFIT BEFORE TAX		30,438,260	16,784,408
Provision for taxation	18	-	181,442
PROFIT FOR THE YEAR		30,438,260	16,602,966
Unappropriated profit brought forward		16,650,273	3,367,900
Profit available for appropriation		47,088,533	19,970,866
Appropriation :			
Transfer to statutory reserve		6,087,652	3,320,593
Unappropriated profit carried forward		41,000,881	16,650,273
EARNINGS PER MODARABA CERTIFICATE - BASIC AND DILUTED	30	1.22	0.66

The annexed notes from 1 to 35 form an integral part of these financial statements.

CHIEF EXECUTIVE
Lahore: October 4, 2006

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2006 Rupees	2005 Rupees
Profit before tax		30,438,260	16,784,408
Adjustment for:			
Depreciation / amortization		677,457	600,130
Amortization of deferred costs		1,989,120	1,989,120
Diminution / (Appreciation) in value of short-term investments		6,373,896	(30,188)
Gain on sale of short - term investments		(5,691,256)	(3,085,738)
Finance cost		107,747,289	23,694,390
Profit on bank deposits		(419,309)	(664,814)
Dividend income		(3,395,150)	(2,896,350)
		<u>107,282,047</u>	<u>19,606,550</u>
		137,720,307	36,390,958
 (Increase) / Decrease in operating assets			
Advances, prepayments and other receivables		(49,320,055)	(29,164,737)
Short-term morabaha investment		(267,657,021)	(267,342,979)
Short-term musharaka investment		(30,000,000)	-
Investment in ijarah		(400,072,650)	(541,384,503)
Security deposits from lessees		43,650,638	58,903,022
Long - term morabaha investment		(52,793,536)	-
Long - term musharaka investment		(31,000,000)	-
		<u>(787,192,624)</u>	<u>(778,989,197)</u>
 Increase / (Decrease) in operating liabilities			
Creditors, accrued and other liabilities		14,876,871	9,162,134
 Cash generated from operations		<u>(634,595,446)</u>	<u>(733,436,105)</u>
Finance cost paid		(100,340,217)	(14,490,813)
Income taxes paid		(486,705)	(144,514)
Dividend income received		3,330,047	2,983,225
Profit received on bank deposits		362,278	1,630,064
 Net cash flow from operating activities		<u>(731,730,043)</u>	<u>(743,458,143)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(234,199)	(1,775,898)
Long-term loans and deposits		(309,680)	(367,096)
Short-term investments		(9,787,337)	668,813
 Net cash used in investing activities		<u>(10,331,216)</u>	<u>(1,474,181)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES			
Long - term finances obtained		600,000,000	625,000,000
Repayment of long-term finances		(173,333,334)	(54,166,667)
Increase in short-term finances		317,791,207	152,753,000
 Net cash flow from financing activities		<u>744,457,873</u>	<u>723,586,333</u>
 NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		2,396,614	(21,345,991)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>11,079,558</u>	<u>32,425,549</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	<u><u>13,476,172</u></u>	<u><u>11,079,558</u></u>

The annexed notes from 1 to 35 form an integral part of these financial statements

CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

Lahore: October 4, 2006

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2006**

The changes in equity are as follows:

	Certificate capital	Capital / Statutory reserve	Net unrealized gain / (loss) in the value of securities available for sale	Unappropriated profit	Total reserves	Total equity
	Rupees					
Balance as at June 30, 2004	250,000,000	841,975	(3,816,562)	3,367,900	393,313	250,393,313
Profit for the year	-	-	-	16,602,966	16,602,966	16,602,966
Transfer to statutory reserve	-	3,320,593	-	(3,320,593)	-	-
Net unrealized losses in the value of securities available for sale	-	-	(1,973,725)	-	(1,973,725)	(1,973,725)
Balance as at June 30, 2005	250,000,000	4,162,568	(5,790,287)	16,650,273	15,022,554	265,022,554
Profit for the year	-	-	-	30,438,260	30,438,260	30,438,260
Transfer to statutory reserve	-	6,087,652	-	(6,087,652)	-	-
Net unrealized losses in value of securities available for sale	-	-	(98,364)	-	(98,364)	(98,364)
Balance as at June 30, 2006	250,000,000	10,250,220	(5,888,651)	41,000,881	45,362,450	295,362,450

Statutory reserve represents profit set aside to comply with the Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan.

The annexed notes from 1 to 35 form an integral part of these financial statements

CHIEF EXECUTIVE
Lahore: October 4, 2006.

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

1 STATUS AND ACTIVITIES

- 1.1 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 5th 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 and is currently engaged in various Islamic modes of financing and business including ijarah, Musharaka and Morabaha arrangements.
- 1.2 These financial statements are presented in Pak Rupees, which is the modarabas functional and presentation currency.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 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 (Floatation 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.

2.2 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.

2.3 Ijarah accounting

The Modaraba provides assets on ijarah arrangements to its clients under ijarah agreements as approved by the Religious Board. These 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 ijarah is stated at present value of minimum lease payments. Impairment losses on non-performing ijarah are recognized 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 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 ijarah agreement.

2.4 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.

2.5 Provisions

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

First National Bank Modaraba

2.6 Fixed assets

Fixed assets 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.

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

2.7 Fixed assets - Intangible

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses if any. 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.

2.8 Investments

All investments, other than investments at fair value through profit or loss, are initially recognized on trade-date at cost, comprising of fair value of consideration and transaction cost directly attributable to cost. Its classification is made on the basis of intended purpose of holding such investment. 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

Investment securities held by the Modaraba which may be sold in response to needs for liquidity or changes in interest rates or equity prices are classified as available for sale.

These are stated at fair value and surplus / (deficit) on revaluation of investment being unrealized gain/ (loss) is taken directly to equity until sold or otherwise disposed off 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 using effective interest rate method. Surplus / (deficit) arising due to fluctuation in fair value is taken to profit and loss account.

Derecognition

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.

2.9 Other receivables

Known impaired debts are written off, while debts considered doubtful of recovery are fully provided for.

2.10 Morabaha and Musharaka investment

Morabaha and musharaka investments are stated net - off of provision. Provision is recognized in accordance with Prudential Regulations for Modarabas or on the estimate of management, whichever is higher.

2.11 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 and balances with banks.

2.12 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.

2.13 Financial instruments

The particular recognition methods adopted by the Modaraba are disclosed in the individual policy statements 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 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 are recognized using trade date accounting.

Financial liabilities

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 off - set and the net amount is reported in the financial statements only when the Modaraba has a legally enforceable right to set-off the recognized asset and liability and either intends to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

De - recognition

Financial assets are de-recognized when the contractual rights to the cash flows from financial assets expire or the Modaraba transfers the asset and substantially all risk and rewards of the ownership of financial assets.

Financial liabilities are de-recognized when they are extinguished that is, when the obligation specified in the contract is discharged or cancelled or expired.

Recognition of gains / (losses)

Gain 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/assets is determined and impairment loss is recognized for the difference between the recoverable amount and the carrying amount.

2.14 Revenue recognition

Revenue is recognized on the following basis:-

For Ijarah transactions, the unearned finance income is deferred and amortized to income over the term of ijarah, applying the annuity method to produce a constant rate of return on the net investment in ijarah. Unrealized ijarah income on potential lease losses is excluded from the income from ijarah operations in accordance with the requirements of Prudential Regulations for Modaraba issued by Securities and Exchange Commission of Pakistan.

- ii Profit on morabaha investment is recognised on pro-rata accrual basis, calculated on number of days funds are utilized.
- iii Return on deposits with bank is recognized on accrual basis.
- iv Profit on investment under musharaka arrangements is recognized on accrual basis and additional profit ,if any, is recognized on declaration by the investee company in accordance with terms of issue.
- v Dividend income is recognized when the right to receive dividend is established.
- vi Income from fee and commission is recognized as and when it becomes due.

First National Bank Modaraba

2.15 Borrowing costs

Borrowing costs are recognized as an expense in profit and loss account in the period in which they are incurred.

2.16 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 is 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 recognized 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.

2.17 Related party transactions

Transactions with related parties are priced on arm's length basis. Prices for these transactions are determined on the basis of comparable uncontrolled price method, which sets the price by reference to comparable goods and services sold in an economically comparable market to a buyer unrelated to the seller.

	Note	2006 Rupees	2005 Rupees
3 BANK BALANCES			
Current accounts - profit bearing	3.1	9,133,036	10,925,385
Current accounts - non profit bearing		3,371,591	98,164
Profit & loss sharing account		971,545	56,009
		<u>13,476,172</u>	<u>11,079,558</u>
3.1	The balances in profit bearing accounts carry profit ranging between 1.5 % to 2 % (2005: 1 % to 2.5 %)		
	Note	2006 Rupees	2005 Rupees
4 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES			
Advance for ijarah - secured, considered good		126,169,212	83,347,709
Prepayments		183,276	296,408
Receivables from sale of shares - unsecured, considered good		17,241	3,013,350
Other advances and receivables - unsecured, considered good		657,502	82,080
Accrued profit on :			
- Morabaha investment		6,543,025	2,168,553
- Musharika investment		847,362	-
- Ijarah		7,421,654	3,611,117
- Bank deposits		105,131	48,100
Dividend receivable		122,603	57,500
Tax deducted at source		159,512	125,876
		<u>142,226,518</u>	<u>92,750,693</u>
5 SHORT-TERM INVESTMENTS			
Held for trading		19,644,370	16,103,316
Available for sale		22,928,893	17,463,613
		<u>42,573,263</u>	<u>33,566,929</u>

Detail of short-term investments is given in "Annexure 1" which is an integral part of these financial statements.

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6 SHORT-TERM MORABAHA INVESTMENT - Secured

These represent investments under Morabaha arrangements on deferred payment basis at specified profit margins. These carry profit ranging from 3.8% to 13.5 % per annum (2005: 3.8% to 11.26%). These are secured against charge over fixed and current assets, personal guarantees of directors of the customer companies, demand promissory notes and post dated cheques varying from case to case basis.

7 SHORT-TERM MUSHARAKA INVESTMENT - Unsecured

This represents unsecured investment made with a financial institution under musharaka arrangement. It carry profit ranging from 10.50% to 11.05% per annum (2005 : Nil).

8 CURRENT PORTION OF NON- CURRENT ASSETS	Note	2006 Rupees	2005 Rupees
Net investment in ijarah	9	354,902,728	195,088,911
Long-term morabaha investment	10	27,274,898	-
Long-term musharaka investment	11	31,000,000	-
Long-term loans and deposits	12	305,438	217,248
		<u>413,483,064</u>	<u>195,306,159</u>

9 NET INVESTMENT IN IJARAH

Minimum ijarah rentals receivable	9.1	1,300,929,724	848,809,549
Residual value		<u>130,805,330</u>	<u>86,068,570</u>
Gross investment in ijarah	9.2	1,431,735,054	934,878,119
Less: unearned finance income		<u>239,674,933</u>	<u>142,890,648</u>
Net investment in ijarah	9.3	1,192,060,121	791,987,471
Less: current portion of net investment in ijarah		<u>354,902,728</u>	<u>195,088,911</u>
		<u>837,157,393</u>	<u>596,898,560</u>

9.1 MINIMUM IJARAH RENTALS RECEIVABLE

Due within one year	409,897,647	253,207,395
Due after one year but not later than five years	<u>891,032,077</u>	<u>595,602,154</u>
	<u>1,300,929,724</u>	<u>848,809,549</u>

9.2 GROSS INVESTMENT IN IJARAH

Due within one year	480,913,149	253,207,395
Due after one year but not later than five years	<u>950,821,905</u>	<u>681,670,724</u>
	<u>1,431,735,054</u>	<u>934,878,119</u>

9.3 NET INVESTMENT IN IJARAH

Due within one year	354,902,728	195,088,911
Due after one year but not later than five years	<u>837,157,393</u>	<u>596,898,560</u>
	<u>1,192,060,121</u>	<u>791,987,471</u>

9.4 GENERAL DESCRIPTION OF SIGNIFICANT IJARAH ARRANGEMENTS

The Modaraba has entered into various ijarah arrangements with profit rates ranging from 5.0% to 14.6% (2005: 5.0% to 12.76%) per annum. The arrangements are for three to five years period. These are secured against assets under ijarah, personal / corporate guarantees, promissory notes by the lessees and other collaterals. Facilities extended to National Bank of Pakistan during the year amounted to Rs. 14.865 million (2005 : Nil).

10 LONG - TERM MORABAHA INVESTMENT - Secured

Long - term morabaha investment	52,793,536	-
Less: Current portion	<u>27,274,898</u>	<u>-</u>
	<u>25,518,638</u>	<u>-</u>

These represent investment under morabaha arrangements on deferred payment basis at a specified profit margin. These carry profit ranging from 10.27 % to 11.63 % per annum (2005; Nil) and are secured against charge over specific assets.

First National Bank Modaraba

	Note	2006 Rupees	2005 Rupees
11 LONG - TERM MUSHARAKA INVESTMENT - Secured			
Long - term musharaka investment		31,000,000	-
Less: Current portion		31,000,000	-
		<u>-</u>	<u>-</u>

These represent investment under musharaka arrangements. These carry profit ranging from 10.54 % to 10.99 % per annum (2005; Nil) and are secured against first hypothecation charge over assets.

12 LONG-TERM LOANS AND DEPOSITS

Loans to employees - secured	12.1	1,076,521	768,841
Deposits with central depository company limited		39,500	37,500
		<u>1,116,021</u>	<u>806,341</u>
Less: Current portion of advances to employees		305,438	217,248
		<u>810,583</u>	<u>589,093</u>

12.1 These are loans given to employees for purchase of vehicles. These carry profit at the rate of 5 % per annum (2005: 5%). Maximum aggregate balance due from employees at the end of any month during the year was Rs. 1,410,376 (2005: Rs. 941,749).

13 DEFERRED COSTS

Preliminary expense		6,829,205	8,818,325
Less: Amortized during the year		1,989,120	1,989,120
		<u>4,840,085</u>	<u>6,829,205</u>

These comprise of preliminary expenses incurred before December 04,2003. These are amortized over a period of five years from the month of occurrence on equal monthly basis.

14 FIXED ASSETS

Assets in own use are as follows:

Particulars	Cost		Accumulative depreciation / amortization			Written down value as at June 30, 2006	Rate % per annum	
	As at June 30, 2005	Additions	As at June 30, 2006	As at June 30, 2005	Charge for the year			As at June 30, 2006
.....Rupees.....								
Tangible- Owned								
Vehicles	1,598,460	-	1,598,460	319,692	319,692	639,384	959,076	20
Computers and accessories	501,038	128,649	629,687	280,706	209,896	490,602	139,085	33.33
Electric Equipments	254,962	5,550	260,512	98,484	52,102	150,586	109,926	20
Subtotal	<u>2,354,460</u>	<u>134,199</u>	<u>2,488,659</u>	<u>698,882</u>	<u>581,690</u>	<u>1,280,572</u>	<u>1,208,087</u>	
Intangible								
Software and license fees	187,300	100,000	287,300	124,864	95,767	220,631	66,669	33.33
Subtotal	<u>187,300</u>	<u>100,000</u>	<u>287,300</u>	<u>124,864</u>	<u>95,767</u>	<u>220,631</u>	<u>66,669</u>	
2006	<u>2,541,760</u>	<u>234,199</u>	<u>2,775,959</u>	<u>823,746</u>	<u>677,457</u>	<u>1,501,203</u>	<u>1,274,756</u>	
2005	<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>	

	Note	2006 Rupees	2005 Rupees
15 CREDITORS, ACCRUED AND OTHER LIABILITIES			
Payable against purchase of shares - unsecured		-	3,597,898
Advances from clients		17,779,713	3,050,906
Modaraba Company's Management Fee - unsecured		5,766,006	2,383,977
Payable to modaraba management company limited - unsecured	15.1	1,305,282	825,212
Accrued expenses		16,915,386	9,629,081
Tax deducted at source		-	111,271
Others		301,970	186,069
		<u>42,068,357</u>	<u>19,784,414</u>

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15.1 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. 1,305,282 (2005: Rs.825,212).

16 SHORT - TERM FINANCES - Secured

Finance under musharaka arrangements

From National Bank of Pakistan

Musharaka finance - I	16.1	133,636,991	25,000,000
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From other financial institutions

Musharaka finance - II	16.2	138,580,216	-
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Finance under morabaha arrangements

From other financial institutions

Morabaha finance - I	16.3	85,000,000	163,753,000
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Morabaha finance - II	16.4	50,000,000	-
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Morabaha finance - III	16.5	50,000,000	-
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Morabaha finance - IV	16.6	49,327,000	-
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		<u>272,217,207</u>	<u>25,000,000</u>
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		<u>234,327,000</u>	163,753,000
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		<u>506,544,207</u>	<u>188,753,000</u>
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16.1 The facility has been availed from National Bank of Pakistan having approved limit of Rs.150. million (2005 : Rs.150 million). The facility is to be used to finance 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% (2005 :one month average KIBOR plus 0.50%) per annum. The facility is secured against first pari passu hypothecation charge on assets of Modaraba amounting to Rs. 167 million.

16.2 The facility has been availed from a commercial bank having approved limit of Rs.150. million. The facility is to be used to finance Modaraba's working capital requirements and repayable within one year. The profit is payable quarterly which has been determined taking into consideration six months KIBOR plus 1.00% (2005 : Nil) per annum. The facility is secured against first pari passu hypothecation charge on assets of Modaraba amounting to Rs. 167 million.

16.3 The facility has been availed from Islamic Banking Division of a bank having approved limit of Rs. 200 million(2005 : 200 million). This facility is used for enhancement of Ijarah portfolio and commodity financing under morabaha and is repayable within one year. The morabaha finance is priced to yield a profit calculated as a function of 1.02495 to 1.026375 (2005 : 1.008125 to 1.0125) times the purchase price on quarterly basis. The facility is secured against first pari passu hypothecation charge over current assets of the Modaraba amounting to Rs. 223 million and such other securities as may reasonably be requested by the bank from time to time.

16.4 The facility has been availed from a commercial bank having approved limit of Rs. 50 million. This facility is used for enhancement of ijarah portfolio and commodity financing under morabaha and is repayable within one year. The morabaha finance is priced at three months KIBOR plus 1.00% (2005 : Nil) per annum whereas the profit is payable quarterly. The facility is secured against first pari passu hypothecation charge over current assets of the Modaraba amounting to Rs. 67 million and such other securities as may reasonably be requested by the bank from time to time.

16.5 The facility has been availed from a commercial bank having approved limit of Rs. 50. million. This facility is used for enhancement of ijarah portfolio and commodity financing under morabaha and is repayable within one year. The morabaha finance is priced at three months KIBOR plus 1.25% per annum. Whereas the profit is payable quarterly. The facility is secured against first pari passu hypothecation charge over current assets of the Modaraba amounting to Rs. 56 million and such other securities as may reasonably be requested by the bank from time to time.

16.6 The facility has been availed from a commercial bank having approved limit of Rs. 100 million with the expiry of one year. This facility is used for enhancement of ijarah portfolio and commodity financing under morabaha and each morabaha availed under the facility is repayable within 180 days. The repayments are inclusive of profit, calculated as a function of 1.026725 to 1.0268 times the purchase price. The facility is secured against first pari passu hypothecation charge over current assets of the Modaraba amounting to Rs. 111 million and such other securities as may reasonably be requested by the bank from time to time.

	Note	2006 Rupees	2005 Rupees
17 CURRENT PORTION OF LONG - TERM LIABILITIES			
Current portion of long - term finance	20	280,000,000	140,000,000
Current portion of long - term security deposits	19	11,720,326	-
		<u>291,720,326</u>	<u>140,000,000</u>

First National Bank Modaraba

	Note	2006 Rupees	2005 Rupees
18 PROVISION FOR TAXATION			
Current -for the year		-	453,069
-for the prior year		-	(271,627)
Deferred -for the year		-	-
		<u>-</u>	<u>181,442</u>

18.1 Income of Modaraba is exempt from tax if it distributes 90% of its profits for the year to its certificate holders. Accordingly no provision for taxation is recognized in these financial statements.

18.2 Numerical reconciliation between the average tax rate and the applicable tax rate

	Percentage	
Applicable tax rate as per Income Tax Ordinance, 2001	-	25.00
Tax effect of :		
Lower tax rate on dividend income	-	(3.45)
Exempt income	-	(4.60)
Separate taxation on ijarah income	-	(15.65)
Permanent difference	-	1.40
	-	(22.30)
Average effective tax rate	-	<u>2.70</u>

19 LONG-TERM SECURITY DEPOSITS

Long - term security deposit - ijarah	19.1	129,885,458	86,234,820
Less: Current portion		11,720,326	-
		<u>118,165,132</u>	<u>86,234,820</u>

19.1 These represent the profit free security deposits received from lessees under ijarah contracts and are repayable / adjustable at the expiry of respective ijarah periods.

20 LONG-TERM FINANCE - Secured

Finances under Musharaka arrangements From National Bank of Pakistan

Musharaka finance - I	20.1	112,500,000	195,833,333
Musharaka finance - II	20.2	160,000,000	200,000,000
		<u>272,500,000</u>	<u>395,833,333</u>

Finances under Morabaha arrangements From other financial institutions

Morabaha finance - I	20.3	200,000,000	200,000,000
Morabaha finance - II	20.4	200,000,000	-
Morabaha finance - III	20.5	75,000,000	50,000,000
Morabaha finance - IV	20.6	100,000,000	-
Morabaha finance - V	20.7	83,333,333	-
Morabaha finance - VI	20.8	41,666,667	-
Morabaha finance - VII	20.9	100,000,000	-
		<u>800,000,000</u>	<u>250,000,000</u>

Less: Current portion shown under current maturity

	<u>1,072,500,000</u>	<u>645,833,333</u>
	<u>280,000,000</u>	<u>140,000,000</u>
	<u>792,500,000</u>	<u>505,833,333</u>

20.1 The facility has been availed from National Bank of Pakistan having total amount of Rs. 250 million (2005 : 250 million). The facility is repayable in six equal semi annual installments in arrear within three years from the date of withdrawal. Profit is payable at the rate of six months KIBOR plus a spread of 1 % with a floor of 3 % and ceiling of 5 % (2005 : KIBOR plus spread of 1 % with a floor of 3 % and ceiling of 5 %) per annum. The facility is secured against first pari passu charge on all present and future assets of the Modaraba to an extent of Rs. 278 million.

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- 20.2** The facility has been availed from a commercial bank having approved limit of Rs. 200 million (2005 : 200 million). The facility is repayable in ten equal quarterly installments in arrear within three years from the date of withdrawal. Profit is repayable at the rate of three months KIBOR plus a spread of 0.50% (2005 : Three months KIBOR plus a spread of 0.50%) per annum. The facility is secured against first pari passu charge on all present and future assets of the Modaraba to an extent of Rs. 222 million.
- 20.3** The facility has been availed from a commercial bank having approved limit of Rs. 200 million (2005 : 200 million). The facility is repayable semi annually and has an expiry of three years from the date of withdrawal. The facility is renewable with the mutual consent of the Modaraba and Bank. The repayments are inclusive of profits which is determined taking into consideration of six months KIBOR plus a spread of 0.80% (2005 : six months KIBOR plus a spread of 0.80%) per annum. The facility is secured against first pari passu charge on all present and future assets of the Modaraba to an extent of Rs. 267 million.
- 20.4** The facility has been availed from a commercial bank having approved limit of Rs. 200 million. The facility is repayable quarterly and has an expiry of three years from the date of withdrawal. Profit is repayable at the rate of three months KIBOR plus a spread of 1.25% (2005 : Nil) per annum. The facility is renewable with the mutual consent of the Modaraba and bank. The facility is secured against first pari passu charge on all present and future assets of the Modaraba to an extent of Rs. 267 million.
- 20.5** The facility has been availed from a commercial bank having approved limit of Rs. 100 million (2005 : 100 million).The facility is repayable in six semi annual installments within three years from the date of withdrawal . Profit is payable at the rate of six months KIBOR plus a spread of 1% (2005 : six months KIBOR plus a spread of 1%) per annum. The facility is secured against first pari passu hypothecation charge over all present and future assets of the Modaraba to an extent of Rs. 112 million.
- 20.6** The facility has been availed from a commercial bank having approved limit of Rs.200 million.The facility is payable in six semi annual installments within three years from the date of withdrawal. Profit is payable at the rate of 6 months KIBOR plus a spread of 1.25% (2005 : Nil) per annum. The facility is secured against first par passu hypothecaion charge of all present and future assets of the Modaraba to an extent of Rs.222 million.
- 20.7** The facility has been availed from a commercial bank having approved limit of Rs. 100 Million. The facility is repayable in six equal semi annual installments in arrear within three years from the date of withdrawal. Profit is payable at the rate of six months KIBOR plus a spread of 1% per annum with a floor of 6.5% (2005 : Nil) per annum. The facility is secured against first pari passu charge on all present and future assets of the Modaraba to an extent of Rs. 134 million.
- 20.8** The facility has been availed from a commercial bank having approved limit of Rs. 46.698 million. The facility is payable in six semi annual installments within three years from the date of withdrawal. Profit is payable at the rate of six months KIBOR plus a spread of 1% (2005 : Nil) per annum. The facility is secured against first pari passu hypothecation charge over all present and future assets of the Modaraba to an extent of Rs. 62 million.
- 20.9** The facility has been availed from a commercial bank having approved limit of Rs. 100 million. The facility is repayable within three years from the date of withdrawal in eight equal quarterly installments in arrear after grace period (for principal only) of one year ending on August 11, 2007. Profit is payable at the rate of three months KIBOR plus a spread of 1.50% (2005 : Nil) per annum. The facility is secured against first pari passu charge on all present and future assets of the Modaraba to an extent of Rs.134 million.

21	CERTIFICATE CAPITAL	Note	2006 Rupees	2005 Rupees
	Authorised :			
	Number of certificates			
	<u>2006</u>	<u>2005</u>		
	<u>60,000,000</u>	<u>60,000,000</u>	Modaraba certificates of Rs. 10 each	<u>600,000,000</u> <u>600,000,000</u>
	Issued, subscribed and paid up :			
	<u>25,000,000</u>	<u>25,000,000</u>	Modaraba certificates of Rs. 10 each fully paid in cash	<u>250,000,000</u> <u>250,000,000</u>

21.1 7,500,000 (2005 : 7,500,000) certificates are held by National Bank Modaraba Management Company Limited.

22 CONTINGENCIES AND COMMITMENTS

22.1 Contingencies

There are no known contingencies as at June 30, 2006 (2005 : Nil).

22.2 Commitments

These represent ijarah facilities approved but not disbursed

<u>168,086,105</u>	<u>103,377,492</u>
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	Note	2006 Rupees	2005 Rupees
23 OTHER INCOME			
Service charges		52,904	51,742
Debts syndication fees		-	125,000
Documentation charges		261,880	137,540
		<u>314,784</u>	<u>314,282</u>
24 FINANCE COST			
Profit on morabaha finance		68,111,322	12,186,210
Profit on musharak finance		39,605,122	11,467,425
Bank charges		30,845	40,755
		<u>107,747,289</u>	<u>23,694,390</u>
25 OPERATING EXPENSES			
Salaries, allowances and other benefits	25.1	6,692,622	5,966,339
Utility expenses		487,000	425,000
Communication expenses		341,602	281,862
Traveling and conveyance		277,433	279,084
Vehicle running expenses		49,844	58,873
Postage and stamps		73,063	69,698
Advertisement		128,626	85,900
Legal and professional charges		548,558	313,924
Auditors' remuneration	25.2	175,000	175,000
Fee and subscription		481,156	125,648
Repairs and maintenance		171,737	129,015
Insurance		181,313	95,388
Stationary, printing and other expenses		259,317	269,881
Depreciation / amortization		677,457	600,130
Amortization of deferred costs		1,989,120	1,989,120
Central depository company charges		19,586	66,672
Entertainment		71,007	58,743
Other sundry expenses		58,564	28,726
Zakat		111,109	6,250
		<u>12,794,114</u>	<u>11,025,253</u>

25.1 Salaries, allowances and benefits

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

	Officers		Employees	
	2006	2005	2006	2005
 Rupees			
Salary	1,501,635	1,565,641	1,814,299	1,318,331
House rent allowance	675,722	704,539	816,435	593,235
Utilities	150,165	156,562	181,430	131,822
Bonus	225,980	30,000	162,838	65,000
Expenses reimbursed	699,699	626,137	464,420	487,072
Others	-	-	-	288,000
	<u>3,253,201</u>	<u>3,082,879</u>	<u>3,439,422</u>	<u>2,883,460</u>
Number of persons	4	5	12	12

25.1.1 In addition to above, Chief Operating Officer and Chief Financial Officer of the Modaraba have been provided with free use of Modaraba owned and maintained cars.

25.2 Auditors' remuneration

	2006 Rupees	2005 Rupees
Audit fee	125,000	125,000
Half yearly review of financials statements	25,000	25,000
Review report on statement of compliance with code of corporate governance	25,000	25,000
	<u>175,000</u>	<u>175,000</u>

26 DIMINUTION / (APPRECIATION) IN VALUE OF SHORT-TERM INVESTMENTS

	2006	2005
Provision for diminution at beginning of the year	373,126	403,314
Diminution / (appreciation) during the year	6,373,896	(30,188)
Provision for diminution at end of the year	<u>6,747,022</u>	<u>373,126</u>

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27 MATURITY OF ASSETS AND LIABILITIES

	2006					Total
	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	
..... Rupees						
Assets						
Bank balances	13,476,172	-	-	-	-	13,476,172
Advances, prepayments and other receivables	15,057,016	817,014	126,352,488	-	-	142,226,518
Short - term investments	-	-	42,573,263	-	-	42,573,263
Short - term morabaha investment	40,750,000	241,000,000	253,250,000	-	-	535,000,000
Short - term Musharaka investment	-	-	30,000,000	-	-	30,000,000
Net investment in ijarah	27,744,536	51,554,393	275,603,799	837,157,393	-	1,192,060,121
Long - term morabaha investment	140,697	425,707	26,708,494	25,518,638	-	52,793,536
Long - term musharaka investment	-	-	31,000,000	-	-	31,000,000
Long - term loans and deposits	24,877	50,065	230,496	810,583	-	1,116,021
Deferred costs	165,760	331,520	1,491,840	2,850,965	-	4,840,085
Fixed assets	-	-	-	1,274,756	-	1,274,756
June 30, 2006	97,359,058	294,178,699	787,210,380	867,612,335	-	2,046,360,472
June 30, 2005	55,376,652	194,996,822	351,661,964	604,045,752	-	1,206,081,190
Liabilities						
Creditors, accrued and other liabilities	17,217,356	-	7,071,288	17,779,713	-	42,068,357
Short - term finances	-	50,000,000	456,544,207	-	-	506,544,207
Long - term finances	8,333,333	49,166,667	222,500,000	792,500,000	-	1,072,500,000
Long - term security deposits	-	-	9,880,426	120,005,032	-	129,885,458
Provision for taxation	-	-	-	-	-	-
June 30, 2006	25,550,689	99,166,667	695,995,921	930,284,745	-	1,750,998,022
June 30, 2005	16,399,619	85,000,000	254,414,734	585,244,283	-	941,058,636
Net assets - 2006	71,808,369	195,012,032	91,214,459	(62,672,410)	-	295,362,450
Net assets - 2005	38,977,033	109,996,822	97,247,230	18,801,469	-	265,022,554

Represented by:	2006	2005
	Rupees	Rupees
Issued, subscribed and paid up certificate capital	250,000,000	250,000,000
Reserves	45,362,450	15,022,554
	295,362,450	265,022,554

28 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 normal values as reduced by appropriate impairment loss for estimated irrevocable amounts; investments are stated at fair values. The carrying values of financial liabilities reflected in the financial statements approximate their fair value.

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 :

Note	2006				Total	
	Profit bearing		Non profit bearing			
	Within one year	One year to five years	Within one year	One year to five years		
..... Rupees						
Financial assets						
Bank balances	3	10,104,581	-	3,371,591	-	13,476,172
Advances, prepayments and other receivables	4	126,169,212	-	674,743	-	126,843,955
Short - term investments	5	-	-	42,573,263	-	42,573,263
Short - term morabaha investment	6	535,000,000	-	-	-	535,000,000
Short - term Musharaka investment	7	30,000,000	-	-	-	30,000,000
Net investment in ijarah	9	354,902,728	837,157,393	-	-	1,192,060,121
Long-term morabaha investment	10	27,274,898	25,518,638	-	-	52,793,536
Long-term musharaka investment	11	31,000,000	-	-	-	31,000,000
June 30, 2006		1,114,451,419	862,676,031	46,619,597	-	2,023,747,047
June 30, 2005		907,667,844	245,991,709	42,645,793	-	1,196,305,346

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		2006				
		Profit bearing		Non profit bearing		Total
Note		Within one year	One year to five years	Within one year	One year to five years	
Rupees						
	Financial liabilities					
	Creditors, accrued and other liabilities	-	-	42,068,357	-	42,068,357
	Short - term finances	506,544,207	-	-	-	506,544,207
	Long - term security deposits	-	-	11,720,326	118,165,132	129,885,458
	Long - term finances	280,000,000	792,500,000	-	-	1,072,500,000
	June 30, 2006	786,544,207	792,500,000	53,788,683	118,165,132	1,750,998,022
	June 30, 2005	722,086,333	112,500,000	19,673,143	-	854,259,476
	On balance sheet gap	327,907,212	70,176,031	(7,169,086)	(118,165,132)	272,749,025
	Cumulative gap - 2006	327,907,212	398,083,243	390,914,157	272,749,025	-
	Cumulative gap - 2005	185,581,511	319,073,220	342,045,870	342,045,870	-
	Off balance sheet items					
	Financial commitments					
	Ijara facilities approved not disbursed June 30, 2006	168,086,105	-	168,086,105	-	168,086,105
	Ijara facilities approved not disbursed June 30, 2005	103,377,492	-	103,377,492	-	103,377,492

Effective mark up rate

The effective rate for the financial assets and 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 in increase in expense relative to financial borrowings or vice versa. The Modaraba manages its risk by maintaining a fair balance between profit rates sensitive financial assets and financial liabilities. The rate of profit and their maturity period has been disclosed in the relevant notes.

29 SEGMENT ANALYSIS

29.1 Geographical segments

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

29.2 Business segments

29.2.1 Net investment in ijarah

	2006		2005	
	%	Rupees	%	Rupees
Auto and assemblers	5.20	61,931,244	2.48	19,617,616
Cement	0.51	6,082,148	1.82	14,445,998
Sugar	8.24	98,255,966	12.81	101,460,807
Textile	47.38	564,758,836	42.71	338,231,024
Transport	-	-	3.59	28,422,787
Engineering and construction	4.04	48,138,872	6.17	48,904,249
Knitwear	11.62	138,505,933	10.16	80,497,632
Chemical and pharmaceutical	0.81	9,612,369	1.61	12,726,576
Information technology	0.29	3,408,956	0.30	2,410,522
Education	2.66	31,747,811	5.24	41,470,234
Media and advertising	1.69	20,174,647	2.59	20,517,318
Poultry feed	3.57	42,612,917	4.15	32,845,287
Fabrics	3.53	42,091,051	4.42	35,021,318
Petroleum and oilfields	3.25	38,699,675	-	-
Leather and shoe industries	2.11	25,095,180	-	-
Glass and ceramics	1.20	14,297,151	-	-
Financial institution	1.00	11,867,274	-	-
Telecommunication	0.08	961,769	-	-
Miscellaneous	2.84	33,818,322	1.95	15,416,103
	100	1,192,060,121	100	791,987,471

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29.2.2 Morabaha investment

	2006		2005	
	Net Investment		Net Investment	
	%	Rupees	%	Rupees
Energy	3.40	20,000,000	1.77	4,725,489
Spinning	26.37	155,000,000	31.79	85,000,000
Textile	22.46	132,000,000	37.41	100,000,000
Poultry	-	-	13.47	36,000,000
Weaving	-	-	13.47	36,000,000
Financial institutions	25.18	148,000,000	-	-
Auto and assemblers	8.51	50,000,000	-	-
Leather and shoe industries	5.95	35,000,000	-	-
sugar	5.95	35,000,000	-	-
Rice peddy	1.70	10,000,000	-	-
Individuals	0.48	2,793,536	2.10	5,617,490
	100.00	587,793,536	100	267,342,979

29.2.3 Musharaka Investment

TRANSPORTATION	50.82	31,000,000	-	-
Individuals	49.18	30,000,000	-	-
	100.00	61,000,000	-	-

30 EARNINGS PER MODARABA CERTIFICATE - BASIC AND DILUTED

There is no dilutive effect on the basic earnings per certificate which is based on ;

	2006	2005
Profit for the year	<u>30,438,260</u>	<u>16,602,966</u>
Weighted average number of certificates outstanding	<u>25,000,000</u>	<u>25,000,000</u>
Earnings per certificate - basic (Rupees)	<u>1.22</u>	<u>0.66</u>

31 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Modaraba management fee at the rate of 10 % of profit before tax 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:

Balances outstanding at the year end:

National income daily account (NIDA) with National Bank Of Pakistan (running balance)	<u>9,133,036</u>	<u>10,920,634</u>
Finances under musharaka arrangement from National Bank of Pakistan	<u>406,136,991</u>	<u>420,833,333</u>
Net investment in ijarah to National Bank of Pakistan	<u>11,984,307</u>	<u>-</u>

Transactions with related parties

Related party	Relationship	Nature of transaction		
Taurus Securities Limited	Common management & control	Commission paid	<u>725,416</u>	<u>56,368</u>
Taurus Securities Limited	Common management & control	Purchase and sale of securities	<u>964,086,000</u>	<u>51,000,000</u>
National Bank Of Pakistan	Management co's holding company	Musharaka obtained	<u>125,000,000</u>	<u>400,000,000</u>
National Bank Of Pakistan	Management co's holding company	Musharaka repaid	<u>139,696,343</u>	<u>54,166,667</u>
National Bank Of Pakistan	Management co's holding company	Ijarah disbursed	<u>14,865,073</u>	<u>-</u>
National Bank Of Pakistan	Management co's holding company	Ijarah repaid	<u>3,382,029</u>	<u>-</u>
Profit / expenses during the year				
National Bank Modaraba management Company Limited	Management company	Management fee	<u>3,399,568</u>	<u>1,864,934</u>
National Bank Of Pakistan	Management co's holding company	Profit paid	<u>36,525,194</u>	<u>11,647,422</u>
National Bank Of Pakistan	Management co's holding company	Profit on ijarah	<u>1,061,175</u>	<u>-</u>

Transactions with related parties 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 except the modaraba company's management fee as mentioned above.

First National Bank Modaraba

32 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on October 04,2006 by the Board of Directors of First National Bank Modaraba Management Company.

33 APPROPRIATIONS

The board of directors in their meeting held on October 04,2006 have declared a final dividend of Re: 1.00 (2005: Nil) per certificate amounting to 25,000,000 (2005: Nil)

34 CORRESPONDING FIGURES

Corresponding figures have been re-arranged and re-classified to reflect more appropriate presentation of events and transactions for the purposes of comparison. Significant re-classifications made are as follows:

From	To	Reason	Amount Rupees
Cash flow from investing activities	Cash Flow From Operating Activities		
Short-term morabaha investment	(Increase)/decrease in operating assets	For better presentation	(267,342,979)
Investment in lease/ijarah finance-net	(Increase)/decrease in operating assets	For better presentation	(541,384,503)
Security deposits from lessees	(Increase)/decrease in operating assets	For better presentation	58,903,022

35 GENERAL

-Figures have been rounded off to the nearest rupee.

CHIEF EXECUTIVE
Lahore: October 4, 2006.

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

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Annexure 1 as referred to in note 5 to the financial statements.

Particulars	No. of shares / certificates		Average cost		Fair market value	
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	June 30 2006	June 30 2005
Numbers.....	Rupees.....			
Investments held for trading - Quoted						
Commercial banks:						
National Bank of Pakistan Ordinary shares of Rs. 10 each	10,000	29,000	2,348,547	3,395,936	2,158,000	3,130,550
MCB Bank Limited Ordinary shares of Rs. 10 each	-	1,650	-	123,900	-	130,845
Union Bank Limited Ordinary shares of Rs. 10 each	-	20,000	-	829,833	-	800,000
The Bank of Punjab Ordinary shares of Rs. 10 each	400	20,000	34,826	1,472,464	33,160	1,675,000
Bank Al falah Limited Ordinary shares of Rs. 10 each	46,666	-	2,842,108	-	1,866,640	-
Askari Commercial Bank Limited Ordinary shares of Rs. 10 each	10,000	-	1,095,511	-	775,500	-
PICIC Commercial Bank Limited Ordinary shares of Rs. 10 each	20,000	-	811,103	-	504,000	-
Cement:						
D.G. Khan Cement Company Limited Ordinary shares of Rs. 10 each	10,000	25,000	1,158,443	1,403,854	900,000	1,397,500
Maple Leaf Cement Factory Limited Ordinary shares of Rs. 10 each	52,500	-	2,278,941	-	1,344,000	-
Lucky Cement Limited Ordinary shares of Rs. 10 each	10,000	-	1,133,117	-	1,048,000	-
Chemicals:						
Pakistan PTA Limited Ordinary shares of Rs. 10 each	-	50,000	-	499,050	-	400,000
Nimir Industrial Chemical Limited Ordinary shares of Rs. 10 each	50,000	-	336,533	-	245,000	-
Energy and Petroleum:						
Pakistan Oilfields Limited Ordinary shares of Rs. 10 each	-	10,000	-	2,789,029	-	2,820,000
Pakistan Petroleum Limited Ordinary shares of Rs. 10 each	-	12,000	-	2,640,650	-	2,581,200
Oil and Gas Exploration:						
Oil and Gas Development Company Limited Ordinary shares of Rs. 10 each	-	30,000	-	3,321,726	-	3,168,221
Pakistan State Oil Ordinary shares of Rs. 10 each	10,000	-	3,871,162	-	3,095,000	-
Textile Composite:						
Nishat Mills Limited Ordinary shares of Rs. 10 each	10,000	-	1,438,144	-	1,048,000	-
Chenab Limited Ordinary shares of Rs. 10 each	20,000	-	472,872	-	291,000	-
Mutual Funds:						
PICIC Growth Funds Ordinary shares of Rs. 10 each	20,000	-	945,370	-	632,000	-
Refinery:						
BOSICOR Pakistan Limited Ordinary shares of Rs. 10 each	40,000	-	1,318,631	-	866,000	-

First National Bank Modaraba

Particulars	No. of shares / certificates		Average cost		Fair market value	
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	June 30 2006	June 30 2005
Numbers.....	Rupees.....			
Fertilizer:						
Fauji Fertilizer Bin Qasim Limited Ordinary shares of Rs. 10 each	30,000	-	1,277,628	-	877,500	-
Insurance:						
Adamjee Insurance Company Limited Ordinary shares of Rs. 10 each	29,100	-	4,396,726	-	3,570,570	-
Power Generation And Distribution:						
Karachi Electric Supply Corp.Limited Ordinary shares of Rs. 10 each	50,000	-	631,729	-	390,000	-
TOTAL	418,666	197,650	26,391,391	16,476,442	19,644,370	16,103,316
Investments available for sale - Quoted						
Mutual funds:						
ICP ABAMCO Composite Fund Certificate of Rs. 10 each	300,000	500,000	3,000,000	5,000,000	2,550,000	3,450,000
Pakistan Strategic Allocation Fund Certificate of Rs. 10 each	109,000	500,000	1,090,000	5,000,000	1,160,850	4,825,000
PICIC Energy Fund Certificate of Rs. 10 each	498,000	-	4,980,000	-	4,233,000	-
Commercial Banks:						
Faysal bank limited Ordinary shares of Rs. 10 each	-	22,000	-	1,352,685	-	1,183,600
Bank Islami Pakistan Limited Ordinary shares of Rs. 10 each	475,100	-	4,751,000	-	5,938,750	-
Cement:						
Maple Leaf Cement Factory Limited Ordinary shares of Rs. 10 each	-	125,000	-	4,641,667	-	2,725,000
Dewan Hatter Cement Limited Ordinary shares of Rs. 10 each	300,000	-	5,654,810	-	3,450,000	-
Textile Composite:						
Nishat Chunian Limited Ordinary shares of Rs. 10 each	21,270	-	2,082,178	-	976,293	-
Power Generation:						
The Hub Power Company Limited Ordinary shares of Rs. 10 each	200,000	200,000	7,259,556	7,259,548	4,620,000	5,280,013
TOTAL	1,903,370	1,347,000	28,817,544	23,253,900	22,928,893	17,463,613

**PATTERN OF CERTIFICATE HOLDING
AS ON JUNE 30, 2006**

Number of Certificate Holders	Certificate Holding		No. of Certificates Held	Percentage
	From	To		
44	1	100	3,905	0.02
541	101	500	256,945	1.03
299	501	1000	282,300	1.13
314	1001	5000	917,550	3.67
116	5001	10000	995,200	3.98
36	10001	15000	478,400	1.91
24	15001	20000	443,100	1.77
20	20001	25000	466,900	1.87
15	25001	30000	419,800	1.68
7	30001	35000	229,500	0.92
4	35001	40000	156,200	0.62
11	45001	50000	536,000	2.14
2	50001	55000	102,400	0.41
2	55001	60000	115,300	0.46
1	65001	70000	65,500	0.26
3	75001	80000	232,500	0.93
2	80001	85000	163,000	0.65
4	95001	100000	400,000	1.60
3	110001	115000	342,000	1.37
2	115001	120000	239,000	0.96
2	140001	145000	282,700	1.13
1	145001	150000	150,000	0.60
1	150001	155000	153,000	0.61
1	155001	160000	159,800	0.64
1	190001	195000	195,000	0.78
1	195001	200000	196,500	0.79
1	200001	205000	201,000	0.80
2	215001	220000	435,000	1.74
1	270001	275000	273,500	1.09
1	290001	295000	292,000	1.17
1	310001	315000	313,500	1.25
1	375001	380000	380,000	1.52
1	400001	405000	400,500	1.60
1	495001	500000	500,000	2.00
1	500001	505000	504,500	2.02
1	595001	600000	600,000	2.40
1	620001	625000	623,500	2.49
1	780001	785000	782,500	3.13
1	975001	980000	978,000	3.91
1	1280001	1285000	1,283,500	5.13
1	1945001	1950000	1,950,000	7.80
1	7495001	7500000	7,500,000	30.00
1,474			25,000,000	100.00

**CATEGORIES OF CERTIFICATE HOLDERS
AS AT JUNE 30, 2006**

Sr. No.	Category	No. of Certificate Holders	No. of Certificates	Percentage
1	Individuals	1,436	11,070,850	44.28
2	Insurance Companies	1	65,500	0.26
3	Joint Stock Companies	21	1,355,450	5.42
4	Financial Institutions	8	4,698,000	18.79
5	Modarabas	2	40,200	0.16
6	Leasing Companies	1	28,000	0.11
7	Modaraba Management Cos	1	7,500,000	30.00
8	Funds	1	12,500	0.05
9	Others	3	229,500	0.92
			25,000,000	100.00

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 has traded the certificates in the Modaraba during the period under review.

Associated companies, undertakings and related parties:

Certificates

National Bank Modaraba management Company Limited

7,500,000

Banks, DFIs, NBFCs, Modarabas, Mutual Funds and Insurance Companies	No. of Certificates
Progressive Securities (Pvt.) Limited	50
Fair Edge Securities (Pvt.) Limited	100
Hi Tech Computers (Pvt.) Limited	100
Pace Investment and Securities (Pvt.) Limited	100
Rahat Securities Limited	100
Darson Securities (Pvt.) Limited	200
Progressive Securities (Pvt.) Limited	500
Excel Securities (Pvt.) Limited	500
AMZ Securities (Pvt.) Limited	500
Zahid Latif Khan Securities (Pvt.) Limited	700
SAZ Capital Securities (Pvt.) Limited	700
Jamshaid & Hasan Securities (Pvt.) Limited	900
Stock Master Securities (Pvt.) Limited	1,400
Capital Vision Securities (Pvt.) Limited	3,000
AZEE Securities (Pvt.) Limited	3,500
ACE Securities (Pvt.) Limited	5,000
Prime Commercial Bank Limited	5,000
First Fidelity Leasing Modaraba	5,200
Y. S. Securities and Services (Pvt.) Limited	9,600
Ali Husain Rajabali Limited	10,000
Zum Zum Soap Factory (Pvt.) Limited	10,000
Trustees - Abbasi & Co. (Pvt.) Limited Employees Provident Fund	12,500
Moosani Securities (Pvt.) Limited	25,000
Universal Leasing Corporation Limited	28,000
First Al Noor Modaraba	35,000
Trustees Aloo & Minocher Dinshaw Charitable Trust	50,000
The Crescent Star Insurance Co. Limited	65,500
Teachers Resource Centre	79,500
Molasses Export Company (Pvt.) Limited	100,000
Habib Bank AG Zurich, London	195,000
Orix Investment Bank Pakistan Limited	196,500
Saudi Pak Investment Company	600,000
First Dawood Investment Bank Limited	773,500
The Bank of Punjab	978,000
Asian Securities Limited	1,283,500
Pakistan Industrial Credit and Investment Corporation	1,950,000
National Bank Modaraba Management Company Limited	7,500,000