



Annual Report 2009

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. Qamar Hussain Mr. Shahid Anwar Khan Dr . Asif A. Brohi Mr. Muhammad Nusrat Vohra Mr. Wajahat Baqai Mr. Qamar Hussain Mr. Shafiq Khan	Chairman Director Director Director Director Director Chief Executive
Chief Financial Officer/ Company Secretary	Mr. Abbas Azam	
Audit Committee	Mr. Shahid Anwar Khan Dr . Asif A. Brohi Mr. Wajahat Baqai	Chairman Member Member
Auditors	M. Yousuf Adil Saleem & Co. (A member firm of Deloitte Touche Tohmatsu)	
Bankers	National Bank of Pakistan Al Baraka Islamic Bank Standard Chartered Bank Bank Alfalah Limited Habib Bank Limited HSBC Bank Middle East Limited Allied Bank Limited MCB Bank Limited First Women Bank Limited The Hongkong & Shanghai Banking Corp. Limited Bank Islami Pakistan	
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 th Floor, NBP RHQs Building, 26 - Mc Lagon Road, Lahore Tel: 042-99211200, Fax: 042-99213247 URL: http://www.nbmodaraba.com E-mail: info@nbmodaraba.com	

VISION

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

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

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

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

MISSION

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

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

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

NOTICE OF 6TH ANNUAL REVIEW MEETING

Notice is hereby given that the 6th Annual Review Meeting of certificate holders of First National Bank Modaraba will be held on September 28, 2009 Monday at 11:00 a.m. at 4th Floor, NBP RHQs Building, 26 - McLagon Road, Lahore to review the performance of the Modaraba for the year ended June 30, 2009

The certificate holders whose names appear on the Register of Certificate Holders of First National Bank Modaraba as on September 19, 2009 will be eligible to attend the Annual Review Meeting.

By order of the Board

Abbas Azam
Company Secretary
National Bank Modaraba Management Company Limited
Managers of First National Bank Modaraba
Lahore:

August 19, 2009

Note: CDC account holders will have to follow the under mentioned guidelines.

- In case of individuals, the account holder and/ or person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate their identity by showing original Computerised National Identity Card (CNIC) or original passport at the time of attending the meeting (CDC account holders are also requested to bring their participant ID number and account number in CDS).
- In case of corporate entity, board of directors' resolution/ power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of meeting.

FIRST NATIONAL BANK MODARABA

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 6th annual accounts of FNBM for the period ended June 30, 2009. These accounts have been audited by the statutory auditors of the Modaraba and are accompanied by their audit report.

1. Financial Results:

(Amounts in Rupees)

	Year Ended June 30, 2009	Year Ended June 30, 2008	Year Ended June 30, 2007	Year Ended June 30, 2006	Year Ended June 30, 2005	7 Months Ended June 30, 2004
Balance Sheet Size	2,410,441,957	2,778,974,825	2,201,495,813	2,074,594,990	1,206,081,190	390,605,324
Total Equity	288,483,487	306,473,205	313,090,449	295,362,450	265,022,554	250,393,313
Total Operating & Other Income	352,479,348	227,964,068	222,132,561	154,361,692	53,338,797	10,982,361
Operating & Financial Expenses	340,507,125	192,672,077	176,003,033	120,541,403	34,689,455	5,791,933
Profit for the period	11,972,223	35,29 1,991	46,129,528	33,820,289	18,649,342	5,190,428
Modaraba Co.'s Management Fee	1,197,222	3,529,199	4,612,953	3,382,029	1,864,934	519,428
Net profit after tax	10,775,001	31,762,792	41,516,575	30,438,260	16,602,966	4,209,875
Earning per certificate	0.43	1.27	1.66	1.22	0.66	0.29
Return on Assets (%)	0.45	1.14	1.89	1.47	1.38	1.08
Return on Equity (%)	3.74	10.36	13.26	10.31	6.26	1.68
Dividend Yield (%)	-	12.50	13.87	12.58	-	-
Breakup value per certificate	11.54	12.26	12.52	11.81	10.60	10.01

2. Sector Outlook:

Financial year 2008-09 has been a challenging for Pakistan economy. The Major problem faced by our economy is the skyrocketing inflation and massive depreciation of rupee against dollar. Further global financial turmoil has had negative fallout on the economy. The country is still suffering from acute power shortage which is hampering the manufacturing and trading activities. In spite of political stabilizations in the country, the law and order situation in frontier remained a source of main concern.

Financial sector in Pakistan continued declining trend during the period under review. Modaraba sector being a small part of the financial sector of Pakistan was directly affected by the above measures. Modarabas heavily rely on the banks to meet their financial needs. Cost of funds of modarabas has increased due to rising trend in KIBOR in the middle of the financial year, which has disturbed their profitability. Another challenge faced by modrabas is direct competition with Islamic banks and Islamic banking divisions (IBDs) of conventional banks. In the presence of Islamic banks and IBDs of conventional banks it is becoming difficult for modarabas to increase their share in the market. Nevertheless, the Modaraba sector is striving to get its due share in the financial sector by changing its strategies from time to time to cope with these circumstances.

Review of Operations:

During the period under review, the economy remained under pressure due to negative economic indicators, liquidity crunch and high borrowing cost, despite some recovery in last few months. The performance of stock market remained under par. FNBM also faced adverse implications on account of above during the period. Consequently, the size of balance sheet has decreased by 13.26% as compared to the last year. The major product of the Modaraba is Ijarah finance. By the end of current year, FNBM's ijarah investment under finance lease treatment as per IAS-17 reduced to Rs.0.984 billion as compared to Rs. 1.493 billion in corresponding year. The Modaraba adopted IFAS-2 (Ijarah) with effect from July 01, 2008, the new Ijarah transactions booked under this standard amounted to Rs. 259 Million. Whereas FNBM's Morabaha investments are increased by 8.26% from Rs. 939 million as on June 30, 2008 to Rs.1,017 million at the end of current year. The total income of the Modaraba increased 54.39% from Rs.228 million in the last year to Rs.352 million in the current year. Net profit before management fee decreased by 66% from Rs.35.28 million to Rs.11.972 million. Decrease in net profit of the Modaraba is mainly because of impairment in the available for sale investment, adoption of IFAS-2 'Ijarah' and increase in respective borrowing costs as compared to the corresponding period

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. Later on SECP gave deferment for its implementation and allowed its adoption for financial period beginning on or after July 01, 2008. FNBM has converted its accounting system in compliance with the requirements of IFAS-2 Ijarah. Due to change in accounting policy profits of Modaraba for the year are lower by Rs.16.085 million than what would have been under the previous system.

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 show this impairment loss in equity instead of charging to profit & loss account up to the period ended December 31, 2008. However, this loss has to be taken to profit & loss account on quarterly basis during calendar year 2009. Accordingly FNBM has charged Rs.11.343 million to P&L account which is 50% of the difference between market value and cost of available for sale equity securities as at December 31, 2008 after adjusting for the price movement during the half year.

The Modaraba has managed to mobilize funds from various financial institutions at competitive rates. In addition, the Modaraba has been successful in raising funds through issuance of Certificates of Musharika (COMs).

We believe in steady and sustainable growth backed by the policy of low risk. This policy has resulted into modest but sustainable profitability coupled with sound and healthy asset portfolio comprising of clients of good credit rating and lower level of risk. The asset portfolio is fairly diversified both in terms of sector, asset type and geographical dispersion.

3. Profit Distribution:

As per the requirement of S.R.O. 150(I) dated 13th February 2009 the impairment loss in available for sale investment amounting to Rs.16.821 million which is taken directly to equity when treated as a charge to profit & loss account for the purpose of dividend distribution results in a loss of Rs.6.046 million for the year. Therefore Board has decided not recommended dividend.

4. Entity Rating:

JCR-VIS has reaffirmed long term entity rating at A+ (A plus) and short term entity rating to A1 in March, 2009 with a "Stable" outlook. These ratings are one of the highest in the entire Modaraba sector. This indicates low expectation of credit risk and strong capacity for timely payment of financial commitments.

5. Future Outlook:

Financial sector in Pakistan has been badly hit due to increase in delayed recoveries, lack of further opportunities for profitable investments, deteriorating stock markets and increasing mark up rates. The challenge before FNBM is to maintain the size and quality of its business portfolio on acceptable margins which are coming under constant pressure. FNBM further plans to overcome these challenges by exploring new market opportunities to increase its market share and focusing on such market segments which have the capacity and financial strength to absorb the above factors.

6. Corporate and Financial Reporting Framework:

- The financial statements, prepared by the management of the Modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Modaraba have been maintained.
- Accounting policies have been applied consistently except for adoption of IFAS-2 (Ijarah), 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.
- 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, 2009 except those disclosed in the financial statements.
- During the year four (04) meetings of the Board of Directors were held. Attendance by each directors is as follows:

Names of Directors:	No of Attendance
i. Mr. S. Ali Raza	2
ii. Mr. Qamar Hussain	1
iii. Mr. Shahid Anwar Khan	4
iv. Dr. Asif A. Brohi	3
v. Mr. Wajahat Baqai	3
vi. Mr. Qamar Hussain	3
vii. Mr. Tajammal H. Bokharee	2
viii. Mr. Muhammad Nusrat Vohra	4
ix. Mr. Shafiq Khan	4

During the year NBP nominee directors Mr. S. Ali Raza and Mr. Tajammal H. Bokharee ceased to be directors of NBMMCL. NBP appointed Mr. Qamar Hussain as its new nominee director and the chairman of the Board in place of Mr. S. Ali Raza.

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

- The pattern of certificate holders is annexed.

7. Auditors:

The present auditors Messrs M. Yousuf Adil Saleem & Co., Chartered Accountants, being due for retirement, have offered themselves for reappointment for the year ending June 30, 2010. Subject to approval by the Registrar of Modaraba Companies and Modarabas, their appointment has been confirmed by the Board.

8. Acknowledgement:

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

Shafiq Khan
Chief Executive Officer

STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF THE CODE OF CORPORATE OF GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2009

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

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

1. The Board presently comprises of seven Directors including Chief Executive Officer and all are nominees of National Bank of Pakistan (Holding Company of National Bank Modaraba Management Company Ltd) and (except for Chief Executive Officer) are non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. All the resident directors of the company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a DPI or an NBFC or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. All casual vacancies are filled up by the holding company by nominating of employees of National Bank of Pakistan on the Board of the Company after getting the approval of Registrar of Modaraba Companies and Modarabas.
5. The Modaraba has prepared a Statement of Ethics and Business Practices', which has been signed by all directors and employees of the Modaraba.
6. The Board has developed a vision/ mission statement, overall corporate strategy and significant policies of the Modaraba along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken on the Board. The terms of appointment and remuneration package of the CEO and directors are not approved by the Board as they are nominees of National Bank of Pakistan.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working paper were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors are fully aware of the relevant laws applicable to the Modaraba, its policies and procedures and provisions of the Memorandum and Articles of Association to manage the affairs of the Modaraba on behalf of the certificate holders. Further all the directors are employees of NBP and holding key positions in the Bank, as such all directors have relevant experience and knowledge to manage the affairs of the Modaraba.
10. The Board has approved the appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit. The remuneration and terms and conditions of employment of Chief Financial Officer, Internal auditor and Company Secretary have been approved by the Board as determined by the Chief Executive Officer.

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11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and Executives do not hold any interest in the shares of the Modaraba other than that disclosed in the pattern of holding of certificates.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee, which comprises of three members and all are non executive directors including the Chairman of the Committee.
16. The meetings of the audit committee are held at least once every quarter prior to approval of interim and final results of the Modaraba as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The related party transactions have been placed before audit committee and approved by the Board of Directors to comply with the requirements of the Code.
18. The Board has set-up an effective internal audit function.
19. The statutory auditors of the Modaraba had confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Modaraba and that the firm and all of its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
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. We confirm that all other material principles contained in the Code have been substantially complied with.

Shafiq Khan
Chief Executive Officer

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

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

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

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

Further, Sub-Regulation (xiii) of Listing Regulations 37 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the Modaraba to place before the board of directors for their consideration and approval 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 transactions and transactions which are not executed at arm's length price recording proper justification for using such alternative pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba's compliance in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Modaraba for the year ended June 30, 2009.

M. Yousaf Adil Saleem & Co.
(Chartered Accountants)

Engagement Partner
Hafiz Mohammad Yousaf

Lahore
Date: August 19, 2009

FIRST NATIONAL BANK MODARABA

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of First National Bank Modaraba ("the Modaraba") as at June 30, 2009 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of accounts have been kept by the Modaraba Company in respect of 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 accordance with the accounting policies consistently applied except for the change in accounting policy as stated in note 3.2.1 to the financial statements with which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at June 30, 2009 and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in the central Zakat fund established under section 7 of that Ordinance.

M. Yousaf Adil Saleem & Co.
(Chartered Accountants)

Engagement Partner:
Hafiz Mohammad Yousaf

Lahore
Date: August 19, 2009

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BALANCE SHEET AS AT JUNE 30, 2009

ASSETS	Note	2009	2008
		(Rupees)	
CURRENT ASSETS			
Bank balances	4	13,878,858	12,264,803
Advances, prepayments and other receivables	5	92,746,184	119,497,001
Accrued profit	6	30,099,468	29,719,250
Short term investments	7	21,704,851	39,331,377
Short term morabaha investment - secured	8	732,293,129	660,947,053
Short term musharaka investment - unsecured	9	25,000,000	100,000,000
Current portion of non-current assets	10	535,030,967	637,816,245
		1,450,753,457	1,599,575,729
NON-CURRENT ASSETS			
Net investment in ijarah	11	565,865,257	965,093,293
Long term morabaha investment - secured	12	172,238,527	197,321,492
Long term musharaka investment - secured	13	8,941,801	12,941,801
Long term loans and deposits	14	1,126,860	1,205,128
Deferred cost	15	-	839,813
Fixed assets	16	211,516,055	1,997,569
		959,688,500	1,179,399,096
		2,410,441,957	2,778,974,825
LIABILITIES			
CURRENT LIABILITIES			
Creditors, accrued and other liabilities	17	67,495,397	54,402,389
Short term finance - secured	18	726,969,660	716,502,230
Short term certificates of musharaka - unsecured	19	53,825,000	229,900,000
Current portion of non-current liabilities	20	562,265,886	639,537,005
		1,410,555,943	1,640,341,624
NON-CURRENT LIABILITIES			
Long term security deposits	21	122,530,664	191,871,833
Long term certificates of musharaka - unsecured	22	120,000,000	102,300,000
Long term finance - secured	23	421,133,335	487,500,004
Deferred morabaha income	24	47,738,528	50,488,159
		711,402,527	832,159,996
		2,121,958,470	2,472,501,620
NET ASSETS		288,483,487	306,473,205
REPRESENTED BY:			
CAPITAL AND RESERVES			
Certificate capital	25	250,000,000	250,000,000
Reserves	26	38,483,487	56,473,205
CONTINGENCIES AND COMMITMENTS			
	27	-	-
		288,483,487	306,473,205

The annexed notes from 1 to 43 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER
Lahore: August 19, 2009

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

FIRST NATIONAL BANK MODARABA

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2009

	Note	2009	2008
		(Rupees)	
INCOME			
Income from ijarah		224,781,704	147,908,417
Profit on morabaha investment		117,509,066	76,410,247
Profit on musharaka investment		9,188,580	6,374,886
Profit on bank deposits		377,234	218,413
Loss on short term investments	28	(2,080,845)	(4,070,770)
Other income	29	2,703,609	1,122,875
		352,479,348	227,964,068
EXPENDITURES			
Operating expenses	30	66,633,993	16,431,924
Finance cost	31	262,530,240	176,240,153
Impairment on available for sale investments	32	11,342,892	-
		340,507,125	192,672,077
		11,972,223	35,291,991
Modaraba Company's management fee		1,197,222	3,529,199
Profit for the year		10,775,001	31,762,792
Un-appropriated profit brought forward		44,624,375	49,214,141
Profit available for appropriation		55,399,376	80,976,933
Appropriation :			
Transfer to statutory reserve		2,155,000	6,352,558
Profit distribution for the year ended June 30, 2008 @ Re.1 (June 30, 2007 @ Rs. 1.2) per certificate		25,000,000	30,000,000
		27,155,000	36,352,558
Un-appropriated profit carried forward		28,244,376	44,624,375
EARNINGS PER MODARABA CERTIFICATE - BASIC AND DILUTIVE	38	0.43	1.27

The annexed notes from 1 to 43 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER
Lahore: August 19, 2009

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2009

		2009	2008
	Note	(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (used in) operations	39	891,080,377	(219,372,856)
Finance cost paid		(251,891,387)	(181,593,673)
Income taxes paid		(16,861)	(60,792)
Dividend income received		1,292,790	2,238,730
Profit received on bank deposits		304,309	379,482
		(250,311,149)	(179,036,253)
Net cash from / (used in) operating activities		640,769,228	(398,409,109)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(259,006,223)	(1,958,655)
Proceeds from disposal of fixed assets		-	545,000
Long term loans and deposits		62,501	(409,546)
Short term investments		(937,214)	(25,549,959)
Net cash used in investing activities		(259,880,936)	(27,373,160)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term financing		500,000,000	600,000,000
Repayment of long term financing		(708,666,667)	(601,166,666)
Short term certificate of musharaka		(176,075,000)	73,200,000
Long term certificate of musharaka		20,000,000	102,300,000
Proceeds from short term finance		10,467,430	286,919,458
Profit distribution for the year		(25,000,000)	(30,000,000)
Net cash (used in) / from financing activities		(379,274,237)	431,252,792
INCREASE IN CASH AND CASH EQUIVALENTS		1,614,055	5,470,523
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		12,264,803	6,794,280
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	13,878,858	12,264,803

The annexed notes from 1 to 43 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER
Lahore: August 19, 2009

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

FIRST NATIONAL BANK MODARABA

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2009

	Certificate capital	Statutory reserve	Net unrealized gain / (loss) in value of available for sale investments	Un-appropriated profit	Total equity
.....Rupees.....					
Balance as at June 30, 2007	250,000,000	18,553,535	(4,677,227)	49,214,141	313,090,449
Profit for the year	-	-	-	31,762,792	31,762,792
Transfer to statutory reserve	-	6,352,558	-	(6,352,558)	-
Net unrealized loss in value of available for sale investments	-	-	(8,380,036)	-	(8,380,036)
Profit distribution for the year @ Rs. 1.2 per modaraba certificate	-	-	-	(30,000,000)	(30,000,000)
Balance as at June 30, 2008	250,000,000	24,906,093	(13,057,263)	44,624,375	306,473,205
Net unrealized loss in value of available for sale investments recognized in the interim financial information for half year ended December 31, 2008 (note 32)	-	-	(20,586,701)	-	(20,586,701)
Profit for the year	-	-	-	10,775,001	10,775,001
Transfer to statutory reserve	-	2,155,000	-	(2,155,000)	-
Transferred to profit and loss account from net unrealized loss in value of available for sale investment recognized in the interim financial information for half year ended December 31, 2008 (note 32)	-	-	16,821,982	-	16,821,982
Profit distribution for the year @ Re. 1 per modaraba certificate	-	-	-	(25,000,000)	(25,000,000)
Balance as at June 30, 2009	250,000,000	27,061,093	(16,821,982)	28,244,376	288,483,487

The annexed notes from 1 to 43 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER
Lahore: August 19, 2009

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

1. LEGAL STATUS AND OPERATIONS

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 Registrar of Modaraba Companies. The registered office of the Modaraba is situated at 5th floor, National Bank of Pakistan, Regional Headquarters Building, 26 - Mc Lagon Road, Lahore. The Modaraba is listed on Karachi and Lahore stock exchanges. The Modaraba commenced its operations on December 04, 2003 and is currently engaged in various islamic modes of financing and operations including Ijarah, Musharaka and Morabaha arrangements.

These financial statements are presented in Pak Rupees, which is the Modaraba's functional and presentation currency.

2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ESTIMATES

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Prudential Regulations and directives issued by the Securities and Exchange Commission of Pakistan (the Modaraba Regulations). Approved accounting standards comprise of such International Financial Reporting Standards ("IFRSs") and the Islamic Financial Accounting Standards (IFASs) as are notified under the provisions of the Companies Ordinance, 1984 and made applicable to Modarabas under Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. Wherever, the requirements of the Modaraba Regulations differ from the requirements of these standards, the requirements of the Modaraba Regulations take precedence.

2.2 ADOPTION OF APPROVED ACCOUNTING STANDARDS

2.2.1 Adoption of International Financial Reporting Standard - 7 "Financial Instruments: Disclosures"

During current year, the Modaraba adopted IFRS 7 "Financial Instruments: Disclosures" which is applicable for annual periods beginning on or after 01 July 2008. IFRS 7 requires extensive disclosures about the significance of financial instruments for the Modaraba's financial position and performance, and quantitative and qualitative disclosures on the nature and extent of risks. These requirements include many disclosures previously required by International Accounting Standard (IAS) 32- "Financial Instruments : Presentation". The Modaraba has adopted this standard from the financial year beginning 01 July 2008 and its initial application has led to extensive disclosures in the Modaraba's financial statements.

2.2.2 Adoption of Islamic Financial Accounting Standard - 2 "Ijarah"

Securities and Exchange Commission of Pakistan through its SRO 431 (1)/2007 dated May 22, 2007 notified and the Modaraba has adopted the Islamic Financial Reporting Standard - 2 (IFAS-2). As per requirements of IFAS-2, the muj'ir (lessors) shall present assets subject to ijarah in their balance sheet according to the nature of the asset, distinguished from the assets in own use. Ijarah income from Ijarah should be recognized in income on accrual basis as and when rentals become due, unless another systematic basis is more representative of the time pattern in which benefit of used derived from the leased asset is diminished and costs, including depreciation, incurred in earning the ijarah income are recognized as an expense.

As per SECP letter No. SC/M/RS/FPM/2009-101 dated March 11, 2009, IFAS-2 is applicable for accounting treatment of leasing (ijarah) transactions executed on or after July 01, 2008. Accordingly, the Modaraba has changed its accounting policy for treatment of leasing (ijarah) transactions executed on or after July 01, 2008.

The change results, decrease in profit for the year by Rs.16,085,820, increase in fixed assets by Rs.209,889,450 and decrease in net investment in ijarah by Rs. 225,975,270. Earnings per certificate has been decreased by Rs. 0.64 due to this change.

2.3 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, 2008, based on the closing prices of securities prevailing as on August 27, 2008. Consequent to the introduction of Floor Mechanism, the market volume declined significantly during the period from August 27, 2008 to December 15, 2008. Subsequent to the lifting of floor, there were lower floors on a number of securities at December 31, 2008. The equity securities were 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 and such impairment loss should be transferred from equity to profit and loss account.

However, due to unprecedented decline in equity security prices and financial crisis, the SECP vide S.R.O. 150 (I)/2009 dated February 13, 2009 has allowed that 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 resulting in loss of Rs. 6.046 million.

Pursuant to the above, the Modaraba has initially disclosed the impairment loss as on December 31, 2008 on valuation of listed equity investment held as “Available for Sale” as part of equity. Subsequent to December 31, 2008, the relevant portion of net unrealized loss on valuation of available for sale investments attributable to the half year ended June 30, 2009 has been transferred to profit and loss account as disclosed in note 32 to these financial statements.

2.4 NEW ACCOUNTING STANDARDS AND IFRS INTERPRETATIONS THAT ARE NOT YET EFFECTIVE

The following International Financial Reporting Standards, International Accounting Standards and Interpretations as notified by the Securities and Exchange Commission of Pakistan are only effective for accounting periods, beginning on or after the date mentioned against each of them:

IAS - 1 Presentation of financial statements (as revised)	Effective from January 1, 2009
IAS - 23 Borrowing cost (as revised)	January 1, 2009
IAS - 32 (amendments) - Financial instruments: Presentation and consequential amendments to IAS 1 Presentation of Financial Statements	January 1, 2009
Amendments to IAS - 27 Consolidated and separate financial statements	January 1, 2009
IFRS - 2 Share based payment	January 1, 2009
IFRS - 3 Business combinations	January 1, 2009
IFRS - 4 Insurance contracts	January 1, 2009
IFRS - 8 Operating segments	January 1, 2009
IFRIC - 15 Agreements for the construction of real estate	January 1, 2009
IFRIC - 16 Hedge of net investment in a foreign operation	October 1, 2008
IFRIC - 17 Distribution of non-cash assets to owners	January 1, 2009
IFRIC - 18 Transfer of assets from customers	January 1, 2009
Amendments to IAS - 39 Financial Instruments: Recognition and Measurement	January 1, 2009
Amendments to IFRS - 7 Improving disclosures about financial instruments	January 1, 2009
Amendments to IAS - 39 and IFRIC 9: Embedded derivatives	January 1, 2009
Amendments to IFRS - 2 Share based payments	January 1, 2010

The management believes that these accounting standards and interpretations do not have any impact on the present transactions of the Modaraba or the Modaraba would be applicable to comply with these standards, interpretations and amendments when applicable.

2.5 INTERPRETATIONS TO EXISTING STANDARDS THAT ARE EFFECTIVE AND NOT APPLICABLE TO THE MODARABA

The following interpretation to existing standards has been published and is mandatory for the Modaraba's accounting year beginning on July 01, 2008 but is not relevant for the Modaraba's operations:

IFRIC 12 - Service Concession Agreements January 01, 2008

IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. Since the Modaraba is not involved in public sector services, the implementation of this interpretation does not affect its financial statements.

IFRIC 13 - Customer Loyalty Programs July 01, 2008

IFRIC 13 Clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement by using fair values. The adoption of this Interpretation has led to a change in the timing of recognition of revenue at the time of making sale.

IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. January 01, 2008

IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

2.6 SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under circumstances, results of which form the basis of making judgment about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

Fixed assets

The Modaraba reviews the useful lives of fixed assets 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 ACCOUNTING CONVENTION

These financial statements have been prepared under the historical cost convention except for the measurement at fair value of certain financial instruments in accordance with the requirements of IAS - 39 " Financial Instruments: Recognition and Measurement " and accounting for morabaha investment as required by Islamic Financial accounting Standard (IFAS) -1 "Morahaba".

3.2 LEASE (IJARAH) ACCOUNTING

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

Net investment in ijarah is stated at present value of minimum 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 the potential ijarah losses. These losses can be reasonably anticipated as the difference between the carrying amount of receivables and present value of expected cash flows discounted at the rates implicit in the ijarah agreement.

3.2.1 Change in accounting policy for lease (ijarah) agreements executed on or after July 01, 2008

Persuant to the adoption of IFAS - 2 as referred in note 2.2.2 above, lease (ijarah) agreements executed on or after July 01, 2008 are recorded in the books of accounts as operating lease in line with the requirements of IFAS-2 "Ijarah". Assets given to customers under ijarah arrangements are recognized as assets under ijarah arrangements and depreciated on straight line basis over the shorter of lease term or their useful life. Lease rentals are recognized as income on accrual basis as and when the rental become due over the lease period whereas costs, including depreciation, incurred in earning the ijara income are recognized as expense.

3.3 TANGIBLE FIXED ASSETS

Assets in own use

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.

Depreciation is charged to income using the straight line method at the rates as specified in note 16 to these financial statements so as to write off the cost of the 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.

Subsequent costs are included in the 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. Gains and losses on disposals are credited or charged to income in the year of disposal.

The carrying amounts of the Modaraba's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amount of such assets is estimated and impairment losses are 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 given to customers under ijarah arrangements

Assets given to customers under ijarah arrangements on or after July 01, 2008 are accounted for as operating lease and are stated at cost less accumulated depreciation and impairment loss, if any.

Assets under ijara arrangements are depreciated on 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.

3.4 INTANGIBLE ASSETS

Expenditure incurred on intangible asset is capitalized and stated at cost less accumulated amortization and any identified impairment loss. Intangible assets are amortized on straight line basis over a period of three (3) years.

3.5 INVESTMENTS

All purchases and sales of investments except investments at fair value through profit or loss are recognized using trade date accounting. Trade date is the date that the Modaraba commits to purchase or sell the investment.

3.5.1 Available for sale

These are non-derivative financial assets that are designated as available for sale and may be sold in response to needs for liquidity or changes in interest rates or equity prices. These investments are initially recognized at fair value plus transaction cost and subsequently re-measured at fair value. The investments for which quoted market price is not available, are measured at costs as it is not possible to apply any other valuation methodology. Gains and losses arising from re-measurement at fair value, other than impairment losses, is recognized directly in the equity under fair value reserve until sold, collected, or otherwise disposed off at which time, the cumulative gain or loss previously recognized in equity is included in profit and loss account.

Pursuant to the requirement of S.R.O. 150 (I)/2009 dated February 13, 2009 issued by SECP as disclosed in note 2.3 financial statements impairment loss, as on December 31, 2008 due to valuation of listed equity investment held as "Available for Sale" to quoted market prices, has been shown under the equity. Half of the amount as has been shown in equity as at December 31, 2008 including any adjustment / effect for price movements as at June 30, 2009 is charged to profit and loss account as disclosed in note 32 to the financial statements. Further, the remaining balance of amount as has been shown in equity as at December 31, 2008 shall be treated as a charge to profit and loss account for the purposes of distribution of dividend.

3.5.2 At fair value through profit and loss

These include investments held for trading and those that are designated at fair value through profit or loss at inception. Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. They are initially measured at fair value and changes on re-measurement are taken to profit and loss account.

3.5.3 Held to maturity investments

Investments with fixed or determinable payments and fixed maturity and where the Modaraba has positive intent and ability to hold to maturity are classified as held to maturity. These are initially recognized at cost inclusive of transaction costs, less impairment loss, if any recognized to reflect irrecoverable amount and are subsequently carried at amortized cost using the effective interest rate method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the investment to its net carrying amount. Gains and losses are recognized in the profit and loss account when the investments are de-recognized or impaired, as well as through the amortization process.

3.5.4 Derecognition

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

3.6 RECEIVABLES

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

3.7 MORABAHA INVESTMENT

Morabaha investments are stated net of provision. Provision is recognized in accordance with Prudential Regulations for Modarabas issued by Securities and Exchange Commission of Pakistan or on the estimate of management, whichever is higher. Bad debts are written off when identified.

Morabaha receivable shall be recorded by the Modaraba at the invoiced amount and disclosed as such in the balance sheet.

Purchases and sales under morabaha and the resultant profit is accounted for on the culmination of morabaha transaction.

However, the profit on that portion of sales revenue not due for payment is deferred by accounting for by a debit to "Unearned morabaha income " account with the corresponding credit to "Deferred morabaha income" account and shown in the balance sheet as liability.

3.8 MUSHARAKA INVESTMENT

Musharaka investments are stated net of provision. Provision is recognized in accordance with Prudential Regulations for Modarabas issued by Securities and Exchange Commission of Pakistan or on the estimate of management, whichever is higher. Bad debts are written off when identified.

3.9 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.

3.10 CREDITORS AND OTHER LIABILITIES

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

3.11 PROVISIONS

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

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.

3.12 FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when the Modaraba becomes a party to contractual provisions of the instrument and de-recognized when the Modaraba loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired.

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

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

3.13 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A financial asset and a financial liability is offset and the net amount reported in the balance sheet, if the Modaraba has a legal enforceable right to setoff the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3.14 REVENUE RECOGNITION

For lease (ijarah) agreements executed on or before June 30, 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 the net investment in ijarah. Unrealized ijarah income on potential lease losses is excluded from the income from ijarah operations in accordance with the requirements of Prudential Regulations for Modaraba issued by Securities and Exchange Commission of Pakistan.

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

Profit on morabaha investment is recognized on pro-rata accrual basis, calculated on number of days funds are utilized.

Return on deposits with bank is recognized on accrual basis.

Profit on investment under musharaka arrangements is recognized on accrual basis and additional profit, if any, is recognized on declaration by the investee company in accordance with terms of issue.

Dividend income is recognized when the right to receive dividend is established.

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

3.15 BORROWING COSTS

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

3.16 TAXATION

Under the current tax law, the income of non-trading Modaraba is exempt from income tax provided that the Modaraba distributes ninety percent (90%) of its profits for the year, as cash dividend to the certificate holders, 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 the Modaraba after taking into account the available tax exemptions and tax credits, if any.

3.17 PROFIT DISTRIBUTION

Profit distribution is recognized in the period in which it is distributed.

3.18 RELATED PARTY TRANSACTIONS

Transactions involving related parties arising in the normal course of business are conducted at an arm's length on the same terms and conditions as are applicable to third party transactions.

3.19 DEFERRED COSTS

Deferred costs is amortized over the period of five (5) years.

	Note	2009	2008
		(Rupees)	
4. BANK BALANCES			
Current accounts - profit bearing	4.1	10,955,951	11,570,152
Current accounts - non profit bearing		<u>2,922,907</u>	<u>694,651</u>
		<u><u>13,878,858</u></u>	<u><u>12,264,803</u></u>
4.1 These carry profit at the rate of 1.50% to 2.00% (2008: 1.50% to 2.00%) per annum.			
5. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES			
Advances for ijarah - secured		86,180,100	114,136,512
Prepayments		235,965	229,294
Other advances and receivables - unsecured		5,658,308	4,558,745
Dividend receivable		162,500	80,000
Tax deducted at source		201,855	184,994
Income tax refundable		153,330	153,330
Advance income tax		154,126	154,126
		<u><u>92,746,184</u></u>	<u><u>119,497,001</u></u>

FIRST NATIONAL BANK MODARABA

	Note	2009 (Rupees)	2008
6. ACCRUED PROFIT			
Accrued profit on:			
Morabaha investment		19,001,697	16,865,871
Musharaka investment		1,023,236	2,091,163
Ijarah		9,974,535	10,735,141
Bank deposits		100,000	27,075
		<u>30,099,468</u>	<u>29,719,250</u>
7. SHORT TERM INVESTMENTS			
At fair value through profit and loss		3,482,982	7,078,369
Available for sale	7.1	<u>18,221,869</u>	<u>32,253,008</u>
		<u>21,704,851</u>	<u>39,331,377</u>
7.1 This represents fund set aside by the Modaraba to comply with the requirements of the Registrar Modarabas for the issuance of certificates of musharaka. This fund is maintained at minimum of 5.00% of the certificates of musharaka outstanding at any month end.			
7.2 Detail of short term investments is provided in "Annexure 1" which is an integral part of these financial statements.			
8. SHORT TERM MORABAHA INVESTMENT - SECURED			
Short term morabaha investment		704,350,299	641,960,333
Deferred morabaha income	24	<u>27,942,830</u>	<u>18,986,720</u>
		<u>732,293,129</u>	<u>660,947,053</u>
8.1 These represent investments under morabaha arrangements on deferred payment basis at specified profit margins. These carry profit at the rate of 14.77% to 20.41% (2008: 11.23% to 19.45%) per annum. These are secured against charge over fixed and current assets, personal guarantees of the directors of customer companies, demand promissory notes and post dated cheques varying from case to case basis.			
9. SHORT TERM MUSHARAKA INVESTMENT - UNSECURED			
This is unsecured investment with a financial institution under musharaka arrangement. This carries profit at the rate of 14.65% (2008: 14.55%) per annum.			
10. CURRENT PORTION OF NON-CURRENT ASSETS			
Net investment in ijarah	11	418,407,138	527,495,844
Long term morabaha investment - secured	12	112,167,929	80,880,268
Long term musharaka investment - secured	13	4,000,000	29,000,000
Long term loans and deposits	14	455,900	440,133
		<u>535,030,967</u>	<u>637,816,245</u>
11. NET INVESTMENT IN IJARAH			
Minimum ijarah rentals receivable	11.1	929,984,242	1,515,567,269
Residual value		<u>201,293,518</u>	<u>239,858,693</u>
Gross investment in ijarah	11.2	1,131,277,760	1,755,425,962
Unearned finance income		<u>(147,005,365)</u>	<u>(262,836,825)</u>
Net investment in ijarah	11.3	984,272,395	1,492,589,137
Less: current portion	10	<u>418,407,138</u>	<u>527,495,844</u>
		<u>565,865,257</u>	<u>965,093,293</u>
11.1 Minimum ijarah rentals receivable			
Due within one year		520,507,116	676,424,911
Due after one year but not later than five years		<u>409,477,126</u>	<u>839,142,358</u>
		<u>929,984,242</u>	<u>1,515,567,269</u>

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		2009	2008
	Note	(Rupees)	
11.2	Gross investment in ijarah		
	Due within one year	616,186,812	718,225,185
	Due after one year but not later than five years	515,090,948	1,037,200,777
		<u>1,131,277,760</u>	<u>1,755,425,962</u>
11.3	Net investment in ijarah		
	Due within one year	418,407,138	527,495,844
	Due after one year but not later than five years	565,865,257	965,093,293
		<u>984,272,395</u>	<u>1,492,589,137</u>
11.4	General description of significant ijarah arrangements		
	<p>The Modaraba has entered into various ijarah arrangements carrying profit at the rate of 5.00% to 19.43% (2008: 5.00% to 18.35%) per annum. The arrangements are for three to five years period. These are secured against assets under ijarah, personal / corporate guarantees, promissory notes given by lessees and other collaterals. Facilities extended to National Bank of Pakistan during the year amounts to Rs. Nil million (2008: Rs. 21.843 million).</p>		
12.	LONG TERM MORABAHA INVESTMENT - SECURED		
	Long term morabaha investment	209,458,333	198,000,000
	Deferred morabaha income	24 <u>74,948,123</u>	<u>80,201,760</u>
		284,406,456	278,201,760
	Less: current portion	10 <u>112,167,929</u>	<u>80,880,268</u>
		<u>172,238,527</u>	<u>197,321,492</u>
12.1	<p>These represent investment under morabaha arrangements on deferred payment basis at a specified profit margin. These carry profit at the rate of 14.07% to 19.41% (2008: 11.23% to 19.45%) per annum and are secured against charge over fixed and current assets, personal guarantees of the directors of customer companies, demand promissory notes and post dated cheques varying from case to case basis.</p>		
13.	LONG TERM MUSHARAKA INVESTMENT - SECURED		
	Long term musharaka investment	12,941,801	41,941,801
	Less: current portion	10 <u>4,000,000</u>	<u>29,000,000</u>
		<u>8,941,801</u>	<u>12,941,801</u>
13.1	<p>These represent investment under musharaka arrangements. These carry profit at the rate of 16.05% to 17.49% (2008: 12.00% to 16.05%) per annum and are secured against first hypothecation over current assets. The arrangements are for two to five years period.</p>		
14.	LONG TERM LOANS AND DEPOSITS		
	Loans to employees - secured	14.1 1,543,260	1,605,761
	Deposits with Central Depository Company Pakistan Limited	<u>39,500</u>	<u>39,500</u>
		1,582,760	1,645,261
	Less: current portion of loans to employees	10 <u>455,900</u>	<u>440,133</u>
		<u>1,126,860</u>	<u>1,205,128</u>
14.1	<p>These loans are given to employees of the Modaraba for purchase of vehicles. These carry profit at the rate of 5.00% (2008: 5.00%) per annum. Maximum aggregate balance due from employees at the end of any month during the year was Rs. 1,543,260 (2008: Rs. 1,712,408).</p>		
15.	DEFERRED COST		
	Preliminary expenses	839,813	2,839,949
	Amortized during the year	<u>(839,813)</u>	<u>(2,000,136)</u>
		<u>-</u>	<u>839,813</u>
15.1	<p>These represent preliminary expenses incurred before December 04, 2003. These are amortized over the period of five years from the month of occurrence on equal monthly basis. This cost is fully amortized during the year.</p>		
16.	FIXED ASSETS		
	Assets given to customers under ijarah arrangements	16.1 209,889,450	-
	Assets under own use	16.2 <u>1,626,605</u>	<u>1,997,569</u>
		<u>211,516,055</u>	<u>1,997,569</u>

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16.1 Assets given to customers under ijarah arrangements

Particulars	Cost			Depreciation			Book value as at June 30, 2009
	As at July 01, 2008	Additions	As at June 30, 2009	As at July 01, 2008	Charge for the year	As at June 30, 2009	
Rupees.....							
Plant and machinery	-	202,823,671	202,823,671	-	9,269,152	9,269,152	193,554,519
Vehicles	-	55,849,282	55,849,282	-	39,514,351	39,514,351	16,334,931
	-	258,672,953	258,672,953	-	48,783,503	48,783,503	209,889,450

16.1.1 Depreciation charge for the year amounting to Rs. 48,783,503 has been allocated to operating expenses.

16.2 Assets under own use

16.2.1 As at June 30, 2009

Particulars	Cost			Depreciation / amortization			Book value as at June 30, 2009	Rate of depreciation / amortization (% per annum)
	As at July 01, 2008	Additions	As at June 30, 2009	As at July 01, 2008	Charge for the year	As at June 30, 2009		
Rupees.....								
Tangible								
Vehicles	2,409,293	-	2,409,293	751,554	481,860	1,233,414	1,175,879	20
Computers and accessories	939,937	16,360	956,297	678,430	108,408	786,838	169,459	33.33
Electric equipment	298,854	26,910	325,764	260,543	12,725	273,268	52,496	20
	3,648,084	43,270	3,691,354	1,690,527	602,993	2,293,520	1,397,834	
Intangible								
Software and license fees	407,300	290,000	697,300	367,288	101,241	468,529	228,771	33.33
	407,300	290,000	697,300	367,288	101,241	468,529	228,771	
	4,055,384	333,270	4,388,654	2,057,815	704,234	2,762,049	1,626,605	

16.2.2 Depreciation / amortization charge for the year amounting to Rs. 704,234 (2008: Rs. 641,367) has been allocated to operating expenses.

16.2.3 Book value of disposed fixed assets under own use as at June 30, 2009 is Rs. Nil (2008: Rs. 173,169)

16.2.4 As at June 30, 2008

Particulars	Cost			Depreciation / amortization			Book value as at June 30, 2008	Rate of depreciation / amortization (% per annum)
	As at July 01, 2007	Additions / (deletions)	As at June 30, 2008	As at July 01, 2007	Charge for the year	As at June 30, 2008		
Rupees.....								
Tangible								
Vehicles	1,598,460	1,610,063 (799,230)	2,409,293	959,076	418,539 (626,061)	751,554	1,657,739	20
Computers and accessories	629,687	310,250	939,937	586,789	91,641	678,430	261,507	33.33
Electric equipment	260,512	38,342	298,854	202,688	57,855	260,543	38,311	20
	2,488,659	1,958,655 (799,230)	3,648,084	1,748,553	568,035 (626,061)	1,690,527	1,957,557	
Intangible								
Software and license fees	407,300	-	407,300	293,956	73,332	367,288	40,012	33.33
	407,300	-	407,300	293,956	73,332	367,288	40,012	
	2,895,959	1,958,655 (799,230)	4,055,384	2,042,509	641,367 (626,061)	2,057,815	1,997,569	

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17. CREDITORS, ACCRUED AND OTHER LIABILITIES	Note	2009	2008
		(Rupees)	
Advances from customers		23,253,964	21,469,230
Modaraba Company's management fee - unsecured		8,171,130	7,942,152
Payable to modaraba management company - unsecured	17.1	2,286,282	2,286,282
Accrued expenses		32,716,676	21,968,823
Withholding tax payable		100,155	62,487
Others		967,190	673,415
		<u>67,495,397</u>	<u>54,402,389</u>
17.1 This represents payable against utility services. Maximum aggregate amount due to modaraba management company at the end of any month during the year was Rs. 2,286,282 (2008: Rs.2,286,282).			
18. SHORT TERM FINANCE - SECURED			
Finance under musharaka arrangements			
National Bank of Pakistan (NBP)	18.2	78,083,315	107,504,869
Finance under morabaha arrangements			
Other financial institutions			
Morabaha finance - I	18.3	135,702,121	193,489,616
Morabaha finance - IV	18.4	300,000,000	117,500,640
Morabaha finance - V	18.5	-	98,007,105
Morabaha finance - VI	18.6	100,000,000	200,000,000
Morabaha finance - VII	18.7	51,152,974	-
Morabaha finance - VIII	18.8	62,031,250	-
		<u>648,886,345</u>	<u>608,997,361</u>
		<u>726,969,660</u>	<u>716,502,230</u>
18.1 The aggregate unavailed short term borrowing facilities amount to Rs. 473,030,340 (2008: Rs. 433,497,770).			
18.2 This represents the facility of Rs. 150 million (2008 : Rs. 150 million) obtained to finance Modaraba's working capital requirements and is repayable within one year. The profit is payable quarterly on the basis of one month KIBOR (2008: one month KIBOR). The facility is secured against first joint pari passu hypothecation on all present and future assets of Modaraba amounting to Rs. 167 million (2008: Rs. 167 million).			
18.3 This represents the facility of Rs. 300 million (2008 : Rs. 300 million) obtained from Islamic Banking Division of a bank and is repayable within 180 days. The profit is payable on the basis of KIBOR plus 2.00% (2008: KIBOR plus 0.30%) per annum. The facility is secured against first pari passu hypothecation over current assets of the Modaraba amounting to Rs. 334 million (2008: Rs. 334 million).			
18.4 This represents the facility of Rs. 300 million (2008 : 300 million) obtained from a commercial bank for the purpose of working capital requirements and is repayable within one year. The morabaha finance is priced at relevant KIBOR plus 0.50% (2008: KIBOR plus 0.30%) per annum, payable quarterly. The facility is secured against first joint pari passu hypothecation on all present and future assets of the Modaraba amounting to Rs. 334 million (2008: Rs. 334 million).			
18.5 This facility has been expired during the period. Facility was obtained from a commercial bank having the approved limit of Rs. 100 million. The morabaha finance was priced at three months KIBOR plus 0.25% per annum, payable quarterly. The facility was secured against first pari passu hypothecation on existing and future assets including leased assets and related rentals receivables amounting to Rs. 112 million.			

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- 18.6 This represents the facility of Rs. 200 million (2008: Rs. 200 million) obtained from a commercial bank for enhancement of ijarah portfolio and commodity financing under morabaha. The facility is priced at inter bank money market (2008: inter bank money market). The profit is repayable quarterly. The facility is secured against first pari passu hypothecation over current assets of the Modaraba amounting to Rs. 335 million (2008: Rs. 223 million).
- 18.7 This represents the facility of Rs. 150 million (2008: Nil) obtained from a commercial bank for enhancement of ijarah portfolio and commodity financing under morabaha arrangement. The facility is payable on demand and is priced at one month KIBOR plus 2.00% (2008: Nil) per annum. The profit is repayable on quarterly basis. The facility is secured against first joint pari passu hypothecation over current assets of the Modaraba amounting to Rs. 167 million (2008: Nil).
- 18.8 This represents the facility of Rs. 200 million (2008: Nil) obtained from a commercial bank for enhancement of ijarah portfolio and commodity financing under morabaha arrangement. The facility is priced at one month KIBOR plus 2.00% (2008: Nil) per annum. The profit is repayable on quarterly basis. The facility is secured against first joint pari passu hypothecation over current and future assets of the Modaraba amounting to Rs. 223 million.
19. SHORT TERM CERTIFICATES OF MUSHARAKA - UNSECURED
- This represents Certificates of Musharaka ("COM") through private placement. The COM have different denominations and are repayable within twelve months. The estimated share of profit on these certificates ranges from 10.05% to 15.00% (2008: 10.05% to 12.00%) per annum.

20. CURRENT PORTION OF NON-CURRENT LIABILITIES	Note	2009 (Rupees)	2008
Long term security deposits	21	96,780,124	40,503,349
Long term certificates of musharaka	22	2,300,000	-
Long term finance - secured	23	408,033,337	550,333,335
Deferred morabaha income	24	55,152,425	48,700,321
		<u>562,265,886</u>	<u>639,537,005</u>

21. LONG TERM SECURITY DEPOSITS

Security deposit - ijarah	21.1	219,310,788	232,375,182
Less: current portion	20	96,780,124	40,503,349
		<u>122,530,664</u>	<u>191,871,833</u>

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

22. LONG TERM CERTIFICATES OF MUSHARAKA - UNSECURED

Certificates of Musharaka		122,300,000	102,300,000
Less: current portion	20	2,300,000	-
		<u>120,000,000</u>	<u>102,300,000</u>

- 22.1 During the year the Modaraba issued long term Certificates of Musharaka ("COM") through private placement. The COM have different denominations and are repayable after twelve months. The estimated share of profit on these certificates ranges from 9.75% to 14.78% (2008: 9.75% to 10.75%) per annum.

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23. LONG-TERM FINANCE - SECURED	Note	2009	2008
		(Rupees)	
Finance under Musharaka arrangements			
National Bank of Pakistan			
Musharaka finance - III	23.1	99,999,999	183,333,331
Musharaka finance - IV	23.2	166,666,664	250,000,000
Musharaka finance - V	23.3	250,000,000	-
		516,666,663	433,333,331
Finance under Morabaha arrangements			
Other financial institutions			
Morabaha finance - II	23.4	-	200,000,000
Morabaha finance - IV	23.5	33,333,339	108,333,339
Morabaha finance - V	23.6	-	16,666,667
Morabaha finance - VI	23.7	-	8,333,335
Morabaha finance - VII	23.8	-	42,000,000
Morabaha finance - VIII	23.9	12,500,000	37,500,000
Morabaha finance - IX	23.10	25,000,000	41,666,667
Morabaha finance - X	23.11	150,000,000	150,000,000
Morabaha finance - XI	23.12	91,666,670	-
		312,500,009	604,500,008
		829,166,672	1,037,833,339
Less: current portion	20	408,033,337	550,333,335
		421,133,335	487,500,004

- 23.1 This represents the facility of Rs. 250 million (2008: Rs. 250 million) obtained from a commercial bank, repayable in twelve equal quarterly installments within three years from the date of disbursement of each tranche. The profit is payable quarterly at the rate of three month KIBOR plus a spread of 1.00% (2008: three month KIBOR plus a spread of 1.00%) per annum. The facility is secured against first joint pari passu hypothecation on all present and future assets of the Modaraba to the extent of Rs. 278 million (2008: Rs. 278 million).
- 23.2 This represents the facility of Rs. 250 million (2008: Rs. 250 million) obtained from a commercial bank, repayable in twelve equal quarterly installments within three years from the date of disbursement. The profit is payable at the rate of three month KIBOR plus 0.10% (2008: three month KIBOR plus 0.10%) per annum. The facility is secured against first pari passu hypothecation on all present and future assets of the Modaraba to the extent of Rs. 278 million (2008: Rs. 278 million).
- 23.3 This facility is obtained from a commercial bank having approved limit of Rs. 300 million (2008: Rs. Nil). The facility is repayable in twelve equal quarterly installments within three years from the date of disbursement. The profit is payable at the rate of three month KIBOR plus 0.50% (2008: Nil) per annum. The facility is secured against first pari passu hypothecation on all present and future assets of the Modaraba to the extent of Rs. 330 million (2008: Rs. Nil).
- 23.4 This facility has been repaid during the period. The facility was obtained from a commercial bank having approved limit of Rs. 200 million, repayable in quarterly installments within three years from the date of disbursement. The profit was payable quarterly at the rate of three month KIBOR plus 1.25% per annum. The facility was secured against first pari passu hypothecation on all present and future assets of the Modaraba to the extent of Rs: 267 million.
- 23.5 This represents the facility of Rs. 200 million (2008: Rs. 200 million) obtained from a commercial bank, repayable in quarterly installments within three years from the date of disbursement. The profit is payable quarterly at the rate of three month KIBOR plus 1.25% (2008: three months KIBOR plus 1.25%) per annum. The facility is secured against first pari passu hypothecation on all present and future assets of the Modaraba to the extent of Rs. 222 million (2008: Rs. 222 million).

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- 23.6 The facility has been repaid during the period. The facility was obtained from a commercial bank having approved limit of Rs. 100 million, repayable in six equal semi annual installments in arrears within three years from the date of disbursement. The profit was payable semi annually at the rate of six months KIBOR plus 1.00% per annum. The facility was secured against first joint pari passu hypothecation on all present and future assets of the Modaraba to the extent of Rs: 112 million.
- 23.7 The facility has been repaid during the period. The facility was obtained from a commercial bank with the approved limit of Rs. 46.698 million. The facility was repayable in six semi annual installments within three years from the date of disbursement. The profit was payable six monthly at the rate of six month KIBOR plus 1.00% per annum. The facility was secured against first joint pari passu hypothecation over all present and future assets of the Modaraba to the extent of Rs. 62 million.
- 23.8 The facility has been repaid during the period. The facility was obtained from a commercial bank with the approved limit of Rs. 100 million, repayable within three years from the date of disbursement in eight equal quarterly installments in arrear after grace period (for principal only) of one year ending on August 11, 2008. The profit was payable quarterly at the rate of three month KIBOR plus 1.50% per annum. The facility was secured against first joint pari passu hypothecation on all present and future assets of the Modaraba to the extent of Rs.134 million.
- 23.9 This represents the facility of Rs. 75 million (2008: Rs. 75 million) obtained from a commercial bank repayable in six semi annual installments within three years from the date of disbursement. The profit is payable six monthly at the rate of six month KIBOR plus 1.00% (2008: six month KIBOR plus 1.00%) per annum. The facility is secured against first joint pari passu hypothecation over all present and future assets of the Modaraba to the extent of Rs. 100 million (2008: Rs. 100 million).
- 23.10 This represents the facility obtained from a commercial bank with approved limit of Rs. 50 million (2008: 50 million). The facility is repayable in six semi annual installments within three years from the date of disbursement. The profit is payable six monthly at the rate of six months KIBOR plus 0.50% (2008: six month KIBOR plus 0.50%) per annum. The facility is secured against first joint pari passu hypothecation over all present and future assets of the Modaraba to the extent of Rs. 67 million (2008: Rs. 67 million).
- 23.11 This represents the facility of Rs. 150 million (2008: Rs. 150 million) obtained from a commercial bank repayable within three years from the date of disbursement in four equal semi annual installments in arrear after grace period of one year ending on September 24, 2009. Profit is payable quarterly at the rate of three month KIBOR plus 1.50% (2008: three month KIBOR plus 1.50%) per annum. The facility is secured against first joint pari passu hypothecation on all present and future assets of the Modaraba to the extent of Rs. 200 million (2008: Rs. 200 million).
- 23.12 This represents the facility of Rs. 100 million (2008: Nil) obtained from a commercial bank repayable within three years from the date of disbursement in twelve equal quarterly installments commencing from the month of first disbursement. The profit is payable quarterly at the rate of three months KIBOR plus 0.30% (2008: Nil) per annum. The facility is secured against first joint pari passu hypothecation on all present and future assets of the Modaraba to the extent of Rs. 110 million (2008: Rs. Nil).

24. DEFERRED MORABAHA INCOME	Note	2009	2008
		(Rupees)	
Short term morabaha investments	8	27,942,830	18,986,720
Long term morabaha investments	12	74,948,123	80,201,760
		102,890,953	99,188,480
Less: current portion	20	55,152,425	48,700,321
		47,738,528	50,488,159

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			2009	2008
25.	CERTIFICATE CAPITAL	Note		(Rupees)
	Authorized :			
	Number of certificates			
	2009	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:			
	Modaraba certificates of Rs. 10 each fully paid			
	in cash		<u>250,000,000</u>	<u>250,000,000</u>
25.1	There was no movement in certificate capital during the year.			
25.2	7,500,000 (2008 : 7,500,000) certificates are held by National Bank Modaraba Management Company Limited.			
26.	RESERVES			
	Statutory reserve	26.1	27,061,093	24,906,093
	Net unrealized loss in value of available for sale investments		(16,821,982)	(13,057,263)
	Un-appropriated profit		<u>28,244,376</u>	<u>44,624,375</u>
			<u>38,483,487</u>	<u>56,473,205</u>
26.1	Statutory reserve represents profit set aside in compliance with the requirements of Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan.			
27.	CONTINGENCIES AND COMMITMENTS			
27.1	Contingencies			
	There were no known contingencies as at June 30, 2009 and 2008.			
27.2	Commitments			
	These represents ijarah facilities approved but not disbursed or partially disbursed amounting to Rs. 52,838,976 (2008: Rs. 511,321,225)			
28.	LOSS ON SHORT TERM INVESTMENTS			
	Gain / (loss) on sale of short term investments		139,733	(2,980,954)
	Dividend income		1,375,290	1,921,127
	Unrealized loss in value of short term investments	28.1	<u>(3,595,868)</u>	<u>(3,010,943)</u>
			<u>(2,080,845)</u>	<u>(4,070,770)</u>
28.1	Unrealized loss in value of short term investments			
	At fair value through profit and loss			
	Unrealized loss at beginning of year		4,849,781	1,838,838
	Loss during the year	28	<u>3,595,868</u>	<u>3,010,943</u>
	Unrealized loss at end of year		<u>8,445,649</u>	<u>4,849,781</u>
29.	OTHER INCOME			
	Service charges		434,298	263,789
	Documentation charges		2,269,311	487,255
	Profit on disposal of fixed assets		-	371,831
			<u>2,703,609</u>	<u>1,122,875</u>

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	Note	2009	2008
		(Rupees)	
30. OPERATING EXPENSES			
Salaries, allowances and other benefits	30.1	12,596,295	10,014,505
Utility expenses		-	492,000
Communication expenses		321,981	290,727
Travelling and conveyance		367,776	258,788
Vehicle running expenses		79,895	64,961
Postage and stamps		118,639	106,083
Advertisement		68,964	72,260
Legal and professional charges		466,847	482,486
Auditors' remuneration	30.2	451,195	298,483
Fee and subscription		544,831	599,444
Repairs and maintenance		352,772	263,372
Insurance		160,726	144,898
Stationary, printing and other expenses		408,714	381,288
Depreciation / amortization	16	49,487,737	641,367
Amortization of deferred costs	15	839,813	2,000,136
Central Depository Company charges		6,383	23,268
Entertainment		98,095	70,153
Others		98,123	185,131
Zakat		165,207	42,574
		<u>66,633,993</u>	<u>16,431,924</u>

30.1 Salaries, allowances and other benefits

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

	Officer		Employees	
	2009	2008	2009	2008
	(Rupees)			
Salary	2,086,338	2,141,404	4,749,525	2,582,445
House rent allowance	729,713	963,634	2,454,310	969,349
Utilities	175,137	214,141	589,028	215,409
Bonus	238,202	500,212	1,314,759	681,360
Expenses reimbursed	57,160	789,040	202,123	957,511
	<u>3,286,550</u>	<u>4,608,431</u>	<u>9,309,745</u>	<u>5,406,074</u>
Number of persons	<u>3</u>	<u>5</u>	<u>15</u>	<u>15</u>

30.1.1 In addition to above, Chief Executive Officer and Senior Executives of the Modaraba are provided with free use of vehicles owned and maintained by the Modaraba.

		2009	2008
		(Rupees)	
30.2 Auditors' remuneration			
Audit fee		250,000	175,000
Review of half yearly financial statements		80,000	50,000
Review report on statement of compliance with code of corporate governance		60,000	50,000
Out of pocket expenses		61,195	23,483
		<u>451,195</u>	<u>298,483</u>

31. FINANCE COST

Profit on morabaha finance	170,690,701	111,370,691
Profit on musharaka finance	63,861,955	36,440,512
Profit on certificate of musharaka	27,872,147	28,298,692
Bank charges	105,437	130,258
	<u>262,530,240</u>	<u>176,240,153</u>

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	Note	2009	2008
		(Rupees)	
32. IMPAIRMENT ON AVAILABLE FOR SALE INVESTMENTS			
Transferred to profit and loss account from net unrealized loss in value of available for sale investments recognized in the interim financial information for half year ended December 31, 2008	32.1	16,821,982	-
Net unrealized gain in value of available for sale investments for the half year ended June 30, 2009		(5,479,090)	-
		<u>11,342,892</u>	<u>-</u>
32.1 The amount is transferred to profit and loss account from net unrealized loss in value of available for sale investments as referred in note 2.3 to these financial statements.			
32.2 Movement in net unrealized loss is as follows:			
Net unrealized loss in value of available for sale investments as at June 30, 2008		13,057,263	-
Loss recognized in the interim financial information for half year ended December 31, 2008		20,586,701	-
		<u>33,643,964</u>	<u>-</u>
Transferred to profit and loss account		16,821,982	-
Net unrealized loss in value of available for sale investments as at June 30, 2009		<u>16,821,982</u>	<u>-</u>
33. CAPITAL DISCLOSURE			
The Modaraba's objective when managing capital is to safeguard the Modaraba's ability to continue as a going concern so that it continues to provide returns to certificate holders and benefits to other stakeholders; and to maintain a strong capital base to support the sustained development of business.			
The Modaraba manages its capital structure which comprises capital and reserves by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Modaraba may adjust the amount of profit distribution to certificate holders, appropriation of amounts to reserve or/and issue new certificates.			
34. FUTURE RENTALS RECEIVABLES AGAINST IJARAH ARRANGEMENTS			
Aggregate amount of future Ijarah rentals receivable on the basis of ijarah arrangements executed from July 01, 2008 to June 30, 2009 are as follows:			
Not later than one year		153,988,476	-
Later than one year and not later than five years		129,988,165	-
Later than five years		7,152,718	-
		<u>291,129,359</u>	<u>-</u>
General description of ijarah arrangements			
The Modaraba has entered into various ijarah arrangements at profit rates ranging from 13.51% to 19.43% (2008: Nil) per annum. Most of the Ijarahs are of machinery and vehicles. These are secured against assets under ijarah, personal / corporate guarantees, promissory notes given by Musta'jir and other collaterals. Ijarah given to National Bank of Pakistan from July 01, 2008 to June 30, 2009 amounts to Rs. 20,673,584 (2008: Rs. Nil).			

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35. MATURITY OF ASSETS AND LIABILITIES

Up to one month	One month to three months	Three months to one year	One year to five years	Five years and above	Total
..... Rupees					

Assets

Bank balances	13,878,858	-	-	-	-	13,878,858
Advances, prepayments and other receivables	92,746,184	-	-	-	-	92,746,184
Accrued profit	13,874,874	8,623,915	7,600,679	-	-	30,099,468
Short term investments	21,704,851	-	-	-	-	21,704,851
Short term morabaha investment - secured	167,693,764	257,987,540	306,611,825	-	-	732,293,129
Short term musharaka investment - unsecured	2,500,000	5,000,000	17,500,000	-	-	25,000,000
Net investment in ijarah	33,457,266	65,910,814	297,435,095	587,469,220	-	984,272,395
Long term morabaha investment - secured	15,189,552	16,281,780	80,696,597	172,238,527	-	284,406,456
Long term musharaka investment - secured	2,000,000	-	2,000,000	8,941,801	-	12,941,801
Long term loans and deposits	34,255	69,540	352,105	1,087,360	39,500	1,582,760
Fixed assets	-	-	11,336,587	155,586,046	44,593,422	211,516,055
June 30, 2009	363,079,604	353,873,589	723,532,888	925,322,954	44,632,922	2,410,441,957
June 30, 2008	159,066,009	554,719,810	886,624,920	1,178,564,086	-	2,778,974,825

Up to one month	One month to three months	Three months to one year	One year to five years	Five years and above	Total
..... Rupees					

Liabilities

Creditors, accrued and other liabilities	22,718,885	15,844,921	28,931,591	-	-	67,495,397
Short term finance - secured	163,486,573	171,564,995	391,918,092	-	-	726,969,660
Short term certificates of musharaka - unsecured	22,000,000	16,500,000	15,325,000	-	-	53,825,000
Long term security deposits	6,191,356	31,535,310	59,053,458	120,037,864	2,492,800	219,310,788
Long term certificates of musharaka - unsecured	2,300,000	20,000,000	-	100,000,000	-	122,300,000
Long term finance - secured	-	133,333,336	274,700,001	421,133,335	-	829,166,672
Deferred morabaha income	3,170,816	15,519,320	36,462,289	47,738,528	-	102,890,953
June 30, 2009	219,867,630	404,297,882	806,390,431	688,909,727	2,492,800	2,121,958,470
June 30, 2008	71,390,066	575,681,649	993,269,284	832,160,621	-	2,472,501,620
June 30, 2009	143,211,974	(50,424,293)	(82,857,543)	236,413,227	42,140,122	288,483,487
June 30, 2008	87,675,943	(20,961,839)	(106,644,364)	346,403,465	(2,492,800)	306,473,205

Represented by:

Certificate capital
Reserves

	2009	2008
	(Rupees)	
	250,000,000	250,000,000
	38,483,487	56,473,205
	288,483,487	306,473,205

36. FINANCIAL RISK MANAGEMENT

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

Credit risk
Liquidity risk
Market risk

This note presents information about the Modaraba's exposure to each of the above risks, the Modaraba's objectives, policies and processes for measuring and managing risk, and the Modaraba's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors of Modaraba Management Company "the Board" has overall responsibility for the establishment and oversight of the Modaraba's risk management framework. The Board is responsible for developing and monitoring the Modaraba's risk management policies.

The Modaraba's risk management policies are established to identify and analyze the risks faced by the Modaraba, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Modaraba's activities. The Modaraba, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Modaraba's Audit Committee oversees how management monitors compliance with the Modaraba's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Modaraba. The Audit Committee is assisted in its oversight role by Internal Audit.

36.1 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter party to the financial instrument fails to perform as contracted. Out of the total financial assets of Rs. 2,198 (2008: Rs 2,775) million, the financial assets which are subject to credit risk amounted to Rs. 224.931 (2008: Rs. 247.695) million.

The Modaraba is exposed to credit risk from its operating activities (primarily for investment in ijarah, morabaha and musharaka contracts), deposits with banks and financial institutions and other financial instruments.

Credit risk related to receivables

The Modaraba has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Modaraba only transacts with those counter parties that are rated the equivalent of investment grade and above. The Modaraba has internally developed rating criteria to rate its customers which is supplemented by ratings supplied by independent rating agencies where available. The Modaraba also uses other publicly available financial information and its own trading records to rate its customers. The Modaraba's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The management monitors and limits Modaraba's exposure to credit risk through monitoring of clients' credit exposure, reviews and conservative estimates of provisions for doubtful receivables, if any, and through the prudent use of collateral policy. The management is of the view that it is not exposed to significant concentration of credit risk as its financial assets are adequately diversified in organizations of sound financial standing covering various industrial sectors and segments.

Credit risk related to financial instruments and cash deposits

The Modaraba limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a track record. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

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Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Financial assets	Note	2009	2008
		(Rupees)	
Bank balances	4	13,878,858	12,264,803
Advances, prepayments and other receivables	5	92,000,908	118,775,257
Accrued profit	6	30,099,468	29,719,250
Short term investments	7	21,704,851	39,331,377
Short term morabaha investment - secured	8	732,293,129	660,947,053
Short term musharaka investment - unsecured	9	25,000,000	100,000,000
Net investment in ijarah	11	984,272,395	1,492,589,137
Long term morabaha investment - secured	12	284,406,456	278,201,760
Long term musharaka investment - secured	13	12,941,801	41,941,801
Long term loans and deposits	14	1,582,760	1,645,261
		<u>2,198,180,626</u>	<u>2,775,415,699</u>

Geographically all credit exposure is concentrated in Pakistan.

The maximum exposure to credit risk for receivables at the reporting date by type of customer was:

	2009	2008
(Rupees)		
Auto and assemblers	46,109,064	84,429,769
Cement	2,299,849	23,768,904
Chemical and pharmaceutical	47,116,583	51,432,399
Education	29,860,125	59,979,115
Energy	50,193,876	41,261,889
Engineering and construction	66,497,179	111,912,603
Fabrics	30,742,660	46,533,825
Fertilizer	44,341,169	8,509,800
Financial institution	112,775,867	230,690,803
Food & beverages	31,336,840	30,725,090
Paper and board	60,000,000	60,000,000
Glass and ceramics	4,808,602	15,181,456
Information technology	14,899,800	15,372,050
Knitwear	92,484,971	105,291,676
Leather and shoe industries	22,156,565	77,311,369
Media and advertising	11,622,934	22,177,086
Petroleum and oilfields	22,463,412	40,761,014
Poultry feed	42,175,928	77,363,858
Rubber and tyre	52,192,793	67,883,667
Sugar	280,989,085	337,064,536
Telecommunication and media	29,987,176	55,068,711
Textile	774,015,184	856,231,551
Miscellaneous	97,473,082	55,540,100
	<u>1,966,542,744</u>	<u>2,474,491,271</u>

The maximum exposure to credit risk for financial assets at the reporting date by mode of financing was:

	2009	2008
(Rupees)		
Net investment in ijarah	984,272,395	1,492,589,137
Morabaha investment	1,016,699,585	939,148,813
Musharaka investment	37,941,801	141,941,801
Short term investment	21,704,851	39,331,377
	<u>2,060,618,632</u>	<u>2,613,011,128</u>

Impairment losses

The aging of financial assets at the reporting date was:

	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
	(Rupees)			
Not past due	2,022,124,240	-	2,563,149,058	-
Past due 0-90 days	11,961,744	-	10,530,693	-
Past due 90-180 days	4,827,797	-	-	-
	<u>2,038,913,781</u>	<u>-</u>	<u>2,573,679,751</u>	<u>-</u>

The management is of the view that it is not exposed to significant concentration of credit risk as its financial assets are adequately diversified in organizations of sound financial standing covering various industrial sectors and segments and the management believes that no impairment allowance is necessary in respect of receivables.

Liquidity risk

Liquidity risk is the risk that the Modaraba will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the ability to close out market positions due to dynamic nature of the business. The Modaraba's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Modaraba's reputation.

The maturity profile of the Modaraba's financial liabilities based on the contractual amounts is disclosed in note 35 to the financial statements.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Modaraba's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Exposure to currency risk

The Modaraba has no exposure to foreign currency risk at balance sheet date.

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, and the Modaraba does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a changes in interest rates at the reporting date would affect profit or loss.

A change of 100 basis points in interest rates would have increased or decreased equity by Rs. 2.260 (2008: 3.880) million.

Other market price risk

The Modaraba is following a policy to set aside funds, to comply with the requirements of the registrar Modarabas for the issuance of certificate of musharaka at minimum of 5.00% of the certificate of musharaka outstanding at any month end, keeping the fund invested in specified equity investments. The primary goal of the Modaraba's equity investment strategy is to maximise investment returns on funds. The Modaraba adopts a policy of ensuring minimize its price risk by investing in liquid securities. In accordance with this strategy certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis. Equity price risk arises from measurement of investments at fair value through profit and loss.

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Sensitivity analysis - equity price risk

A change of Rs. 5 in value of investments at fair value through profit and loss would have increased or decreased equity by Rs. 660,235 (2008: Rs. 640,925).

Capital management

The Modaraba's objective when managing capital is to safeguard the Modaraba's ability to continue as a going concern so that it can continue to provide returns for certificate holders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses.

The Modaraba manages its capital structure which comprises capital and reserves by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. The Modaraba is required under SECP prudential regulations for Modarabas to distribute Ninety percent of its profits as dividend. In order to maintain or adjust the capital structure, appropriation of amounts to capital reserves or/and issue new shares.

Fair value of financial assets and liabilities

The carrying value of financial assets and liabilities approximate their fair values except for held to maturity investments which are stated at amortized cost.

37. SEGMENT ANALYSIS

37.1 Geographical segments

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

37.2 Business segments

Net investment in ijarah	2009		2008	
	%	Rupees	%	Rupees
Auto and assemblers	3.58	35,209,064	3.98	59,429,769
Cement	0.23	2,299,849	1.59	23,768,904
Chemical and pharmaceutical	4.79	47,116,583	3.45	51,432,399
Education	2.73	26,860,125	3.82	56,979,115
Energy	0.23	2,252,075	1.63	24,320,088
Engineering and construction	1.34	13,163,847	2.67	39,912,603
Fabrics	3.12	30,742,660	3.12	46,533,825
Fertilizer	0.44	4,341,169	0.57	8,509,800
Financial institution	3.33	32,775,867	2.39	35,690,803
Food and beverages	2.42	23,836,840	2.06	30,725,090
Glass and ceramics	0.49	4,808,602	1.02	15,181,456
Information technology	1.51	14,899,800	1.03	15,372,050
Knitwear	9.40	92,484,971	7.05	105,291,676
Leather and shoe industries	2.25	22,156,565	2.83	42,311,369
Media and advertising	1.18	11,622,934	1.49	22,177,086
Petroleum and oilfields	2.28	22,463,412	2.73	40,761,014
Poultry feed	4.28	42,175,928	5.18	77,363,858
Rubber and tyre	5.30	52,192,793	4.55	67,883,667
Sugar	11.78	115,989,085	10.86	162,064,536
Telecommunication	1.01	9,987,176	1.68	25,068,711
Textile	36.81	362,293,447	35.52	530,231,551
Miscellaneous	1.48	14,599,603	0.78	11,579,767
	<u>100</u>	<u>984,272,395</u>	<u>100</u>	<u>1,492,589,137</u>

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Morabaha investment	2009		2008	
	%	Rupees	%	Rupees
Allied and engineering	-	-	1.43	12,000,000
Auto and assemblers	1.19	10,900,000	2.98	25,000,000
Cable and electric goods	5.84	53,333,332	7.14	60,000,000
Food and beverages	0.82	7,500,000	-	-
Educational institution	0.33	3,000,000	0.36	3,000,000
Energy	3.83	35,000,000	-	-
Financial institutions	6.02	55,000,000	8.33	70,000,000
Fertilizers	4.38	40,000,000	-	-
Leather and shoe industries	-	-	4.17	35,000,000
Media	2.19	20,000,000	3.57	30,000,000
Paper and board	6.57	60,000,000	7.14	60,000,000
Rice peddy	-	-	1.07	8,960,333
Sugar	18.06	165,000,000	20.83	175,000,000
Textile	44.22	404,075,300	38.81	326,000,000
Miscellaneous	6.55	60,000,000	4.17	35,000,000
	<u>100</u>	<u>913,808,632</u>	<u>100</u>	<u>839,960,333</u>

Musharaka investment	2009		2008	
	%	Rupees	%	Rupees
Energy	34.11	12,941,801	11.94	16,941,801
Financial institutions	65.89	25,000,000	88.06	125,000,000
	<u>100</u>	<u>37,941,801</u>	<u>100</u>	<u>141,941,801</u>

38. EARNINGS PER MODARABA CERTIFICATE - BASIC AND DILUTIVE (Rupees)

The calculation of the basic earnings per modaraba certificate is based on the following data:

Profit for the year	10,775,001	31,762,792
Weighted average number of modaraba certificates outstanding (Numbers)	25,000,000	25,000,000
Earnings per certificate - basic (Rupees)	0.43	1.27

Basic earnings per modaraba certificate has been computed by dividing profit after tax as stated above with weighted average number of modaraba certificates.

There was no dilutive effect on the basic earnings per modaraba certificate.

39. CASH GENERATED FROM / (USED IN) OPERATIONS

Profit for the year	10,775,001	31,762,792
Adjustments for:		
Depreciation / amortization	49,487,737	641,367
Amortization of deferred costs	839,813	2,000,136
Impairment on available for sale investments	11,342,892	-
Loss in value of short term investments	3,595,868	3,010,943
(Gain)/loss on sale of short term investments	(139,733)	2,980,954
Finance cost	262,530,240	176,240,153
Profit on bank deposits	(377,234)	(218,413)
Dividend income	(1,375,290)	(1,921,127)
Gain on disposal of fixed assets	-	(371,831)
	<u>325,904,293</u>	<u>182,362,182</u>
Operating profit before working capital changes	336,679,294	214,124,974

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	2009	2008
	(Rupees)	
Working capital changes		
Decrease in advances, prepayments and other receivables	26,923,103	30,337,748
Increase in accrued profit	(380,218)	(10,051,026)
Increase in short term morabaha investment - secured	(62,389,966)	(115,952,286)
Decrease / (increase) in short term musharaka investment - unsecured	75,000,000	(100,000,000)
Decrease / (increase) in investment in ijarah	508,316,742	(157,588,654)
Increase in long term morabaha investment - secured	(11,458,333)	(143,000,000)
Decrease in long-term musharaka investment - secured	29,000,000	3,058,199
(Decrease) / increase in security deposits - ijarah	(13,064,394)	47,527,347
Increase in creditors, accrued and other liabilities	2,454,149	12,170,842
	554,401,083	(433,497,830)
Cash generated from / (used in) operations	891,080,377	(219,372,856)

40. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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. Remuneration of key management personnel is disclosed in note 30.1 to these financial statements.

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

	2009	2008
	(Rupees)	
40.1 Balances outstanding at the year end		
National Income Daily Accounts (NIDA) with National Bank of Pakistan (running balances)	10,356,275	11,204,970
Finances under musharaka arrangement from National Bank of Pakistan	594,749,207	540,838,204
Net investment in ijarah to National Bank of Pakistan	28,831,584	24,412,486
Current account with National Bank of Pakistan - Dividend account	649,537	365,419

40.2 Transactions with related parties

Related party	Relationship	Nature of transaction		
Taurus Securities Limited	Common management and control	Commission paid	6,250	604,787
		Purchase and sale of securities	7,260,335	698,679,984
National Bank of Pakistan	Management Co's holding company	Musharaka obtained	328,083,315	401,875,124
		Musharaka repaid	166,666,668	175,833,331
		Ijarah disbursed	20,673,584	21,843,230
		Ijarah repaid	16,254,486	15,382,208
		Profit paid	58,548,273	36,257,924
		Profit on ijarah	4,152,222	3,357,627
National Bank Modaraba management Company	Management Company	Management fee	1,197,222	3,529,199

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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.

41. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on August 19, 2009 by the Board of Directors of First National Bank Modaraba Management Company.

42. PROFIT DISTRIBUTION

The Board of Directors of Modaraba Management Company in their meeting held on August 19, 2009 have declared a final profit distribution of Rs: Nil (2008: Re. 1.00) per modaraba certificate which in total amounts to Rs: Nil (2008: Rs. 25,000,000).

43. GENERAL

- Figures have been rounded off to the nearest rupee.

CHIEF EXECUTIVE OFFICER
Lahore: August 19, 2009

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

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Annexure 1 as referred to in note 7 to the financial statements.

Particulars	No. of shares / certificates		Average cost		Fair market value	
	June 30 2009	June 30 2008	June 30 2009	June 30 2008	June 30 2009	June 30 2008
 Numbers Rupees			

Investments at fair value through profit and loss - Quoted

Commercial banks:

National bank of Pakistan Ordinary shares of Rs. 10 each	23,172	19,310	4,507,810	4,507,329	1,553,699	2,848,225
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The Bank Of Punjab Ordinary shares of Rs. 10 each	60,375	60,375	4,768,677	4,768,677	662,918	1,879,474
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Cement:

Lucky Cement Limited Ordinary shares of Rs. 10 each	10,000	10,000	990,538	990,538	585,300	979,300
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Fertilizer:

Fauji Fertilizer Bin Qasim Limited Ordinary shares of Rs. 10 each	38,500	38,500	1,661,606	1,661,606	681,065	1,371,370
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TOTAL

	11,928,631	11,928,150	3,482,982	7,078,369		
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Investments available for sale - Quoted

Commercial banks:

UBL Limited Ordinary shares of Rs. 10 each	38,500	35,000	5,694,140	5,694,140	1,474,165	2,978,150
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MCB Bank Limited Ordinary shares of Rs. 10 each	11,000	10,000	4,081,816	4,081,816	1,705,330	3,263,800
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Askari Commercial Bank Limited Ordinary shares of Rs. 10 each	84,375	67,500	5,117,027	5,117,027	1,289,250	2,712,825
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Bank Alfalah Limited Ordinary shares of Rs. 10 each	28,125	-	1,076,465	-	296,719	-
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Chemicals:

ICI Pakistan Ordinary shares of Rs. 10 each	20,000	20,000	4,123,824	4,123,824	2,805,000	3,227,400
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Energy and Petroleum:

Sui Northern Gas Company Limited Ordinary shares of Rs. 10 each	50,000	50,000	3,342,165	3,342,165	1,597,500	2,178,500
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Particulars	No. of shares / certificates		Average cost		Fair market value	
	June 30 2009	June 30 2008	June 30 2009	June 30 2008	June 30 2009	June 30 2008
 Numbers Rupees			
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	1,572,800	2,487,200
Attock refinery Limited Ordinary shares of Rs. 10 each	12,000	10,000	3,111,192	3,111,192	1,497,480	2,498,800
Pakistan State Oil Ordinary shares of Rs. 10 each	15,000	15,000	7,730,546	7,730,546	3,204,750	6,258,600
Mutual funds:						
ICP ABAMCO Composite Fund Certificate of Rs. 10 each	300,000	300,000	3,000,000	3,000,000	933,000	2,673,000
Pakistan Strategic Allocation Fund Certificate of Rs. 10 each	109,000	109,000	1,090,000	1,090,000	373,870	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	593,000	1,342,800
Textile Composite:						
Nishat Chunian Limited Ordinary shares of Rs. 10 each	23,397	21,270	2,082,185	2,082,178	201,455	510,693
Insurance:						
IGI Insurance Company Ordinary shares of Rs. 10 each	7,500	5,000	1,794,289	1,794,289	677,550	1,117,350
TOTAL			46,386,743	45,310,271	18,221,869	32,253,008

FIRST NATIONAL BANK MODARABA

PATTERN OF CERTIFICATE HOLDING AS ON JUNE 30, 2008

Number of Certificate Holders	Certificate Holding			No. of Certificates Held	Percentage of Total Capital
	From	To			
51	1	-	100	4,405	0.02
453	101	-	500	211,002	0.84
256	501	-	1000	241,138	0.96
239	1001	-	5000	675,882	2.70
87	5001	-	10000	730,600	2.92
25	10001	-	15000	318,900	1.28
22	15001	-	20000	412,700	1.65
15	20001	-	25000	351,500	1.41
13	25001	-	30000	360,300	1.44
8	30001	-	35000	258,273	1.03
3	35001	-	40000	120,000	0.48
2	40001	-	45000	81,500	0.33
2	45001	-	50000	95,500	0.38
3	50001	-	55000	153,500	0.61
3	55001	-	60000	174,300	0.70
1	60001	-	65000	63,000	0.25
2	65001	-	70000	133,000	0.53
2	75001	-	80000	154,000	0.62
1	80001	-	85000	81,000	0.32
1	85001	-	90000	86,500	0.35
3	95001	-	100000	299,000	1.20
2	110001	-	115000	227,000	0.91
1	115001	-	120000	120,000	0.48
1	130001	-	135000	132,500	0.53
1	140001	-	145000	145,000	0.58
1	145001	-	150000	150,000	0.60
1	150001	-	155000	152,500	0.61
2	155001	-	160000	317,000	1.27
1	180001	-	185000	184,500	0.74
1	195001	-	200000	200,000	0.80
1	205001	-	210000	206,500	0.83
1	240001	-	245000	242,000	0.97
1	285001	-	290000	287,000	1.15
1	315001	-	320000	319,000	1.28
1	350001	-	355000	355,000	1.42
2	395001	-	400000	800,000	3.20
1	495001	-	500000	500,000	2.00
1	500001	-	505000	501,000	2.00
1	580001	-	585000	584,500	2.34
1	700001	-	705000	704,000	2.82
1	975001	-	980000	978,000	3.91
1	995001	-	1000000	1,000,000	4.00
1	1075001	-	1080000	1,077,000	4.31
1	1470001	-	1475000	1,475,000	5.90
1	1835001	-	1840000	1,836,500	7.35
1	7495001	-	7500000	7,500,000	30.00
1,220				25,000,000	100.00

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CATEGORIES OF CERTIFICATE HOLDERS AS ON JUNE 30, 2009

Sr. #	Code	Category	No. of Certificate Holders	Certificates held	Percentage of Total Capital
1	1	Individuals	1,188	12,420,877	49.6835
2	3	Insurance Companies	1	65,500	0.2620
3	4	Joint Stock Companies	23	2,113,123	8.4525
4	5	Financial Institutions	3	2,516,000	10.0640
5	6	Modarabas	1	35,000	0.1400
6	9	Modaraba Management Cos	1	7,500,000	30.0000
7	10	Funds	1	12,500	0.0500
8	24	Others	2	337,000	1.3480
TOTAL:			1,220	25,000,000	100.0000

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

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

Associated companies, undertakings and related parties

Number of
Certificates

National Bank Modaraba Management Company Limited

7,500,000

FIRST NATIONAL BANK MODARABA

CATEGORIES DETAILS AS ON JUNE 30, 2009

Category	Numbers of Certificates
INSURANCE COMPANIES	
THE CRESCENT STAR INSURANCE CO. LTD.	65,500
JOINT STOCK COMPANIES	
RAMADA SECURITIES & DERVEATIVES LTD.	50
KHAWAJA SECURITIES (PVT.) LIMITED	100
MUHAMMAD AHMED NADEEM SECURITIES (SMC-PVT) LIMITED	100
FAIR EDGE SECURITIES (PRIVATE) LIMITED	100
WASI SECURITIES (SMC-PVT) LTD.	200
STOCK MASTER SECURITIES (PRIVATE) LIMITED	300
AMZ SECURITIES (PVT) LTD.	500
AL-HAQ SECURITIES (PVT) LTD.	500
AWJ SECURITIES (SMC-PRIVATE) LIMITED	600
SAZ CAPITAL SECURITIES (PVT) LTD.	700
DOSSLANI'S SECURITIES (PVT) LIMITED	700
DARSON SECURITIES (PRIVATE) LIMITED	900
H.S.Z. SECURITIES (PRIVATE) LIMITED	1,400
AFIC SECURITIES (PRIVATE) LIMITED	1,400
CAPITAL VISION SECURITIES (PVT) LTD.	1,500
AZEE SECURITIES (PRIVATE) LIMITED	2,700
Y.S. SECURITIES & SERVICES (PVT) LTD.	4,400
ALI HUSAIN RAJABALI LTD.	5,000
HUM SECURITIES LIMITED	16,000
DURVESH SECURITIES (PVT) LTD.	31,273
TREET CORPORATION LIMITED	51,000
HAJI ABDUL SATTAR SECURITIES (PVT.) LIMITED	157,200
ASIAN SECURITIES LIMITED	1,836,500
FINANCIAL INSTITUTIONS	
ORIX INVESTMENT BANK PAKISTAN LIMITED	63,000
THE BANK OF PUNJAB	978,000
NIB BANK LIMITED	1,475,000
MODARABAS	
FIRST ALNOOR MODARABA	35,000
MODARABA MANAGEMENT COS	
NATIONAL BANK MODARABA COMPANY LIMITED	7,500,000
FUNDS	
TRUSTEES-ABBASI & CO.PVT.LTD.EMPS.P.FUND	12,500
OTHERS	
TRUSTEES ALOO&MINOCHER DINSHAW CH.TRUST	50,000
TRUSTEES OF TEACHERS RESOURCE CENTRE	287,000

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 : 99211200, Fax: 99213247