



FIRST NATIONAL BANK MODARABA

Half Yearly Report  
December 31  
**2008**



**Managed By:**  
National Bank Modaraba Management Company Limited  
(A subsidiary of National Bank of Pakistan)

First National Bank Modaraba  
*Half Yearly Report*  
*December 31, 2008*

## CONTENTS

Corporate Information	1
Directors Report	2
Review Report	3
Balance Sheet	4
Profit and Loss Account	5
Cash Flow Statement	6
Statement of Changes in Equity	7
Notes to the Accounts	8

## CORPORATE INFORMATION

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

## Directors' Report

On behalf of the Board of Directors of National Bank Modaraba Management Company Limited (NBMCL), the Management Company of First National Bank Modaraba (FNBM), I am pleased to present the half yearly report, together with financial statements of FNBM and Review Report by the Auditors, for the six months ended December 31, 2008.

### Operational Review

During the period under review, economy remained under immense pressure. Financial sector in the country faced a lot of severe problems especially liquidity crunch and rising interest rates. The stock market also shed significant value due to political instability in the country, huge outflow of foreign investment, devaluation of rupee and other negative sentiments prevailing in the market. Under these difficult circumstances FNBM achieved satisfactory results during six months ended December 31, 2008. The balance sheet size was reduced by Rs.333 million and it stood at 2.446 billion as compared Rs.2.779 billion as on June 30, 2008. The main focus of the Modaraba remained the reinvestment of amounts recovered/realized from Ijarah and morabaha investments. The Net Investment in Ijarah Finance was decreased by 3% and it stood at Rs.1.449 billion as compared to Rs.1.493 billion on June 30, 2008. However Morabaha Investment of FNBM decreased by 14% during the period from Rs.840 million to Rs.721 million.

The income from Ijarah Finance increased by 32% from Rs. 76.862 million in the corresponding six months period to Rs. 101.835 million in the period under review. Similarly, income from Morabaha Investments increased by 69% from Rs.34.979 million to Rs.58.974 million. The Modaraba faced adverse implications of rising interest rates and shortage of liquidity during the period under consideration. The Financial cost increased by 61.429% during the period under review as compared to corresponding six months period ending on December 31, 2007. This huge increase in financial cost was the main reason of reduction in net profit which reduced by 25% as compared to corresponding six months. However the profit of the second quarter ended December 31, 2008 was slightly higher than the corresponding quarter last year.

### Investment in Equity Securities – Available for Sale

International Accounting Standard 39 – Financial Instruments: Recognition and Measurement requires that available for sale equity securities are impaired when there is a significant or prolonged decline in the fair value below its cost and such impairment loss should be transferred to profit & loss account from equity. However due to significant decline in values of equity securities SECP vide S.R.O.150 (1) dated February 13, 2009 has allowed to recognise this impairment loss in equity instead of charging to profit & loss account. However this loss has to be taken to profit & loss account on quarterly basis during calendar year 2009. As on December 31, 2008 FNBM had a cumulative loss of Rs.33.644 million on available for sale equity investment, these equity securities have been valued at prices quoted on KSE on December 31, 2008 without any adjustment as allowed by Securities and Exchange Commission of Pakistan (SECP) circular No. Enf/D-III/Misc./1/2008 dated January 29, 2009.

### Auditors' Review

The Institute of Chartered Accountants of Pakistan issued IFAS-2 'Ijarah' which was promulgated by the Securities and Exchange Commission of Pakistan ("SECP") vide an SRO dated May 22, 2007 and was operative for financial statements covering the period beginning on or after July 01, 2007. Modaraba Association of Pakistan applied to SECP for the deferment of this IFAS on the basis that the period given for its implementation is very short for making necessary changes in the existing accounting & MIS systems of many Modarabas. However SECP did not give any deferment to modarabas. Consequently, the Modaraba is converting its accounting system in compliance with the requirements of IFAS-2 Ijarah. As the conversion is in process, therefore this interim financial information for half year ended December 31, 2008 has been prepared under the requirement of IAS-17 "Leases" as per latest audited financial statements of Modaraba for year ended June 30, 2008. The annual financial statements of the Modaraba for year ending June 30, 2009 will, however, comply with the requirement of IFAS-2 Ijarah.

The Board would like to take this opportunity to thank its valued certificate holders, lenders and clients for their patronage and consistent support. Besides, the Board extends its sincere gratitude to Registrar Modarabas, SECP and Modaraba Association of Pakistan for their continued guidance and support.

**For and on behalf of the Board**

**Shafiq Khan**  
Chief Executive Officer

**Dated: February 27, 2009**

## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS ON REVIEW OF INTERIM FINANCIAL INFORMATION

### Introduction

We have reviewed the accompanying condensed interim balance sheet of FIRST NATIONAL BANK MODARABA ("the Modaraba") as at December 31, 2008 and the related condensed interim profit and loss account, condensed interim cash flow statement and condensed interim statement of changes in equity for the half year then ended ("the interim financial information"). Management of the Modaraba Management Company (National Bank Modaraba Management Company Limited) is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed interim profit and loss account for the quarters ended December 31, 2007 and 2008 have not been reviewed, as we are required to review only the cumulative figures for the half year ended December 31, 2008.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Basis for Qualified Conclusion

The Modaraba has not adopted Islamic Financial Accounting Standard-2 Ijarah ("IFAS-2 Ijarah") on Ijarah financing, issued by the Institute of Chartered Accountants of Pakistan and notified by the Securities and Exchange Commission of Pakistan (SECP) vide SRO # 431(I)/2007 dated May 22, 2007 and became effective for financial reporting period beginning on July 01, 2007. Had the requirements of IFAS - 2 Ijarah been applied on Ijarah commencing after July 01, 2007, there would have been certain reclassifications and rearrangements of the respective balances, as explained in Note 3.4, in the balance sheet and profit and loss account of the Modaraba. However, these reclassifications and rearrangements do not have any financial impact on net profit for the period and on the certificate holder's equity as at December 31, 2008.

### Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information as of and for the half year ended December 31, 2008 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

February 27, 2009  
Lahore

M. YOUSAF ADIL SALEEM & CO.  
(Chartered Accountants)

## Half Yearly Report - December 31, 2008

### CONDENSED INTERIM BALANCE SHEET (UN-AUDITED) AS AT DECEMBER 31, 2008

		Un-audited December 31 2008 Rupees	Audited June 30 2008 Rupees
<b>ASSETS</b>			
<b>Current Assets</b>			
Bank balances		23,349,782	12,264,803
Advances, prepayments and other receivables		34,755,851	119,497,001
Accrued profit		37,115,253	29,719,250
Short-term investments	5	15,321,523	39,331,377
Short-term morabaha investment - secured		520,437,514	660,947,053
Short-term musharaka investment - unsecured		-	100,000,000
Current portion of non-current assets		677,416,046	637,816,245
		<u>1,308,395,969</u>	<u>1,599,575,729</u>
<b>Non-Current Assets</b>			
Net investment in ijarah	6	922,684,240	965,093,293
Long-term morabaha investment - secured		201,455,623	197,321,492
Long-term musharaka investment - secured		10,941,801	12,941,801
Long-term loans and deposits		1,067,958	1,205,128
Deferred cost		-	839,813
Fixed assets	7	1,892,887	1,997,569
		<u>1,138,042,509</u>	<u>1,179,399,096</u>
<b>Total Assets</b>		<u>2,446,438,478</u>	<u>2,778,974,825</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Creditors, accrued and other liabilities		85,160,398	54,402,389
Short-term finance - secured		906,174,894	716,502,230
Short-term certificates of musharaka - unsecured	8	59,600,000	229,900,000
Current portion of long-term liabilities		490,734,356	639,537,005
		<u>1,541,669,648</u>	<u>1,640,341,624</u>
<b>Non-Current Liabilities</b>			
Long-term security deposits		148,868,986	191,871,833
Long-term certificates of musharaka - unsecured		100,000,000	102,300,000
Long-term finance - secured	9	341,666,673	487,500,004
Deferred morabaha income		39,538,956	50,488,159
		<u>630,074,615</u>	<u>832,159,996</u>
<b>Total Liabilities</b>		<u>2,171,744,263</u>	<u>2,472,501,620</u>
<b>NET ASSETS</b>		<u>274,694,215</u>	<u>306,473,205</u>
<b>REPRESENTED BY</b>			
<b>Capital and reserves</b>			
Certificate capital	10	250,000,000	250,000,000
Reserves		24,694,215	56,473,205
<b>CONTINGENCIES AND COMMITMENTS</b>			
	11	<u>274,694,215</u>	<u>306,473,205</u>

*The annexed notes from 1 to 18 form an integral part of this interim financial information*

**CHIEF EXECUTIVE OFFICER**  
Lahore: February 27, 2009

**DIRECTOR**

**DIRECTOR**

**CHIEF FINANCIAL OFFICER**

## First National Bank Modaraba

### CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED) FOR THE QUARTER AND HALF YEAR ENDED DECEMBER 31, 2008

	Note	Half year ended		Quarter ended	
		December 31	December 31	December 31	December 31
		2008	2007	2008	2007
		..... Rupees .....	..... Rupees .....		
<b>INCOME</b>					
Income from ijarah		101,835,045	76,862,612	51,828,058	38,262,241
Profit on morabaha investments		58,974,023	34,978,998	30,215,708	15,993,677
Profit on musharaka investments		5,684,063	2,700,417	1,414,469	1,346,141
Profit on bank deposits		120,788	55,011	34,038	35,511
(Loss)/gain on short-term investments	12	(3,541,612)	(371,083)	(1,586,271)	278,684
Other income		1,186,252	277,268	774,133	183,419
		164,258,559	114,503,223	82,680,135	56,099,673
<b>EXPENDITURES</b>					
Finance costs		138,367,349	85,713,796	68,876,731	43,115,755
Operating expenses	13	10,549,311	8,163,863	5,294,772	4,849,066
		148,916,660	93,877,659	74,171,503	47,964,821
		15,341,899	20,625,564	8,508,632	8,134,852
Modaraba company's management fee		1,534,190	2,062,556	850,863	813,485
<b>PROFIT FOR THE PERIOD</b>		13,807,709	18,563,008	7,657,769	7,321,367
Un-appropriated profit brought forward		44,624,375	49,214,141	49,544,327	58,207,454
Profit available for appropriation		58,432,084	67,777,149	57,202,096	65,528,821
<b>Appropriation:</b>					
Transfer to statutory reserve		2,761,542	3,712,602	1,531,554	1,464,274
Profit distribution for the year ended June 30, 2008 @ Re. 1.00 (June 30, 2007: Rs. 1.20) per certificate.		25,000,000	30,000,000	25,000,000	30,000,000
		27,761,542	33,712,602	26,531,554	31,464,274
<b>Un-appropriated profit carried forward</b>		30,670,542	34,064,547	30,670,542	34,064,547
<b>EARNINGS PER MODARABA CERTIFICATE</b>					
Basic and diluted		0.55	0.74	0.31	0.29

*The annexed notes from 1 to 18 form an integral part of this interim financial information*

**CHIEF EXECUTIVE OFFICER**  
Lahore: February 27, 2009

**DIRECTOR**

**DIRECTOR**

**CHIEF FINANCIAL OFFICER**

## Half Yearly Report - December 31, 2008

### CONDENSED INTERIM CASH FLOW STATEMENT( UN-AUDITED) FOR THE HALF YEAR ENDED DECEMBER 31, 2008

	December 31 2008 Rupees	December 31 2007 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit for the period	13,807,709	18,563,008
Adjustments for:		
Depreciation/amortization	321,042	289,911
Amortization of deferred costs	839,813	1,000,068
Loss in value of short-term investments	4,500,101	439,549
(Gain) / loss on sale of short-term investments	(124,089)	1,100,119
Finance costs	138,367,349	85,713,796
Profit on bank deposits	(120,788)	(55,011)
Dividend income	(834,400)	(1,168,585)
	<u>142,949,028</u>	<u>87,319,847</u>
	156,756,737	105,882,855
Decrease in advances, prepayments and other receivables	84,741,150	56,155,574
Increase in accrued profit	(7,396,003)	(4,122,859)
Decrease / (increase)in short-term morabaha investments	139,089,347	(24,991,953)
Decrease in short-term musharaka investments	100,000,000	-
Decrease in net investment in ijarah	42,539,469	8,614,243
(Increase)/ decrease in long-term morabaha investments	(49,475,000)	30,000,000
Decrease in long-term musharaka investments	2,000,000	-
Decrease in security deposits against ijarah	(2,088,870)	(4,945,034)
Increase in creditors, accrued and other liabilities	13,219,450	17,872,175
	<u>322,629,543</u>	<u>78,582,146</u>
Cash generated from operations	479,386,280	184,465,001
Finance cost paid	(120,766,304)	(89,045,945)
Income taxes paid	(62,487)	(14,084)
Dividend income received	849,400	1,444,155
Profit received on bank deposits	120,788	138,024
Cash generated from operating activities	<u>359,527,677</u>	<u>96,987,151</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(216,360)	(805,292)
Long-term loans and deposits	187,190	(235,789)
Increase in short-term investments	(952,857)	(110,440)
Net cash used in investing activities	<u>(982,027)</u>	<u>(1,151,521)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Long-term finances obtained	-	200,000,000
Payment of long-term finances	(341,833,335)	(352,666,667)
Increase in short-term finance - net	189,672,664	72,029,831
Long-term certificates of musharaka	(170,300,000)	35,500,000
Profit distribution to modaraba certificate holders	(25,000,000)	(30,000,000)
Net cash used in financing activities	<u>(347,460,671)</u>	<u>(75,136,836)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,084,979	20,698,794
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>12,264,803</u>	<u>6,794,280</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>23,349,782</u></u>	<u><u>27,493,074</u></u>

The annexed notes from 1 to 18 form an integral part of this interim financial information

**CHIEF EXECUTIVE OFFICER**  
Lahore: February 27, 2009

**DIRECTOR**

**DIRECTOR**

**CHIEF FINANCIAL OFFICER**



## First National Bank Modaraba

### CONDENSED STATEMENT OF CHANGES IN EQUITY (UN-AUDITED) FOR THE HALF YEAR ENDED DECEMBER 31, 2008

	Certificate capital	Statutory reserve	Net unrealized gain/(loss) in the value of securities available for sale	Un-appropriated profit	Total reserves	Total equity
			Note 3.2	Note 3.2		
	Rupees					
Balance as at June 30, 2007	250,000,000	18,553,535	(4,677,227)	49,214,141	63,090,449	313,090,449
Profit for the half year ended December 31, 2007	-	-	-	18,563,008	18,563,008	18,563,008
Transferred to statutory reserve	-	3,712,602	-	(3,712,602)	-	-
Net unrealized loss in the value of securities available for sale	-	-	(484,621)	-	(484,621)	(484,621)
Profit distribution for the year ended June 30, 2007 @ Rs. 1.20 per certificate	-	-	-	(30,000,000)	(30,000,000)	(30,000,000)
Balance as at December 31, 2007	250,000,000	22,266,137	(5,161,848)	34,064,547	51,168,836	301,168,836
Profit for the half year ended June 30, 2008	-	-	-	13,199,784	13,199,784	13,199,784
Transferred to statutory reserve	-	2,639,956	-	(2,639,956)	-	-
Net unrealized loss in the value of securities available for sale	-	-	(7,895,415)	-	(7,895,415)	(7,895,415)
Balance as at June 30, 2008	250,000,000	24,906,093	(13,057,263)	44,624,375	56,473,205	306,473,205
Profit for the half year ended December 31, 2008	-	-	-	13,807,709	13,807,709	13,807,709
Transferred to statutory reserve	-	2,761,542	-	(2,761,542)	-	-
Net unrealized loss in the value of securities available for sale	-	-	(20,586,699)	-	(20,586,699)	(20,586,699)
Profit distribution for the year ended June 30, 2008 @ Rs. 1.00 per certificate	-	-	-	(25,000,000)	(25,000,000)	(25,000,000)
Balance as at December 31, 2008	250,000,000	27,667,635	(33,643,962)	30,670,542	24,694,215	274,694,215

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

*The annexed notes from 1 to 18 form an integral part of this interim financial information*

**CHIEF EXECUTIVE OFFICER**  
Lahore: February 27, 2009

**DIRECTOR**

**DIRECTOR**

**CHIEF FINANCIAL OFFICER**

## Half Yearly Report - December 31, 2008

### SELECTED EXPLANATORY NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL INFORMATION (UN-AUDITED) FOR THE QUARTER AND HALF YEAR ENDED DECEMBER 31, 2008

#### 1 GENERAL INFORMATION

1.1 First National Bank Modaraba ("the Modaraba") is a multi purpose, perpetual and multi dimensional Modaraba formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and rules framed there under and is managed by National Bank Modaraba Management Company Limited (a wholly owned subsidiary of National Bank of Pakistan), incorporated in Pakistan under the Companies Ordinance, 1984 and registered with registrar of Modaraba Companies. The registered office of the Modaraba is situated at 5th floor, National Bank of Pakistan, Regional Headquarters Building, 26 - McLagon Road, Lahore. The Modaraba is listed on Karachi and Lahore stock exchanges. The Modaraba commenced its business operations on December 04, 2003 and is currently engaged in various Islamic modes of financing and business including ijarah, musharaka and morabaha

1.2 This interim financial information is presented in Pak Rupees, which is the Modaraba's functional and presentation currency.

#### 2 BASIS OF PREPARATION

2.1 This interim financial information has been prepared in accordance with the directives issued by the Securities & Exchange Commission of Pakistan ("SECP") and is in compliance with the International Accounting Standard 34 "Interim financial Reporting" and being submitted to certificate holders as required by Section 245 of the Companies Ordinance, 1984.

2.2 This interim financial information should be read in conjunction with annual audited financial statements for the year ended June 30, 2008. Comparative balance sheet is extracted from annual audited financial statements for the year ended June 30, 2008 whereas comparative profit and loss account, comparative statement of changes in equity and comparative cash flow statement are stated from un-audited interim financial information for the half year ended on December 31, 2007.

2.3 This interim financial information is un-audited. However, a limited scope review of this interim financial information has been performed by auditors of the Modaraba in accordance with the clause (xxi) of the Code of Corporate Governance and they have issued their review report thereon.

#### 3 ACCOUNTING POLICIES

3.1 The accounting policies adopted for the preparation of these interim financial information, are consistent with those applied in the preparation of published financial statements of Modaraba for the year ended June 30, 2008. However, the treatment for impairment loss on available for sale investments has been made pursuant to the S.R.O. 150 (I)/2009 dated February 13, 2009 issued by SECP as explained in the following paragraphs.

##### 3.2 Impairment loss on Available for Sale Investments

The Karachi Stock Exchange (Guarantee) Limited ("KSE") placed a "Floor Mechanism" on the market value of securities effective from August 27, 2008 till December 15, 2009, based on the closing prices of securities prevailing as on August 27, 2008. Consequent to the introduction of Floor Mechanism by the KSE, the market volume declined significantly during the period from August 27, 2008 to December 15, 2008. There were lower floors on a number of securities at December 31, 2008 subsequent to the lifting of floor. The equity securities have been valued at prices quoted on KSE on December 31, 2008 without any adjustment as allowed by Securities and Exchange Commission of Pakistan (SECP) circular No. Enf/D-III/Misc./1/2008 dated January 29, 2009.

International Accounting Standard 39 - 'Financial Instruments: Recognition and Measurement' (IAS 39) requires that available for sale equity instruments are impaired when there is a significant or prolonged decline in the fair value below its cost. Such impairment loss should be transferred from equity to profit and loss account. However, due to unprecedented decline in equity security prices and prevailing financial crisis, the SECP vide S.R.O. 150 (I)/2009 dated February 13, 2009 has allowed the impairment loss, if any, recognized as on December 31, 2008 due to valuation of listed equity investment held as 'Available for Sale' to quoted market prices may be shown under the equity. The amount taken to equity including any adjustment / effect for price movements shall be taken to profit and loss account on quarterly basis during the calendar year ending on December 31, 2009. Further, the amount taken to equity at December 31, 2008 shall be treated as a charge to profit and loss account for the purposes of distribution as dividend.

##### 3.3 New accounting standards, interpretations and amendments that are not yet effective

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning as mentioned there against are either not relevant to the Modaraba's current operations or are not expected to have significant impact on the Modaraba's Condensed Interim Financial Information other than certain additional disclosures:

Revised IAS 1 - Presentation of financial statements (effective 1 January 2009)

Revised IAS 23 - Borrowing costs (effective 1 January 2009)

Amended IAS 27 - Consolidated and Separate Financial Statements (effective 1 July 2009)

IAS 29 - Financial Reporting in Hyperinflationary Economies (effective 28 April 2008)

## First National Bank Modaraba

Amendments to IAS 32 - Financial instruments (effective 1 January 2009)  
 Amendments to IAS 39 - Financial Instruments: Recognition and Measurement (effective 1 July 2009)  
 Amendment to IFRS 2 - Share-based Payment (effective 1 January 2009)  
 Revised IFRS 3 - Business Combinations (effective 1 July 2009)  
 IFRS 7 - Financial Instruments: Presentation (effective 28 April 2008)  
 IFRS 8 - Operating Segments (effective 1 July 2009)  
 IFRIC 13 - Customer Loyalty Programmes (effective 1 July 2008)  
 IFRIC 15 - Agreement for the Construction of Real Estate (effective 01 January 2008)  
 IFRIC 16 - Hedge of Net Investment in a Foreign Operation (effective 1 October 2008)  
 IFRIC 17 - Distribution of Non-Cash Assets to Owners (effective 1 July 2009)  
 IFRIC 18 - Transfer of Assets from Customers (effective 1 July 2009)

The International Accounting Standards Board's annual improvements project published in May 2008, contains a number of amendments which would generally be applicable for financial periods beginning on or after 1 January 2009. These amendments extend to 35 standards and include changes in terminology and accounting requirements.

### 3.4 New Islamic Financial Accounting Standard ("IFAS-2")

The Modaraba has not yet adopted Islamic Financial Accounting Standard 2 - Ijarah ("IFAS-2 Ijarah"), issued by the Institute of Chartered Accountants of Pakistan and promulgated by the Securities and Exchange Commission of Pakistan ("SECP") vide SRO# 431(I)/2007 dated May 22, 2007 and called for its adoption 'prospectively' on those ijarah transactions commencing on or after its effective date of July 01, 2007 and also allowed an alternative option of 'retrospective' adoption for those ijarah transactions entered into before the effective date.

Due to practical difficulties in the immediate adoption of IFAS-2 Ijarah, Modaraba Association of Pakistan ("MAP") applied to SECP for deferment of the applicability date. On the basis of a representation from ICAP in this regard, the Registrar of Modarabas and Modarabas Companies has not acceded to MAP's request for deferment of the effective date of IFAS-2 Ijarah.

Consequently, the Modaraba is currently converting its accounting system in compliance with the requirements of IFAS-2 Ijarah.

Had the requirements of IFAS-2 Ijarah been applied on Ijarah commencing after July 01, 2007, net investment in ijarah would have been decreased by Rs. 755.640 million and accrued profit decreased by Rs. 7.621 million. The corresponding effect of this adjustment would have been the inclusion of new line items of Ijarah assets and rental receivable amounting to Rs. 742.031 million and Rs. 21.230 million respectively in the balance sheet. In profit and loss account depreciation under annuity method for the period on Ijarah assets would have been Rs. 86.332 million, reduction of Ijarah income by Rs. 47.963 million and a new head of rental income amounting to Rs. 134.295 million would have been added. However, there will be no financial impact on the net profit for the period and on the certificate holder's equity as at December 31, 2008.

As the conversion is in process, therefore this interim financial information for half year ended December 31, 2008 has been prepared under the requirement of IAS-17 "Leases" as per latest audited financial statements of Modaraba for year ended June 30, 2008. The annual financial statements of the Modaraba for year ending June 30, 2009 will, however, comply with the requirement of IFAS-2 Ijarah.

## 4 TAXATION

Under the current tax law, the income of non-trading Modarabas is exempt from Income Tax provided that they distribute ninety (90) percent of its profits as cash dividend to the certificate holders out of current period's total profit after appropriating statutory reserves. Where such profit is not distributed, provision for tax is made on taxable income at the current tax rates applicable to Modaraba after taking into account the available tax exemptions and tax credits, if any. The Modaraba intends to continue availing the tax exemption and hence no provision has been made in these interim financial information for the tax liability of six months ended December 31, 2008.

5	SHORT-TERM INVESTMENTS	Note	Un-audited December 31 2008 Rupees	Audited June 30 2008 Rupees
	Financial assets at fair value through profit and loss	5.1	2,578,749	7,078,369
	Available for sale financial assets	5.2	<u>12,742,774</u>	<u>32,253,008</u>
			<u>15,321,523</u>	<u>39,331,377</u>

## First National Bank Modaraba

Amendments to IAS 32 - Financial instruments (effective 1 January 2009)  
 Amendments to IAS 39 - Financial Instruments: Recognition and Measurement (effective 1 July 2009)  
 Amendment to IFRS 2 - Share-based Payment (effective 1 January 2009)  
 Revised IFRS 3 - Business Combinations (effective 1 July 2009)  
 IFRS 7 - Financial Instruments: Presentation (effective 28 April 2008)  
 IFRS 8 - Operating Segments (effective 1 July 2009)  
 IFRIC 13 - Customer Loyalty Programmes (effective 1 July 2008)  
 IFRIC 15 - Agreement for the Construction of Real Estate (effective 01 January 2008)  
 IFRIC 16 - Hedge of Net Investment in a Foreign Operation (effective 1 October 2008)  
 IFRIC 17 - Distribution of Non-Cash Assets to Owners (effective 1 July 2009)  
 IFRIC 18 - Transfer of Assets from Customers (effective 1 July 2009)

The International Accounting Standards Board's annual improvements project published in May 2008, contains a number of amendments which would generally be applicable for financial periods beginning on or after 1 January 2009. These amendments extend to 35 standards and include changes in terminology and accounting requirements.

### 3.4 New Islamic Financial Accounting Standard ("IFAS-2")

The Modaraba has not yet adopted Islamic Financial Accounting Standard 2 - Ijarah ("IFAS-2 Ijarah"), issued by the Institute of Chartered Accountants of Pakistan and promulgated by the Securities and Exchange Commission of Pakistan ("SECP") vide SRO# 431(I)/2007 dated May 22, 2007 and called for its adoption 'prospectively' on those ijarah transactions commencing on or after its effective date of July 01, 2007 and also allowed an alternative option of 'retrospective' adoption for those ijarah transactions entered into before the effective date.

Due to practical difficulties in the immediate adoption of IFAS-2 Ijarah, Modaraba Association of Pakistan ("MAP") applied to SECP for deferment of the applicability date. On the basis of a representation from ICAP in this regard, the Registrar of Modarabas and Modarabas Companies has not acceded to MAP's request for deferment of the effective date of IFAS-2 Ijarah.

Consequently, the Modaraba is currently converting its accounting system in compliance with the requirements of IFAS-2 Ijarah.

Had the requirements of IFAS-2 Ijarah been applied on Ijarah commencing after July 01, 2007, net investment in ijarah would have been decreased by Rs. 755.640 million and accrued profit decreased by Rs. 7.621 million. The corresponding effect of this adjustment would have been the inclusion of new line items of Ijarah assets and rental receivable amounting to Rs. 742.031 million and Rs. 21.230 million respectively in the balance sheet. In profit and loss account depreciation under annuity method for the period on Ijarah assets would have been Rs. 86.332 million, reduction of Ijarah income by Rs. 47.963 million and a new head of rental income amounting to Rs. 134.295 million would have been added. However, there will be no financial impact on the net profit for the period and on the certificate holder's equity as at December 31, 2008.

As the conversion is in process, therefore this interim financial information for half year ended December 31, 2008 has been prepared under the requirement of IAS-17 "Leases" as per latest audited financial statements of Modaraba for year ended June 30, 2008. The annual financial statements of the Modaraba for year ending June 30, 2009 will, however, comply with the requirement of IFAS-2 Ijarah.

### 4 TAXATION

Under the current tax law, the income of non-trading Modarabas is exempt from Income Tax provided that they distribute ninety (90) percent of its profits as cash dividend to the certificate holders out of current period's total profit after appropriating statutory reserves. Where such profit is not distributed, provision for tax is made on taxable income at the current tax rates applicable to Modaraba after taking into account the available tax exemptions and tax credits, if any. The Modaraba intends to continue availing the tax exemption and hence no provision has been made in these interim financial information for the tax liability of six months ended December 31, 2008.

5	SHORT-TERM INVESTMENTS	Note	Un-audited December 31 2008 Rupees	Audited June 30 2008 Rupees
	Financial assets at fair value through profit and loss	5.1	2,578,749	7,078,369
	Available for sale financial assets	5.2	<u>12,742,774</u>	<u>32,253,008</u>
			<u>15,321,523</u>	<u>39,331,377</u>

## Half Yearly Report - December 31, 2008

Particulars	No. of shares / Certificates		Average cost		Fair market value	
	December 31 2008	June 30 2008	December 31 2008	June 30 2008	December 31 2008	June 30 2008
	.....Numbers .....		..... Rupees .....			
5.1 Investments held for trading - Quoted						
Commercial banks:						
National Bank of Pakistan Ordinary shares of Rs. 10 each	19,310	19,310	4,507,329	4,507,329	971,679	2,848,225
The Bank of Punjab Ordinary shares of Rs. 10 each	60,375	60,375	4,768,677	4,768,677	796,950	1,879,474
Cement:						
Lucky Cement Factory Limited Ordinary shares of Rs. 10 each	10,000	10,000	990,538	990,538	312,700	979,300
Fertilizer:						
Fauji Fertilizer Bin Qasim Limited Ordinary shares of Rs. 10 each	38,500	38,500	1,661,606	1,661,606	497,420	1,371,370
<b>TOTAL</b>			<b>11,928,150</b>	<b>11,928,150</b>	<b>2,578,749</b>	<b>7,078,369</b>
5.2 Investments available for sale - Quoted						
Commercial banks:						
UBL Limited Ordinary shares of Rs. 10 each	35,000	35,000	5,694,140	5,694,140	1,291,850	2,978,150
MCB Bank Limited Ordinary shares of Rs. 10 each	10,000	10,000	4,081,816	4,081,816	1,258,100	3,263,800
Askari Bank Limited Ordinary shares of Rs. 10 each	67,500	67,500	5,117,027	5,117,027	985,500	2,712,825
Bank Alfalah Limited Ordinary shares of Rs. 10 each	25,000	-	1,076,465	-	418,250	-
Chemicals:						
ICI Pakistan Ordinary shares of Rs. 10 each	20,000	20,000	4,123,824	4,123,824	1,374,200	3,227,400
Energy and Petroleum:						
Sui Northern Gas Company Limited Ordinary shares of Rs. 10 each	50,000	50,000	3,342,165	3,342,165	1,073,000	2,178,500
Oil and Gas Exploration:						
Oil and Gas Development Company Limited Ordinary shares of Rs. 10 each	20,000	20,000	2,781,222	2,781,222	999,800	2,487,200
Attock Refinery Limited Ordinary shares of Rs. 10 each	12,000	10,000	3,111,192	3,111,192	718,680	2,498,800
Pakistan State Oil Ordinary shares of Rs. 10 each	15,000	15,000	7,730,546	7,730,546	2,168,700	6,258,600
Mutual funds:						
ICP ABAMCO Composit Fund Certificates of Rs. 10 each	300,000	300,000	3,000,000	3,000,000	690,000	2,673,000
Pakistan Strategic Allocation Fund Certificates of Rs. 10 each	109,000	109,000	1,090,000	1,090,000	248,520	1,003,890
Cement:						
D.G. Khan Cement Company Limited Ordinary shares of Rs. 10 each	20,000	20,000	1,361,872	1,361,872	425,400	1,342,800
Textile:						
Nishat Chunian Limited Ordinary shares of Rs. 10 each	23,397	21,270	2,082,178	2,082,178	226,249	510,693
Insurance:						
IGI Insurance Company Ordinary shares of Rs. 10 each	7,500	5,000	1,794,289	1,794,289	864,525	1,117,350
<b>TOTAL</b>			<b>46,386,736</b>	<b>45,310,271</b>	<b>12,742,774</b>	<b>32,253,008</b>

## First National Bank Modaraba

5.2.1 This represents redemption reserve fund set aside by the Modaraba to comply with the requirements of the Registrar of Modarabas for the issuance of certificates of musharaka. This fund is maintained at minimum of 5.00 % of the certificates of musharaka outstanding at the end of any month.

	Un-audited December 31 2008 Rupees	Audited June 30 2008 Rupees	
<b>6 NET INVESTMENT IN IJARAH</b>			
Minimum ijarah rentals receivable	1,526,364,030	1,515,567,269	
Add: Residual value	<u>238,914,680</u>	<u>239,858,693</u>	
Gross investment in ijarah	1,765,278,710	1,755,425,962	
Less: Unearned finance income	<u>316,173,055</u>	<u>262,836,825</u>	
Net investment in Ijarah	1,449,105,655	1,492,589,137	
Less: Current portion	<u>526,421,415</u>	<u>527,495,844</u>	
	<u>922,684,240</u>	<u>965,093,293</u>	
<b>7 FIXED ASSETS</b>			
Written down value at beginning of period	1,997,569	853,450	
Additions during the period - at cost			
Tangible			
Vehicles	-	1,610,063	
Computers and accessories	16,360	310,250	
Electric equipments	-	38,342	
Intangible			
Software and license fee	<u>200,000</u>	<u>-</u>	
	216,360	1,958,655	
Less: Written down value of Vehicle disposed off	-	173,169	
	<u>2,213,929</u>	<u>2,638,936</u>	
Less: Depreciation/amortization charged during the period	<u>321,042</u>	<u>641,367</u>	
Written down value at end of period	<u>1,892,887</u>	<u>1,997,569</u>	
<b>8 SHORT-TERM CERTIFICATES OF MUSHARAKA - UNSECURED</b>			
During the period Modaraba has issued Certificates of Musharaka ("COM") through private placements. The COM have different denominations and are repayable within twelve months. The estimated share of profit on these certificates ranges from Rs. 16.10% to 17.58% (June 2008: Rs. 10.05% to 12.00%) per annum payable quarterly.			
<b>9 LONG-TERM FINANCE - SECURED</b>			
Finance under musharaka arrangements			
From National Bank of Pakistan	350,000,000	433,333,331	
Finance under morabaha arrangements			
From other financial institutions	<u>345,999,999</u>	<u>604,500,008</u>	
	695,999,999	1,037,833,339	
Less: Current portion	<u>354,333,326</u>	<u>550,333,335</u>	
	<u>341,666,673</u>	<u>487,500,004</u>	
<b>10 CERTIFICATE CAPITAL</b>			
Authorized:			
Number of certificates			
December 31	2008	June 30	
2008	<u>60,000,000</u>	<u>60,000,000</u>	Modaraba certificates of Rs.10 each.
	<u>600,000,000</u>	<u>600,000,000</u>	
Issued, subscribed and paid up:			
<u>25,000,000</u>	<u>25,000,000</u>	<u>25,000,000</u>	Modaraba certificates of Rs.10 each fully paid in cash.
	<u>250,000,000</u>	<u>250,000,000</u>	
10.1 7,500,000 (December 31, 2007: 7,500,000) certificates are held by National Bank Modaraba Management Company Limited.			
	Un-audited December 31 2008 Rupees	Audited June 30 2008 Rupees	
<b>11 CONTINGENCIES AND COMMITMENTS</b>			
Contingencies			
There was no change in the status of contingencies as stated in financial statements for the year ended June 30, 2008.			
Commitments			
Ijarah facilities approved but not disbursed	<u>118,071,371</u>	<u>511,321,225</u>	
	<u>118,071,371</u>	<u>511,321,225</u>	
	Half year ended	Quarter ended	
	December 31	December 31	December 31
	2008	2007	2008
	-----Rupees-----	-----Rupees-----	-----Rupees-----
<b>12 (LOSS) / GAIN ON SHORT-TERM INVESTMENTS</b>			
Dividend income	834,400	1,168,585	710,311
Gain / (loss) on sale of short-term investments	124,089	(1,100,119)	(127,811)
Unrealized loss in value of short-term investments	<u>(4,500,101)</u>	<u>(439,549)</u>	<u>(2,168,771)</u>
	<u>(3,541,612)</u>	<u>(371,083)</u>	<u>278,684</u>

## Half Yearly Report - December 31, 2008

	Half year ended		Quarter ended	
	December 31	December 31	December 31	December 31
	2008	2007	2008	2007
	-----Rupees-----		-----Rupees-----	
13 OPERATING EXPENSES				
Salaries, allowances and other benefits	7,619,175	5,265,521	3,694,213	3,200,471
Utility expenses	-	246,000	-	123,000
Communication expenses	177,299	136,308	86,930	63,838
Traveling and conveyance	188,230	91,442	115,786	85,222
Vehicle running expenses	42,665	31,367	23,458	17,005
Postage and stamps	88,647	72,422	70,889	59,528
Advertisement	43,250	35,910	43,250	28,500
Legal and professional charges	180,823	111,100	79,191	19,019
Auditor's remuneration	87,849	57,489	87,849	57,489
Fee and subscription	235,125	297,250	129,375	220,502
Repairs and maintenance	206,078	89,495	106,623	22,815
Insurance	96,730	87,525	68,439	66,699
Stationery, printing and other expenses	238,267	229,735	185,722	161,215
Depreciation / amortization	321,042	289,911	161,658	165,087
Amortization of deferred cost	839,813	1,000,068	339,779	500,034
Central depository company charges	4,384	2,765	4,384	-
Entertainment	55,570	46,134	17,886	21,065
Others	81,604	48,872	60,590	36,327
Zakat	42,760	24,549	18,750	1,250
	<u>10,549,311</u>	<u>8,163,863</u>	<u>5,294,772</u>	<u>4,849,066</u>

14 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

14.1 The related parties comprise associated companies, directors, key management personnel. The Company in the normal course of business carries out transactions with various related parties.

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

			December 31	December 31
			2008	2007
			Rupees	Rupees
Balances outstanding at the period end				
National Income Daily Account (NIDA) with National Bank of Pakistan (running balance)			8,036,868	13,377,190
Finances under Musharaka arrangement from National Bank of Pakistan			421,984,718	390,718,864
Net investment in Ijarah finance to National Bank of Pakistan			24,650,335	32,527,794
Current accounts with National Bank of Pakistan - Dividend accounts			11,004,209	7,403,557
Transactions with related parties			December 31	December 31
			2008	2007
			Rupees	Rupees
Related Party	Relationship	Nature of Transactions		
Taurus Securities Limited	Associated company	Commission paid	6,250	286,172
		Purchase and sale of securities	7,244,691	418,125,827
National Bank of Pakistan	Management Co.'s holding company	Musharaka obtained	-	150,000,000
		Musharaka repaid	118,853,483	54,166,667
		Ijarah disbursed	7,979,282	21,843,230
		Ijarah repaid	7,741,433	7,266,900
		Profit paid	33,905,963	18,073,053
		Profit on ijarah	1,672,391	1,425,142
National Bank Modaraba Management Company Limited	Management company	Dividend paid	7,500,000	9,000,000
		Management fee	1,534,190	2,062,556

Modaraba management fee at the rate of 10.00% of profit before tax has been recorded as payable to National Bank Modaraba Management Company Limited, under section 18 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980.

Other transactions with related parties are carried out at an arm's length in the normal course of business. Prices for these transactions are determined on commercial terms and conditions except the modaraba company's management fee as mentioned above.

15 CORRESPONDENCE FIGURES

Correspondence figures have been re-arranged wherever necessary, for the purpose of comparison. However, no significant re-arrangement has been made in this interim financial information.

16 OTHERS

There were no other significant activities since June 30, 2008 affecting the interim financial information.

17 DATE OF AUTHORIZATION FOR ISSUE

These interim financial information has been approved by the Board of Directors of National Bank Modaraba Management Company Limited and authorized for issue on February 27, 2009.

18 GENERAL

Figures have been rounded off to the nearest rupee.

**CHIEF EXECUTIVE OFFICER**  
Lahore: February 27, 2009.

**DIRECTOR**

**DIRECTOR**

**CHIEF FINANCIAL OFFICER**

**BOOK POST**  
**UNDER POSTAL CERTIFICATE**

**TO:**



*If undelivered please return to :*  
**FIRST NATIONAL BANK MODARABA**  
5th Floor, NBP RHQs Building,  
26 McLagon Road,  
Lahore.  
Tel : 9211200, Fax: 9213247