

Growth + Prosperity

# First Punjab Modaraba

*(An Islamic Financial Institution)*

First Punjab Modaraba  
**Annual Report**  
2014





# FIRST PUNJAB MODARABA

*(An Islamic Financial Institution)*

A Wholly Owned Subsidiary of  
The Bank of Punjab

**Corporate Department**

**Ref: FPM/CORP/2014/1172**

**Date: September 30, 2014**

**Dear Certificate Holder**

**DISSEMINATION OF ANNUAL FINANCIAL STATEMENTS AND NOTICE OF ANNUAL MEETING THROUGH E-MAIL**

Statutory Notification (S.R.O) 787 (I) 2014 issued by SECP dated September 08, 2014 refers.

According to the S.R.O, SECP has allowed electronic transmission of annual reports along with notices of annual general meetings in order to reduce the cost of compliance with regulatory requirements for companies through effective use of technology. The SECP permitted companies to send the above information to their members through e-mail provided they have given their consent in advance and registered their e-mail address with the company.

Though the general public has already been intimated regarding above through proclamation published in newspapers (**Business Recorder and Daily Nawa-e-Waqat dated September 20, 2014**), you are being specifically informed through this letter to let us know about your consent to get Annual Reports along with notices of Annual Meeting through e-mails.

If you are interested to get the above information through e-mail, kindly send your consent to us or our Registrar. We have already placed all necessary related information on our website [www.punjabmodaraba.com.pk](http://www.punjabmodaraba.com.pk) including 'Standard Request Form' which you may use to communicate the required information. Accordingly, Name of our Registrar, Registered Address, E-mail and Telephone Numbers have also been mentioned in this Request Form.

(Mudassar Kaiser Pal)

**COMPANY SECRETARY**

**FIRST PUNJAB MODARABA**



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## Corporate Profile

### Board of Directors

Punjab Modaraba Services (Pvt.) Ltd.

Khalid Siddiq Tirmizey	Chairman
Aamir Malik	Chief Executive
Khawaja Farooq Saeed	Director
Nadeem Amir	Director
Tariq Maqbool	Director
Mahboob-ul-Hassan	Director

### Chief Financial Officer & Company Secretary

Mudassar Kaiser Pal

### Audit Committee

Mahboob-ul-Hassan	Chairman
Nadeem Amir	Member
Tariq Maqbool	Member

### Human Resource Committee

Tariq Maqbool	Chairman
Mahboob-ul-Hassan	Member
Nadeem Amir	Member
Aamir Malik	Member

### Auditors of the Modaraba

Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants

### Auditors of the Management Company

Hameed Chaudhry & Co.  
Chartered Accountants

### Bankers

The Bank of Punjab  
Bank Alfalah Limited

### Registrar

Hameed Majeed Associates (Pvt) Ltd.  
H.M. House, 7-Bank Square,  
The Mall, Lahore  
Tel: (+92-42) 37235081-2

### Registered Office

BOP Tower, 1st Floor, 10-B Block E-II, Main  
Boulevard, Gulberg III, Lahore. Postal Code No.  
54600

PABX: (+92-42) 35783676

Fax: (+92-42) 35784068

E-mail: [info@punjabmodaraba.com.pk](mailto:info@punjabmodaraba.com.pk)

URL: [www.punjabmodaraba.com.pk](http://www.punjabmodaraba.com.pk)



First Punjab Modaraba

## Our Vision

Connect the Community to  
Islamic Mode of Financing.



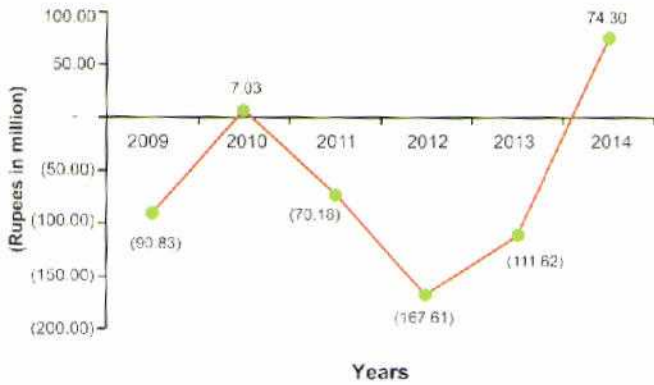
## Our Mission

We have committed  
to progressively  
enhance fully  
researched Islamic  
Financing Products  
and shall continue to  
meet our customer's  
needs.



# Financial Highlights

## Profit / (Loss) for the year



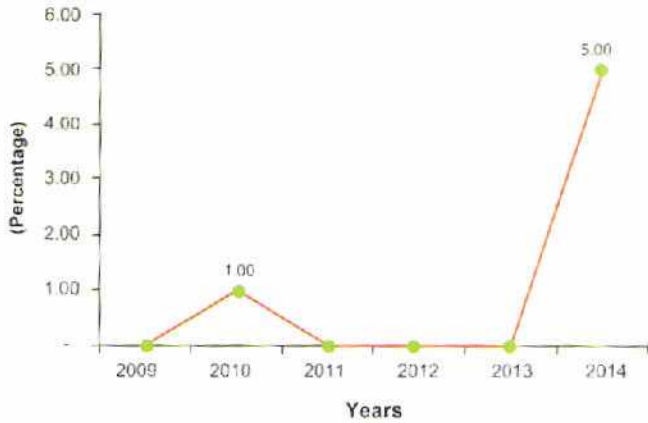
## Operating Profit

2014  
6.11 **107.54%**  
2013  
(81.06)

## Net Profit

2014  
74.29 **166.56%**  
2013  
(111.62)

## Profit Distribution



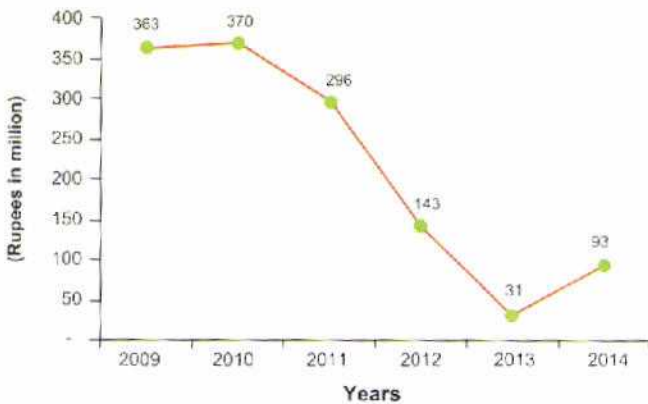
## Reserves

2014  
(247.47) **19.94%**  
2013  
(309.12)

## Equity

2014  
92.73 **198.40%**  
2013  
31.08

## Equity



## Operating Expense

2014  
24.16 **26.10%**  
2013  
32.70

## Financial Expense

2014  
86.97 **37.71%**  
2013  
139.61



## Six Years at a Glance

	June-09	June-10	June-11	June-12	June-13	June-14
<b>BALANCE SHEET</b>						
Authorized Capital	500,000	500,000	500,000	500,000	500,000	500,000
<b>Equity:</b>						
Issued, Subscribed & Paid Up Capital	340,200	340,200	340,200	340,200	340,200	340,200
Reserves	110,683	114,199	114,199	128,065	127,366	151,347
Loss on re-valuation of Investment	-	-	-	-	-	-
Un-appropriated Profit	(87,885)	(84,370)	(157,954)	(325,567)	(436,490)	(398,817)
<b>Total</b>	<b>362,998</b>	<b>370,030</b>	<b>296,446</b>	<b>142,698</b>	<b>31,076</b>	<b>92,730</b>
<b>Liabilities:</b>						
Redeemable Capital	743,722	693,688	1,046,762	429,715	301,000	100,000
Musharikh Arrangements	1,092,682	885,036	878,487	1,041,532	971,664	896,954
Morabaha Arrangements	392,093	102,000	38,810	17,296	-	-
Diminishing Musharikh	-	160,000	-	-	-	-
Accrued, Deferred & Other Liabilities	454,546	454,344	367,849	279,438	264,214	234,733
<b>Total</b>	<b>2,683,043</b>	<b>2,295,069</b>	<b>2,331,908</b>	<b>1,767,981</b>	<b>1,536,879</b>	<b>1,231,687</b>
<b>Total Equity &amp; Liabilities</b>	<b>3,046,041</b>	<b>2,665,098</b>	<b>2,628,354</b>	<b>1,910,680</b>	<b>1,567,955</b>	<b>1,324,417</b>
<b>Operating Assets:</b>						
Ijarah Assets	1,633,184	1,447,816	1,187,331	721,624	519,560	351,330
Short Term Investments-Available for sale	58,739	-	-	-	-	-
Musharikh Investment	52,505	45,175	91,328	78,305	89,689	131,704
Morabaha Investment	960,715	686,743	677,414	497,785	477,384	378,566
<b>Sub Total</b>	<b>2,705,143</b>	<b>2,179,734</b>	<b>1,956,072</b>	<b>1,297,714</b>	<b>1,086,633</b>	<b>861,600</b>
<b>Other Assets:</b>						
Assets in own use	55,694	54,532	57,156	67,610	53,051	10,584
Shares-Available for sale	-	-	-	-	9,351	9,351
Advances, Deposits, Prepayments & others	258,769	388,585	432,715	486,846	328,397	378,716
Cash & Bank Balances	26,434	42,247	182,411	58,509	90,519	64,166
<b>Sub Total</b>	<b>340,897</b>	<b>485,364</b>	<b>672,281</b>	<b>612,965</b>	<b>481,318</b>	<b>462,817</b>
<b>Total Assets</b>	<b>3,046,041</b>	<b>2,665,098</b>	<b>2,628,354</b>	<b>1,910,680</b>	<b>1,567,955</b>	<b>1,324,417</b>
<b>PROFIT &amp; LOSS ACCOUNT</b>						
Operating Income	1,093,793	939,756	831,529	571,751	339,695	263,244
Other Income	33,664	50,510	22,203	45,603	7,558	34,291
<b>Total Income</b>	<b>1,127,457</b>	<b>990,266</b>	<b>853,732</b>	<b>617,354</b>	<b>347,252</b>	<b>297,535</b>
Operating Expenses	834,607	701,441	652,924	567,876	318,611	148,518
Financial Charges	383,679	281,013	270,990	217,091	139,612	86,972
Management Fee	-	781	-	-	-	3,102
<b>Total Expenses</b>	<b>1,218,286</b>	<b>983,235</b>	<b>923,914</b>	<b>784,967</b>	<b>458,223</b>	<b>238,592</b>
Profit before Taxation	(90,829)	7,031	(70,182)	(167,613)	(110,970)	58,943
Taxation	-	-	-	-	(651)	15,353
<b>Profit for the year</b>	<b>(90,829)</b>	<b>7,031</b>	<b>(70,182)</b>	<b>(167,613)</b>	<b>(111,621)</b>	<b>74,296</b>
<b>DISTRIBUTION:</b>						
Cash Dividend(%)	-	1.00	-	-	-	5.00
Bonus (%)	-	-	-	-	-	-
<b>RATIOS:</b>						
Breakup Value (Rs.)	10.67	10.88	8.71	4.19	0.91	2.73
Earning per Certificate (Rs.)	(2.67)	0.21	(2.06)	(4.93)	(3.28)	2.18
Return on Equity (%)	(25.02)	1.90	(23.67)	(117.46)	(359.19)	80.12



## Directors' Report

The Board of Directors of Punjab Modaraba Services (Pvt.) Limited, the Management Company of First Punjab Modaraba (the Modaraba) is pleased to present the 21st Directors' Report of the Modaraba, together with audited financial statements and auditors' report for year ended June 30, 2014.

### Review of Operations

By the grace of Almighty Allah, the Modaraba was able to close the year under consideration with a net profit of Rs.74.29 million after dismal performance for so many years. Resultantly, earning per certificate of Rs.2.18 was recorded against loss per certificate of Rs.3.28 and breakup value per certificate of Rs. 2.73 against Rs.0.91 last year.

The recovery of non-performing assets remained focus of the Modaraba resulting in recovery of over Rs.146.00 million during the year. The positive impact on the profit and loss account was evident in shape of net reversal of provisions of Rs. 55.93 million. The proceeds of recoveries were utilized to adjust outstanding borrowings of the Modaraba for sake of consolidation and will be available when needed in future. Consequently the quantum of redemption of assets was much more than fresh assets booked during the year.

The reduction in profit rate by The Bank of Punjab, the exclusive creditor and sponsoring bank of the Modaraba, remained major source of reduction of Rs.52.64 million in financial cost as compared with corresponding year. A substantial decrease of Rs.8.53 million was also made in administrative cost on year to year basis. All these factors together, contributed towards turnaround of the Modaraba.

Last year's auditors' report was qualified on issue of impairment of Trading Rights Entitlement Certificate. After charging 100% impairment, the qualification of report was removed. In addition, the emphasis of matter paragraph in last year's report was abated by reduction in accumulated losses and management of liquidity risk by transfer of musharika lines to non-current liabilities. The improved results also brought almost three times increase in per party limit of the Modaraba, which will go a long way in booking of fresh assets.

### Financial Results

The financial results of the Modaraba are summarized below:

	2014 Rupees	2013 Rupees
Profit / (Loss) for the year	74,296,458	(111,621,816)
Un-appropriated Profit – Brought Forward	(436,489,928)	(325,566,608)
Transfer from revaluation surplus	524,908	698,496
Profit available for appropriation	74,296,458	-
<b>Appropriations:</b>		
Transfer to statutory reserve	37,148,229	-
Un-appropriated profit / (loss) – Carried Forward	(398,816,791)	(436,489,928)
(Loss) / Earning per certificate - Rs.	2.18	(3.28)



### Profit Distribution and transfer to reserves

The Board at its meeting held on September 26, 2014 has approved cash dividend of Rs. 0.50 per certificate and transfer of Rs. 37,148,229 to statutory reserve for the year ended June 30, 2014, out of the profit earned during the year.

### Economic Outlook and Future Prospects

While the perceptible improvement in business sentiments is acknowledged, there is a need to be mindful of the structural problems that continue to plague Pakistan's economy.

The year under consideration remained a turnaround year for the Modaraba. The Management is fully determined to maintain the pace and momentum gained during the year under consideration so as to make the Modaraba a successful and competing financial institution in coming years. To achieve this objective, following will be the key factors:

- Fresh business with new zeal and rejuvenation.
- Recovery of non-performing assets which have been the root cause of deteriorated financial health of the Modaraba.

Both targets will be given equal importance. The breakthrough in recovery of non-performing assets and pro-active penetration in the market will be done with existing team along with hiring of fresh resource.

On the basis of the business plan prepared by the Management with focus on recovery and booking of quality fresh assets and continued support from The Bank of Punjab, the Management is of the view that the Modaraba would be able to achieve sustained profitability and continue its business in the foreseeable future.

### FPM Financial Strength Rating

The Pakistan Credit Rating Agency (Pvt.) Limited (PACRA) has reaffirmed long term rating of "BBB" and short term rating of "A3".

### 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 account of the Modaraba have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- As fully explained above as well as in note 1 to the financial statements, the Management is of the view that the Modaraba would have adequate resources to continue its business in the foreseeable future.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data of the Modaraba for the last six years in summarized form is annexed.
- There are no outstanding demands of statutory payments on account of taxes, duties, levies and charges as at 30 June 2014, except for those disclosed in financial statements.
- The value of investments of the staff provident fund, based on audited accounts, was Rs.1,542,672/- as at 30 June, 2014.
- During the year, ten meetings of the Board of Directors were held. Attendance by each director was as follow:

Name of Directors	No. of Meetings Attended
Mr. Khalid Siddiq Tirmizey	9
Mr. Nadeem Amir	10
Mr. Tariq Maqbool	9
Mr. Mahboob-ul Hassan	9
Mr. Aamir Malik	4

Mr. Khaqan Hasnain Ibrahim, CEO, and Mr. Mujahid Eshai, Director resigned during the year. The Board appointed Mr. Aamir Malik as new CEO who took over charge in April 2014. While Khawaja Farooq Saeed replaced Mr. Mujahid Eshai as Director.



- During the year, four meetings of the Audit Committee were held. Attendance by each member was as follow:

Name of Directors	No. of Meetings Attended
Mr. Mehboob-ul-Hassan	3
Mr. Nadeem Amir	4
Mr. Tariq Maqbool	3

- An amount of Rs.15,000/- was paid to one of the directors for attending meetings of the Board of Directors.
- The pattern of the holding by the certificate holders is included in this annual report.
- No trades in certificates of the Modaraba were carried out by the Directors, Executives or their spouses and minor children during the year ended June 30, 2014.

### Role of Certificate-Holders

The Board aims to ensure that the Modaraba's certificate holders are kept informed about major developments affecting the Modaraba's state of affairs. To achieve this objective, information is communicated to certificate holders through quarterly, half-yearly and annual reports. The Board appreciates certificate-holders' active participation at annual review meeting to ensure high level of accountability.

### Auditors

The present auditors M/s. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, being eligible for appointment and upon their consent to act as auditors, have been appointed auditors of the Modaraba for financial year ending June 30, 2015, subject to the approval of Registrar Modaraba.

### Compliance with the Code of Corporate Governance

The requirements of the Code of Corporate Governance set out by the Karachi, Lahore, and Islamabad Stock Exchange in their listing regulations, relevant for year ended June 30, 2014 have been duly complied with and any exceptions have been disclosed in the Statement

of Compliance with the Best Practices of Corporate Governance.

### Statement of Ethics and Business Practices

The Board has adopted a Code of Conduct that sets out core values relating to lawful and ethical conduct of business. All employees have a copy of this code of conduct and are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulations. This forms a part of the Modaraba's compliance structure.

### Social, Ethical and Environmental Responsibilities

The Board is conscious of social, ethical and environmental matters and is planning for its continued participation in these areas of public interest.

### Acknowledgments

The Modaraba has enjoyed the invaluable guidance and support of Registrar Modarabas and the Securities & Exchange Commission of Pakistan during the year and wishes to enjoy the same in future as well.

### For and on behalf of the Board

Aamir Malik  
Chief Executive

Lahore: September 26, 2014



## Statement of Compliance

### With the Best Practices of Corporate Governance to the Certificate Holders of First Punjab Modaraba

This statement is being presented to comply with the Code of Corporate Governance (the Code) in accordance with the requirements of listing regulations of the Karachi, Lahore and Islamabad Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Modaraba applies principles contained in the Code in the following manner:

1. The management company has 6 directors which include 5 non-executive directors. All directors are nominated by The Bank of Punjab, the holding company of the Modaraba's Management Company.
2. The directors have confirmed that none of them is serving as a director in seven or more listed companies, including the management company.
3. All the directors of the management company are registered as tax payers and to the best of our knowledge none of them have defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange has been declared as a defaulter by that stock exchange.
4. The casual vacancies occurring in the Board were filled up by the directors within the stipulated time.
5. A Statement of Ethics and Business Practices has been adopted by the Modaraba, which has been duly signed by all the directors of the Management Company and employees of the Modaraba.
6. The Board has developed a vision/mission statement, overall corporate strategy and policies of the Modaraba. However, the Modaraba policies, procedures and systems are reviewed for updating/revision wherever required.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CFO/ Company Secretary and Head of Internal Audit have been taken by the Board.
8. The Meetings of the Board were presided over by the Chairman and in his absence by a director elected by the Board for this purpose and the Board met at least once in every quarter, written notices of the Board meetings, along-with agenda and working papers, were 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. Modaraba did not conduct any orientation course during the year. However, one of the members of the Board is certified under Directors Training Program conducted by the Institute of Chartered Accountants of Pakistan.
10. 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.
11. The Financial statements of the Modaraba were duly endorsed by the CEO and CFO before approval of the Board.
12. The CEO, directors and executives do not hold any interest in the certificates of the Modaraba other than those disclosed in the pattern of certificate holding.
13. The Modaraba has complied with all the corporate and financial reporting requirements of the Code.



14. The Board has formed an Audit Committee. It comprises three members, who are non-executive directors of the Management Company including the Chairman of the Committee.
  15. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
  16. The Board has employed adequate personnel for internal audit function to ensure the establishment and maintenance of sound and effective internal controls, compliance and review policies and procedures.
  17. The Board has formed a Human Resource & Remuneration Committee. It comprises four members with majority of non-executive directors of the Management Company including the Chairman of the Committee.
  18. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
  19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
  20. All material information, as described in clause (xx) of the code is disseminated to the stock exchange and Securities and Exchange Commission of Pakistan in a timely fashion.
  21. The Modaraba has complied with requirements as stipulated in the clause (x) relating to related party transactions.
- We confirm that all other material principles contained in the code have been complied with.

**For and on behalf of the Board**

Aamir Malik  
**Chief Executive**

Lahore; September 26, 2014



## Review Report to the Certificate Holders on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) for the year ended 30 June 2014 prepared by the Board of Directors of First Punjab Modaraba to comply with the Listing Regulation No. 35 of the Karachi Stock Exchange Limited and Lahore Stock Exchange Limited, where the Company is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Management Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Company's compliance with the provisions of the Code in respect of the Company and report if it does not. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Listing Regulations of the Karachi Stock Exchange Limited and Lahore Stock Exchange Limited requires the Company to place before the board of directors for their consideration and approval of related party transactions, distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate 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 does not appropriately reflect the status of the Company's compliance, in all material respects, with the best practices contained in the Code in respect of the Company for the year ended 30 June 2014.

Lahore: September, 26 2014

**Ernst & Young Ford Rhodes Sidat Hyder**  
Chartered Accountants  
Audit Engagement Partner: Farooq Hameed



## Notice of Book Closure & Annual Review Meeting

The Certificate Holders are hereby notified that the Certificate Transfer Books shall remain closed from 24-10-2014 to 30-10-2014 (both days inclusive), for the purpose of entitlement of Cash Dividend and attending Annual Review Meeting. All transfers received in order upto the close of business hours on October 23, 2014 with our Registrars' office, M/s. Hameed Majeed Associates (Pvt.) Ltd., H.M House, 7-Bank Square, Lahore, will be considered in time.

The Annual Review Meeting of the Certificate holders will be held at 2.30 pm on Thursday, October 30, 2014 at Noorjahan Banquet Hall, 10-A-Aibak Block, Main Boulevard New Garden Town, Lahore to review the performance of the Modaraba for the year ended June 30, 2014 in terms of Prudential Regulation No.11, Part IV for Modarabas.

The annual audited financial statements of the Modaraba for year ended June 30, 2014 are also available on Modaraba's website: [www.punjabmodaraba.com.pk](http://www.punjabmodaraba.com.pk).

By the Order of Board of Directors

Mudassar Kaiser Pal  
Company Secretary

### Request To Certificate Holders

In order to comply with the directives of SECP vide their SRO 831(1) 2012 dated July 5, 2012, the Registrar Office may withhold the dispatch of Dividend Warrant under section 251(2)(a) of the Companies Ordinance, 1984 of those Certificate Holders who fail to submit the copy of CNIC before the close of Certificate transfer books for entitlement of dividend for the year ended June 30, 2014 announced by the Board of Directors at their meeting held on September 26, 2014.

Therefore, all those physical Modaraba Certificate Holders who have not yet submitted their CNIC copies are hereby requested to immediately send valid copy of CNIC at below mentioned address of Shares Registrar.

**Hameed Majeed Associates (Pvt) Ltd.** H.M. House, 7-Bank Square, The Mall, Lahore.  
Tel: (+92-42) 37235081-2



## Pattern of Certificate Holders

as at June 30, 2014

Number of Certificate holders	Certificate Holding		Total No. of Certificate Held	Percentage of Total Capital
	From	To		
910	1 -	100	41,660	0.12
1465	101 -	500	406,040	1.19
1129	501 -	1000	923,152	2.71
688	1001 -	5000	1,581,507	4.65
133	5001 -	10000	1,007,102	2.96
40	10001 -	15000	498,873	1.47
38	15001 -	20000	693,283	2.04
34	20001 -	25000	780,623	2.29
11	25001 -	30000	314,543	0.92
15	30001 -	35000	487,418	1.43
10	35001 -	40000	383,068	1.13
3	40001 -	45000	128,270	0.38
14	45001 -	50000	686,128	2.02
2	50001 -	55000	106,000	0.31
4	55001 -	60000	235,422	0.69
3	65001 -	70000	203,550	0.60
3	70001 -	75000	220,520	0.65
1	75001 -	80000	80,000	0.24
2	80001 -	85000	166,000	0.49
1	85001 -	90000	90,000	0.26
2	90001 -	95000	181,616	0.53
7	95001 -	100000	700,000	2.06
3	105001 -	110000	325,786	0.96
3	110001 -	115000	345,000	1.01
3	115001 -	120000	355,846	1.05
1	120001 -	125000	125,000	0.37
1	145001 -	150000	150,000	0.44
1	150001 -	155000	151,000	0.44
1	175001 -	180000	178,500	0.52
2	185001 -	190000	378,000	1.11
1	190001 -	195000	194,000	0.57
2	195001 -	200000	397,644	1.17
2	220001 -	225000	448,500	1.32
1	230001 -	235000	233,655	0.69
1	250001 -	255000	252,000	0.74
2	295001 -	300000	600,000	1.76
1	300001 -	305000	302,000	0.89
1	320001 -	325000	325,000	0.96
1	350001 -	355000	350,100	1.03
1	360001 -	365000	364,500	1.07
1	365001 -	370000	367,500	1.08
1	395001 -	400000	400,000	1.18
1	480001 -	485000	481,000	1.41
1	490001 -	495000	495,000	1.46
2	495001 -	500000	1,000,000	2.94
1	640001 -	645000	642,223	1.89
1	655001 -	660000	656,500	1.93
1	1265001 -	1270000	1,265,777	3.72
1	8085001 -	8090000	13,320,694	39.16
<b>4,553</b>			<b>34,020,000</b>	<b>100.00</b>



## Categories of Certificate Holders

as at June 30, 2014

Categories of Certificate Holders	Categories Wise No. of Certificate Holders	Certificates Held	Percentage
<b>INDIVIDUALS</b>	<b>4,480</b>	<b>16,765,067</b>	<b>49.2800</b>
<b>ASSOCIATED COMPANIES, UNDERTAKING AND RELATED PARTIES</b>	<b>3</b>		
PUNJAB MODARABA SERVICES (PVT) LTD.		8,088,500	23.7757
THE BANK OF PUNJAB		4,788	0.0141
PUNJAB MODARABA SERVICES (PVT) LTD.		5,232,194	15.3798
		<b>13,325,482</b>	<b>39.1696</b>
<b>MUTUAL FUNDS</b>	<b>2</b>		
SECURITY STOCK FUND LTD.		3,100	0.0091
PRUDENTIAL STOCKS FUND LIMITED		100	0.0003
		<b>3,200</b>	<b>0.0094</b>
<b>JOINT STOCK COMPANIES</b>	<b>1</b>	<b>2,808</b>	<b>0.0083</b>
<b>BANKS, DEVELOPMENT FINANCIAL INSTITUTIONS, NON BANKING FINANCIAL INSTITUTIONS, INSURANCE COMPANIES, TAKAFUL, MODARABAS AND PENSION FUNDS.</b>	<b>21</b>	<b>1,615,137</b>	<b>4.7476</b>
<b>OTHERS</b>	<b>46</b>	<b>2,308,306</b>	<b>6.7851</b>
<b>GRAND TOTAL</b>	<b>4553</b>	<b>34,020,000</b>	<b>100.0000</b>



# **Financial Statements**

as at June 30, 2014





## Auditor's Report to the Certificate Holders

We have audited the annexed balance sheet of First Punjab Modaraba ("the Modaraba") as at 30 June 2014 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended. 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 management company's (Punjab Modaraba Services (Private) Limited) responsibility which is also responsible to establish and maintain a system of internal control, prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan, Islamic Financial Accounting Standards issued by Institute of Chartered Accountants of Pakistan, 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 management 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 account have been kept by the Modaraba management company in respect of the Modaraba as required by 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 the 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), the Modaraba Companies and Modaraba Rules, 1981 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the changes referred to in note 3.1, 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, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, Islamic Financial



Accounting Standards issued by Institute of Chartered Accountants of Pakistan and give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at 30 June 2014 and of the profit, its comprehensive profit, its cash flows and changes in equity for the year then ended; and

- d) In our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980)

Without qualifying our opinion we draw attention to note 1 to the financial statements which indicates that the accumulated losses, net of reserves, as at 30 June 2014 amount to Rs. 247,469,394 which exceeds fifty percent of the total amount subscribed by the holders of the Modaraba Certificates. This condition, indicates the existence of uncertainty which may cast doubts about the Modaraba's ability to continue as a going concern.

Lahore:  
September 26, 2014

**Ernst & Young Ford Rhodes Sidat Hyder**  
Chartered Accountants  
Audit Engagement Partner: Farooq Hameed



## Annual Shari'ah Advisor's Report

I have conducted the Shari'ah review of First Punjab managed by Punjab Modaraba Services (Pvt.) Limited for the financial period ended June 30, 2014 in accordance with the requirements of the Shari'ah Compliance and Shari'ah Audit Mechanism for Modarabas and report that in my opinion:

- i. the modaraba has introduced a mechanism which has strengthened the Shari'ah compliance, in letter and spirit and the systems, procedures and policies adopted by the Modaraba are in line with the Shari'ah principles;
- ii. the agreement(s) entered into by the Modaraba are Shari'ah compliant and the financing agreement(s) have been executed on the formats as approved by the Religious Board and all the related conditions have been met;
- iii. to the best of my information and according to the explanations given to me, the business transactions undertaken by the Modaraba and all other matters incidental thereto are in conformity with the Shari'ah requirements as well as the requirements of the Prospectus, Islamic Financial Accounting Standards as applicable in Pakistan and the Shari'ah Compliance and Shari'ah Audit Regulations for Modarabas;
- iv. The earnings that have been realized from the sources or by means prohibited by Shari'ah have been credited to charity accounts.

Mufti Muhammad Iftikhar Baig  
Shari'ah Advisor  
First Punjab Modaraba  
8th Floor, D.M. Tower 78-A, Block-K  
Gulberg II Lahore.  
Stamp of the Shari'ah Advisor

September 25, 2014



# Balance Sheet

As at 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>ASSETS</b>			
<b>Non current assets</b>			
Tangible fixed assets			
- Ijarah assets	5	351,329,549	519,559,593
- Assets in own use		1,324,919	16,884,260
Intangible assets	6	9,258,858	36,166,473
Shares- available for sale	7	9,351,243	9,351,243
Long term musharikhah investment - secured	8	61,425,668	26,972,355
Long term deposits	9	192,500	92,500
Deferred tax asset	10	25,373,531	-
		<b>458,256,268</b>	<b>609,026,424</b>
<b>Current assets</b>			
Short term morabaha investment - secured	11	378,565,903	477,384,056
Current maturity of long term investments	12	70,585,369	63,273,038
Advances, deposits, prepayments and other receivables	13	352,402,721	327,400,300
Tax refundable		440,426	352,938
Cash and bank balances	14	64,165,836	90,519,231
		<b>866,160,255</b>	<b>958,929,563</b>
<b>TOTAL ASSETS</b>		<b>1,324,416,523</b>	<b>1,567,955,987</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Certificate capital	15	340,200,000	340,200,000
Reserves	16	(247,469,394)	(309,123,759)
		<b>92,730,606</b>	<b>31,076,241</b>
<b>Non current liabilities</b>			
Security deposits	17	112,132,073	125,413,444
Long term musharikhah finance secured	19	896,953,577	-
		<b>1,009,085,650</b>	<b>125,413,444</b>
<b>Current liabilities</b>			
Current maturity of non current liabilities	18	60,410,480	60,127,963
Deferred morabaha income		4,344,028	11,226,841
Short term musharikhah finance secured	19	-	971,664,436
Redeemable capital - participatory and unsecured	20	100,000,000	301,000,000
Mark up payable	21	17,674,685	24,582,782
Trade and other payables	22	18,027,543	30,740,848
Unclaimed profit		12,123,172	12,123,432
Provision for taxation	28	10,020,359	-
		<b>222,600,267</b>	<b>1,411,466,302</b>
<b>Contingencies and commitments</b>	23		
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,324,416,523</b>	<b>1,567,955,987</b>

The annexed notes from 1 to 37 form an integral part of these financial statements.

  
**Chief Executive**  
 Punjab Modaraba Services  
 ( Private ) Limited

  
**Director**  
 Punjab Modaraba Services  
 ( Private ) Limited

  
**Director**  
 Punjab Modaraba Services  
 ( Private ) Limited



## Profit and Loss Account

For the Year Ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>Income</b>			
Ijarah rentals	24.1	222,445,532	310,545,374
Profit on morabaha investment	24.2	24,910,933	24,923,090
Profit on musharikhah investment	24.3	15,886,672	4,226,110
Gain on disposal of fixed assets	24.4	22,791,444	3,672,591
Other income	25	11,500,393	3,885,115
		<b>297,534,974</b>	<b>347,252,280</b>
<b>Expenses</b>			
Operating expense	26	24,164,263	32,697,069
Depreciation of assets leased out	5.1	180,287,991	256,007,221
Finance cost	27	86,972,010	139,612,194
		<b>291,424,264</b>	<b>428,316,484</b>
<b>Operating profit / (loss) before provision and impairment</b>		<b>6,110,710</b>	<b>(81,064,204)</b>
(Reversal) / provision for morabaha investment	11.3	(85,886,950)	(14,603,168)
Impairment loss on ijarah assets	5.1	14,234,934	40,572,069
Impairment loss on intangibles	6	26,648,757	-
(Reversal) / Impairment loss on musharikhah investment	8.2	(11,124,610)	2,352,841
Other provisions	13.5	193,015	1,584,545
		<b>(55,934,854)</b>	<b>29,906,287</b>
<b>Operating profit / (loss) after provision and impairment</b>		<b>62,045,564</b>	<b>(110,970,491)</b>
Modaraba Company's management fee		(3,102,278)	-
		<b>58,943,286</b>	<b>(110,970,491)</b>
<b>Taxation</b>	28	<b>15,353,172</b>	<b>(651,325)</b>
<b>Profit / (Loss) for the year</b>		<b>74,296,458</b>	<b>(111,621,816)</b>
Earnings / (loss) per certificate - basic and diluted	29	<b>2.18</b>	<b>(3.28)</b>

The annexed notes from 1 to 37 form an integral part of these financial statements.

**Chief Executive**

Punjab Modaraba Services  
(Private) Limited

**Director**

Punjab Modaraba Services  
(Private) Limited

**Director**

Punjab Modaraba Services  
(Private) Limited



# Cash Flow Statement

For the Year Ended 30 June 2014

	Note	2014 Rupees	2013 Rupees
<b>Cash flow from operating activities</b>			
Cash generated from operations	33	355,550,986	410,476,344
Profit on redeemable capital paid		(19,442,065)	(42,038,009)
Profit paid on morabaha / musharikhah finances		(74,438,042)	(107,079,732)
Income tax paid		(87,488)	(134,367)
<b>Net cash generated from operating activities</b>		<b>261,583,391</b>	<b>261,224,236</b>
<b>Cash flow from investing activities</b>			
Proceeds from disposal of fixed assets		18,953,905	671,760
Fixed capital expenditure		(288,540)	(195,500)
Investment in musharikhah - net		(30,891,034)	(13,736,700)
<b>Net cash used in investing activities</b>		<b>(12,225,669)</b>	<b>(13,260,440)</b>
<b>Cash flow from financing activities</b>			
Finances under musharikhah arrangements		(74,710,859)	(69,883,282)
Finances under morabaha		-	(17,296,169)
Redeemable capital		(201,000,000)	(128,715,082)
Profit distribution to certificate holders		(258)	(59,347)
<b>Net cash used in financing activities</b>		<b>(275,711,117)</b>	<b>(215,953,880)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(26,353,395)</b>	<b>32,009,916</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>90,519,231</b>	<b>58,509,315</b>
<b>Cash and cash equivalents at the end of the year</b>	14	<b>64,165,836</b>	<b>90,519,231</b>

The annexed notes from 1 to 37 form an integral part of these financial statements.

  
**Chief Executive**  
 Punjab Modaraba Services  
 ( Private ) Limited

  
**Director**  
 Punjab Modaraba Services  
 ( Private ) Limited

  
**Director**  
 Punjab Modaraba Services  
 ( Private ) Limited



## Statement of Comprehensive Income

For the Year Ended 30 June 2014

	2014 Rupees	2013 Rupees
<b>Profit / (Loss) for the year</b>	<b>74,296,458</b>	<b>(111,621,816)</b>
<b>Other comprehensive income for the year</b> Transferred from surplus on revaluation of fixed assets on account of incremental depreciation	<b>524,908</b>	<b>698,496</b>
<b>Total comprehensive profit/loss for the year</b>	<b>74,821,366</b>	<b>(110,923,320)</b>

The annexed notes from 1 to 37 form an integral part of these financial statements.

**Chief Executive**  
Punjab Modaraba Services  
( Private ) Limited

**Director**  
Punjab Modaraba Services  
( Private ) Limited

**Director**  
Punjab Modaraba Services  
( Private ) Limited



## Statement of Changes in Equity

For the Year Ended 30 June 2014

	Certificate Capital Rupees	Capital Reserves Rupees	Accumulated Loss Rupees	Total Rupees
<b>Balance as at 1 July 2012</b>	340,200,000	128,064,665	(325,566,608)	142,698,057
Total comprehensive loss for the year	-	-	(111,621,816)	(111,621,816)
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation	-	(698,496)	698,496	-
<b>Balance as at 30 June 2013</b>	<b>340,200,000</b>	<b>127,366,169</b>	<b>(436,489,928)</b>	<b>31,076,241</b>
Total comprehensive income for the year	-	-	74,296,458	74,296,458
Transferred from surplus on revaluation of fixed assets on account of incremental depreciation	-	(524,908)	524,908	-
Revaluation surplus reversed	-	(12,642,093)	-	(12,642,093)
Transfer of profit to Statutory reserve	-	37,148,229	(37,148,229)	-
<b>Balance as at 30 June 2014</b>	<b>340,200,000</b>	<b>151,347,397</b>	<b>(398,816,791)</b>	<b>92,730,606</b>

The annexed notes from 1 to 37 form an integral part of these financial statements.

**Chief Executive**  
Punjab Modaraba Services  
( Private ) Limited

**Director**  
Punjab Modaraba Services  
( Private ) Limited

**Director**  
Punjab Modaraba Services  
( Private ) Limited



# Notes to the Financial Statements

For the year ended June 30, 2014

## 1. Status and Nature of Business

First Punjab Modaraba (the Modaraba) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and rules framed there under and is managed by Punjab Modaraba Services (private) Limited (wholly owned subsidiary of The Bank of Punjab), a company incorporated in Pakistan. The registered office of the Modaraba is situated at 1st Floor, BOP Tower, 10-B, Block-E-II, Gulberg III, Lahore. The Modaraba commenced its operations from 23 December 1992. The Modaraba is listed on all stock exchanges in Pakistan.

The Modaraba is a perpetual and multi-dimensional Modaraba and is primarily engaged in the business of Ijarah, Musharikhah and Morabaha financing, equity investment and other related businesses in accordance with the injunctions of Islam.

During the year the Modaraba has earned a profit of Rs.74,296,458 thereby reducing accumulated losses, net of reserves, as at 30 June 2014 by 20% to Rs. 247,469,394 which exceeds fifty percent of the total amount subscribed by the holders of the Modaraba Certificates.

In order to address going concern issue in terms of section 23 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (the Modaraba Ordinance), The Bank of Punjab (BOP) being the parent company of the Modaraba's Management Company and the exclusive secured creditor of the Modaraba has extended its due support in terms of deferral of repayment of credit lines to mitigate liquidity risk and application of subsidized profit rate to make Modaraba profitable.

Further, the Management has prepared a business plan with focus on recovery and booking of quality fresh assets thereby achieving sustained profitability. On the basis of support and the arrangements as outlined above and the business plan prepared by the management which has been approved by the Board of Directors, the management is of the view that the Modaraba would have adequate resources to continue its business in the foreseeable future.

## 2. Basis of Preparations

### 2.1 Statement of compliance

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

The SECP has issued directive (vide SRO 431 (1) / 2007 dated 22 May 2007) that Islamic Financial Accounting Standard 2 (IFAS-2) shall be followed in preparation of the financial statements by Companies and Modarabas while accounting for Ijarah (Lease) transactions as defined by the said standard. The Modaraba has adapted the said standard.



## 2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for the office premises which have been carried at fair value.

## 2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees which is also the Modaraba's functional currency. All financial information presented in Pakistan Rupees has been rounded to the nearest rupee.

## 3. Initial application of new standards, interpretations or amendments to existing standards and forthcoming requirements

### 3.1 Standards, interpretations and amendments to published approved accounting standards effective in 2013

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as describe below:

#### **New / Revised Standards, Interpretations and Amendments**

The Company has adopted the following revised standard, amendments and interpretation of IFRSs which became effective for the current year:

IAS 19 – Employee Benefits – (Revised)

IFRS 7 – Financial Instruments : Disclosures – (Amendments) (see note 3 below)  
- Amendments enhancing disclosures about offsetting of financial assets and financial liabilities

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

IFAS 3 – Profit and Loss Sharing on Deposits

Improvements to Accounting Standards Issued by the IASB

IAS 1 – Presentation of Financial Statements - Clarification of the requirements for comparative information

IAS 16 –Property, Plant and Equipment – Clarification of Servicing Equipment

IAS 32 – Financial Instruments: Presentation – Tax Effects of Distribution to Holders of Equity Instruments

IAS 34 – Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities

The adoption of the above amendments, revisions, improvements to accounting standards and interpretations did not have any effect on the financial statements. except for as described in note 2.4.



**3.2 New / revised accounting standards, amendments to published accounting standards, and interpretations that are not yet effective**

The following amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or Interpretation	Effective date (annual periods Beginning on or after)
IFRS 10-Consolidated Financial Statements	01 January 2015
IFRS 11-Joint Arrangements	01 January 2015
IFRS 12-Disclosure of interest in other entities	01 January 2015
IFRS 13- Fair Value Measurement.	01 January 2015
IAS 16 & 38 – Clarification of Acceptable Method of Depreciation and Amortization	01 January 2016
IAS 16 & 40 – Agriculture: Bearer Plants	01 January 2016
IAS 19 - Employee Contributions	01 July 2014
IAS 32 – Offsetting Financial Assets and Financial liabilities – (Amendment)	01 January 2014
IAS 36 – Recoverable Amount for Non-Financial Assets – (Amendment)	01 January 2014
IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting – (Amendment)	01 January 2014
IFRIC 21 – Levies	01 January 2014

The Company expects that the adoption of the above amendments and interpretation of the standards will not affect the Company's financial statements in the period of initial application.

In addition to the above standards and interpretations, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 July 2014. The Company expects that such improvements to the standards will not have any impact on the Company's financial statements in the period of initial application.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.



Standard or Interpretation	IASB Effective date (annual periods Beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	01 January 2018
IFRS 10 – Consolidated Financial Statements	01 January 2013
IFRS 11 – Joint Arrangements	01 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 – Fair Value Measurement	01 January 2013
IFRS 14 – Regulatory Deferral Accounts	01 January 2016
IFRS 15 – Revenue from Contracts with Customers	01 January 2017

#### 4. SIGNIFICANT ACCOUNTING POLICIES

##### 4.1 Tangible fixed assets

###### Assets in own use

Fixed assets except freehold land and office premises are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss. Office premises is stated at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation on all fixed assets is charged to profit on "straight line method", so as to write off the historical cost of an asset over its estimated useful life at annual rates mentioned in note 5.

Residual values and the useful lives of the assets are reviewed at least at each financial year end and adjusted if impact on depreciation is significant.

The Modaraba assesses at each balance sheet date whether there is any indication that fixed assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only 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. All other repair and maintenance costs are charged to income during the period in which they are incurred.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.



## **Ijarah Assets**

Assets leased out under Ijarah are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Assets under Ijarah are depreciated over the period of lease term. However, in the event the asset is expected to be available for re-ijarah, depreciation is charged over the economic life of asset using straight line basis.

Ijarah income is recognized on an accrual basis as and when the rental becomes due.

## **4.2 Impairment**

The carrying amount of Modaraba's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and impairment losses are recognized.

## **4.3 Cards and rooms**

These are stated at cost less impairments, if any. The carrying amounts are reviewed at each balance sheet date to assess whether these are recorded in excess of their recoverable amounts, and where carrying value is in excess of recoverable amount, these are written down to their estimated recoverable amount.

## **4.4 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 comprise cash in hand and cash with banks in current, savings and deposit accounts.

## **4.5 Financial Instruments**

### **Financial assets**

Significant financial assets include short and long term investments, long term deposits, advances and receivables and cash and bank balances. Finances and receivables from clients are stated at their nominal value as reduced by provision for doubtful finances and receivables, while other financial assets are stated at cost except for investments, which have been revalued as per accounting policies.

### **Financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include short term borrowings, certificates of musharikhah, deposits against lease arrangements, trade and other payables and dividends payable. Markup based financial liabilities are recorded at gross proceeds received. Other liabilities are stated at their nominal value.

### **Recognition and derecognition**

All the financial assets and financial liabilities are recognized at the time when the Modaraba becomes party to the contractual provisions of the instrument. Financial assets are derecognized when the Modaraba loses control of the contractual rights that comprise



the financial assets. Financial liabilities are derecognized when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

#### **Offsetting of financial assets and financial liabilities**

Financial assets and liabilities are offset and the net amount reported in the financial statements when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on net basis, or realize the asset and settle the liabilities simultaneously.

#### **4.6 Provisions**

Provisions are recognized when the Modaraba has a legal or constructive obligation as a result of past events, and 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. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

#### **4.7 Staff retirement benefit**

##### **Defined contribution plan**

The Modaraba operates a recognized provident fund for all eligible employees. Equal monthly contributions @ 8.33% of the basic salary are made to the fund both by the Modaraba and employees.

#### **4.8 Provision against non performing financing (Suspense income)**

The Modaraba reviews its overdue Ijarah rentals at each reporting date to assess whether provision should be recorded in profit and loss account, in addition to the mandatory provisions required in accordance with the Prudential Regulations issued by the SECP. In particular, judgment by management is required in the estimation of the amount and the timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

#### **4.9 Revenue recognition**

##### **Ijarah**

Ijarah rentals are recognized as income on accrual basis, as and when rentals become due.

Documentation charges, front-end fee and other Ijarah income are recognized as income on receipt basis. Unrealized lease income pertaining to non-performing leases is held in suspense account, where necessary, in accordance with the requirements of the Prudential Regulations (PR).



## **Morabaha transaction**

Profit on morabaha transaction is recognized over the period the payment becomes due. The unearned portion is reflected as deferred morabaha revenue.

## **Musharikhah Finance**

Profit on musharikhah arrangement is recognized under the effective markup rate based on the amount outstanding.

Return on bank deposits are recognized on accrual basis, using the effective interest rate method.

## **Capital gain or losses on sale of investment**

Capital gain / loss on investment is recognized on sale of the respective investments.

## **Dividend income**

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

## **Commission income**

Commission income is recognized on accrual basis.

### **4.10 Trade date accounting**

All 'regular way' purchases and sales of quoted equity securities are recognized on the trade date i.e. the date that the Modaraba commits to purchase/sell the asset. 'Regular way' purchases or sales of quoted investments require delivery within three working days after the transaction date as per stock exchange regulations.

### **4.11 Ijarah rentals and Musharikhah investments**

Ijarah rentals and Musharikhah investments are stated net of provision and suspense income. Provision is recognized for Ijarah rentals receivable and musharikhah investment, in accordance with the Prudential Regulations for Modarabas issued by Securities and Exchange Commission of Pakistan (SECP). Bad debts are written-off when identified.

### **4.12 Finance arrangements including Certificates of Musharikhah**

These are carried on the balance sheet at their principal amount.

Profits on these arrangements are recognized as expense in the period in which they are incurred.

Profit on Musharikhah finance is accounted for on the basis of the projected rate of profit. The effect of adjustments, if any, between actual rate and projected rate of profit is accounted for at the end of each year after determination of the actual rate.



#### 4.13 Profit distribution and appropriations

Profit distribution and appropriation to reserves are recognized as liability in the financial statements in the period in which these are approved. Transfer to statutory reserve and any of the mandatory appropriations, as may be required by law, are recognized in the period to which these relate.

#### 4.14 Taxation

##### Current

Provision for current taxation is made on taxable income at the prevailing rates of tax after taking into account tax credits available, if any. The income of non-trading modarabas is exempt from tax provided that not less than 90% of their profits are distributed to the certificate-holders.

##### Deferred

The Modaraba accounts for deferred taxation using the liability method arising between the amounts attributed to assets and liabilities for financial reporting purposes and financial statements used for taxation purposes. However, deferred tax liability has not been provided in these financial statements as the management believes that the timing differences will not reverse in the foreseeable future due to the fact that the Modaraba intends to continue availing the tax exemption.

#### 4.15 Morabaha Investments

Morabaha investments are stated net of provision. Provision is recognized for Morabaha Investments in accordance with the Prudential Regulations for Modaraba's issued by the Securities and Exchange Commission of Pakistan. Bad debts are written off when identified.

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

Purchase and sales under Morabaha and the resultant profit are accounted for on the culmination of Morabaha transaction.

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

	Note	2014 Rupees	2013 Rupees
<b>5. TANGIBLE FIXED ASSETS</b>			
Ijarah assets	5.1	351,329,549	519,559,593
Assets in own use	5.2	1,324,919	16,884,260
		<b>352,654,468</b>	<b>536,443,853</b>



Description	COST				DEPRECIATION				IMPAIRMENT				NET BOOK VALUE	
	As at 1 July 2013	Additions	Transfer	As at 30 June 2014	As at 1 July 2013	Charge for the year	Transfer	As at 30 June 2014	As at 1 July 2013	Charge for the year	Note	As at 30 June 2014	As at 30 June 2014	Depreciation Rate - %
	Plant and machinery	1,571,662,695	10,094,500	(144,672,229)	1,437,084,966	1,106,821,046	345,150,837	(117,500,680)	1,134,371,203	44,335,990	2,844,503	(6,270,551)	50,963,840	251,729,92
Vehicle	251,537,446	42,002,500	(71,405,600)	220,134,466	191,742,688	35,083,344	(66,720,764)	120,105,268	1,459,779	1,390,031	(7,555,413)	1,104,597	96,914,551	As per term
Cessna aircraft	13,552,604	-	-	13,552,604	13,552,604	-	-	13,552,604	-	-	-	-	-	As per term
Consumer products	6,333,861	-	-	6,333,861	5,594,704	53,780	-	5,658,484	-	-	-	-	673,377	As per term
Consumer products to staff	-	-	-	-	-	-	-	-	-	-	-	-	-	As per term
<b>Total</b>	<b>1,843,081,606</b>	<b>52,097,000</b>	<b>(218,078,029)</b>	<b>1,677,100,577</b>	<b>1,277,716,244</b>	<b>180,287,991</b>	<b>(184,301,444)</b>	<b>1,273,702,791</b>	<b>45,805,769</b>	<b>14,234,934</b>	<b>(7,972,466)</b>	<b>52,068,237</b>	<b>351,329,549</b>	

Description	COST				DEPRECIATION				IMPAIRMENT				NET BOOK VALUE	
	As at 1 July 2012	Additions	Transfer	As at 30 June 2013	As at 1 July 2012	Charge for the year	Transfer	As at 30 June 2013	As at 1 July 2012	Charge for the year	Note	As at 30 June 2013	As at 30 June 2013	Depreciation Rate - %
	Plant and machinery	1,945,363,465	58,409,775	(113,206,546)	1,890,566,694	1,655,850,123	187,527,809	(116,156,934)	1,727,221,008	78,872,361	39,522,421	(74,003,792)	44,335,990	420,505,657
Vehicle	365,496,577	9,900,000	(121,864,131)	253,532,446	183,161,176	61,333,917	(92,742,000)	151,747,893	57,717	1,049,644	(17,582)	1,469,779	99,316,779	As per term
Cessna aircraft	13,552,604	-	-	13,552,604	13,552,604	-	-	13,552,604	-	-	-	-	-	As per term
Consumer products	5,365,961	-	(32,100)	5,333,861	4,318,476	1,288,367	(12,134)	5,594,704	-	-	-	-	239,157	As per term
Consumer products to staff	497,000	-	(497,000)	-	456,162	40,538	(197,000)	-	-	-	-	-	-	As per term
<b>Total</b>	<b>2,032,281,608</b>	<b>68,399,775</b>	<b>(257,599,777)</b>	<b>1,843,081,606</b>	<b>1,231,322,291</b>	<b>256,007,221</b>	<b>(209,612,268)</b>	<b>1,277,716,244</b>	<b>79,335,078</b>	<b>40,572,065</b>	<b>(74,101,374)</b>	<b>45,805,769</b>	<b>519,559,593</b>	

5.1 Transfers represent the assets disposed through negotiation after expiry/termination of Ijarah. However, in view of large number of disposals, detail of each disposal has not been given.



5.2 Assets in own use

Description	2014						2013			
	COST			DEPRECIATION			NET BOOK VALUE			
	As at 1 July 2013	Additions	Disposal	As at 30 June 2014	As at 1 July 2013	Charge for the year	Disposal	As at 30 June 2014	As at 30 June 2013	Depreciation Rate - %
Office premises	20,384,114	-	(20,384,114)	-	7,061,453	561,354	(7,622,817)	-	-	10%
Office equipment	3,081,145	86,400	(331,372)	2,836,173	2,292,577	403,891	(276,886)	2,419,582	416,591	15% & 30%
Furniture and fixtures	1,527,116	202,140	(659,714)	869,542	1,005,172	153,800	(702,471)	456,501	413,041	15%
Vehicles	4,386,701	-	(2,829,713)	1,556,988	3,176,760	504,568	(2,619,527)	1,061,701	495,287	20%
Leasehold improvement	4,075,752	-	-	4,075,752	3,034,606	1,041,146	-	4,075,752	-	As per term
	<b>33,454,828</b>	<b>288,540</b>	<b>(24,404,913)</b>	<b>9,338,455</b>	<b>16,570,568</b>	<b>2,664,769</b>	<b>(11,221,801)</b>	<b>8,013,536</b>	<b>1,324,919</b>	
Description	2014						2013			
	COST			DEPRECIATION			NET BOOK VALUE			
	As at 1 July 2012	Additions/ Transfers	Disposal/ Write off	As at 30 June 2013	As at 1 July 2012	Charge for the year	Disposal/ Write off/ Transfers	As at 30 June 2013	As at 30 June 2013	Depreciation Rate - %
Office premises	20,803,361	-	-	20,384,114	5,803,361	1,670,000	-	7,061,453	13,322,661	10%
		(20,000)	(399,247)				(399,247)			
Office equipment	3,806,900	157,500	(102,320)	3,081,145	2,766,618	399,772	(94,878)	2,292,577	788,568	15% & 30%
			(780,935)				(780,935)			
Furniture and fixtures	1,419,270	38,000	-	1,527,116	801,379	250,129	-	1,005,172	521,944	15%
		399,039	(329,193)				(329,193)			
Vehicles	5,350,806	-	(984,105)	4,386,701	2,519,260	1,007,752	(350,252)	3,176,760	1,209,941	20%
Leasehold improvement	4,845,045	-	-	4,075,752	2,529,407	1,185,649	-	3,034,606	1,041,146	As per term
		(379,039)	(390,254)				(390,254)			
	<b>36,255,382</b>	<b>195,500</b>	<b>(1,096,425)</b>	<b>33,454,828</b>	<b>14,422,025</b>	<b>4,493,302</b>	<b>(445,130)</b>	<b>16,570,568</b>	<b>16,884,260</b>	
			(1,899,629)				(1,899,629)			



5.2.1 Disposal of assets in own use

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	Cost Rupees	Accumulated depreciation Rupees	Book Value Rupees	Revaluation surplus reversed	Sale proceeds Rupees	Gain Rupees	Mode of disposal	Particulars of Purchaser
Office Premises	20,384,114	7,622,817	12,761,297	(12,642,093)	17,249,237	17,130,033	Negotiation	The Bank Of Punjab
Office equipment	331,372	276,886	54,486	-	354,156	299,670	Auction	Various parties
Vehicle	2,829,713	2,619,627	210,086	-	1,192,770	982,684	As per term	Khazan Hasnain Ibrahim - Ex employee (Honda Civic), Mudassar Kaiser Pal - CFO (Toyota Corolla GLI)
Furniture	859,714	702,471	157,243	-	157,742	499	Auction	Various parties
	<b>24,404,913</b>	<b>11,221,801</b>	<b>13,183,112</b>	<b>(12,642,093)</b>	<b>18,953,905</b>	<b>18,412,886</b>		

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	Cost Rupees	Accumulated depreciation Rupees	Book Value Rupees	Revaluation surplus reversed	Sale proceeds Rupees	Gain Rupees	Mode of disposal	Particulars of Purchaser
Office equipment	102,320	94,878	7,442	-	26,100	18,658	Negotiation	Time Digital
Vehicles	994,105	350,252	643,853	-	645,660	1,807	As per term	Razi ud Din Faiz - Ex employee
	<b>1,096,425</b>	<b>445,130</b>	<b>651,295</b>	<b>-</b>	<b>671,760</b>	<b>20,465</b>		

Note

2014  
Rupees

2013  
Rupees

6 Intangible assets

Trading Rights Entitlement Certificate Room at Lahore Stock Exchange	6.1	<b>26,648,757</b> <b>9,000,000</b>	26,648,757 9,000,000
Less: Impairment on Trading Rights Entitlement Certificate	6.2	<b>35,648,757</b> <b>(26,648,757)</b> <b>9,000,000</b>	35,648,757 - 35,648,757
Computer software	6.3	<b>258,858</b>	517,716
		<b>9,258,858</b>	<b>36,166,473</b>

6.1 This represents trading rights entitlement certificate (TREC) received against membership card pursuant to demutualization of the Lahore Stock Exchange (LSE). The Modaraba has allocated the carrying value of membership of LSE between TREC and shares in ratio of 0.74 : 0.26.

6.2 As per the requirements of Stock Exchange (Corporatization, Demutualization and Integration) Act 2012, the Modaraba was required to either register itself as broker or transfer / sell TREC within 2 years from the date of demutualization i.e. 27 August 2014. The management plans to use the TREC for its brokerage business and has accordingly applied to LSE for registration as broker before the lapse of the said period.

However, since approval from Securities and Exchange Commission of Pakistan has not been received till the date of authorization of these financial statements, being prudent the management has charged impairment against TREC.



	Note	2014 Rupees	2013 Rupees
<b>6.3 Computer software</b>			
Net Carrying value as at 01 July		517,716	776,574
Amortization Charged	26	(258,858)	(258,858)
Balance as at 30 June (NBV)		258,858	517,716
<b>Rate of amortization</b>		20%	20%
<b>Gross Carrying value</b>			
Cost		1,295,000	1,295,000
Accumulated Amortization		(1,036,142)	(777,284)
Net Book Value		258,858	517,716
<b>7 Shares- available for sale</b>			
Unquoted Lahore Stock Exchange Limited	7.1	9,351,243	9,351,243
<b>7.1</b>	Pursuant to demutualization of the Lahore Stock Exchange (LSE), the ownership rights in a Stock Exchange were segregated from the right to trade on an exchange. As a result of such demutualization, the Modaraba received shares and TREC from the LSE against its membership card which was carried at Rs. 36,000,000 in the books of the Modaraba.		
	The above arrangement has resulted in allocation of 843,975 shares at Rs. 10 each with a total face value of Rs. 8,439,750 and TREC to the Modaraba by the LSE. Out of total shares issued by the LSE, the Modaraba has received 40% equity shares i.e. 337,590 shares in its CDC account. The remaining 60% shares have been transferred to CDC sub-account in the Modaraba's name under the LSE's participant ID with the CDC which will remain blocked until these are divested/sold to strategic investor(s), general public and financial institutions and proceeds are paid to the Modaraba.		
	In absence of active market, these have been measured at break up value determined on the basis of financial statements of LSE for the year ended 30 June 2013.		
	Note	2014 Rupees	2013 Rupees
<b>8 Long term musharikah investment - secured</b>			
Musharikah investment		137,814,212	106,923,178
Less: Current portion of long term musharikah investment	12	(70,278,925)	(62,716,594)
Less: Provision against musharikah investment	8.2	(6,109,619)	(17,234,229)
		61,425,668	26,972,355



**8.1** The profit charged on these facilities ranged from 10.00% to 18.27% (2013: 14.13% to 20.07%). These facilities are secured by way of personal guarantees and mortgage of properties.

	Note	2014 Rupees	2013 Rupees
<b>8.2 Impairment loss on musharikhah investment</b>			
Opening balance		17,234,229	14,881,388
Additions during the year		2,664,890	2,352,841
Reversed during the year		(13,789,500)	-
		(11,124,610)	2,352,841
Closing balance		6,109,619	17,234,229

**9 Long term deposits**

Long term deposits		498,944	648,944
Less: Current portion of long term deposits	12	(306,444)	(556,444)
		192,500	92,500

**10 Deferred tax asset**

This represents deferred tax asset created against brought forward losses and Alternate Corporate Tax (ACT) available for use in future. The management is confident that sufficient taxable profits will be available to set off these losses. Further, the Management does not intend to avail exemption under clause 100 of part 1 Second Schedule to the Income Tax Ordinance, 2001.

	Note	2014 Rupees	2013 Rupee
<b>11 Short term morabaha investment - secured</b>			
Gross morabaha investment		612,839,518	790,661,808
Add: Unearned morabaha income	11.2	4,344,028	11,226,841
		617,183,546	801,888,649
Less: Provision for doubtful morabaha investment	11.3	(238,617,643)	(324,504,593)
		378,565,903	477,384,056

**11.1** These are secured against mortgage of properties, hypothecation and pledge of stocks, personal guarantees and demand promissory notes. The rate of profit on morabaha finances ranges from 10.75% to 21.50% (2013: 16.28% to 38.30%).

**11.2** These represent receivables against morabaha transactions on deferred payment basis at a specified profit margin.



	Note	2014 Rupees	2013 Rupee
<b>11.3 Provision for doubtful morabaha investment</b>			
Opening balance		324,504,593	339,107,761
Additions during the year		4,543,089	5,723,973
Reversal during the year		(90,430,039)	(20,327,141)
		(85,886,950)	(14,603,168)
Closing balance		238,617,643	324,504,593
<b>12 Current maturity of long term investments</b>			
Morabaha investment	12.1	-	-
Musharikah investment	8	70,278,925	62,716,594
Long term deposits	9	306,444	556,444
		70,585,369	63,273,038
<b>12.1 Morabaha investment</b>			
Morabaha Investment		8,800,000	8,800,000
Less: Provision for doubtful morabaha investment	12.1.1	(8,800,000)	(8,800,000)
		-	-
<b>12.1.1 Provision for doubtful morabaha investment</b>			
Opening balance		8,800,000	8,800,000
Addition/ (reversal) during the year			
Closing balance		8,800,000	8,800,000



	Note	2014 Rupees	2013 Rupee
<b>13 Advances, deposits, prepayments and other receivables</b>			
Profit receivable			
Morabaha investment	13.1	10,353,161	8,143,385
Musharikah investment	13.2	3,666,822	2,854,421
		<b>14,019,983</b>	10,997,806
Ijarah rental receivables	13.3	296,406,472	277,317,267
Prepayments		297,446	335,599
Advances		122,250	-
Other receivables	13.4	51,009,773	50,755,659
		<b>361,855,924</b>	339,406,331
Less: Provision for non performing assets	13.5	(9,453,203)	(12,006,031)
		<b>352,402,721</b>	327,400,300
<b>13.1 Morabaha profit receivable</b>			
Morabaha profit receivable		47,900,339	48,515,600
Less: Income transferred to suspense	13.1.1	(37,547,178)	(40,372,215)
		<b>10,353,161</b>	8,143,385
<b>13.1.1 Income transferred to suspense</b>			
Opening balance		40,372,215	38,258,178
(Reversals) / addition during the year		(2,825,037)	2,114,037
Closing balance		<b>37,547,178</b>	40,372,215
<b>13.2 Musharikah profit receivable</b>			
Musharikah profit receivable		12,500,210	23,680,349
Less: Income transferred to suspense	13.2.1	(8,833,388)	(20,825,928)
		<b>3,666,822</b>	2,854,421
<b>13.2.1 Income transferred to suspense</b>			
Opening balance		20,825,928	18,484,690
Suspension Written off		(14,400,629)	-
Addition during the year		2,408,089	2,341,238
Closing balance		<b>8,833,388</b>	20,825,928



	Note	2014 Rupees	2013 Rupee
<b>13.3 Lease rental receivables</b>			
Lease rental receivables		476,042,886	439,357,582
Less: Income transferred to suspense	13.3.1	(179,636,414)	(162,040,315)
		<u>296,406,472</u>	<u>277,317,267</u>
<b>13.3.1 Income transferred to suspense</b>			
Opening balance		162,040,315	101,118,786
Addition during the year		14,014,829	7,941,604
Transfers during the year		7,972,466	70,890,112
Reversal during the year		(4,391,196)	(17,910,187)
Closing balance		<u>179,636,414</u>	<u>162,040,315</u>

**13.3.2 Future lease rentals receivable**

Aggregate amount of future lease rentals receivable on the basis of agreements executed upto 30 June 2014 are as follows:

	2014 Rupees	2013 Rupee
Up to one year	157,518,919	201,952,029
Above one year and up to five year	122,175,652	253,028,470
	<u>279,694,571</u>	<u>454,980,499</u>

**13.4** This includes receivable from provident fund amounting to Rs. Nil (2013: Rs. 564,267).

Size of the fund	1,532,476	4,852,004
Percentage of investments made	100.67%	97.69%
Fair value of investments	1,542,672	4,740,000
Cost of investments made	1,542,672	4,740,000

**13.4.1** Break-up of investments in terms of amount and percentage of the size of the provident fund are as follows:

	Investment as a % of size of the fund		Investment as a % of size of the fund	
	Investments	Investments	Investments	Investments
	2014		2013	
	Rupees		Rupees	
Certificate of Musharikhah	-	-	4,740,000	97.69%
Cash at Bank	1,542,672	101%	-	



**13.4.2** Investments out of provident fund have been made in accordance with the provisions of the section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

**13.4.3** The above information is based on audited financial statements of the provident fund.

	Note	2014 Rupees	2013 Rupee
<b>13.5 Provision for non performing assets</b>			
Opening balance		12,006,031	10,421,486
Additions during the year		592,016	1,584,545
Write off during the year		(2,745,843)	-
Reversed during the year		(399,001)	-
		(2,552,828)	1,584,545
Closing balance		9,453,203	12,006,031
<b>14 Cash and bank balances</b>			
Cash with banks			
Current accounts	14.1	31,096,561	25,469,075
Deposit accounts	14.2 & 14.3	33,000,000	15,000,000
Savings accounts	14.3	57,067	50,042,209
Current account with State Bank of Pakistan	14.4	7,700	7,700
		64,161,328	90,518,984
Cash in hand		4,508	247
		64,165,836	90,519,231

**14.1** The balance of Rs.1.208 million (2013: Rs. 25.461 million) is maintained with The Bank of Punjab (the holding Company of the Modaraba's Management Company).

**14.2** Under the terms and condition for the issuance of certificates of musharikhah (both long & short term) , the Modaraba is required to maintain a Redemption Reserve Fund equal to at least 5% of the contribution received, which may be utilized for redemption purposes. The balance has been placed in liquid, shariah compliant instruments to comply with the requirement.

**14.3** The rate of profit on deposit and saving accounts ranges between 6% to 9.25% (2013: 7.19% to 11.75%).

**14.4** This account has been opened for payment of online charges of the Credit Information Bureau of State Bank of Pakistan.



	2014 Rupees	2013 Rupee
<b>15 Certificate capital</b>		
Authorized certificate capital 50,000,000 modaraba certificates of Rs.10 each	<u>500,000,000</u>	<u>500,000,000</u>
Issued, subscribed and paid-up certificate capital 20,000,000 modaraba certificates of Rs. 10 each fully paid up in cash	<u>200,000,000</u>	<u>200,000,000</u>
14,020,000 modaraba certificates of Rs. 10 each issued as fully paid bonus certificates	<u>140,200,000</u>	<u>140,200,000</u>
	<u><b>340,200,000</b></u>	<u><b>340,200,000</b></u>

**15.1** As at 30 June 2014, The Punjab Modaraba Services (Private) Limited (The management company) held 13,320,694 (2013: 13,320,694) certificates of Rs. 10 each.

	Note	2014 Rupees	2013 Rupee
<b>16 Reserves</b>			
<b>Capital reserve</b>			
Statutory reserve	16.1	<u>151,347,397</u>	114,199,168
Surplus on revaluation of fixed assets		<u>-</u>	13,167,001
		<u><b>151,347,397</b></u>	<u>127,366,169</u>
<b>Revenue reserves</b>			
Accumulated loss		<u>(398,816,791)</u>	(436,489,928)
		<u><b>(247,469,394)</b></u>	<u>(309,123,759)</u>

**16.1** This represents profit set aside to comply with the Prudential Regulations for Modarabas issued by Securities and Exchange Commission of Pakistan requiring modaraba to transfer not less than 20% and not more than 50% of its profits after tax in such manner that reserves equal 100% of the paid up capital. Thereafter a sum not less than 5% of the profit after tax is to be set aside.

	Note	2014 Rupees	2013 Rupee
<b>17 Security deposits</b>			
Long term security deposits against Ijarah	171	<u>172,542,553</u>	185,541,407
Less: Current maturity of security deposits	18	<u>(60,410,480)</u>	(60,127,963)
		<u><b>112,132,073</b></u>	<u>125,413,444</u>



**17.1** This includes security deposit amounting to Rs. 82.7 million (2013: Rs. 82.7 million) against those Ijarah where the customer has defaulted payments of rentals and the Modaraba has filed suits for recovery. The Modaraba expects the settlement of these security deposits after one year subject to the decision of court cases and therefore classified these security deposits as long term.

	Note	2014 Rupees	2013 Rupee
<b>18 Current maturity of non current liabilities</b>			
Security deposits	17	60,410,480	60,127,963
		<u>60,410,480</u>	<u>60,127,963</u>
<b>19 Short term musharikah finance secured</b>			
Opening balance		971,664,436	1,041,532,173
Additions during the year		1,314,048,162	955,292,203
Less: Paid during the year		(1,388,759,021)	(1,025,159,940)
		<u>(74,710,859)</u>	<u>(69,867,737)</u>
		<u>896,953,577</u>	<u>971,664,436</u>
Less: Transferred to long term musharikah finance		(896,953,577)	-
	19.1	<u>-</u>	<u>971,664,436</u>

**19.1** The Modaraba has availed musharikah finance facilities from The Bank of Punjab having approved limits of Rs. 1,060 million (2013: Rs. 1,060 million). During the year, musharikah repayment term has been revised and it is repayable on 31 July 2017. These facilities are secured by way of first pari passu charge over present and future fixed assets of Modaraba for amount of Rs. 860 million over present and future current assets of Modaraba for an amount of Rs. 1,040 million. The estimated share of profit payable on musharikah facilities is 7.5% (2013: 9.28% to 11.95%).

	Note	2014 Rupees	2013 Rupee
<b>20 Redeemable capital participatory and unsecured</b>			
Opening balance		301,000,000	422,515,082
Issued during the year		-	1,327,852,466
Less: Redeemed during the year		(201,000,000)	(1,449,367,548)
		<u>(201,000,000)</u>	<u>(121,515,082)</u>
Closing balance	20.1	<u>100,000,000</u>	<u>301,000,000</u>

**20.1** The share of profit payable ranges from 7.5% to 10.2% (2013: 9.01% to 13%).



	Note	2014 Rupees	2013 Rupee
<b>21 Markup payable</b>			
Musharikhah finances		17,168,673	22,067,714
Redeemable capital		506,012	2,515,068
		<b>17,674,685</b>	<b>24,582,782</b>
<b>22 Trade and other payables</b>			
Accrued expenses		489,930	527,672
Lease participation money		40,500	40,500
Tax deducted at source		8,455	58,675
Margin against LG		-	1,079,850
Advances against Ijarah / Morabaha / Musharikhah		15,967,621	18,240,231
Other payables	22.1	1,521,037	10,793,920
		<b>18,027,543</b>	<b>30,740,848</b>

**22.1** These include Rs.476,750 (2013: Rs.229,613) charged as penalty at the rate of Rs. 0.05 per thousand rupees on daily product basis on amount not paid by the clients in time, as required by the provisions of morabaha agreements. This amount shall be utilized for charitable and religious purposes as recognized by the Shari'ah. During the year, penalties received from customers for delayed payments were paid as donations to the following entities:

	2014 Rupees	2013 Rupees
Shaukat Khanum Memorial Cancer Hospital	75,000	500,000
Edhi Foundation	241,363	500,000
Layton Rehmatullah Benevolent Trust	315,000	500,000
Kaukab Mir Memorial Welfare Trust	75,000	-
	<b>706,363</b>	<b>1,500,000</b>

## 23 Contingencies and commitments

### 23.1 Contingencies

**23.1.1** The assessing officer, while finalizing assessments for the years 1997-98 and 1998-99, made add backs out of profit and loss account. The Modaraba had filed an appeal before the Commissioner of Income Tax (Appeals) (CIT-(A)), who has rejected the appeals. The Modaraba has filed an appeal, against the order of CIT-(A), before the honorable Income Tax Appellate Tribunal, which has been decided in favor of Modaraba, however Income Tax Department has filed appeal before honorable Lahore High Court. Modaraba management company expects a favourable outcome of the case.

**23.1.2** Additional Commissioner Inland Revenue (ACIR) issued order under section 122 (5A) of the Income Tax Ordinance, 2001, (the Ordinance) for tax year 2003 while rejecting the exemption claimed from tax under Clause 100 of Part I of Second



Schedule to the Ordinance and made additions on account of provision for bad debts, which resulted in a tax liability of Rs. 27,410,608. The Modaraba filed a rectification application under section 221 of the Ordinance for reducing the tax rate from 35% to 25%, resultantly the rectification order passed by the tax department and reduced the tax liability to Rs. 14,580,110. The Modaraba also filed an appeal before the CIR (Appeals) for tax year 2003 against the order of ACIR. In this regard, after hearing of the appeal, the CIR (Appeals) by accepting the claim of exemption has issued a favorable order to the Modaraba while deleting the tax liability of Rs. 14,580,110 vide order No. 31 dated 27 June 2009. The income tax department has filed an appeal before Appellate Tribunal Inland Revenue against the order of CIR (Appeals) which is pending for adjudication. Modaraba management company expects a favourable outcome of the case.

- 23.1.3** Additional Commissioner Inland Revenue (ACIR) issued order under section 122 (5A) of the Income Tax Ordinance, 2001, (the Ordinance) for tax year 2005 while rejecting the exemption claimed from tax under Clause 100 of Part I of Second Schedule to the Ordinance in an arbitrary manner and assessing the taxable income at Rs. 49,845,335 and tax liability at Rs. 17,667,886. The Modaraba filed a rectification application under section 221 of the Ordinance for reducing the tax rate from 35% to 25%. Further, the Modaraba has filed an appeal before the CIR (Appeals) for tax year 2005 against this order. In this regard, after hearing of the appeal, the CIR (Appeals) by accepting the claim of exemption has issued a favorable order to the Modaraba while deleting the tax liability of Rs. 17,667,886. The income tax department has filed an appeal before Appellate Tribunal Inland Revenue against the order of CIR (Appeals) which is pending for adjudication. Modaraba management company expects a favourable outcome of the case.

#### **23.1.4 Legal suits against Modaraba**

Suit for rendition of account Rs. 22.5 million filed by a defaulter against the Modaraba. The management is of the view that case has no merit and would be disposed off in favor of the Modaraba.

- 23.1.5** Aggregate amount of guarantee given by a bank on behalf of the Modaraba in respect of the payment guarantee amounts to Nil (2013: Rs. 6.682 million).

#### **23.2 Commitments**

- 23.2.1** Ijarah commitments approved but not disbursed as on balance sheet date amount to Rs.5.37 million (2013: Nil).
- 23.2.2** Morabaha commitments approved but not disbursed as on balance sheet date amount to Rs. Nil (2013 : Nil).
- 23.2.3** Musharikhah commitments approved but not disbursed as on balance sheet date amount to Rs. Nil (2013 : Nil).



	Note	2014 Rupees	2013 Rupee
<b>24 Operating income</b>			
<b>24.1 Ijarah rentals</b>			
Ijarah Income		232,069,165	300,576,791
Less: Rentals suspended		(14,014,829)	(7,941,604)
Add: Reversal of rentals suspended		4,391,196	17,910,187
<b>Total income from Ijarah</b>		<b>222,445,532</b>	<b>310,545,374</b>
<b>24.2 Profit on Morabaha investment</b>			
Morabaha investment		22,085,896	27,037,127
Less: Suspension		-	(2,114,037)
Add: Reversal of suspension		2,825,037	-
<b>Total income from Morabaha investment</b>		<b>24,910,933</b>	<b>24,923,090</b>
<b>24.3 Profit on Musharikah investment</b>			
Musharikah investment		18,294,761	6,567,348
Less: Suspension		(2,408,089)	(2,341,238)
<b>Total Income from Musharikah investment</b>		<b>15,886,672</b>	<b>4,226,110</b>
<b>24.4 Gain on disposal of fixed assets</b>			
Gain on disposal of owned assets		18,412,886	930,031
Gain on disposal of Ijarah assets		4,378,558	2,742,560
<b>Total gain on disposal of assets</b>		<b>22,791,444</b>	<b>3,672,591</b>
<b>25 Other income</b>			
<b>Income from financial assets</b>			
Profit on bank deposits		1,326,882	2,241,259
<b>Income from other than financial assets</b>			
Processing fee		2,700,821	23,000
Commission income		-	48,124
Ceditor Written Back		2,434,494	-
Miscellaneous income		5,038,196	1,572,732
		10,173,511	1,643,856
		<b>11,500,393</b>	<b>3,885,115</b>



	Note	2014 Rupees	2013 Rupee
<b>26 Operating expenses</b>			
Salaries, wages and other benefits	26.1	11,494,655	16,848,178
Depreciation on fixed assets - owned	5.2	2,664,769	4,493,302
Amortization of computer software	6.3	258,858	258,858
Travelling and conveyance		154,448	112,858
Legal and professional		2,330,016	1,973,847
Printing and stationery		631,810	648,225
Insurance		171,822	215,135
Fee and subscription		2,001,690	476,866
Auditors' remuneration	26.2	502,500	567,645
Repair and maintenance		651,164	1,314,948
Vehicle running and maintenance		1,807,026	2,881,519
Power and utilities		103,967	1,026,937
Entertainment		226,309	293,303
Advertisement		123,300	144,370
Telephone and postage		482,854	596,611
Corporate expenses		46,605	183,276
Rent, rates and taxes		213,647	101,704
Security charges		168,360	313,534
Miscellaneous		130,463	245,953
		<b>24,164,263</b>	<b>32,697,069</b>

26.1 Salaries and other benefits include Rs. 0.459 million (2013: Rs.1.024 million) on account of provident fund contribution.

	2014 Rupees	2013 Rupee
<b>26.2 Auditors' remuneration</b>		
Audit fee	250,000	300,000
Half yearly review and others	200,000	200,000
Out of pocket expenses	52,500	67,645
	<b>502,500</b>	<b>567,645</b>

**27 Finance cost**

Profit on morabaha finances	-	35,127
Profit on musharikhah finances	69,515,738	100,492,592
Profit on redeemable capital	17,433,009	39,068,930
Bank and other charges	23,263	15,545
	<b>86,972,010</b>	<b>139,612,194</b>



		2014 Rupees	2013 Rupees
<b>28 Taxation</b>			
For the year:			
Current		12,747,723	184,124
Prior period		-	467,201
		<u>12,747,723</u>	<u>651,325</u>
<b>Deferred Tax</b>			
Origination of deductible temporary difference		<u>(28,100,895)</u>	-
		<u>(15,353,172)</u>	<u>651,325</u>
<b>29 Earning / (loss) per certificate basic and diluted</b>			
Profit / (loss) for the year	<i>Rupees</i>	<u>74,296,458</u>	<u>(111,621,816)</u>
Weighted average number of ordinary certificates	<i>Numbers</i>	<u>34,020,000</u>	<u>34,020,000</u>
Earning / (loss) per certificate	<i>Rupees</i>	<u>2.18</u>	<u>(3.28)</u>

### 30 Transactions with related parties

The related parties and associated undertakings comprise of The Bank of Punjab and Punjab Modaraba Services (Pvt) Limited. Transactions with related parties and associated undertakings other than remuneration and benefits to key management personnel under the term of employment are as follows:

	2014 Rupees	2013 Rupee
<b>30.1 Balance outstanding at the end of period Note</b>		
<b>30.1.1 The Bank of Punjab (Holding company of the Modaraba's Management Company)</b>		
Musharikah finances	896,953,577	971,664,436
Profit payable on musharikah finances	17,168,673	22,067,714
Net book value of the assets leased to employees	1,694,118	2,765,982
Lease security deposits	902,230	939,070
Certificates of musharikah	100,000,000	300,000,000
Profit payable on certificates of musharikah	505,562	2,515,068



	2014 Rupees	2013 Rupees
<b>30.2 Transactions during the year</b>		
<b>30.2.1 The Bank of Punjab (Holding company of the Modaraba's Management Company)</b>		
Ijarah rentals income	1,283,610	2,632,013
Profit charged on finances	69,515,738	100,492,592
Profit charged on certificates of musharikhah	17,282,945	32,850,904
Sale proceeds on disposal of assets	17,249,237	-
Transaction fee paid	1,000,000	-
Assignment and transfer of loan portfolio	76,137,000	-
<b>30.2.2 The Bank of Punjab Employee Provident Fund</b>		
Profit charged on certificates of musharikhah	-	2,926,557

**31 Remuneration of officers and executives**

	2 0 1 4		
	Officers	Other employees	Total
	Rupees	Rupees	Rupees
Remuneration	8,786,976	810,348	9,597,324
Medical allowance	551,090	35,860	586,950
Utility allowance	551,090	35,391	586,481
Provident Fund contribution	421,264	38,592	459,856
Expenses reimbursed	264,044	-	264,044
	<b>10,574,464</b>	<b>920,191</b>	<b>11,494,655</b>
Number of employees at the year end	6	2	8
Average number of employees during the year	10	4	14
	2 0 1 3		
	Officers	Other employees	Total
	Rupees	Rupees	Rupees
Remuneration	12,945,880	1,084,792	14,030,672
Medical allowance	753,613	58,957	812,570
Utility allowance	753,614	58,957	812,571
Provident Fund contribution	656,252	368,113	1,024,365
Expenses reimbursed	168,000	-	168,000
	<b>15,277,359</b>	<b>1,570,819</b>	<b>16,848,178</b>
Number of employees at the year end	14	6	20
Average number of employees during the year	19	7	26



## 32 Financial instruments

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

- Credit risk
- Liquidity risk
- Market risk

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

### 32.1 Credit risk

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

	2014 Rupees	2013 Rupees
Bank balances	64,161,328	90,518,984
Musharikhah investment	131,704,593	89,688,949
Morabaha investment	378,565,903	477,384,056
Advances, deposits and other receivables	351,685,579	325,480,156
Long term deposits	498,944	648,944
	926,616,347	983,721,089

#### 32.1.1 Bank balances

The Modaraba kept its surplus funds with banks having good credit rating. Currently the surplus funds are kept with banks having medium to long term rating from AAA to A and short term rating from A1+ to A1.

#### 32.1.2 Description of Collateral held

The Modaraba's Ijarah are secured against assets leased out and personal guarantees. In a few leases additional collateral is also obtained in the form of mortgaged property.

Morabaha investments are secured by way of personal guarantees of the Directors, pledge of stocks, mortgage of properties and charge on the assets varying from case to case.

Musharikhah investments are secured by way of personal guarantees and mortgage of properties.



### 32.1.3 Aging Analysis of Morabaha receivable

Past due	2014			
	Carrying Amount	Amount on which no suspension recognized	Amount on which suspension recognized	Suspension recognized
-----Rupees-----				
0 days	10,353,049	10,353,049	-	-
1 day - 179 days	112	112	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	402,950	402,950
2 year - less than 3 year	-	-	-	-
3 year or more	-	-	37,144,228	37,144,228
<b>Total</b>	<b>10,353,161</b>	<b>10,353,161</b>	<b>37,547,178</b>	<b>37,547,178</b>

Past due	2013			
	Carrying Amount	Amount on which no suspension recognized	Amount on which suspension recognized	Suspension recognized
-----Rupees-----				
0 days	4,042,097	4,042,097	-	-
1 day - 179 days	3,526,142	3,526,142	-	-
180 days - 364 days	387,509	387,509	-	-
1 year - less than 2 year	187,637	187,637	2,516,987	2,516,987
2 year - less than 3 year	-	-	-	-
3 year or more	-	-	37,855,228	37,855,228
<b>Total</b>	<b>8,143,385</b>	<b>8,143,385</b>	<b>40,372,215</b>	<b>40,372,215</b>

Suspension is recognized by the Modaraba on the basis of requirements given under the Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

### 32.1.4 Aging Analysis of Morabaha investment

Past due	2014			
	Carrying Amount	Amount on which no provision recognized	Amount on which provision recognized	provision recognized
-----Rupees-----				
0 days	137,280,262	137,280,262	-	-
1 day -179 days	-	-	-	-
180 days- 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	8,190,000	-	14,000,000	5,810,000
3 year or more	228,751,613	80,750,000	380,809,163	232,807,643
<b>Total</b>	<b>374,221,875</b>	<b>218,030,262</b>	<b>394,809,163</b>	<b>238,617,643</b>



Past due	2013			
	Carrying Amount	Amount on which no provision recognized	Amount on which provision recognized	provision recognized
-----Rupees-----				
0 days	169,226,841	169,226,841	-	-
1 day-179 days	29,400,000	29,400,000	-	-
180 days - 364 days	25,704,146	25,704,146	-	-
1 year - less than 2 year	12,733,000	-	14,000,000	1,267,000
2 year - less than 3 year	-	-	-	-
3 year and above	240,320,069	72,000,000	500,357,663	332,037,593
<b>Total</b>	<b>477,384,056</b>	<b>296,330,987</b>	<b>514,357,663</b>	<b>333,304,593</b>

Provision is recognized by the Modaraba on the basis of provision requirements given under Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

### 32.1.5 Aging Analysis of Ijarah receivable

Past due	2014			
	Carrying Amount	Amount on which no suspension recognized	Amount on which suspension recognized	Suspension recognized
-----Rupees-----				
0 days	9,070,639	9,070,639	-	-
1 day -179 days	25,366,950	22,328,032	3,038,918	3,038,918
180 days - 364 days	7,332,927	-	7,332,927	1,361,002
1 year - less than 2 year	37,563,838	-	37,563,838	2,877,999
2 year - less than 3 years	14,574,047	-	14,574,047	5,173,793
3 year or more	382,134,485	-	382,134,485	167,184,702
<b>Total</b>	<b>476,042,886</b>	<b>31,398,671</b>	<b>444,644,215</b>	<b>179,636,414</b>

Past due	2013			
	Carrying Amount	Amount on which no suspension recognized	Amount on which suspension recognized	Suspension recognized
-----Rupees-----				
0 days	341,433	341,437	-	-
1 day -179 days	36,968,121	35,833,046	1,135,075	188,725
180 days - 364 days	21,433,671	5,662,470	15,771,201	3,349,440
1 year - less than 2 year	9,507,085	95,578	9,411,507	4,119,574
2 year - less than 3 years	43,722,953	3,211,262	43,722,953	29,290,397
3 year or more	327,384,319	11,384,521	315,999,798	125,092,179
<b>Total</b>	<b>439,357,582</b>	<b>56,528,310</b>	<b>386,040,534</b>	<b>162,040,315</b>

Suspension is recognized by Modaraba on the basis of requirements given under the Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.



### 32.1.6 Aging Analysis of Musharikhah receivable

Past due	2014			Suspension recognized
	Carrying Amount	Amount on which no suspension recognized	Amount on which suspension recognized	
	-----Rupees-----			
0 days	-	-	-	-
1 day -179 days	3,403,040	3,403,040	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	-	-	-	-
3 year or more	263,782	-	9,097,170	8,833,388
<b>Total</b>	<b>3,666,822</b>	<b>3,403,040</b>	<b>9,097,170</b>	<b>8,833,388</b>

Past due	2013			Suspension recognized
	Carrying Amount	Amount on which no suspension recognized	Amount on which suspension recognized	
	-----Rupees-----			
0 days	-	-	-	-
1 day -179 days	389,976	389,976	-	-
180 days - 364 days	-	-	5,854,613	5,854,613
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	-	-	298,279	298,279
3 year or more	2,464,445	-	17,137,481	14,673,036
<b>Total</b>	<b>2,854,421</b>	<b>389,976</b>	<b>23,290,373</b>	<b>20,825,928</b>

Suspension is recognized by the Modaraba on the basis of requirements given under the Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

### 32.1.7 Aging Analysis of Musharikhah investment

Past due	2014			provision recognized
	Carrying Amount	Amount on which no provision recognized	Amount on which provision recognized	
	-----Rupees-----			
0 days	114,804,499	114,804,499	-	-
1 day - 179 days	-	-	-	-
180 days -364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	-	-	-	-
3 year or more	16,900,094	-	23,009,713	6,109,619
<b>Total</b>	<b>131,704,593</b>	<b>114,804,499</b>	<b>23,009,713</b>	<b>6,109,619</b>



Past due	2013			
	Carrying Amount	Amount on which no provision recognized Amount	Amount on which provision recognized	provision recognized
-----Rupees-----				
0 days	31,470,351	31,470,351	-	-
1 day - 179 days	-	-	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	34,903,151	16,443,114	19,500,000	1,039,963
2 year - less than 3 year	1,104,947	-	2,209,895	1,104,948
3 year or more	22,210,500	-	37,299,818	15,089,318
<b>Total</b>	<b>89,688,949</b>	<b>47,913,465</b>	<b>59,009,713</b>	<b>17,234,229</b>

Provision is recognized by the Modaraba on the basis of provision requirements given under Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

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

Break down of credit risk exposure by class of business as at 30 June 2014 is as follows:

	Assets Leased out Rupees	Morabaha investment Rupees	Musharikhah investment Rupees	2014 Total Rupees	% age
Banks and NBFIs	1,746,506	-	-	1,746,506	0.20%
Textiles spinning and composite	49,046,717	83,250,000	-	132,296,717	15.43%
Sugar and allied	91,229,450	21,809,437	-	113,038,887	13.19%
Electric goods	37,649,295	65,708,000	40,000,000	143,357,295	16.72%
Chemicals and Pharmaceuticals	-	116,306,035	-	116,306,035	13.57%
Paper and board	19,056,284	-	-	19,056,284	2.22%
Food and allied	19,498,060	14,585,818	33,766,720	67,850,598	7.91%
Individuals	47,103,538	43,082,232	7,537,873	97,723,643	11.40%
Jute	-	-	-	-	0.00%
Oil and Gas	9,553,825	-	9,000,000	18,553,825	2.16%
Miscellaneous	50,307,093	-	12,000,000	62,307,093	7.27%
Aviation and transport	-	29,480,353	29,400,000	58,880,353	6.87%
Engineering, Steel & Construction	12,472,866	-	-	12,472,866	1.45%
Cement	13,665,915	-	-	13,665,915	1.59%
	<b>351,329,549</b>	<b>374,221,875</b>	<b>131,704,593</b>	<b>857,256,017</b>	<b>100%</b>



	Assets Leased out Rupees	Morabaha investment Rupees	Musharikhah investment Rupees	2013 Total Rupees	% age
Banks and NBFIs	2,765,449	-	-	2,765,449	0.25%
Textiles spinning and composite	92,863,226	82,704,145	-	175,567,371	16.16%
Sugar and allied	156,417,097	31,147,437	-	187,564,534	17.26%
Electric goods	64,269,542	138,748,038	-	203,017,580	18.68%
Chemicals and Pharmaceuticals	-	130,448,394	-	130,448,394	12.00%
Paper and board	27,388,674	-	-	27,388,674	2.52%
Food and allied	14,411,147	15,000,000	42,305,936	71,717,083	6.60%
Individuals	21,797,354	28,225,868	3,067,566	53,090,788	4.89%
Jute	-	-	22,210,500	22,210,500	2.04%
Oil and Gas	12,369,197	-	9,000,000	21,369,197	1.97%
Miscellaneous	84,395,274	21,629,820	13,104,947	119,130,041	10.96%
Aviation and transport	308,462	29,480,354	-	29,788,816	2.74%
Engineering, Steel & Construction	24,103,576	-	-	24,103,576	2.22%
Cement	18,470,595	-	-	18,470,595	1.70%
	<b>519,559,593</b>	<b>477,384,056</b>	<b>89,688,949</b>	<b>1,086,632,598</b>	<b>100%</b>

### 32.2 Liquidity risk

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

	Carrying Amount	Contractual cash flows	2014			
			6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years
----- Rupees -----						
<b>Financial liabilities</b>						
Redeemable capital	100,000,000	101,253,425	101,253,425	-	-	-
Security deposits against lease	172,542,553	172,542,553	139,145,023	5,279,790	17,560,240	10,457,400
Margin against LG	-	-	-	-	-	-
Musharikhah finance	896,953,577	1,104,850,212	33,912,217	33,359,301	67,271,518	970,307,176
Unclaimed profit	12,123,172	12,123,172	12,123,172	-	-	-
Trade and other payable	18,027,543	16,504,368	16,504,368	-	-	-
Markup payable	17,674,685	17,674,685	17,674,685	-	-	-
	<b>1,217,321,530</b>	<b>1,424,948,415</b>	<b>320,612,890</b>	<b>38,639,091</b>	<b>84,831,758</b>	<b>980,764,576</b>



	Carrying Amount	Contractual cash flows	2013			
			6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years
----- Rupees -----						
Redeemable capital	301,000,000	306,392,429	306,392,429	-	-	-
Security deposits against lease	185,541,407	137,873,475	137,873,475	5,024,100	21,095,930	21,547,902
Margin against LG	1,079,850	1,079,850	1,079,850	-	-	-
Musharikhah finance	971,664,436	1,018,397,406	1,018,397,406	-	-	-
Unclaimed profit	12,123,432	12,123,432	12,123,432	-	-	-
Trade and other payable	29,660,998	29,660,998	29,660,998	-	-	-
Markup payable	24,582,782	24,582,782	24,582,782	-	-	-
	<b>1,525,652,905</b>	<b>1,530,110,372</b>	<b>1,530,110,372</b>	<b>5,024,100</b>	<b>21,095,930</b>	<b>21,547,902</b>

**32.2.1** The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up rates effective as at year end (and includes both principal and profit payable thereon). The rates of mark-up have been disclosed in notes 17,18 and 20 to these financial statements.

### 32.3 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and equity prices will affect the Modaraba's income or the value of its holdings of financial instruments. The Modaraba has adopted appropriate policies to minimize its exposure to this risk.

#### 32.3.1 Interest rate risk

At the reporting date, the interest rate profile of Modaraba's significant interest bearing financial instruments and the periods in which they mature is as follows:

	2014	2013	2014	2013
	Effective interest rate (Percentage)		Carrying amount (Rupees)	
<b>Financial assets</b>				
Musharikhah investment	10.00 - 18.27	14.13 - 20.07	131,704,593	89,688,949
Morabaha investment	10.75 - 21.5	16.28 - 38.30	374,221,875	477,384,056
Cash and bank balances	6.00 - 9.25	7.19 - 11.75	64,161,328	90,518,984
			<b>570,087,796</b>	657,591,989
<b>Financial liabilities</b>				
Redeemable Capital	7.5 - 10.2	9.01 - 13.00	100,000,000	301,000,000
Musharikhah finances	7.5 - 7.5	9.28 - 11.95	896,953,577	971,664,436
			<b>996,953,577</b>	1,272,664,436



**Cash flow sensitivity analysis for variable rate instruments**

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

	<b>Profit and loss 100 bps</b>	
	<b>Increase</b>	<b>Decrease</b>
<b>As at 30 June 2014</b>		
Cash flow sensitivity-Variable rate financial assets	748,539	(748,539)
Cash flow sensitivity-Variable rate financial liabilities	(1,764,608)	1,764,608
<b>Net effect</b>	<b>(1,016,069)</b>	<b>1,016,069</b>
<b>As at 30 June 2013</b>		
Cash flow sensitivity-Variable rate financial assets	1,041,573	(1,041,573)
Cash flow sensitivity-Variable rate financial liabilities	(3,175,298)	3,175,298
<b>Net effect</b>	<b>(2,133,725)</b>	<b>2,133,725</b>

**32.3.2 Currency risk**

As at 30 June 2014, there is no foreign exchange exposure on Modaraba's balance sheet.

**32.4 Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Modaraba's operations either internally within the Modaraba or externally at the Modaraba's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment Management behavior. Operational risks arise from all of the Modaraba's activities.

- The Modaraba's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its objective of generating returns for certificate holders.
- The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors of the Management Company. This responsibility encompasses the controls in the following areas:
  - requirements for appropriate segregation of duties between various functions, roles and responsibilities;
  - requirements for the reconciliation and monitoring of transactions;



- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- ethical and business standards;
- risk mitigation, including insurance where it is effective.

### **32.5 Fair value of financial instruments**

The carrying values of financial assets and financial liabilities reported in balance sheet approximate their fair values. The Modaraba measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Valuation techniques using significant unobservable inputs.

### **32.6 Capital risk management**

The Board's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Modaraba defines as net operation income divided by total capital employed. The Board of Directors also monitors the level of dividend payouts to certificate holders.



	2014 Rupees	2013 Rupees
<b>33 Cash generated from operations</b>		
<b>Profit/ (loss) before taxation</b>	58,943,286	(110,970,491)
<b>Adjustment for non cash expenses and other items:</b>		
Impairment of TREC	26,648,757	-
Provision for morabaha investment	(85,886,950)	(14,603,168)
Provision for musharikhah investment	(11,124,610)	2,352,841
Provision for impairment of Ijarah assets	14,234,934	40,572,069
Other provisions	(2,552,828)	1,584,545
Depreciation of assets leased out	180,287,991	256,007,221
Depreciation on owned assets	2,664,769	4,493,302
Amortization on Intangible assets	258,858	258,858
Profit on redeemable capital	17,433,009	39,068,930
Bank and other charges	23,263	15,545
Profit on morabaha/ musharikhah finances	69,515,738	100,527,719
Gain on disposal of fixed assets	(22,791,444)	(3,672,591)
<b>Operating profit before working capital changes</b>	<b>247,654,773</b>	<b>315,634,780</b>
<b>Working capital changes</b>		
<b>Decrease / (Increase) in operating assets</b>		
Morabaha arrangements	177,822,290	38,067,540
Purchase of assets under Ijarah arrangements	(52,097,000)	(68,399,779)
Proceeds from disposal of assets under Ijarah arrangement	38,155,143	50,729,069
Long term deposits	150,000	8,000
Proceeds against banking claim	-	46,959,566
Advances, deposits, prepayments and other receivables	(30,422,061)	36,183,094
	<b>133,608,372</b>	<b>103,547,490</b>
<b>(Decrease) / Increase in operating liabilities</b>		
Trade and other payables	(12,713,305)	13,142,217
Security deposit received against Ijarah arrangements	8,129,200	450,000
Security deposit refunded against Ijarah arrangements	(21,128,054)	(22,298,143)
	(25,712,159)	(8,705,926)
<b>Net changes in operating assets and liabilities</b>	<b>107,896,213</b>	<b>94,841,564</b>
<b>Cash generated from operations</b>	<b>355,550,986</b>	<b>410,476,344</b>



### 34 Accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values 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 the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

#### 34.1 Provision against non-performing loans and advances

The Modaraba reviews its portfolio to assess amount of non-performing contracts and provision required there against on a quarterly basis. The provision is made in accordance with the Prudential Regulations issued by Securities and Exchange Commission of Pakistan.

#### 34.2 Income taxes

The Company takes into account relevant provisions of current income tax laws while providing for current and deferred tax.

### 35 Subsequent Events

The Board at its meeting held on September 26, 2014 has approved cash dividend of Rs. 0.50 per certificate and transfer of Rs. 37,148,229 to statutory reserve for the year ended June 30, 2014, out of the profit earned during the year.

### 36 Date of authorization for issue

The financial statements of Modaraba were approved by the directors of Modaraba Management Company and authorized for issue on September 26, 2014.

### 37 General

Figures have been rounded off to the nearest rupee.

**Chief Executive**

Punjab Modaraba Services  
( Private ) Limited

**Director**

Punjab Modaraba Services  
( Private ) Limited

**Director**

Punjab Modaraba Services  
( Private ) Limited

