

2015

# Annual Report



**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. Wajahat A. Baqai Mr. Khawaja Muhammad Amin-ul-Azam Mr. Khawaja Waheed Raza Syed Mustafa Kamal Mr. Jamal Nasim Mr. Muhammad Iqbal Hussain Mr. Khaqan Hasnain Ibrahim	Chairman Director Director Director Director Director Chief Executive Officer
Shari'ah Advisor	Mufti Abdul Sattar Laghari	
Chief Financial Officer/ Company Secretary	Mr. Abbas Azam	
Audit Committee	Mr Jamal Nasim Mr. Khawaja Muhammad Amin-ul-Azam Mr. Khawaja Waheed Raza	Chairman Member Member
Head of Internal Audit	Mr. Ali Abbass	
HR & Remuneration Committee	Mr. Khawaja Waheed Raza Mr. Wajahat A. Baqai Syed Mustafa Kamal Mr. Muhammad Iqbal Hussain	Chairman Member Member Member
Auditors	Riaz Ahmad & Company Chartered Accountants	
Bankers	National Bank of Pakistan Bank Alfalah Limited Al Baraka Islamic Bank Habib Bank Limited Allied Bank Limited MCB Bank Limited First Women Bank Limited Bank Islami Pakistan Limited United Bank Limited	
Legal Advisor	Cornelius Lane & Mufti Advocates and Solicitors Nawa-i-Waqt House 4 – Shahrah-e-Fatima Jinnah, Lahore Tel.: 36360824, Fax: 36303301	
Shares Registrar	Hameed Majeed Associates (Pvt.) Limited H. M. House, 7 – Bank Square, Lahore Tel: 37235081-2, Fax: 37358817	
Registered Office	5 <sup>th</sup> Floor, NBP RHQs Building, 26 – McLagon Road, Lahore Tel: 042-99211200, Fax: 042-99213247 URL: <a href="http://www.nbmodaraba.com">http://www.nbmodaraba.com</a> E-mail: <a href="mailto:info@nbmodaraba.com">info@nbmodaraba.com</a>	

**NOTICE OF 12TH ANNUAL REVIEW MEETING & BOOK CLOSURE**

Notice is hereby given that the 12<sup>th</sup> Annual Review Meeting of certificate holders of First National Bank Modaraba will be held on Saturday, October 31, 2015 at 11:00 a.m. at 4<sup>th</sup> Floor, NBP RHQs Building, 26 – McLagon Road, Lahore to review the performance of the Modaraba for the year ended June 30, 2015.

The Certificate Transfer Book will remain closed from October 23, 2015 to October 31, 2015 (both days inclusive) for the purpose of eligibility to attend the Annual Review Meeting.

The certificate holders whose names appear on the Register of Certificate Holders of First National Bank Modaraba at the close of business as on October 22, 2015 will be eligible to attend the Annual Review Meeting. All transfers received in order, up to the close of business on October 22, 2015 at our Registrar's Office, Hameed Majeed Associates (Pvt.) Limited, H.M House, 7 – Bank Square, Lahore will be considered in time.

**By order of the Board**

**Abbas Azam**

Company Secretary

National Bank Modaraba Management Company Limited

Managers of First National Bank Modaraba

Lahore: October 03, 2015

## 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

**SHARIAH ADVISOR'S REPORT**

Alhamdulillah, I conducted the Shariah review and audit of First National Bank Modaraba (FNBM) managed by National Bank Modaraba Management Company Limited (NBMMCL) for the year ended June 30, 2015 in accordance with the requirements of the Shariah Compliance and Shariah Audit Mechanism for Modarabas and except the observations hereunder, report that, in my opinion:

- I. First National Bank Modaraba ("FNBM) during this FY showed a high level of interest in strengthening Shariah compliance, in letter and spirit to a good extent to put the systems, procedures and policies adopted by the Modaraba in line with the guidelines issued by SECP.
- II. Following were the significant development that were observed during the audit year.
  - a. Internal Shariah Audit mechanism on quarter basis was introduced and comprehensive audits were carried out during the year by internal shariah auditor and the reports for the same were presented to me.
  - b. The Shariah Advisor approval were sought for pre mature transactions i.e. early terminations in Ijarah. A comprehensive and detailed process flow was developed for the transactions of Murabaha.
  - c. The physical inspection was also conducted in some Murabaha and ijarah transactions.
- I. The agreements entered into by the First National Bank Modaraba (FNBM) during the audit year were found Shariah compliant and the financing agreements have been executed on the formats as approved by the Religious Board.
- II. First National Bank Modaraba (FNBM) has major asset portfolio of Murabaha and Ijarah.
- III. First National Bank Modaraba (FNBM) has its scheme of COM to raise the funds but to some extent. Major source of funds is equity and bank borrowings.
- IV. Profit sharing ratios, profits and charging of losses and compensating through Hiba relating to COM conform to the basis and principles of Shariah but still require further improvement.
- V. The earnings that have been realized from the PLS accounts in some commercial banks and payments received as early termination charges and penalties in cases of default in Ijarah and Murabaha have been credited to charity accounts amounting Rs. 509,880/- for this audit period.



### Observations and Recommendations:

1. First National Bank Modaraba (FNBM) in maintaining accounts in some commercial banks like NBP for the purpose of remittances only.
2. The mechanism of allocation of profit sharing ratio, needs to be improved on the basis of weightages.
3. First National Bank Modaraba (FNBM) has started switching its portfolio of assets insured through Takaful companies.
4. The senior management and staff of First National Bank Modaraba (FNBM) are well intended and well cooperative in observing Shariah compliance in its true spirit.

### Conclusion:

In the context of detailed Shariah review carried out by the undersigned for the year ended June 30, 2015, the business activities (transactions) on asset side executed by FNBM during the audit period were found as per standard requirements of SECP.

Signature  
Stamp of the Shari'ah Advisor

MUFTI ABDUL SATTAR LAGHARI  
Shariah Advisor

## 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 12<sup>th</sup> annual accounts of FNBM for the period ended June 30, 2015. These accounts have been audited by the statutory auditors of the Modaraba and are accompanied by their audit report.

### 1. Financial Results:

Amount in Rupees

	Year Ended June 30, 2015	Year Ended June 30, 2014	Year Ended June 30, 2013	Year Ended June 30, 2012	Year Ended June 30, 2011	Year Ended June 30, 2010
Balance Sheet Size	1,248,349,011	1,692,658,474	2,003,442,328	1,962,968,244	2,167,648,461	1,761,257,802
Total Equity	141,525,254	263,701,324	297,913,401	339,775,945	337,207,620	331,881,894
Total Operating & Other Income	451,401,503	558,123,884	567,094,855	605,820,667	473,557,528	370,063,518
Operating & Financial Exp.	460,444,217	592,335,961	583,957,399	575,113,425	439,482,193	340,914,240
Profit for the period	(122,176,070)	(34,212,077)	(16,862,544)	30,707,724	34,075,335	29,149,278
Modaraba Co.'s Management Fee	Nil	Nil	Nil	3,070,724	3,407,534	2,914,927
Net profit after tax	(122,176,070)	(34,212,077)	(16,862,544)	27,636,518	30,667,801	26,234,350
Earning per certificate (Rs.)	(4.89)	(1.37)	(0.67)	1.11	1.23	1.05
Return on Assets (%)	(9.78)	(2.01)	(0.83)	-1.38	1.42	1.48
Return on Equity (%)	(86.30)	(12.92)	(5.65)	8	9.02	7.9
Dividend Paid (%)	Nil	Nil	Nil	10	10	10
Breakup value per certificate (Rs.)	5.64	10.52	11.88	13.56	13.48	13.27

### 2. Sector Outlook:

The economy during 2014-2015 was marked, on one hand, with periods of uncertainty due to political unrest in the country, and the positive impact of substantial reduction in oil prices on the overall economy on the other. Generally the investor sentiments remained positive which was reflected in the movement of stock market indices. However energy shortage remained the major obstacle for economic growth of the real sector.

Financial sector in Pakistan has remained more or less steady. The Islamic banking/finance is growing healthily and is capturing a sizable chunk of the market. The NBFI and modaraba sectors have also shown resilience during the period. The sustainable performance of financial sector would, however, depend on the growth of the real sector. Since Islamic financing is growing there is a good potential for Modarabas to develop their own niche markets through innovation and product development.

### Review of Operations:

During the period under review, the management's focus remained primarily on pursuing its major non-performing clients because of the key significance of their regularization for the future growth of the modaraba. While there was success with respect to some of the clients, the negotiations for settlement/restructuring of a sizable portion of the non-performing portfolio is still in process. Meanwhile

due to lapse of time in materializing the settlements on favorable terms, the provisioning charged during the year, as per applicable policies and regulations, against the non performing receivables totaled Rs.113 million. There were also some reversals in the provisioning on account of successful restructuring arrangements in the second half of the year, however it was offset by charge of provisioning on account of exogenous delays in restructuring of some other cases. As a substantial portion of morabaha portfolio went into classification, there was a sizable reduction in mark-up income on the portfolio, from Rs.41.9 Million last year to Rs.13.3 Million this year. This reduction in mark-up income along with impact of depreciation charge and suspension of income on classified Ijarah portfolio, in accordance with IFAS-II and prudential regulations for modarabas, contributed to an increase in operating loss from Rs.1.68 Million last year to Rs.9 Million this year. The net loss after tax booked for the year was Rs.122.17 Million as against loss of Rs.34.21 Million last year. The loss per certificate accordingly figured at Rs.4.89 as against Rs.1.37 in the corresponding year.

As a result of reduction of equity the business volume was also proportionately reduced in order to maintain a stable financial health, which resulted in reduction of balance sheet size from Rs.1.7 billion last year to Rs.1.25 billion this year. The new Ijarah booked during the year amounted to Rs.179 Million. The Income from Ijarah and the finance cost were accordingly lower than the last year. The management has kept the operating expenses under strict control which were reduced to Rs.23 Million this year as compared to Rs.24 Million last year.

FNBM ensures conformity with the Shariah compliance and Shariah audit mechanism for Modarabas. In this respect Sharia'h Advisor's report is attached. The amounts advised by the Sharia'h advisor to be paid as charity, has been credited to the charity account. During the year, an amount of Rs.476,646/- was paid as charity to approved charitable institutions as per policy approved by the board of directors. We believe in steady and sustainable growth backed by the policy of low risk. Presently however we are passing through a consolidation phase and will, InshAllah, resume profitability in the coming years.

### **Profit Distribution**

Board in its meeting held on October 03, 2015 did not declare any dividends due to the aforementioned reasons.

### **3. Entity Rating:**

JCR-VIS Credit Rating Company in their report issued in July 2015 has reaffirmed long term entity rating at 'A' and short term entity rating to 'A-1' (Aone).

### **Future Outlook:**

Some major industrial sectors like textile sector have been badly hit by the energy crises and volatile input costs, consequently affecting their ability to honor obligations towards financial institutions. Since FNBM's morabaha portfolio is substantially exposed to textile sector, the challenge before FNBM remains to restructure and regularize this exposure. Going forward, FNBM plans to do small-ticket, higher priced business. This would help diversify concentration of risk and also improve its risk and reward equation. FNBM plans to meet its challenges by improving its risk management practices internally and, at the same time, exploring niche businesses that have the capacity and financial strength to pay good returns at an acceptable risk. The overall economic growth in the country would likely act as a catalyst for FNBM's growth and profitability.

### **4. 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 applied consistently in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, International accounting standards, and Islamic Financial Accounting Standards as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements.

## FIRST NATIONAL BANK MODARABA

- 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, 2015 except those disclosed in the financial statements.
- During the year ended June 30, 2015 six (06), meetings of the Board of Directors were held. Besides (04) four Audit committee and (05) five HR Committee meetings were also held. Attendance by each directors is as follows:

Name	No. of Attendance		
	Board	Audit Committee	HR Committee
i. Mr. Wajahat Baqai	6	4	4
ii. Mr. Khawaja Amin -ul-Azam	2	N/A	N/A
iii. Mr. Khawaja Waheed Raza	6	4	5
iv. Syed Mustafa Kamal	5	N/A	5
v. Mr. Jamal Nasim	5	3	N/A
vi. Mr. Muhammad Iqbal Hussain	6	N/A	5
vii. Mr. Javaid Sadiq (CEO up to 11-11-2014)	3	N/A	N/A
viii. Mr. Hafiz Muhammad Fayyaz (CEO from 12-11-2014 to 07-05-2015)	2	N/A	N/A
ix. Mr. Khaqan Hasnain Ibrahim (CEO Since 08-05-2015)	1	N/A	N/A

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

The pattern of certificate holders is annexed.

#### 5. **Auditors:**

The present auditors, M/s. Riaz Ahmed & Co Chartered Accountants, retired during the year. The retiring auditors M/s. Riaz Ahmed & Co Chartered Accountants have given their consent to act as auditors for the year ending June 30, 2016. Their appointment has been confirmed by the Board, subject to approval by the Registrar, Modaraba Companies and Modarabas.

#### 6. **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 NBF1 & Modaraba Association of Pakistan for their continuance 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**



**Khaqan Hasnain Ibrahim**  
Chief Executive Officer

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

Name of company: First National Bank Modaraba

Year ending: 30 June 2015

This statement is being presented to comply with the Code of Corporate Governance contained in the Listing regulations No. 35 of Karachi Stock Exchange and Lahore Stock Exchange 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 Management company has applied the principles contained in the Code in the following manner:

1. The management company encourages representation of independent non-executive directors on its board of directors. At present the board includes:

Name	Status
Mr.Wajahat Baqai	Non-Executive
Mr.Khawaja Waheed Raza	Non-Executive & Independent
Syed Mustafa kamal	Non-Executive & Independent
Mr.Jamal Nasim	Non-Executive & Independent
Mr.Muhammad Iqbal Hussain	Non-Executive & Independent
Mr.Khawaja Amin ul Azam	Non-Executive
Mr.Khaqan Hasnain Ibrahim	Executive

The independent directors meet the criteria of independence under clause i(b) of the CCG.

2. The directors have confirmed that none of them is serving as a director in more than seven listed companies including the management company.
3. All the resident directors of the management 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 NBFIs or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Any casual vacancy is filled up by the Board of Directors.
5. The Management company has prepared a 'Statement of Ethics and Business Practices' (Code of Conduct), and ensured that appropriate steps have been taken to disseminate it throughout the management company and modaraba along with its supporting policies and procedures.
6. The Board has developed a vision/ mission statement, overall corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and in his absence by a director elected by the board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working 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 directors have relevant experience and knowledge to manage the affairs of the Modaraba. The board will be arranging training programs for its directors shortly as per time line provided, however by the year end June 30, 2015 none of the directors has obtained certification offered by institutions that meet criteria specified by the SECP.

10. The Board has approved the appointments 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.
11. The report of the directors of the management company on the financial statement of the modaraba of this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and Executives do not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of certificates holding.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an audit committee, it comprises of three members, all of whom are non-executive directors and the chairman of the Committee is an independent director.
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 CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed an HR and Remuneration Committee. It comprises three members of whom all are non-executive directors and the chairman of the committee is an independent director.
18. The Board has set up an effective internal audit function that is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the modaraba.
19. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all 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.
20. 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.
21. The 'closed period' prior to the announcement of interim/final results, business decisions, which may materially affect the market price of modaraba's securities, was determined and intimated to directors, employees and stock exchanges.
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchanges.
23. We confirm that all other material principles enshrined in the CCG have been substantially complied with.



**Khaqan Hasnain Ibrahim**  
Chief Executive Officer

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

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of National Bank Modaraba Management Company Limited ("the Management Company") in respect of First National Bank Modaraba ("the Modaraba") for the year ended 30 June 2015 to comply with the requirements of Listing Regulation No. 35 of the Karachi and Lahore Stock Exchanges, where the Modaraba is listed.

The responsibility for compliance with the Code 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 Management Company's compliance with the provisions of the Code of Corporate Governance and report if it does not and to highlight any non-compliance with the requirements of the Code. A review is limited primarily to inquiries of the Management Company's personnel and review of various documents prepared by the Management Company to comply with the Code.

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

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

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

Further, we highlight an instance of non-compliance with the requirement of clause (xi) of the code as reflected in the note 9 of the statement of compliance regarding non-arrangement of training program during the year ended 30 June 2015 for the directors of the management company.



**RIAZ AHMAD & COMPANY**  
Chartered Accountants

Name of engagement partner:  
Muhammad Atif Mirza

Date: October 03, 2015

LAHORE

## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

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

These financial statements are the Modaraba Company's (National Bank Modaraba Management Company) 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 the 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 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, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981 in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at 30 June 2015 and of the profit, its comprehensive income, 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).

The financial statements of the Modaraba for the year ended 30 June 2014 were audited by another firm of Chartered Accountants who expressed unqualified opinion dated 02 October 2014.



**RIAZ AHMAD & COMPANY**  
Chartered Accountants

Name of engagement partner:  
Muhammad Atif Mirza

Date: October 03, 2015

LAHORE

**BALANCE SHEET**  
AS AT JUNE 30, 2015

ASSETS	NOTE	2015 Rupees	2014 Rupees
<b>CURRENT ASSETS</b>			
Cash and bank balances	3	89,487,848	42,800,533
Short term murabaha investments - secured	4	142,205,887	412,736,882
Accrued profit	5	3,621,217	17,485,909
Ijarah rentals receivable	6	58,284,350	55,297,418
Advances, prepayments and other receivables	7	27,418,946	46,438,560
Current portion of non-current assets	8	82,289,108	52,418,273
		<u>403,307,356</u>	<u>627,177,575</u>
<b>NON-CURRENT ASSETS</b>			
Net investment in ijarah finance	9	20,895,185	34,534,366
Diminishing musharaka financing - secured	10	17,340,724	21,437,500
Long term murabaha investments - secured	11	92,676,970	33,317,981
Long term loans and deposits	12	4,585,119	4,411,843
Intangible asset	13	146,016	289,333
Ijarah assets	14	709,030,283	978,597,812
Fixed assets - own use	15	367,358	803,386
Deferred income tax asset	32	-	-
		<u>845,041,655</u>	<u>1,073,392,221</u>
<b>TOTAL ASSETS</b>		<u>1,248,349,011</u>	<u>1,700,569,796</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accrued profit		17,385,139	16,870,807
Deferred murabaha income	4	2,419,020	6,919,069
Short term finances - secured	16	134,685,179	186,961,688
Short term certificates of musharaka - unsecured	17	295,597,365	254,918,809
Creditors, accrued and other liabilities	18	20,799,768	43,281,047
Current portion of non-current liabilities	19	384,235,624	396,296,715
		<u>855,122,095</u>	<u>905,248,135</u>
<b>NON-CURRENT LIABILITIES</b>			
Security deposits against ijarah assets	20	152,958,007	215,434,755
Long term certificates of musharaka	21	-	2,658,017
Long term finances - secured	22	68,333,333	302,166,668
Deferred murabaha income	23	30,410,322	11,360,897
		<u>251,701,662</u>	<u>531,620,337</u>
<b>TOTAL LIABILITIES</b>		<u>1,106,823,757</u>	<u>1,436,868,472</u>
<b>NET ASSETS</b>		<u>141,525,254</u>	<u>263,701,324</u>
<b>FINANCED BY</b>			
Certificate capital	24	250,000,000	250,000,000
Reserves	25	(108,474,746)	13,701,324
<b>TOTAL EQUITY AND RESERVES</b>		<u>141,525,254</u>	<u>263,701,324</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	26		

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

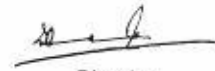


Chief Executive Officer  
National Bank Modaraba  
Management Company Limited

Lahore: October 03, 2015



Director  
National Bank Modaraba  
Management Company Limited



Director  
National Bank Modaraba  
Management Company Limited

**PROFIT AND LOSS ACCOUNT**  
FOR THE YEAR ENDED JUNE 30, 2015

	NOTE	2015 Rupees	2014 Rupees
<b>INCOME</b>			
Ijarah rentals earned / income from ijarah finance		424,495,289	509,841,447
Profit on diminishing musharaka		3,777,317	343,490
Profit on murabaha investments		13,355,865	41,950,951
Profit on modaraba investment		-	1,355,959
Profit on bank deposits		359,763	166,366
Gain on disposal of ijarah assets		6,883,319	3,240,946
Other income	27	2,529,950	1,224,725
		451,401,503	558,123,884
<b>EXPENSES</b>			
Depreciation on ijarah assets		(347,127,204)	(415,064,070)
Operating expenses	28	(23,210,586)	(24,022,385)
Finance cost	29	(90,106,427)	(120,723,781)
		(460,444,217)	(559,810,236)
		(9,042,714)	(1,686,352)
Provision charged for doubtful receivables - net	30	(113,133,356)	(32,525,725)
		(122,176,070)	(34,212,077)
Modaraba management company fee	31	-	-
<b>LOSS BEFORE TAXATION</b>		(122,176,070)	(34,212,077)
Taxation	32	-	-
<b>LOSS AFTER TAXATION</b>		(122,176,070)	(34,212,077)
<b>LOSS PER CERTIFICATE - BASIC AND DILUTED</b>	33	(4.89)	(1.37)

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

Lahore: October 03, 2015

  
**Chief Executive Officer**  
National Bank Modaraba  
Management Company Limited

  
**Director**  
National Bank Modaraba  
Management Company Limited

  
**Director**  
National Bank Modaraba  
Management Company Limited

**STATEMENT OF COMPREHENSIVE INCOME**  
FOR THE YEAR ENDED JUNE 30, 2015

	2015	2015
	Rupees	Rupees
LOSS AFTER TAXATION	(122,176,070)	(34,212,077)
OTHER COMPREHENSIVE INCOME	-	-
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	<u>(122,176,070)</u>	<u>(34,212,077)</u>

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



Chief Executive Officer  
National Bank Modaraba  
Management Company Limited

Lahore: October 03, 2015



Director  
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Management Company Limited



Director  
National Bank Modaraba  
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**CASH FLOW STATEMENT**  
FOR THE YEAR ENDED JUNE 30, 2015

NOTE	2015 Rupees	2014 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before taxation	(122,176,070)	(34,212,077)
<b>Adjustments for non cash charges and other items</b>		
Depreciation / amortization	347,760,499	416,120,453
Provision charged for doubtful receivables - net	113,133,356	32,525,725
Gain on disposal of ijarah assets	(6,883,319)	(3,240,946)
Finance cost	90,106,427	120,723,781
Profit on bank deposits	(359,763)	(166,366)
	<u>543,757,200</u>	<u>565,962,647</u>
<b>Working capital changes</b>		
<b>(Increase) / decrease in operating assets</b>		
Short term modaraba investments	-	125,000,000
Accrued profit	7,052,141	2,963,127
Ijarah rentals receivable	(15,620,154)	10,539,569
Advances, prepayments and other receivables	(5,902,177)	10,807,690
Short term murabaha investments	193,891,110	93,625,727
Net investment in ijarah finance	5,518,468	19,032,179
Long term murabaha investments	(57,753,968)	11,674,895
	<u>127,185,420</u>	<u>273,643,187</u>
<b>(Decrease) / increase in operating liabilities</b>		
Creditors, accrued and other liabilities	(22,481,279)	6,697,039
Security deposits against ijarah assets - net	(15,335,085)	32,972,548
	<u>(37,816,364)</u>	<u>39,669,587</u>
	<u>89,369,056</u>	<u>313,312,774</u>
<b>Cash generated from operations</b>	<u>510,950,186</u>	<u>845,063,344</u>
Finance cost paid	(89,592,095)	(122,812,079)
Income taxes paid	(66,466)	(43,555)
Profit received on bank deposits	385,456	61,343
<b>Net cash generated from operating activities</b>	<u>421,677,081</u>	<u>722,269,053</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Ijarah assets acquired	(179,201,494)	(490,843,323)
Fixed assets - own use acquired	(53,950)	(252,697)
Proceeds from disposal of ijarah assets	108,525,138	119,424,212
Diminishing musharaka financing	2,253,279	(29,400,000)
Long term loans and deposits - net	(248,411)	(1,277,137)
<b>Net cash used in investing activities</b>	<u>(68,725,438)</u>	<u>(402,348,945)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Short term finances	(52,276,509)	(164,581,752)
Short term certificates of musharaka	40,678,556	(61,787,098)
Long term certificates of musharaka	(3,658,017)	(125,164,621)
Long term finances - net	(291,008,358)	54,166,681
Dividends paid	-	(244,239)
<b>Net cash used in financing activities</b>	<u>(306,264,328)</u>	<u>(297,611,029)</u>
<b>Net increase in cash and cash equivalents</b>	<u>46,687,315</u>	<u>22,309,079</u>
Cash and cash equivalents at the beginning of the year	42,800,533	20,491,454
<b>Cash and cash equivalents at the end of the year</b>	<u>89,487,848</u>	<u>42,800,533</u>

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

Lahore: October 03, 2015

  
**Chief Executive Officer**  
National Bank Modaraba  
Management Company Limited

  
**Director**  
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**Director**  
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**STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED JUNE 30, 2015

	RESERVES			TOTAL	TOTAL EQUITY
	CAPITAL	REVENUE			
	CERTIFICATE CAPITAL	STATUTORY RESERVE	UNAPPRPRIATED PROFIT / (ACCUMULATED LOSS)		
	Rupees				
<b>Balance as at 30 June 2013</b>	250,000,000	43,955,189	3,958,212	47,913,401	297,913,401
Loss for the year ended 30 June 2014	-	-	(34,212,077)	(34,212,077)	(34,212,077)
Other comprehensive income for the year ended 30 June 2014	-	-	-	-	-
Total comprehensive loss for the year ended 30 June 2014	-	-	(34,212,077)	(34,212,077)	(34,212,077)
<b>Balance as at 30 June 2014</b>	250,000,000	43,955,189	(30,253,865)	13,701,324	263,701,324
Loss for the year ended 30 June 2015	-	-	(122,176,070)	(122,176,070)	(122,176,070)
Other comprehensive income for the year ended 30 June 2015	-	-	-	-	-
Total comprehensive loss for the year ended 30 June 2015	-	-	(122,176,070)	(122,176,070)	(122,176,070)
<b>Balance as at 30 June 2015</b>	250,000,000	43,955,189	(152,429,935)	(108,474,746)	141,525,254

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

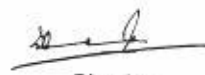


**Chief Executive Officer**  
National Bank Modaraba  
Management Company Limited

Lahore: October 03, 2015



**Director**  
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Management Company Limited



**Director**  
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Management Company Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### 1 LEGAL STATUS AND NATURE OF BUSINESS

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 thereunder. The Modaraba 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 the 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 of Pakistan. It commenced its operations on 04 December, 2003 and is currently engaged in various Islamic modes of financing and operations including ijarah, musharaka and murabaha arrangements.

JCR-VIS has assigned long term rating of A and short term rating of A-1 to the Modaraba.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated:

#### 2.1 BASIS OF PREPARATION

##### a) Statement of compliance

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

##### b) Accounting convention

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

##### c) Use of Estimate and Judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Modaraba's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and measurement estimates are significant to the Modaraba's financial statements or where judgments were exercised in application of accounting policies are as follows:

##### **Ijarah Assets and Fixed Assets in Own Use**

The Modaraba reviews the useful lives of ijarah assets and fixed assets in own use on regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of fixed assets with a corresponding effect on the depreciation charge and impairment, if any.

## **Ijarah rentals, musharaka rentals and murabaha investments**

Ijarah rentals, musharaka rentals and murabaha investments are stated net of provision against doubtful receivables. Provision is recognised for ijarah rentals receivable and murabaha investment in accordance with the prudential regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan (SECP) and on subjective evaluation by management. Bad debts are written-off when identified.

### **d) Standards, interpretations and amendments to approved accounting standards which became effective during the year and are relevant to the Modaraba**

The following amendments to published approved standards and interpretation are mandatory for the Modaraba's accounting periods beginning on or after 01 July 2014:

IAS 32 (Amendments) 'Financial Instruments: Presentation' (effective for annual periods beginning on or after 01 January 2014). Amendments have been made to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas: the meaning of 'currently has a legally enforceable right of set-off'; the application of simultaneous realization and settlement; the offsetting of collateral amounts and the unit of account for applying the offsetting requirements.

IAS 36 (Amendments) 'Impairment of Assets' (effective for annual periods beginning on or after 01 January 2014). Amendments have been made in IAS 36 to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

IFRIC 21 'Levies' (effective for annual periods beginning on or after 01 January 2014). The interpretation provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and those where the timing and amount of the levy is certain. The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation.

On 12 December 2013, IASB issued Annual Improvements to IFRSs: 2010 – 2012 Cycle, incorporating amendments to seven IFRSs more specifically in IAS 24 'Related Party Disclosures', which is considered relevant to the Modaraba's financial statements. These amendments are effective for annual periods beginning on or after 01 July 2014. The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity must disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The application of the above amendments and interpretation does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

### **e) Standards, interpretations and amendments to approved accounting standards which became effective during the year but are not relevant to the Modaraba**

There are other amendments to published standards that are mandatory for accounting periods beginning on or after 01 July 2014 but are considered not to be relevant or do not have any significant impact on the Modaraba's financial statements and are therefore not detailed in these financial statements.

### **f) Standards, interpretations and amendments to approved accounting standards that are relevant to the modaraba but not yet effective**

Following standards and amendments to existing standards have been published and are mandatory for the Modaraba's accounting periods beginning on or after 01 July 2015 or later periods:

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 01 January 2018). A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 'Financial Instruments: Recognition and Measurement'. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized. It introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39. The management of the Modaraba is in the process of evaluating the impacts of the aforesaid standard on the Modaraba's financial statements.

IFRS 13 'Fair Value Measurement' (effective for annual periods beginning on or after 01 January 2015). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. This standard is not expected to have a material impact on the Modaraba's financial statements.

IFRS 15 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after 01 January 2017). IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are: identify the contract with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contracts; and recognise revenue when (or as) the entity satisfies a performance obligation. Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. The management of the Modaraba is in the process of evaluating the impacts of the aforesaid standard on the Modaraba's financial statements.

IAS 1 (Amendments) 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 January 2016). Amendments have been made to address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes: clarification that information should not be obscured by aggregating or by providing immaterial information, materiality consideration apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality consideration do apply; clarification that the list of the line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in IAS 1. However, the amendments are not expected to have a material impact on the Modaraba's financial statements.

IAS 16 (Amendments) 'Property, Plant and Equipment' (effective for annual periods beginning on or after 01 January 2016). The amendments clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment; and add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset. However, the amendments are not expected to have a material impact on the Modaraba's financial statements.

## **g) Standards, interpretations and amendments to approved accounting standards that are not relevant and not yet effective**

There are other standards and amendments to published standards that are mandatory for accounting periods beginning on or after 01 July 2015 but are considered not to be relevant or do not have any significant impact on the Modaraba's financial statements and are therefore not detailed in these financial statements.

### **2.2 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.

### **2.3 Receivables**

Receivables are due on normal trade terms. These are carried at original invoice amount less provision for doubtful debts, if any. Balances considered bad and irrecoverable are written off when identified.

### **2.4 Murabaha investments**

Morabaha investments are stated net of provision. Provision is recognized for Morabaha investments in accordance with the time based criteria of the Prudential Regulations for Modarabas issued by the SECP and subjective evaluation of management. Outstanding balances are written off when there is no realistic prospect of recovery.

Morabaha receivable are recorded by the Modaraba at the invoiced amount and disclosed as such in the balance sheet. Purchases and sales under murabaha and the resultant profit are accounted for on the culmination of murabaha transaction.

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

### **2.5 Financial instruments**

Financial instruments carried on the balance sheet include long term loans and deposits, ijarah rentals receivable, net investment in ijarah finance, morabaha investments, diminishing musharaka financing, advances and other receivables, cash and bank balances, certificates of musharaka, short term finances, long term finances, morabaha finance, and creditors accrued and other liabilities. Financial assets and liabilities are recognized when the Modaraba becomes a party to the contractual provisions of instrument. Initial recognition is made at fair value plus transaction costs directly attributable to acquisition, except for "financial instrument at fair value through profit or loss" which is measured initially at fair value.

Financial assets are de-recognized when the Modaraba loses control of the contractual rights that comprise the financial asset. The Modaraba loses such control if it realizes the rights to benefits specified in contract, the rights expire or the Modaraba surrenders those rights. Financial liabilities are de-recognized when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on subsequent measurement (except available for sale investments) and de-recognition is charged to the profit or loss currently. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

### **2.6 Payables**

Liabilities for other amounts payable are initially recognized at fair value, which is normally the transaction cost.

## 2.7 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Modaraba has legally enforceable right to set off the recognized amount and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

## 2.8 Musharaka investment

Musharaka investments are stated net of provision. Provision is recognized in accordance with prudential regulations for Modarabas issued by the SECP or on the estimate of management, whichever is higher. Bad debts are written off when identified.

## 2.9 Lease (ijarah) accounting

The Modaraba provides assets to its clients under ijarah agreements as approved by the Religious Board. Ijarah arrangements up to 30 June 2008 have been recorded in the books of accounts as finance lease in line with IAS-17 (Leases) and arrangements beginning on or after 1 July 2008 have been recorded in the books of accounts under IFAS-2 (Ijarah).

Under the ijarah arrangements up to 30 June 2008, 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.

As per the requirements of IFAS-2, the Modaraba has presented assets subject to ijarah in its balance sheet according to the nature of the asset, distinguished from the assets in own use. Income from ijarah is recognized on accrual basis, unless another systematic basis is more representative of the time pattern in which benefit of use derived from the leased asset is diminished. Costs, including depreciation, incurred in earning the ijarah income are recognized as an expense.

Net investment in ijarah is stated at present value of minimum ijarah 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 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.

## 2.10 Fixed assets

### Assets given to customers under ijarah arrangements

Assets given to customers under ijarah arrangements on or after 01 July 2008 are accounted for as operating lease and are stated at cost less accumulated depreciation and impairment loss, if any. Assets under ijarah arrangements are depreciated using the straight line basis over the shorter of ijarah term or asset's useful life. In respect of additions and transfer during the year, depreciation is charged proportionately to the period of ijarah.

### Assets in own use - Tangible

Tangible fixed assets are stated at cost less accumulated depreciation and impairment loss, if any. Cost in relation to the assets comprises acquisition and other directly attributable costs. Subsequent costs are included in assets' carrying amounts when it is probable that future economic benefits associated with the item will flow to the Modaraba and the cost of the item can be measured reliably. Carrying amount of parts so replaced, if any, is derecognized. All other repairs and maintenance are charged to income as and when incurred. Gain / loss on disposals are carried to the profit and loss account in the year of disposal.

Depreciation is charged to income using the straight line method at the rates as specified in note 15 to these financial statements so as to write off the cost of assets over their estimated useful lives without taking into account any residual value. Depreciation on additions to the tangible fixed assets is charged from the month in which an asset is available for use while no depreciation is charged for the month in which the asset is disposed off.

Carrying amounts of the Modaraba's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated and impairment loss is recognized in the profit and loss account. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the initial cost of the asset. A reversal of the impairment loss is recognized as income in the profit and loss account.

**Assets in own use - Intangible**

Expenditure incurred on intangible asset is capitalized and stated at cost less accumulated amortization and any identified impairment loss. Intangible asset is amortized on straight line basis over a period of three years.

**2.11 Provisions**

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Future operating losses are not provided for.

**2.12 Revenue recognition**

For lease (ijarah) agreements executed on or before 30 June 2008, 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 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 the prudential regulations for Modaraba issued by the SECP.

For lease (ijarah) agreements executed on or after 01 July 2008 lease rentals are recognized as income on accrual basis, as and when the rental becomes due over the ijarah period.

The deferred morabaha income i.e. the excess of aggregate morabaha installments over the cost of the asset under morabaha investment is deferred and then amortized over the term of the morabaha, so as to produce a constant rate of return on morabaha investment. Documentation charges, front-end fee and other morabaha income are recognized as income on receipt basis.

Return on deposits with banks is recognized on time proportionate basis.

Profit on musharika investment is recognized under the effective markup rate method based on the amount outstanding.

Income from fee and commission is recognized as and when it becomes due.

**2.13 Borrowing costs**

Borrowing costs on long-term finances are capitalized up to the date of commissioning of respective qualifying assets acquired out of the proceeds of such long-term finances. All other borrowing costs are recognized in profit and loss account.

**2.14 Taxation****Current**

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

**Deferred**

Deferred tax is provided, using the balance sheet method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilized.

**2.15 Profit distribution**

Profit distribution to certificate holders is recognized as a liability in the period in which such distribution is announced.

**2.16 Segment reporting**

As per IFRS 8, operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Chief Executive Officer has been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

The Chief Executive Officer is responsible for the Modaraba's entire product portfolio and considers the business to have a single operating segment. The Modaraba's asset allocation decisions are based on a single integrated investment and the Modaraba's performance is evaluated on overall basis.

# FIRST NATIONAL BANK MODARABA

	2015 Rupees	2014 Rupees
<b>3 CASH AND BANK BALANCES</b>		
Cash in hand	-	-
Cash at banks:		
Current accounts		
Associated undertaking - National Bank of Pakistan	665,331	697,038
Others	18,246,402	2,148,814
	<u>18,911,733</u>	<u>2,845,852</u>
Saving accounts (Note 3.1)		
Associated undertaking - National Bank of Pakistan	2,917,229	18,583,983
Others	67,658,886	21,370,698
	<u>70,576,115</u>	<u>39,954,681</u>
	<u>89,487,848</u>	<u>42,800,533</u>
<b>3.1</b> These carry mark-up at 3.50% to 7.41% (2014: 5% to 6.75%) per annum.		
<b>4 SHORT TERM MURABAHA INVESTMENTS - SECURED</b>		
Considered good	76,400,769	283,931,172
Considered doubtful	233,513,598	219,874,305
	<u>309,914,367</u>	<u>503,805,477</u>
Add: Deferred / unearned murabaha income	2,419,020	6,919,069
	<u>312,333,387</u>	<u>510,724,546</u>
Less: Provision for non-performing murabaha investments	(170,127,500)	(97,987,664)
	<u>142,205,887</u>	<u>412,736,882</u>
<b>4.1 Provision for non-performing murabaha investments</b>		
Opening balance	97,987,664	66,150,520
Charged during the year	72,139,836	31,837,144
Closing balance	<u>170,127,500</u>	<u>97,987,664</u>
<b>4.2</b> These represent investments under murabaha arrangements on deferred payment basis at specified profit margins. These investments carry profit at the rate of 10.2% to 15.89% (2014: 12.06% to 15.54%) per annum and are secured against charge over fixed and current assets, personal guarantees of directors of customer companies, registered and equitable mortgage of properties, demand promissory notes and post dated cheques varying from case to case.		
<b>5 ACCRUED PROFIT</b>		
Bank deposits	236,154	261,847
Murabaha investments	2,912,563	16,880,572
Diminishing musharaka	472,500	343,490
	<u>3,621,217</u>	<u>17,485,909</u>
<b>6 IJARAH RENTALS RECEIVABLE</b>		
Considered good - secured	49,269,262	55,297,418
Considered doubtful	30,072,445	-
Less: Provision for doubtful ijarah rentals receivable (Note 6.1)	(12,633,222)	-
Less: Profit held in suspense (Note 6.2)	(8,424,135)	-
	<u>9,015,088</u>	<u>-</u>
	<u>58,284,350</u>	<u>55,297,418</u>
<b>6.1 Provision for doubtful ijarah rentals receivable</b>		
Opening balance	-	-
Charged during the year	12,633,222	-
Closing balance	<u>12,633,222</u>	<u>-</u>

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	2015 Rupees	2014 Rupees
<b>6.2 Profit held in suspense</b>		
Opening balance	-	-
Income suspended during the year	8,424,135	-
Closing balance	<u>8,424,135</u>	<u>-</u>
<b>7 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES</b>		
Advances for ijarah assets (secured - considered good) - net	24,096,048	20,514,833
Advances to employees for expenses (unsecured - considered good)	61,090	53,200
Income tax deducted at source	709,596	643,130
Prepayments	411,049	467,019
Other receivables	2,141,163	24,760,378
	<u>27,418,946</u>	<u>46,438,560</u>
<b>8 CURRENT PORTION OF NON-CURRENT ASSETS</b>		
Net investment in ijarah finance (Note 9)	34,017,229	25,896,516
Diminishing musharaka financing (Note 10)	9,805,997	7,962,500
Long term murabaha investments (Note 11)	36,776,332	16,944,842
Long term receivables and deposits (Note 12)	1,689,550	1,614,415
	<u>82,289,108</u>	<u>52,418,273</u>

	2015			2014		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
<b>9 NET INVESTMENT IN IJARAH FINANCE</b>						
	-----Rupees-----					
Minimum ijarah rentals receivable	47,549,062	42,109,457	89,658,519	38,912,220	58,446,299	97,358,519
Residual value of ijarah assets	4,154,607	980,274	5,134,881	-	5,134,881	5,134,881
Gross investment in ijarah finance	51,703,669	43,089,731	94,793,400	38,912,220	63,581,180	102,493,400
Less: Unearned finance income	(12,028,440)	(22,194,546)	(34,222,986)	(7,357,704)	(29,046,814)	(36,404,518)
Net investment in lease ijarah finance	39,675,229	20,895,185	60,570,414	31,554,516	34,534,366	66,088,882
Less: Provision for doubtful net investment in ijarah finance (Note 9.1)	(5,658,000)	-	(5,658,000)	(5,658,000)	-	(5,658,000)
	<u>34,017,229</u>	<u>20,895,185</u>	<u>54,912,414</u>	<u>25,896,516</u>	<u>34,534,366</u>	<u>60,430,882</u>

The Modaraba has entered into various Ijarah agreement for periods ranging from 8 to 14 years (2014: 8 to 14 years). Security deposits ranging from 0.1% to 10% (2014: 0.1% to 10%) are obtained at the time of disbursement. The rate of profit implicit in Ijarah ranges from 7.86% to 11.19% (2014: 9.10% to 12.65%) per annum.

## 9.1 Provision for doubtful net investment in ijarah finance

Opening balance	5,658,000	4,920,743
Charged during the year	-	737,257
Closing balance	<u>5,658,000</u>	<u>5,658,000</u>

## 10 DIMINISHING MUSHARAKA FINANCING -SECURED

Diminishing musharaka financing	27,146,721	29,400,000
Less: Current portion (Note 8)	(9,805,997)	(7,962,500)
	<u>17,340,724</u>	<u>21,437,500</u>

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10.1 This represents diminishing musharaka financing arrangement entered for a term of four years. The Modaraba has provided financing to the extent of 28% to 45.93% of the value of the musharaka assets. This financing is secured by first charge on all present and future fixed assets of the client, personal guarantee of directors, registered and equitable mortgage on properties, post dated cheques and joint ownership of musharaka assets. These carry profit at rates ranging between 10.61% to 14.02% (2014:14.02%) per annum and are repayable on monthly basis.

	2015 Rupees	2014 Rupees
<b>11 LONG TERM MURABAHA INVESTMENTS - SECURED</b>		
Considered good	86,803,065	4,207,294
Considered doubtful	19,697,102	44,538,905
	<u>106,500,167</u>	<u>48,746,199</u>
Add: Deferred / unearned murabaha income (Note 23)	31,913,555	13,891,860
	<u>138,413,722</u>	<u>62,638,059</u>
Less: Provision for doubtful murabaha investments	(8,960,420)	(12,375,236)
Less: Current portion (Note 11.3)	<u>(36,776,332)</u>	<u>(16,944,842)</u>
	<u>92,676,970</u>	<u>33,317,981</u>
<b>11.1</b> These represent investments under murabaha arrangements on deferred payment basis at a profit margin ranging from 9.38% to 15.50% (2014:14.43% to 15.89%) per annum. These investments are secured against charge over fixed and current assets, registered and equitable mortgage of properties, personal guarantees of the directors of customer companies, demand promissory notes and post-dated cheques varying from case to case.		
<b>11.2 Provision for doubtful murabaha investments</b>		
Opening balance	12,375,236	12,423,912
Charged during the year	4,704,600	-
(Reversed) during the year	(8,119,416)	(48,676)
Net (reversed) during the year	<u>(3,414,816)</u>	<u>(48,676)</u>
Closing balance	<u>8,960,420</u>	<u>12,375,236</u>
<b>11.3 Current portion of long term murabaha investments</b>		
Murabaha investments	35,273,100	9,336,923
Deferred / unearned murabaha income	1,503,232	7,607,919
	<u>36,776,332</u>	<u>16,944,842</u>
<b>12 LONG TERM LOANS AND DEPOSITS</b>		
Long term loans to employees (Note 12.1)	6,235,169	5,986,758
Securities and deposits	39,500	39,500
	<u>6,274,669</u>	<u>6,026,258</u>
Less: Current portion of long term receivables (Note 12.2)	<u>(1,689,550)</u>	<u>(1,614,415)</u>
	<u>4,585,119</u>	<u>4,411,843</u>
<b>12.1</b> These loans are given to employees of the Modaraba for purchase of vehicles and carry profit at the rate of 5% (2014: 5%) per annum. Maximum aggregate balance due from employees at the end of any month during the year was Rupees 6,599,175 (2014: Rupees 5,986,750). As a security, vehicles are registered in the name of the Modaraba.		
<b>12.2 Current portion of long term receivables</b>		
Loans to employees	<u>(1,689,550)</u>	<u>(1,614,415)</u>
<b>13 INTANGIBLE ASSETS</b>		
Cost	1,131,300	1,131,300
Accumulated amortization	(985,284)	(841,967)
Net book value	<u>146,016</u>	<u>289,333</u>
<b>13.1 Net book value</b>		
Opening net book value	289,333	-
Additions during the year	-	434,000
	<u>289,333</u>	<u>434,000</u>
Amortization during the year	(143,317)	(144,667)
Closing net book value	<u>146,016</u>	<u>289,333</u>
Amortization rate	<u>33.33%</u>	<u>33.33%</u>

**14 IJARAH ASSETS**

	<b>Plant and machinery</b>	<b>Vehicles</b>	<b>Total</b>
	-----Rupees-----		
<b>At 30 June 2013</b>			
Cost	802,076,240	824,351,264	1,626,427,504
Accumulated depreciation	(336,397,029)	(271,028,650)	(607,425,679)
Net book value	<u>465,679,211</u>	<u>553,322,614</u>	<u>1,019,001,825</u>
<b>Year ended 30 June 2014</b>			
Opening net book value	465,679,211	553,322,614	1,019,001,825
Additions	242,060,446	248,782,877	490,843,323
Disposals:			
Cost	(188,061,910)	(197,306,704)	(385,368,614)
Accumulated depreciation	110,907,242	158,278,106	269,185,348
	(77,154,668)	(39,028,598)	(116,183,266)
Depreciation charge	(203,005,475)	(212,058,595)	(415,064,070)
Closing net book value	<u>427,579,514</u>	<u>551,018,298</u>	<u>978,597,812</u>
<b>At 30 June 2014</b>			
Cost	856,074,776	875,827,437	1,731,902,213
Accumulated depreciation	(428,495,262)	(324,809,139)	(753,304,401)
Net book value	<u>427,579,514</u>	<u>551,018,298</u>	<u>978,597,812</u>
<b>Year ended 30 June 2015</b>			
Opening net book value	427,579,514	551,018,298	978,597,812
Additions	45,980,194	133,221,300	179,201,494
Disposals:			
Cost	(255,903,760)	(166,807,956)	(422,711,716)
Accumulated depreciation	216,933,784	104,136,113	321,069,897
	(38,969,976)	(62,671,843)	(101,641,819)
Depreciation charge	(161,963,314)	(185,163,890)	(347,127,204)
Closing net book value	<u>272,626,418</u>	<u>436,403,865</u>	<u>709,030,283</u>
<b>At 30 June 2015</b>			
Cost	646,151,210	842,240,781	1,488,391,991
Accumulated depreciation	(373,524,792)	(405,836,916)	(779,361,708)
Net book value	<u>272,626,418</u>	<u>436,403,865</u>	<u>709,030,283</u>
<b>Annual rate of depreciation (%)</b>	17 - 50	20 - 50	

**15 FIXED ASSETS - OWN USE**

	Vehicles	Computers and accessories	Electric equipment	Total
----- Rupees -----				
<b>At 30 June 2013</b>				
Cost	3,287,905	1,546,111	375,764	5,209,780
Accumulated depreciation	(2,332,299)	(1,069,312)	(345,764)	(3,747,375)
Net book value	<u>955,606</u>	<u>476,799</u>	<u>30,000</u>	<u>1,462,405</u>
<b>Year ended 30 June 2014</b>				
Opening net book value	955,606	476,799	30,000	1,462,405
Additions	-	216,697	36,000	252,697
Depreciation charge	(657,649)	(243,470)	(10,597)	(911,716)
Closing net book value	<u>297,957</u>	<u>450,026</u>	<u>55,403</u>	<u>803,386</u>
<b>At 30 June 2014</b>				
Cost	3,287,905	1,762,808	411,764	5,462,477
Accumulated depreciation	(2,989,948)	(1,312,782)	(356,361)	(4,659,091)
Net book value	<u>297,957</u>	<u>450,026</u>	<u>55,403</u>	<u>803,386</u>
<b>Year ended 30 June 2015</b>				
Opening net book value	297,957	450,026	55,403	803,386
Additions	-	31,050	22,900	53,950
Depreciation charge	(202,283)	(225,669)	(62,026)	(489,978)
Closing net book value	<u>95,674</u>	<u>255,407</u>	<u>16,277</u>	<u>367,358</u>
<b>At 30 June 2015</b>				
Cost	3,287,905	1,793,858	434,664	5,516,427
Accumulated depreciation	(3,192,231)	(1,538,451)	(418,387)	(5,149,069)
Net book value	<u>95,674</u>	<u>255,407</u>	<u>16,277</u>	<u>367,358</u>
<b>Annual rate of depreciation (%)</b>	20	33.33	20-33.33	

15.1 The cost of fixed assets as on 30 June 2015 includes fully depreciated assets of Rupees 3,374,554 (2014: Rupees 2,069,077) which are still in use of the Modaraba.

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	2015 Rupees	2014 Rupees
<b>16 SHORT TERM FINANCES - SECURED</b>		
<b>From banking companies</b>		
<b>Running finances:</b>		
Associated undertaking - National Bank of Pakistan	115,575,700	92,272,434
Other	187,731	-
	<u>115,763,431</u>	<u>92,272,434</u>
<b>Murabaha finances</b>	18,921,748	94,689,254
	<u>134,685,179</u>	<u>186,961,688</u>
<b>16.1</b> The Modaraba has total working capital finance facilities of Rupees 600 million (2014: 870 million) available from commercial banks out of which Rupees 465 million (2014: 683 million) remained unutilized at year end. These carry mark-up at offer rate for 1 month to 6 months KIBOR plus 0.5% to 1.25% (2014: 1 month to 6 months KIBOR plus 0.75% to 3%) per annum payable monthly and semi annually (2014: payable monthly and semi annually). The effective mark-up rate charged during the year from range from 7.31% to 11.44% (2014: from 9.52% to 13.28%). These facilities are secured by way of first pari passu charge on all present and future receivables, leased assets and related lease receivables and present and future assets of the Modaraba to the extent of Rupees 890.78 million (2014: 1202.22 million).		
<b>17 SHORT TERM CERTIFICATES OF MUSHARAKA - UNSECURED</b>		
This represents Certificates of Musharaka through private placements. These certificates have different denominations and are repayable within twelve months. These certificates carry profit on profit and loss sharing basis which ranges from 6.50% to 9.90% (2014: 8.50% to 11.35%) per annum.		
	<b>2015 Rupees</b>	<b>2014 Rupees</b>
<b>18 CREDITORS, ACCRUED AND OTHER LIABILITIES</b>		
Advances from customers	19,115,826	40,979,034
Modaraba company management fee payable (unsecured)	-	348,724
Accrued expenses	481,848	895,731
Withholding tax payable	6,730	5,170
Unclaimed profit distribution	685,484	685,484
Charity payable	509,880	366,904
	<u>20,799,768</u>	<u>43,281,047</u>
<b>19 CURRENT PORTION OF NON-CURRENT LIABILITIES</b>		
Security deposits against ijarah assets (Note 20)	149,074,083	101,932,420
Long term certificates of musharaka (Note 21)	-	1,000,000
Long term finances - secured (Note 22)	233,658,309	290,833,332
Deferred murabaha income (Note 23)	1,503,232	2,530,963
	<u>384,235,624</u>	<u>396,296,715</u>
<b>20 SECURITY DEPOSITS AGAINST IJARAH ASSETS</b>		
Security deposits against ijarah assets	302,032,090	317,367,175
Less: Current portion (Note 19)	<u>(149,074,083)</u>	<u>(101,932,420)</u>
	<u>152,958,007</u>	<u>215,434,755</u>

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	2015 Rupees	2014 Rupees
<b>21 LONG TERM CERTIFICATES OF MUSHARAKA</b>		
Certificates of musharaka (Unsecured)	-	3,658,017
Less: Current portion	-	(1,000,000)
	-	2,658,017
<b>21.1</b>	This represents long term Certificates of Musharaka issued through private placements. These certificates had different denominations and carried profit on profit and loss sharing basis which ranged from 9.30% to 9.90% (2014: 8.74% to 12.75%) per annum.	
	2015 Rupees	2014 Rupees
<b>22 LONG TERM FINANCES - SECURED</b>		
<b>From banking companies and financial institution - secured</b>		
<b>Demand finance from:</b>		
National Bank of Pakistan - associated undertaking	30,324,975	97,166,668
Others	271,666,667	495,833,332
	301,991,642	593,000,000
Less: Current portion	(233,658,309)	(290,833,332)
	68,333,333	302,166,668
<b>22.1</b>	The Modaraba has total demand finance facilities of Rupees 800 million (2014: 800 million) available from commercial banks. These carry mark-up at offer rate for 3 month to 6 months KIBOR plus 1.50% to 1.85% (2014: 3 month to 6 months KIBOR plus 1.50% to 1.85% per annum) payable quarterly and semi annually (2014: payable quarterly and semi annually). The effective mark-up rate charged during the year from ranged from 8.62% to 12.02% (2014: from 10.55% to 11.97%). These facilities are secured by way of first pari passu charge on all present and future receivables, leased assets and related lease receivables and present and future assets of the Modaraba to the extent of Rupees 1,775.937 million (2014: 1,775.937 million).	
	2015 Rupees	2014 Rupees
<b>23 DEFERRED MORABAHA INCOME</b>		
Long term deferred murabaha income	31,913,554	13,891,860
Less: Current maturity of deferred murabaha income (Note 19)	(1,503,232)	(2,530,963)
	30,410,322	11,360,897
<b>24 CERTIFICATE CAPITAL</b>		
<b>Authorised certificate capital</b>		
60,000,000 (2014: 60,000,000) modaraba certificates of Rupees 10 each	600,000,000	600,000,000
<b>Issued, subscribed and paid-up certificate capital</b>		
25,000,000 (2014: 25,000,000) modaraba certificates of Rupees 10 each	250,000,000	250,000,000
<b>24.1</b>	7,500,000 (2014: 7,500,000) certificates of the Modaraba are held by National Bank Modaraba Management Company Limited, the Management Company.	

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	2015 Rupees	2014 Rupees
<b>25 RESERVES</b>		
<b>Capital reserves</b>		
Statutory reserve (Note 25.1)	43,955,189	43,955,189
<b>Revenue reserve</b>		
Accumulated loss	<u>(152,429,935)</u>	<u>(30,253,865)</u>
	<u>(108,474,746)</u>	<u>13,701,324</u>
<b>25.1</b> This represents special reserve created in compliance with the Prudential Regulations for Modarabas issued by SECP.		
<b>26 CONTINGENCIES AND COMMITMENTS</b>		
There were no known contingencies as at 30 June 2015.	<u>NIL</u>	<u>NIL</u>
Commitments - Facilities approved but not disbursed	<u>-</u>	<u>37,799,500</u>
<b>27 OTHER INCOME</b>		
Service charges	267,441	986,100
Documentation charges	2,262,509	238,625
	<u>2,529,950</u>	<u>1,224,725</u>
<b>28 OPERATING EXPENSES</b>		
Salaries, allowances and other benefits (Note 28.2)	18,188,891	17,635,252
Communication	283,297	318,395
Travelling and conveyance	181,608	581,669
Vehicles' running	175,347	349,874
Postage and stamps	52,262	56,409
Advertisement	63,145	123,210
Legal and professional	896,012	1,097,523
Auditors' remuneration (Note 28.1)	536,780	511,830
Fees and subscription	810,338	935,494
Repairs and maintenance	371,808	314,076
Insurance	222,021	217,048
Stationery, printing and others	480,719	411,557
Entertainment	259,121	248,418
Depreciation on fixed assets in own use (Note 15)	489,978	911,716
Amortization (Note 13)	143,317	144,667
Other sundry expenses	55,942	165,247
	<u>23,210,586</u>	<u>24,022,385</u>
<b>28.1 Auditors' remuneration</b>		
Audit fee	302,500	302,500
Review of half yearly accounts	96,800	96,800
Certifications	97,600	72,600
Out of pocket expenses	39,880	39,930
	<u>536,780</u>	<u>511,830</u>
<b>28.2</b> Office space, utilities and related expenditure are borne by National Bank Modaraba Management Company Limited, Modaraba management company.		

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## 28.3 Salaries, allowances and other benefits

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

	2015			2014		
	Officers	Employees	Total	Officers	Employees	Total
	-----Rupees-----					
Salary	3,791,700	4,770,636	8,562,336	3,814,732	2,898,507	6,713,239
House rent allowance	1,895,868	1,738,300	3,634,168	1,907,384	1,449,278	3,356,662
Utilities	455,004	417,196	872,200	457,752	347,827	805,579
Bonus	861,621	1,395,611	2,257,232	840,432	868,641	1,709,073
Expenses reimbursed	1,235,358	1,627,597	2,862,955	1,763,697	3,287,002	5,050,699
	<u>8,239,551</u>	<u>9,949,340</u>	<u>18,188,891</u>	<u>8,783,997</u>	<u>8,851,255</u>	<u>17,635,252</u>
Number of persons	4	18	22	5	12	17

28.4 The Chief Financial Officer of the Modaraba is provided with free use of vehicle maintained by the Modaraba.

	2015 Rupees	2014 Rupees
<b>29 FINANCE COST</b>		
Short term finances - secured	12,392,944	25,543,270
Short term certificates of musharaka - unsecured	25,352,784	32,430,190
Long term certificates of musharaka	-	398,658
Long term finances - secured	51,982,422	62,222,644
Bank and other charges	378,277	129,019
	<u>90,106,427</u>	<u>120,723,781</u>

29.1 This includes finance cost of Rupees 11,557,642 (2014: 25,600,383) on various facilities obtained from National Bank of Pakistan - associated undertaking.

## 30 PROVISION FOR DOUBTFUL RECEIVABLES

Opening balance	116,020,900	83,495,175
Add: Charged during the year	121,252,772	32,574,401
Less: Reversed during the year	(8,119,416)	(48,676)
Net provision charged during the year	113,133,356	32,525,725
Closing balance	<u>229,154,256</u>	<u>116,020,900</u>

### 30.1 Break up of closing balance

Provision against doubtful murabaha investments (Note 4)	179,087,920	110,362,900
Provision for doubtful ijarah rentals receivable (Note 6.1)	12,633,222	-
Provision for doubtful net investment in ijarah finance (Note 9.1)	5,658,000	5,658,000
Provision against accrued profit	6,786,858	-
Provision against advances for ijarah assets	24,988,256	-
	<u>229,154,256</u>	<u>116,020,900</u>

## 31 Modaraba Management Company Fee

In accordance with Section 18 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, management fee @ 10% of annual profits is paid to the Modaraba Management Company. Owing to the loss during the year, the Modaraba Management Company's fee has not been provided for.

	2015 Rupees	2014 Rupees
<b>32 TAXATION</b>		
Current:		
For the year (Note 32.1)	-	-
Deferred income tax (Note 32.2)	-	-
<b>32.1</b> No provision for current tax is recognized as the Modaraba has estimated carry forwardable tax losses of Rupees 100.587 million (2014: Rupees 169.706 million). Further, provision of minimum tax is not applicable to the Modaraba as per sub clause (xiii) of clause 11A of part IV of second schedule to the Income Tax Ordinance, 2001.		
<b>32.2 Deferred income tax</b>		
The asset for deferred income tax originated due to temporary differences relating to:		
Accelerated tax depreciation	36,566,493	31,778,786
Carry forward tax losses	25,146,932	42,426,585
	61,713,425	74,205,371
Less: Deferred income tax asset not recognized	(61,713,425)	(74,205,371)
	-	-

**32.2.1** The deferred income tax asset of Rupees 61.713 million (2014: Rupees 74.205 million) has not been recognized in these financial statements as the temporary differences are not expected to reverse in foreseeable future because taxable profits may not be available against which the temporary differences can be utilized.

### 33 LOSS PER CERTIFICATE - BASIC AND DILUTED

Loss attributable to ordinary certificates holders	<b>Rupees</b>	(122,176,070)	(34,212,077)
Weighted average number of ordinary certificates outstanding	<b>Numbers</b>	25,000,000	25,000,000
Loss per certificate	<b>Rupees</b>	(4.89)	(1.37)

There is no dilution in loss per certificate as the Modaraba has not issued any instrument during the year which would have an impact on its loss per certificate.

### 34 FUTURE IJARAH RENTALS RECEIVABLE

Aggregate amount of future ijarah rentals receivable on the basis of agreements executed upto 30 June 2015 approximate to Rupees 962,015,752 (2014: Rupees 896,637,157). The amount of future ijarah rentals receivable and period during which they fall due are:

Not later than one year	485,441,252	447,195,058
Later than one year but not later than five years	476,574,500	449,442,099
Later than five years	-	-
	962,015,752	896,637,157

The Modaraba has entered into various ijarah agreement for periods ranging from 2 to 11 years (2014: 3 to 5 years). Security deposits ranging from 0.1% to 74% (2014: 0.1% to 50%) are obtained at the time of disbursement. The rate of profit implicit in ijarah ranges from 9.76% to 17.16% (2014: 10.26% to 17.24%) per annum.

### 35 FINANCIAL RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

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

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## 35.1 Credit risk

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

	2015 Rupees	2014 Rupees
Bank balances	89,487,848	42,800,533
Ijarah rentals receivable	58,284,350	55,297,418
Other receivables	2,141,163	24,760,378
Accrued profit	3,621,217	17,485,909
Murabaha investments - secured	237,326,614	442,188,776
Net investment in ijarah finance	54,912,414	34,534,366
Diminishing musharaka financing - secured	27,146,721	29,400,000
Long term loans and deposits	6,274,669	6,026,258
	<u>479,194,996</u>	<u>652,493,638</u>

### 35.1.1 Credit quality of banks

The credit quality of the Modaraba's bank balances can be assessed with reference to external credit ratings as follows:

	Rating			2015	2014
	Short term	Long term	Agency	Rupees	
National Bank of Pakistan	A1+	AAA	PACRA	3,582,560	19,281,021
Al Baraka Bank (Pakistan) Limited	A1+	A	PACRA	67,658,887	21,370,698
Bank Alfalah Limited	A1+	AA	PACRA	561,891	153,954
First Women Bank Limited	A2	BBB+	PACRA	5,490	8,499
Standard Chartered Bank (Pakistan) Limited	A1+	AAA	PACRA	-	1,605,339
Allied Bank Limited	A1+	AA+	PACRA	2,089,906	66,541
Habib Bank Limited	A-1+	AAA	JCR-VIS	14,581,931	39,372
The Bank of Punjab	A1+	AA-	PACRA	38,226	98,028
BankIslami Pakistan Limited	A1+	A+	PACRA	98,061	25,385
NIB Bank Limited	A1+	AA-	PACRA	170,955	48,281
United Bank Limited	A-1+	AA+	JCR-VIS	301,521	15,326
Bank Al-Habib Limited	A1+	AA+	PACRA	71,034	49,843
MCB Bank Limited	A1+	AAA	PACRA	327,386	38,246
				<u>89,487,848</u>	<u>42,800,533</u>

### 35.1.2 Description of collateral held

The Modaraba's ijarah arrangements (leases) are secured against ijarah assets, demand promissory notes, post dated cheques and personal guarantees varying from case to case. In a few arrangements additional collateral is also obtained in the form of charge on fixed assets.

Murabaha investments are secured against charge over fixed and current assets, registered and equitable mortgage of properties, personal guarantees of directors of customer companies, demand promissory notes and post dated cheques varying from case to case.

Diminishing musharaka financings are secured by first charge on all present and future fixed assets of the client, registered and equitable mortgage on properties, personal guarantee of directors, post dated cheques and joint ownership of musharaka assets varying from case to case.

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## 35.1.3 Age analysis of profit on murabaha investments

Past due	2015				Carrying amount
	Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	
-----Rupees-----					
0 days	1,338,705	1,338,705	-	-	1,338,705
1 day - 89 days	1,086,740	1,086,740	-	-	1,086,740
90 days - 179 days	487,118	487,118	-	-	487,118
180 days - 364 days	849,150	-	849,150	849,150	-
1 year - less than 2 year	2,168,369	-	2,168,369	2,168,369	-
2 year - less than 3 year	3,769,339	-	3,769,339	3,769,339	-
3 year or more	-	-	-	-	-
<b>Total</b>	<b>9,699,421</b>	<b>2,912,563</b>	<b>6,786,858</b>	<b>6,786,858</b>	<b>2,912,563</b>

Past due	2014				Carrying amount
	Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	
-----Rupees-----					
0 days	4,804,186	4,804,186	-	-	4,804,186
1 day - 89 days	3,481,351	3,481,351	-	-	3,481,351
90 days - 179 days	965,606	-	965,606	-	965,606
180 days - 364 days	1,770,265	-	1,770,265	-	1,770,265
1 year - less than 2 year	5,859,164	-	5,859,164	-	5,859,164
2 year - less than 3 year	-	-	-	-	-
3 year or more	-	-	-	-	-
<b>Total</b>	<b>16,880,572</b>	<b>8,285,537</b>	<b>8,595,035</b>	<b>-</b>	<b>16,880,572</b>

## 35.1.4 Age analysis of murabaha investments

Past due	2015				Carrying amount
	Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision recognized under Prudential Regulations	
-----Rupees-----					
0 days	69,716,838	69,716,838	-	-	69,716,838
1 day - 179 days	84,186,996	84,186,996	-	-	84,186,996
180 days - 364 days	46,600,000	-	46,600,000	6,479,100	40,120,900
1 year - less than 2 year	66,233,030	-	66,233,030	33,573,820	32,659,210
2 year - less than 3 year	149,677,670	-	149,677,670	139,035,000	10,642,670
3 year or more	-	-	-	-	-
<b>Total</b>	<b>416,414,534</b>	<b>153,903,834</b>	<b>262,510,700</b>	<b>179,087,920</b>	<b>237,326,614</b>

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Past due	2014				Carrying amount
	Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision recognized under Prudential Regulations	
	-----Rupees-----				
0 days	320,566,034	320,566,034	-	-	320,566,034
1 day-179 days	75,890,427	75,890,427	-	-	75,890,427
180 days - 364 days	32,113,437	-	32,113,437	28,694,354	3,419,083
1 year - less than 2 year	123,981,778	-	123,981,778	81,668,546	42,313,232
2 year - less than 3 year	-	-	-	-	-
3 year and above	-	-	-	-	-
<b>Total</b>	<b>552,551,676</b>	<b>396,456,461</b>	<b>156,095,215</b>	<b>110,362,900</b>	<b>442,188,776</b>

Provisions are recognized by the Modaraba on the basis of time based criteria given under Prudential Regulations Modarabas and subjective evaluation carried out on an ongoing basis.

### 35.1.5 Age analysis of ijarah rentals receivable

Past due	2015				Carrying amount
	Gross amount	Amount on which no provision / suspension is required	Amount on which provision / suspension is required	Provision / suspension made under Prudential Regulations	
	-----Rupees-----				
0 days	135,941	135,941	-	-	135,941
1 day -89 days	15,168,948	15,168,948	-	-	15,168,948
90 days -179 days	33,964,373	33,964,373	-	-	33,964,373
180 days - 364 days	6,263,534	-	6,263,534	3,483,495	2,780,039
1 year - less than 2 year	23,808,911	-	23,808,911	17,573,862	6,235,049
2 year - less than 3 years	-	-	-	-	-
3 year or more	-	-	-	-	-
<b>Total</b>	<b>79,341,707</b>	<b>49,269,262</b>	<b>30,072,445</b>	<b>21,057,357</b>	<b>58,284,350</b>

Past due	2014				Carrying amount
	Gross amount	Amount on which no provision / suspension is required	Amount on which provision / suspension is required	Provision / suspension made under Prudential Regulations	
	-----Rupees-----				
0 days	794,922	-	-	-	794,922
1 day -89 days	13,192,315	-	-	-	13,192,315
90 days -179 days	41,310,181	-	-	-	41,310,181
180 days - 364 days	-	-	-	-	-
1 year - less than 2 year	-	-	-	-	-
2 year - less than 3 years	-	-	-	-	-
3 year or more	-	-	-	-	-
<b>Total</b>	<b>55,297,418</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>55,297,418</b>

## 35.1.6 Age analysis of diminishing musharaka financing

Past due	2015				Carrying amount
	Gross amount	Amount on which no provision / suspension is required	Amount on which provision / suspension is required	Provision / suspension made under Prudential Regulations	
-----Rupees-----					
0 days	26,604,516	26,604,516	-	-	26,604,516
1 day -179 days	542,205	542,205	-	-	542,205
180 days- 364 days	-	-	-	-	-
1 year - less than 2 year	-	-	-	-	-
2 year - less than 3 year	-	-	-	-	-
3 year or more	-	-	-	-	-
<b>Total</b>	<b>27,146,721</b>	<b>27,146,721</b>	<b>-</b>	<b>-</b>	<b>27,146,721</b>

Past due	2014				Carrying amount
	Gross amount	Amount on which no provision / suspension is required	Amount on which provision / suspension is required	Provision / suspension made under Prudential Regulations	
-----Rupees-----					
0 days	29,400,000	29,400,000	-	-	29,400,000
1 day-179 days	-	-	-	-	-
180 days - 364 days	-	-	-	-	-
1 year - less than 2 year	-	-	-	-	-
2 year - less than 3 year	-	-	-	-	-
3 year and above	-	-	-	-	-
<b>Total</b>	<b>29,400,000</b>	<b>29,400,000</b>	<b>-</b>	<b>-</b>	<b>29,400,000</b>

## 35.1.7 Age analysis of profit on diminishing musharaka financing

Past due	2015				Carrying amount
	Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	
-----Rupees-----					
0 days	-	-	-	-	-
1 day - 89 days	194,959	194,959	-	-	194,959
90 days - 179 days	277,541	277,541	-	-	277,541
180 days - 364 days	-	-	-	-	-
1 year - less than 2 year	-	-	-	-	-
2 year - less than 3 year	-	-	-	-	-
3 year or more	-	-	-	-	-
<b>Total</b>	<b>472,500</b>	<b>472,500</b>	<b>-</b>	<b>-</b>	<b>472,500</b>

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Past due	2014				Carrying amount
	Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	
-----Rupees-----					
0 days	-	-	-	-	-
1 day -89 days	343,490	343,490	-	-	343,490
90 days - 179 days	-	-	-	-	-
180 days - 364 days	-	-	-	-	-
1 year - less than 2 year	-	-	-	-	-
2 year - less than 3 year	-	-	-	-	-
3 year or more	-	-	-	-	-
<b>Total</b>	<b>343,490</b>	<b>343,490</b>	<b>-</b>	<b>-</b>	<b>343,490</b>

Provisions are recognized by the Modaraba on the basis of time based criteria given under Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

### 35.1.8 Concentration of credit risk

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

Break down of credit risk exposure by class of business as 2015 is as follows:

	Ijarah assets	Murabaha investments	Diminishing musharaka	Total	% age
-----Rupees-----					
Transport and communications	82,595,094	395,520	-	82,990,614	7.21
Education	9,652,449	-	-	9,652,449	0.84
Power	8,907,569	45,000,000	-	53,907,569	4.68
Textiles	124,076,631	283,379,547	-	407,456,178	35.36
Construction	15,495,000	-	-	15,495,000	1.35
Engineering	8,600,014	56,359,542	-	64,959,556	5.64
Food	114,486,724	31,279,925	-	145,766,649	12.65
Individuals	178,282,030	-	-	178,282,030	15.47
Financial institutions	30,482,525	-	-	30,482,525	2.65
Manufacturing industries	80,911,694	-	27,146,721	108,058,415	9.38
Miscellaneous	55,540,553	-	-	55,540,553	4.82
<b>Total</b>	<b>709,030,283</b>	<b>416,414,534</b>	<b>27,146,721</b>	<b>1,152,591,538</b>	<b>100</b>

Break down of credit risk exposure by class of business as 2014 is as follows:

	Ijarah assets	Murabaha investments	Diminishing musharaka	Total	% age
-----Rupees-----					
Transport and communications	144,098,309	587,736	-	144,686,045	9.27
Education	9,458,063	-	-	9,458,063	0.61
Power	12,360,574	45,000,000	-	57,360,574	3.68
Textiles	281,934,278	312,537,115	-	594,471,393	38.09
Construction	-	-	-	-	0.00
Engineering	-	100,069,944	-	100,069,944	6.41
Food	151,430,317	36,356,881	-	187,787,198	12.03
Individuals	140,937,733	58,000,000	-	198,937,733	12.75
Financial institutions	18,072,077	-	-	18,072,077	1.16
Manufacturing industries	130,928,800	-	29,400,000	160,328,800	10.27
Miscellaneous	89,377,661	-	-	89,377,661	5.73
<b>Total</b>	<b>978,597,812</b>	<b>552,551,676</b>	<b>29,400,000</b>	<b>1,560,549,488</b>	<b>100</b>

## 35.2 Liquidity risk

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

	2015					
	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years
-----Rupees-----						
<b>Financial liabilities</b>						
Accrued profit	17,385,139	17,385,139	17,385,139	-	-	-
Short term finances	134,685,179	139,909,787	19,357,524	120,552,263	-	-
Short term certificates of musharaka	295,597,365	298,926,903	284,615,096	14,311,807	-	-
Creditors, accrued and other liabilities	1,683,942	1,683,942	1,683,942	-	-	-
Long term certificates of musharaka	-	-	-	-	-	-
Long term finances	301,991,642	325,631,113	145,383,275	109,216,579	71,031,259	-
<b>Total</b>	<b>751,343,267</b>	<b>783,536,884</b>	<b>468,424,976</b>	<b>244,080,649</b>	<b>71,031,259</b>	<b>-</b>

	2014					
	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years
-----Rupees-----						
<b>Financial liabilities</b>						
Accrued profit	16,870,807	16,870,807	16,870,807	-	-	-
Short term finances	186,961,688	195,496,285	27,369,480	168,126,805	-	-
Short term certificates of musharaka	254,918,809	264,203,443	136,982,061	127,221,382	-	-
Creditors, accrued and other liabilities	2,302,013	2,302,013	2,302,013	-	-	-
Long term certificates of musharaka	3,658,017	4,056,675	1,021,384	-	3,035,291	-
Long term finances	593,000,000	668,621,893	137,196,312	205,794,468	325,631,113	-
<b>Total</b>	<b>1,057,711,334</b>	<b>1,151,551,116</b>	<b>321,742,057</b>	<b>501,142,655</b>	<b>328,666,404</b>	<b>-</b>

35.2.1 The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up rates effective as at year end (and includes both principal and profit payable thereon).

## 35.3 Market risk

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

### 35.3.1 Currency risk

Currency risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables exist due to transactions in foreign currencies. Currently, the Modaraba do not have any receivables or payables that exist due to transactions in foreign currencies which expose it to currency risk.

## 35.3.2 Interest rate risk

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Modaraba's interest rate risk arises from long term murabaha finance and bank balances in saving accounts. Long term murabaha finance obtained and balances in saving accounts at variable rates expose the Modaraba to cash flow interest rate risk. Musharaka finances obtained, musharaka and murabaha investments made at fixed rate expose the Modaraba to fair value interest rate risk.

At the balance sheet date the interest rate profile of the Modaraba's interest bearing financial instruments was:

	2015 Rupees	2014 Rupees
<b>Fixed rate instruments</b>		
<b>Financial assets</b>		
Murabaha investments	176,589,932	427,674,694
Loans to employees	6,235,169	5,986,758
<b>Financial liabilities</b>		
Certificates of musharaka	210,242,365	183,946,826
<b>Floating rate instruments</b>		
<b>Financial asset</b>		
Murabaha investments	60,736,682	14,514,082
Bank balances	70,576,115	39,954,681
Diminishing musharaka financing - secured	27,146,721	29,400,000
Net investment in ijarah finance	54,912,414	60,430,882
<b>Financial liabilities</b>		
Finances	436,676,821	779,961,688
Certificates of musharaka	85,355,000	74,630,000

### Fair value sensitivity analysis for fixed rate instruments

The Modaraba does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the Modaraba.

### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) loss for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for the year 2014.

	EFFECT ON PROFIT	
	100 bps	
	Increase Rupees	Decrease Rupees
<b>As at 30 June 2015</b>		
Cash flow sensitivity-floating rate financial assets	2,133,719	(2,133,719)
Cash flow sensitivity-floating rate financial liabilities	(5,220,318)	5,220,318
Net effect	(3,086,599)	3,086,599

EFFECT ON PROFIT	
100 bps	
Increase	Decrease
Rupees	Rupees
Cash flow sensitivity-floating rate financial assets	(1,442,997)
Cash flow sensitivity-floating rate financial liabilities	8,545,917
Net effect	7,102,920

**As at 30 June 2014**

Cash flow sensitivity-floating rate financial assets	1,442,997	(1,442,997)
Cash flow sensitivity-floating rate financial liabilities	(8,545,917)	8,545,917
Net effect	(7,102,920)	7,102,920

The sensitivity analysis prepared is not necessarily indicative of the effects on profit for the year and assets / liabilities of the Modaraba. This analysis is prepared assuming the amounts of liabilities and assets outstanding at balance sheet dates were outstanding for the whole year.

**35.3.3 Other price risk**

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Modaraba is not exposed to commodity price risk.

**Sensitivity analysis**

There were no investment in listed securities as on 30 June 2015. Accordingly, there was no impact of increase / decrease in the Karachi Stock Exchange (KSE) Index on the Modaraba's loss after taxation for the year and on other comprehensive income.

**FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value

Underlying the definition of fair value is the presumption that the Modaraba is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures' requires the Modaraba to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (level 2); and
- c) inputs for the assets or liability that are not based on observable market data (i.e., unobservable inputs) (level 3).

As at 30 June 2015 and 30 June 2014, there were no financial instruments which were measured at fair values in the financial statements.

# FIRST NATIONAL BANK MODARABA

## 35.4 Financial instruments by categories As at 30 June 2015

### Assets as per balance sheet

	Loans and receivables	Available for sale	Total
	-----Rupees-----		
Bank balances	89,487,848	-	89,487,848
Ijarah rentals receivable	58,284,350	-	58,284,350
Other receivables	2,141,163	-	2,141,163
Accrued profit	3,621,217	-	3,621,217
Murabaha investments	237,326,614	-	237,326,614
Net investment in ijarah finance	54,912,414	-	54,912,414
Diminishing musharaka financing	27,146,721	-	27,146,721
Long term loans and deposits	6,274,669	-	6,274,669
	479,194,996	-	479,194,996

### Financial liabilities at amortized cost

Rupees

### Liabilities as per balance sheet

Accrued profit payable	-	17,385,139
Short term finances	-	134,685,179
Short term certificates of musharaka	-	295,597,365
Creditors, accrued and other liabilities	-	1,683,942
Long term certificates of musharaka	-	-
Long term finances	-	301,991,642
		751,343,267

Loans and  
receivables

Available for  
sale

Total

-----Rupees-----

## As at 30 June 2014

### Assets as per balance sheet

	Loans and receivables	Available for sale	Total
	-----Rupees-----		
Bank balances	42,800,533	-	42,800,533
Ijarah rentals receivable	55,297,418	-	55,297,418
Other receivables	24,760,378	-	24,760,378
Accrued profit	17,485,909	-	17,485,909
Murabaha investments	442,188,776	-	442,188,776
Net investment in ijarah finance	34,534,366	-	34,534,366
Diminishing musharaka financing	29,400,000	-	29,400,000
Long term loans and deposits	6,026,258	-	6,026,258
	652,493,638	-	652,493,638

### Financial liabilities at amortized cost

Rupees

### Liabilities as per balance sheet

Accrued profit payable	-	16,870,807
Short term finances	-	186,961,688
Short term certificates of musharaka	-	254,918,809
Creditors, accrued and other liabilities	-	2,302,013
Long term certificates of musharaka	-	3,658,017
Long term finances	-	593,000,000
		1,057,711,334

## 36 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of associated companies, Modaraba Management Company, directors of the Modaraba and key management personnel.

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

	2015 Rupees	2014 Rupees		
<b>36.1 Balances outstanding at the period / year end</b>				
Accounts with National Bank of Pakistan	3,582,560	19,281,021		
Finances form National Bank of Pakistan	145,900,675	189,439,102		
Ijarah rental receivables from National Bank of Pakistan	3,244,575	525,905		
Payable to the Modaraba Management Company	-	348,724		
<b>36.2 Transactions during the period</b>				
<b>Related party</b>	<b>Relationship</b>	<b>Nature of Transaction</b>		
National Bank of Pakistan	Modaraba	Musharaka obtained - net	23,303,266	7,822,966
	Management	Musharaka repaid - net	66,841,693	166,666,667
	Company's	Ijarah disbursed	21,800,000	-
	holding	Ijarah rentals received	9,745,477	16,886,945
	company	Profit paid	14,303,967	24,023,807
Khawaja-Amin-ul-Azam	Director	Ijarah rentals received	337,450	-
Remuneration to key management personnel			8,239,551	8,783,997

**36.2.1** Subsequent to balance sheet date the ijarah facility to director has been fully adjusted.

## 37 SEGMENT INFORMATION

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

The Chief Executive Officer is responsible for the Modaraba's entire product portfolio and considers the business to have a single operating segment. The Modaraba's asset allocation decisions are based on a single integrated investment strategy and the Modaraba's performance is evaluated on an overall basis.

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

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

The Modaraba also has a diversified certificate holder population. As at 30 June 2015, there was only one (30 June 2014: one) certificate holder who held more than 10% of the Modaraba's certificate capital. Its holding was 30 % (30 June

## 38 DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been approved by the Board of Directors of National Bank Modaraba Management Company Limited and authorized for issue on October 03, 2015.

## 39 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. However, no significant reclassification has been made.

## 40 General

Figures have been rounded off to the nearest rupee.

Lahore: October 03, 2015

  
**Chief Executive Officer**  
National Bank Modaraba  
Management Company Limited

  
**Director**  
National Bank Modaraba  
Management Company Limited

  
**Director**  
National Bank Modaraba  
Management Company Limited

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\*Mobile apps are also available for download for android and ios devices

# FIRST NATIONAL BANK MODARABA

## PATTERN OF CERTIFICATE HOLDING

AS ON JUNE 30, 2015

Number of ShareHolder	Shareholdings From	To	Total Number of Share Held	Percentage of Total Capital
79	1 -	100	3,201	0.01
364	101 -	500	172,724	0.69
209	501 -	1000	195,276	0.78
230	1001 -	5000	685,506	2.74
84	5001 -	10000	703,296	2.81
23	10001 -	15000	300,773	1.20
21	15001 -	20000	387,901	1.55
23	20001 -	25000	527,769	2.11
10	25001 -	30000	281,300	1.13
4	30001 -	35000	127,900	0.51
5	35001 -	40000	199,000	0.80
5	40001 -	45000	212,500	0.85
6	45001 -	50000	298,400	1.19
6	50001 -	55000	320,747	1.28
3	55001 -	60000	176,590	0.71
2	70001 -	75000	147,000	0.59
1	75001 -	80000	75,995	0.30
1	85001 -	90000	86,500	0.35
1	90001 -	95000	91,000	0.36
8	95001 -	100000	800,000	3.20
1	100001 -	105000	102,000	0.41
1	110001 -	115000	114,380	0.46
1	115001 -	120000	115,500	0.46
1	130001 -	135000	132,500	0.53
3	145001 -	150000	450,000	1.80
2	155001 -	160000	316,900	1.27
1	160001 -	165000	162,500	0.65
1	170001 -	175000	172,002	0.69
1	175001 -	180000	175,530	0.70
4	195001 -	200000	800,000	3.20
1	205001 -	210000	209,000	0.84
1	235001 -	240000	238,002	0.95
1	265001 -	270000	268,600	1.07
1	270001 -	275000	273,998	1.10
1	280001 -	285000	283,966	1.14
3	295001 -	300000	897,000	3.59
1	320001 -	325000	323,000	1.29
1	365001 -	370000	368,000	1.47
1	590001 -	595000	590,500	2.36
1	750001 -	755000	752,744	3.01
1	950001 -	955000	950,500	3.80
1	995001 -	1000000	1,000,000	4.00
1	1005001 -	1010000	1,010,000	4.04
1	1995001 -	2000000	2,000,000	8.00
1	7495001 -	7500000	7,500,000	30.00
<b>1,118</b>			<b>25,000,000</b>	<b>100.00</b>

**CATEGORIES OF CERTIFICATE HOLDERS  
AS ON JUNE 30, 2015**

**First National Bank Modaraba**

Categories of Share Holders

As on: June 30, 2015

Ser #	Category	No. of Shareholder	Shares Held	Percentage of Total Capital
1	Individuals	1,097	14,431,901	57.7276
2	Joint Stock Companies	13	384,201	1.5368
3	Modarabas	1	5,000	0.0200
4	Modaraba Management Cos	1	7,500,000	30.0000
5	Funds	3	330,000	1.3200
6	Directors*	1	25,000	0.1000
7	Certificate holders with 5% or above holding	1	2,000,000	8.0000
8	Others	2	323,898	1.2956
<b>TOTAL:</b>		<b>1,118</b>	<b>25,000,000</b>	<b>100.0000</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 has traded certificates of the Modaraba during the year under review.

**Associated companies, undertakings and related parties**

**Number of Certificates**

**National Bank Modaraba Management Company Limited**

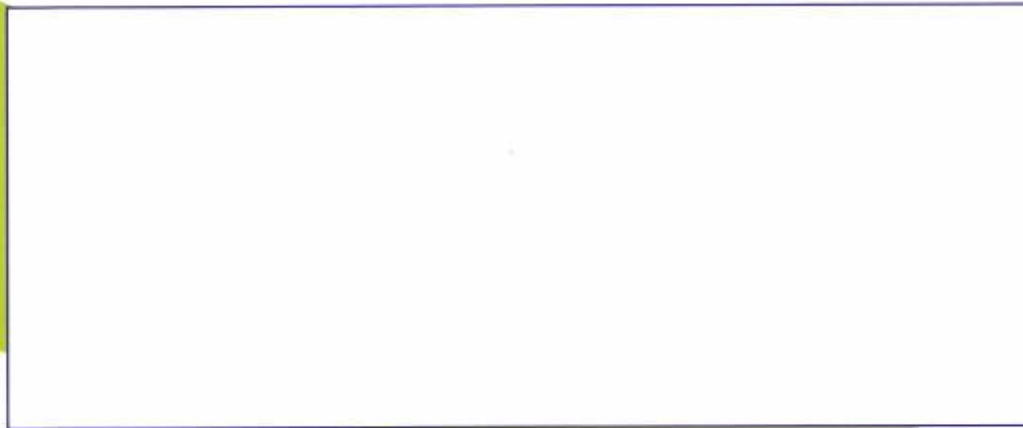
7,500,000

\*Mr. Jamal Nasim subsequently sold his certificateholding of 25,000 certificates on 13 August, 2015 @ Rs. 4.3 per certificate.

**CATEGORIES DETAILS  
AS ON JUNE 30, 2015**

<b>Category</b>	<b>Numbers of Certificates</b>
<b>Individuals</b>	<b>14,431,901</b>
<b>Joint Stock Companies</b>	
MAPLE LEAF CAPITAL LIMITED	1
MUHAMMAD AHMED NADEEM SECURITIES (SMC-PVT) LIMITED	100
INVEST CAPITAL MARKETS LIMITED	300
SHAFI SECURITIES (PVT) LIMITED	400
AMZ SECURITIES (PVT) LIMITED	500
AL-HAQ SECURITIES (PVT) LTD.	500
DOSSLANI'S SECURITIES (PVT) LIMITED	500
ADEEL ZAFAR SECURITIES (PVT) LTD.	500
FIKREE'S (SMC-PVT) LTD.	500
STOCK MASTER SECURITIES (PRIVATE) LTD.	1,800
MUHAMMAD SALIM KASMANI SECURITIES	72,000
SALIM SOZER SECURITIES (PVT.) LTD.	150,000
HAJI ABDUL SATTAR SECURITIES (PVT.) LIMITED	157,100
<b>Modarabas</b>	
FIRST ALNOOR MODARABA	5,000
<b>Modarabas Management Cos</b>	
NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED	7,500,000
<b>Funds</b>	
TRUSTEES-TREET CORPORATION LIMITED G.E. GRATUITY	30,000
TRUSTEES D.G. KHAN CEMENT CO. LTD. EMP. P.F	300,000
<b>Directors</b>	
JAMAL NASIM	25,000
<b>Certificate holders with 5% or above holding</b>	
DINAZ F. CASSIM	2,000,000
<b>Others</b>	
TRUSTEES, ALOO & MINOCHER DINSHAW CHARITABLE TRUST	49,900
TRUSTEES OF TEACHERS RESOURCE CENTRE	273,998

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