



First Punjab Modaraba  
An Islamic Financial Institution

# Annual Report 2011




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## Our Vision

To be in the forefront for providing Islamic products in the financial sector.

## Our Mission

To provide competitive shariah compliant solutions for our clients and investors through an inspirationally committed team of professionals and, in so doing, create maximal value for all stakeholders.

## Core Values

- **GOOD GOVERNANCE** - such that highest premium is set on best business practices and uncompromising professionalism.
- **INTEGRITY** - such that there is zero tolerance for unethical conduct.
- **TEAM WORK** - such that there exists camaraderie amongst team members who are both trustworthy and trusted.
- **CREATIVITY** - such that there pervades a spirit to explore and innovate in the nascent Islamic financial sector.
- **TRUST** - such that all stakeholders can readily repose and vouch for.



## Corporate Profile

### Board of Directors

Punjab Modaraba Services (Pvt.) Ltd.

Khalid Siddiq Tirmizey	Chairman
Khaqan Hasnain Ibrahim	Chief Executive
Mujahid Eshai	Director
Nadeem Amir	Director

### Bankers

The Bank of Punjab  
Bank Alfalah Limited  
Al Baraka Bank (Pakistan) Limited

### Registrar

Hameed Majeed Associates (Pvt) Ltd.  
H.M. House, 7-Bank Square,  
The Mall, Lahore  
Tel: 7235081-2

Chief Financial Officer &  
Company Secretary  
Mudassar Kaiser Pal

### Audit Committee

Mujahid Eshai	Chairman
Nadeem Amir	Member

### Registered Office

233-A, New Muslim Town, Lahore, Pakistan.  
PABX: (+92-42) 35865032-37  
Fax: (+92-42) 35865039  
E-mail: [info@punjabmodaraba.com.pk](mailto:info@punjabmodaraba.com.pk)  
URL: [www.punjabmodaraba.com.pk](http://www.punjabmodaraba.com.pk)

Auditors of the Modaraba  
KPMG Taseer Hadi & Co.  
Chartered Accountants

Auditors of the Management Company  
Hameed Chaudhri & Co.  
Chartered Accountants

## Management

1. Khaqan Hasnain Ibrahim (Chief Executive)
2. Mudassar Kaiser Pal (Chief Financial Officer & Company Secretary)
3. Muhammad Siddiq (Country Business Head - Acting)
4. Nasrullah Khan (Head of CAD)
5. Ch. Muhammad Asghar (Head of SAM & Legal Affairs)
6. Zafar Iqbal (Credit & Risk Manager)
7. Muhammad Mustafa (Head of Internal Audit)



# Six Years at a Glance

(Amounts in '000)

	June-06	June-07	June-08	June-09	June-10	June-11
<b>BANALNCE 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	100,336	105,578	110,683	110,683	114,199	114,199
Loss on re-valuation of Investment	(3,177)	(4,129)	(21,079)	-	-	-
Un-appropriated Profit	52,391	22,329	13,830	(87,885)	(84,370)	(157,954)
<b>Total</b>	<b>489,750</b>	<b>463,978</b>	<b>443,634</b>	<b>362,998</b>	<b>370,030</b>	<b>296,446</b>
<b>Liabilities:</b>						
Redeemable Capital	216,400	937,880	1,381,345	743,722	693,688	1,046,762
Musharikah Arrangements	704,869	213,591	938,710	1,092,682	885,036	878,487
Morabaha Arrangements	150,000	-	388,668	392,093	102,000	38,810
Diminishing Musharikah	-	-	-	-	160,000	-
Accrued, Deferred & Other Liabilities	177,105	182,700	442,247	454,546	454,344	367,849
<b>Total</b>	<b>1,248,374</b>	<b>1,334,171</b>	<b>3,150,970</b>	<b>3,231,606</b>	<b>2,295,069</b>	<b>2,331,908</b>
<b>Total Equity &amp; Liabilities</b>	<b>1,738,124</b>	<b>1,798,149</b>	<b>3,594,604</b>	<b>3,594,604</b>	<b>2,665,098</b>	<b>2,628,354</b>
<b>Operating Assets:</b>						
Ijarah Assets	777,218	792,315	1,802,881	1,633,184	1,447,816	1,187,331
Short Term Investments-Available for sale	72,857	106,756	94,737	58,739	-	-
Musharikah Investment	70,875	-	23,059	52,505	45,175	91,328
Morabaha Investment	724,389	662,972	1,379,620	960,715	686,743	677,414
<b>Sub Total</b>	<b>1,645,339</b>	<b>1,562,043</b>	<b>3,300,297</b>	<b>2,705,143</b>	<b>2,179,734</b>	<b>1,956,072</b>
<b>Other Assets:</b>						
Assets in own use	6,208	5,915	53,424	55,694	54,532	57,156
" Deposits, Prepayments & other receivables "	74,760	181,970	202,273	258,765	388,580	432,710
Cash & Bank Balances	11,817	48,221	38,610	26,434	42,247	182,411
<b>Sub Total</b>	<b>92,785</b>	<b>236,106</b>	<b>294,307</b>	<b>340,893</b>	<b>485,359</b>	<b>672,276</b>
<b>Total Assets</b>	<b>1,738,124</b>	<b>1,798,149</b>	<b>3,594,604</b>	<b>3,046,037</b>	<b>2,665,097</b>	<b>2,628,354</b>
<b>PROFIT &amp; LOSS ACCOUNT</b>						
Operating Income	401,079	432,133	668,910	1,093,793	939,756	831,529
Other Income	28,101	3,181	47,075	33,664	50,510	22,203
<b>Total Income</b>	<b>429,180</b>	<b>435,314</b>	<b>715,985</b>	<b>1,127,457</b>	<b>990,266</b>	<b>853,732</b>
Operating Expenses	257,404	287,517	471,129	834,607	701,441	652,924
Financial Charges	99,230	118,675	225,948	383,679	281,013	270,990
Management Fee	7,255	2,912	1,890	-	781	-
<b>Total Expenses</b>	<b>363,889</b>	<b>409,104</b>	<b>698,967</b>	<b>1,218,286</b>	<b>983,235</b>	<b>923,914</b>
Profit before Taxation	65,291	26,210	(90,829)	7,031	7,031	(70,182)
Taxation	-	-	-	-	-	-
<b>Profit for the year</b>	<b>65,291</b>	<b>26,210</b>	<b>(90,829)</b>	<b>7,031</b>	<b>7,031</b>	<b>(70,182)</b>
<b>DISTRIBUTION:</b>						
Cash Dividend(%)	15.00	6.00	3.20	-	1	-
Bonus (%)	-	-	-	-	-	-
<b>RATIOS:</b>						
Breakup Value (Rs.)	13.64	13.04	10.67	10.88	10.88	8.71
Earning per Certificate (Rs.)	1.92	0.77	0.50	(2.67)	0.21	(2.06)
Return on Equity (Rs.)	5.65	(20.47)	1.94	1.90	1.90	(23.67)



# 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 18th Directors' Report of the Modaraba, together with audited financial statements and auditors' report for year ended June 30, 2011.

## Review of Operations

During the year under review, national economy experienced the stress of stagflation in the backdrop of recession in US and EU economies, our country's primary destinations for exports. Widespread floods in one-fifth of prime agricultural land led to diversion of resources, while acute power crisis caused a serious setback to the manufacturing sector with industrial growth recorded at a negative 0.1 %. High government borrowing from the banking sector at good rates left little for the private sector and rising NPLs discouraged the banks to lend to the private sector.

The debt servicing capacity of Modaraba's several customers was also adversely affected. More significantly, however, the ageing of the old NPLs reached a stage where heavy provisioning (Rs.87.44 million, 206.71% higher than last year) had to be made. This single factor ate up the Operating Profit and caused a Net Loss of Rs. 70.18 million.

Within the constraints of limited liquidity, fresh credit of Rs. 580 million was extended to keep the lending portfolio at a reasonable level. Credit appraisals were carried out with extra caution and rigor to achieve booking of quality assets, given the impaired repayment capacity of businesses.

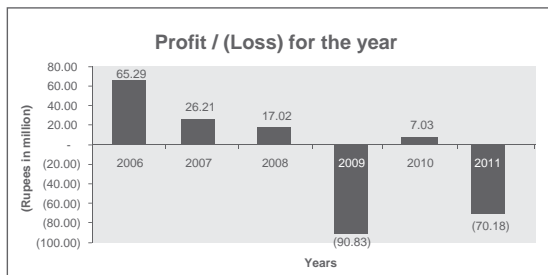
Despite liquidity constraints and rising profit rates, especially for marginal players in the financial sector, the Modaraba managed to keep its financial cost to acceptable level.

The operating cost vis-à-vis total income remains lowest among peers in modaraba sector.

## Financial Results

The financial results of the Modaraba are summarized below

	2011 Rupees	2010 Rupees
Profit / (Loss) for the year	(70,182,027)	7,031,191
Un-appropriated Profit - Brought Forward	(87,771,529)	(87,885,124)
Profit available for appropriation	-	7,031,191
Appropriations:		
Profit Distribution in cash @ Rs:Nil (2010@Rs:0.10)	-	3,402,000
Transfer to statutory reserve	-	3,515,596
Un-appropriated profit / (loss) - carried to balance sheet	(157,953,556)	(87,771,529)
(Loss) / Earning per certificate	(2.06)	0.21



### Profit Distribution

The Board at its meeting held on December 23, 2011 has approved Rs. Nil distribution of profit and Rs. Nil transfer to statutory reserve for the year ended June 30, 2011 keeping in view loss incurred during the year.

### Economic Outlook and Future Prospects

The government is targeting annual GDP growth rate of 4.2% with inflows of USD 37.8 billion in shape of export and foreign remittances. The inflation rate has been targeted around 12% while the SBP discount rate has already been reduced by 200 bps. With improved targets, check on inflation and SBP's recent efforts to support private sector credit and investment in the economy, the national economy is expected to show steady revival with concomitant improvements in businesses.

In order to address the current state of affairs of the Modaraba and more particularly hemorrhaging of old NPLs, the management has developed detailed plans for each NPL separately. These entail restructuring / rescheduling where feasible, legal actions, civil or criminal or both, against willful defaulters, strengthening security through perfecting documentation as well as acquiring additional collateral and re-aligning repayment schedules in accordance with borrowers' cash flows. Further, the management has also prepared a three years business plan, focusing on generation of fresh liquidity and booking of quality assets to return to profitability.

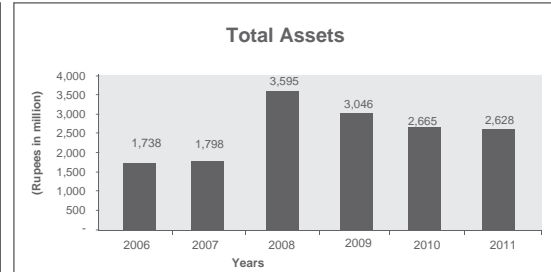
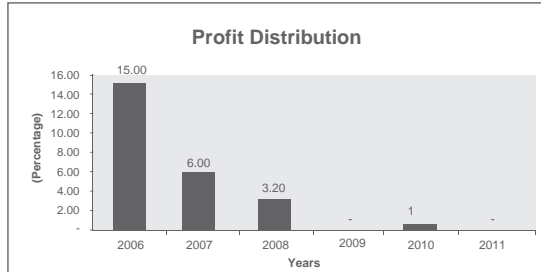


### FPM Financial Strength Rating

The Pakistan Credit Rating Agency (Pvt.) Limited (PACRA) has maintained the Modaraba long term rating of "A - " and short term rating of "A2" with negative outlook, based on its potential of growth and sustainability.

### 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.
- Accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements.
- Thereof system of internal control is sound in design and has been effectively implemented and monitored.
- As more fully explained in note 1 to the financial statements, there is no doubt about the Modaraba's ability to continue as a 'going concern'.



- 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, 2011, except for those disclosed in financial statements.
- The value of investments of the staff provident fund, based on un-audited accounts, was Rs. 3,100,974/- as at 30 June, 2011.
- During the year, six 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	4
Mr. Mujahid Eshai	4
Mr. Nadeem Amir	6
Mr. Abdul Razzaq	4
Mr. Khaqan Hasnain Ibrahim	6

- The pattern of the holding by the certificate holders is included in this annual report.
- No trade in certificates of the Modaraba were carried out by the Directors, CEO, CFO/ Company Secretary or their spouses and minor children during the year ended June 30, 2011.

### 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. KPMG Taseer Hadi & Company, 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, 2012, subject to the approval of Registrar Modaraba.

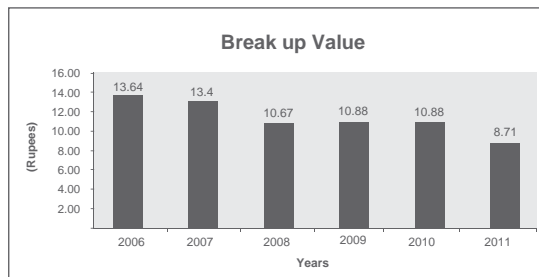
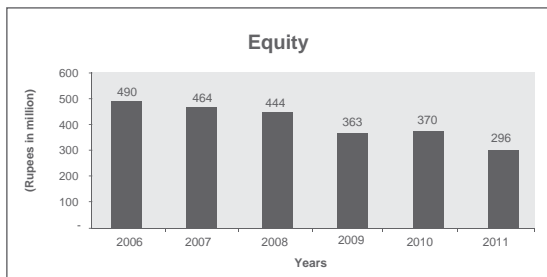
### Compliance with the Code of Corporate Governance

The requirements of the Code of Corporate Governance set out by the Karachi, Lahore, and Islamabad stock exchanges in their listing regulations, relevant for year ended June 30, 2011 have been duly complied with.

### Staff

The hard work and efforts of staff of the Modaraba and the continued support extended by management of the Bank of Punjab during the year remain hallmark of the Modaraba.





### Statement of Ethics and Business Practices

The Board has adopted The Bank of Punjab's 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 as advised by the Bank of Punjab.

### 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 Board acknowledges the invaluable guidance and support extended by the Registrar Modarabas and the Securities & Exchange Commission of Pakistan during the year and wishes to enjoy the same in future as well.

The Board is also thankful to its valued certificate holders and investors for their patronage and trust reposed in the Modaraba.

For and on behalf of the Board

**Khaqan Hasnain Ibrahim**  
Chief Executive

Lahore: December 23, 2011



# 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 Exchanges 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 4 directors which include 3 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 ten 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 being 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 could not conduct any orientation course during the year due to non availability of all directors.
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 the 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. One member has resigned whose vacancy will be filled by the board.
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 statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review programme 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.
18. 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.
19. All material information, as described in clause (xxiii) of the code is disseminated to the stock exchange and Securities and Exchange Commission of Pakistan in a timely fashion.
20. The Modaraba has complied with requirements as stipulated in the newly inserted clause (xiii) (a) relating to related party transactions.
21. We confirm that all other material principles contained in the code have been complied with.

For and on behalf of the Board

**Khaqan Hasnain Ibrahim**  
Chief Executive

Lahore: December 23, 2011



# 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 contained in the Code of Corporate Governance prepared by the Board of Directors of Punjab Modaraba Services (Private) Limited ("the Modaraba Company") in respect of First Punjab Modaraba ("the Modaraba") to comply with the listing regulations of the stock exchanges where the Modaraba is listed.

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

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

Further, Sub- Regulation (xiii a) of Listing Regulation No. 35 (previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length 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 under taken at arm's length price.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Modaraba for the year ended 30 June 2011.

Lahore: December 23, 2011

KPMG Taseer Hadi & Co.  
Chartered Accountants  
(Kamran Iqbal Yousafi)



## Notice of Book Closure & Annual Review Meeting

The Certificate Holders are hereby notified that the Certificate Transfer Books shall remain closed from 13.01.2012 to 19.01.2012 (both days inclusive), for the purpose of attending Annual Review Meeting. All transfers received in order upto the close of business hours on January 12, 2012 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 (ARM) of the Certificate-holders will be held at 10:30 a.m. on Thursday, January 19, 2012 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, 2011 in terms of Prudential Regulation No. 11, Part IV for Modarabas.

By the Order of  
Board of Directors

Mudassar Kaiser Pal  
Company Secretary



## Pattern of Certificate Holders as at June 30, 2011

Number of Certificate holders	Certificate Holding		Total No. of Certificates held	Percentage of total capital
	From	To		
926	1 -	100	42,803	0.13
1525	101 -	500	422,969	1.24
1170	501 -	1000	953,420	2.80
740	1001 -	5000	1,688,539	4.96
137	5001 -	10000	1,006,977	2.96
42	10001 -	15000	518,222	1.52
33	15001 -	20000	593,043	1.74
24	20001 -	25000	540,589	1.59
11	25001 -	30000	300,983	0.88
9	30001 -	35000	283,000	0.83
6	35001 -	40000	222,236	0.65
1	40001 -	45000	45,000	0.13
3	45001 -	50000	146,178	0.43
2	50001 -	55000	102,981	0.30
4	55001 -	60000	228,576	0.67
1	60001 -	65000	61,127	0.18
3	65001 -	70000	204,050	0.60
3	70001 -	75000	218,020	0.64
2	75001 -	80000	153,445	0.45
2	80001 -	85000	169,500	0.50
1	85001 -	90000	90,000	0.26
1	90001 -	95000	90,990	0.27
3	95001 -	100000	299,926	0.88
2	100001 -	105000	200,916	0.59
2	105001 -	110000	215,196	0.63
3	110001 -	115000	337,374	0.99
2	115001 -	120000	235,846	0.69
1	120001 -	125000	124,000	0.36
1	125001 -	130000	125,500	0.37
1	135001 -	140000	140,000	0.41
1	145001 -	150000	150,000	0.44
1	150001 -	155000	151,000	0.44
1	160001 -	165000	160,020	0.47
1	175001 -	180000	178,500	0.52
1	185001 -	190000	188,000	0.55
2	195001 -	200000	397,644	1.17
1	205001 -	210000	208,693	0.61
2	220001 -	225000	447,500	1.32
1	245001 -	250000	249,935	0.73
2	270001 -	275000	546,905	1.61
1	295001 -	300000	300,000	0.88
1	300001 -	305000	302,000	0.89
1	315001 -	320000	317,500	0.93
1	320001 -	325000	325,000	0.96
1	345001 -	350000	350,000	1.03
3	365001 -	370000	1,101,568	3.24
1	455001 -	460000	460,000	1.35
1	595001 -	600000	595,224	1.75
1	950001 -	955000	952,500	2.80
1	1120001 -	1125000	1,122,100	3.30
1	1165001 -	1170000	1,168,034	3.43
1	1265001 -	1270000	1,265,777	3.72
1	5230001 -	5235000	5,232,194	15.38
1	8085001 -	8090000	8,088,500	23.7757
4,690			34,020,000	100.00



## Classification of Certificate Holders by Categories as at June 30, 2011

Sr#	Category	No of Holders Held	Certificates Capital	Percentage of Total Capital
1	Associated Companies, Undertakings and Related Parties	4	13,575,417	39.9042
2	NIT and ICP	5	1,200,138	3.5277
3	Banks, Development Financial Institutions, Non Banking Financial Institutions	22	969,773	2.8506
4	Insurance Companies	2	1,265,949	3.7212
5	Modarbas and Mutual Funds	7	178,208	0.5238
6	General Public (Local)	4,606	16,250,241	47.7667
7	General Public (Foreign)	4	714	0.0021
8	Joint Stock Companies	35	560,523	1.6476
9	Others	5	19,037	0.0560
GRAND TOTAL		4,690	34,020,000	100.0000



# Financial Statements

As at June 30, 2011





# Auditor's Report to the Certificate Holders



We have audited the annexed balance sheet of First Punjab Modaraba ("the Modaraba") as at 30 June 2011 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Modaraba 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) and 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, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at 30 June 2011 and of the loss, its comprehensive loss, its cash flows and changes in equity for the year then ended.

Without qualifying our opinion we draw attention to notes 1 and 15.1 of these financial statements that the Modaraba on 30 June 2011 had accumulated losses of Rs. 157,953,556/- and loss after tax of Rs. 70,182,027/-. As of that date the Modaraba's current liabilities exceeded its current assets by Rs. 793,007,116/-. This situation indicates the existence of an uncertainty, which may cast doubt on Modaraba's ability to continue as a going concern in the absence of continued financial support by The Bank of Punjab (the holding Company of the Modaraba's Management Company); and

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

Lahore:  
December 23, 2011

**KPMG Taseer Hadi & Company**  
Chartered Accountants  
(Kamran Iqbal Yousafi)



# Balance Sheet

As at June 30, 2011

ASSETS	Note	2011 Rupees	2010 Rupees
<b>Non current assets</b>			
Tangible fixed assets	5		
Ijarah assets		<b>1,187,330,576</b>	1,447,816,251
Assets in own use		<b>11,119,379</b>	9,531,813
Intangible assets	6	<b>46,036,142</b>	45,000,000
Long term musharikhah investment - secured	7	<b>38,721,907</b>	19,552,548
Long term deposits		<b>656,944</b>	165,060
		<b>1,283,864,948</b>	1,522,065,672
<b>Current assets</b>			
Short term morabaha investment - secured	8	<b>677,414,151</b>	684,742,763
Current maturity of long term investments	9	<b>52,605,670</b>	27,622,700
Advances, deposits, prepayments and other receivables	10	<b>431,419,678</b>	386,602,274
Tax refundable		<b>638,712</b>	1,818,104
Cash and bank balances	11	<b>182,410,708</b>	42,246,793
		<b>1,344,488,919</b>	1,143,032,634
<b>TOTAL ASSETS</b>		<b>2,628,353,867</b>	2,665,098,306
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Certificate capital	12	<b>340,200,000</b>	340,200,000
Reserves	13	<b>(43,754,388)</b>	29,829,639
		<b>296,445,612</b>	370,029,639
<b>Non current liabilities</b>			
Security deposits	14	<b>175,460,664</b>	223,009,586
Long term musharikhah finances - secured	15	-	885,035,859
Long term morabaha finances - secured	16	<b>11,751,556</b>	-
Redeemable capital - participatory and unsecured	17	<b>7,200,000</b>	80,850,000
		<b>194,412,220</b>	1,188,895,445
<b>Current liabilities</b>			
Current maturity of non current liabilities	18	<b>188,840,975</b>	90,477,272
Deferred morabaha income		<b>6,810,367</b>	19,238,582
Short term finances - secured	19	-	262,000,000
Musharikhah Finance Secured	15	<b>878,487,257</b>	-
Redeemable capital - participatory and unsecured	20	<b>963,061,760</b>	609,988,404
Mark up payable	21	<b>27,930,643</b>	55,439,069
Trade and other payables	22	<b>60,035,721</b>	56,997,142
Unclaimed profit		<b>12,329,312</b>	12,032,753
		<b>2,137,496,035</b>	1,106,173,222
<b>Contingencies and commitments</b>	23		
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,628,353,867</b>	2,665,098,306

The attached notes 1 to 36 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 June 30, 2011



	Note	2011 Rupees	2010 Rupees
<b>Income</b>			
Ijarah rentals	24.1	777,268,113	848,945,513
Profit on morabaha investment	24.2	48,516,066	61,450,461
Profit on musharikhah investment	24.3	5,745,294	2,249,189
Gain on disposal of fixed assets		-	8,087,488
Gain on sale of investment		-	19,023,290
Other income	25	22,202,801	50,510,047
		<b>853,732,274</b>	<b>990,265,988</b>
<b>Expenses</b>			
Operating expenses	26	32,608,221	26,478,455
Depreciation of Ijarah assets	5.1	531,448,540	646,280,559
Loss on disposal of fixed assets		1,425,425	-
Finance cost	27	270,990,466	281,184,813
		<b>836,472,652</b>	<b>953,943,827</b>
<b>Operating profit before provision and impairment</b>		<b>17,259,622</b>	<b>36,322,161</b>
Provision for morabaha investment		46,729,988	11,837,043
Provision for impairment of ijarah assets		28,159,752	10,954,473
Provision for musharikhah investment		4,537,514	2,617,200
Other provisions		8,014,395	3,101,011
		<b>87,441,649</b>	<b>28,509,727</b>
<b>Operating (loss) / profit after provision and impairment</b>		<b>(70,182,027)</b>	<b>7,812,434</b>
Modaraba Company's management fee		-	781,243
<b>(Loss) / profit for the year</b>		<b>(70,182,027)</b>	<b>7,031,191</b>
<b>(Loss) / earnings per certificate - basic and diluted</b>	28	<b>(2.06)</b>	<b>0.21</b>

The attached notes 1 to 36 form an intergral part of these financial statements.

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(Private) Limited

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



# Cash Flow Statement

For the year ended June 30, 2011

	Note	2011 Rupees	2010 Rupees
<b>Cash flow from operating activities</b>			
Cash (used in) / generated from operations	33	<b>388,668,834</b>	631,899,886
Profit on redeemable capital paid		<b>(100,866,276)</b>	(110,636,686)
Profit paid on morabaha / musharikhah finances		<b>(197,632,616)</b>	(203,930,994)
Income tax paid		<b>(101,236)</b>	(187,325)
<b>Net cash (used in) / generated from operating activities</b>		<b>90,068,706</b>	317,144,881
<b>Cash flow from investing activities</b>			
Proceeds from disposal of fixed assets		<b>1,162,511</b>	637,826
Fixed capital expenditure		<b>(6,713,283)</b>	(2,102,562)
Cash margin L/G received / (refund)		<b>(16,593,711)</b>	-
Investments made		-	(28,345,475)
Proceeds from sale of investments		-	106,108,616
Investment in morabaha		<b>2,700,000</b>	5,500,000
Investment in musharikhah		<b>(50,689,843)</b>	4,713,023
<b>Net cash (used in) / generated from investing activities</b>		<b>(70,134,326)</b>	86,511,428
<b>Cash flow from financing activities</b>			
Finances under musharikhah arrangements		<b>(6,548,602)</b>	(207,646,526)
Finances under morabaha		<b>(223,189,778)</b>	(130,093,000)
Redeemable capital		<b>353,073,356</b>	(50,033,901)
Profit distribution to certificate holders		<b>(3,105,441)</b>	(70,339)
<b>Net cash (used in) / generated from financing activities</b>		<b>120,229,535</b>	(387,843,766)
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>140,163,915</b>	15,812,543
<b>Cash and cash equivalents at the beginning of the year</b>		<b>42,246,793</b>	26,434,250
<b>Cash and cash equivalents at the end of the year</b>	11	<b>182,410,708</b>	42,246,793

The attached notes 1 to 36 form an integral part of these financial statements.

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

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(Private) Limited

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(Private) Limited

# Statement of Comprehensive Income

For the year ended June 30, 2011



	2011 Rupees	2010 Rupees
<b>(Loss) / profit for the year</b>	<b>(70,182,027)</b>	7,031,191
Other comprehensive income for the year	-	-
<b>Total comprehensive (loss) / Income for the year</b>	<b>(70,182,027)</b>	7,031,191

The attached notes 1 to 36 form an intergral part of these financial statements.

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

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

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Punjab Modaraba Services  
(Private) Limited



# Statement of Changes in Equity

For the year ended June 30, 2011

	Certificate capital Rupees	Statutory reserve Rupees	Unappropriated profit/(accumulated loss) Rupees	Total Rupees
<b>Balance as at 01 July 2009</b>	340,200,000	110,683,572	(87,885,124)	362,998,448
Total comprehensive income for the year	-	-	7,031,191	7,031,191
Transfer during the year @ 50%	-	3,515,596	(3,515,596)	-
<b>Balance as at 30 June 2010</b>	<b>340,200,000</b>	<b>114,199,168</b>	<b>(84,369,529)</b>	<b>370,029,639</b>
Total comprehensive loss for the year	-	-	(70,182,027)	(70,182,027)
Profit distribution for the year ended 30 June 2010	-	-	(3,402,000)	(3,402,000)
<b>Balance as at 30 June 2011</b>	<b>340,200,000</b>	<b>114,199,168</b>	<b>(157,953,556)</b>	<b>296,445,612</b>

The attached notes 1 to 36 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, 2011



### 1. Legal 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 the 233-A, New Muslim Town, Lahore. The Modaraba commenced its business operations from 23 December 1992. The Modaraba is listed on all the Stock Exchanges in Pakistan.

The Modaraba is a perpetual, multi purpose and multi dimensional modaraba and is primarily engaged in the business of Ijarah, musharikhah and morabaha financing, equity investment and other related business in accordance with the injunctions of Islam.

During the year the Modaraba has incurred a loss of Rs. 70,182,027 and the accumulated losses of Modaraba as at 30 June 2011 amount to Rs. 157,953,556. As of that date the current liabilities of the Modaraba exceeded its current assets by Rs. 793,007,116. The paid-up capital and reserves (net of losses) of the Modaraba amount to Rs. 296,445,612 showing sharp decline during the year. The loss has been incurred due to heavy provisioning against non-performing lending portfolio which amounts to 46.73 % of the total portfolio.

In order to address the above matters, the management has implemented a comprehensive strategy to recover and restructure the NPLs by initiating legal actions against willful defaulters, strengthening security through perfect documentation as well as acquiring additional collateral and re-aligning repayment period in accordance with borrowers’ cash flows. Further, the Management has also prepared a three years business plan, focusing on renewal of credit lines, generation of fresh liquidity and booking of quality assets to achieve sustained profitability.

Based on the actions outlined as above, the Management is of the view that the Modaraba would have adequate resources to continue its business on a sustainable basis 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 vide Circular No. 10 of 2004 dated 13 February 2004 has deferred, till further orders, the applicability of the IAS 17 “Leases” with effect from 01 July 2003. Accordingly, this IAS has not been taken into consideration for the purposes of preparation of these financial statements.

#### 2.2 Basis of measurement

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





### 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 thousand.

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

### 3.1 Standards, amendments or interpretations which became effective during the year

During the year certain amendments to Standards or new interpretations became effective, however, the amendments or interpretation did not have any material effect on the financial statements of the Company.

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

The following standards, amendments and interpretations of approved accounting standards are only effective for annual periods beginning from the dates specified below. Except for the amendment in International Accounting Standard (IAS) 19 which results in immediate recognition of actuarial gains or losses and revised basis of calculation for net finance costs, these standards are either not relevant to the Company's operations or are not expected to have a significant impact on the Company's financial statements, other than increased disclosures in certain cases.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1, 'Presentation of Financial Statements') effective for annual periods beginning on or after 1 July 2012.
- Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12) effective for annual periods beginning on or after 1 January 2012.
- IAS 19, 'Employee Benefits' (Amended 2011) effective for annual periods on or after 1 January 2013.
- Prepayments of a Minimum Funding Requirement (Amendments to International Financial Reporting Interpretations Committee (IFRIC) Interpretation 14) effective for annual periods beginning on or after 1 January 2011.
- IAS 24, 'Related Party Disclosures' (Revised 2009) effective for annual periods beginning on or after 1 January 2011.
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) effective for annual periods beginning on or after 1 July 2011.

## 4. Significant accounting policies

### 4.1 Tangible fixed assets

#### Assets in own use

Property, plant and equipment except freehold land are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss.

Depreciation on all property, plant and equipment 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 Company assesses at each balance sheet date whether there is any indication that property, plant and equipment 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 recognised 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 recognised, 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 recognised 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 recognised as an income or expense.

#### **Leased (Ijarah)**

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 are 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 recognised.

#### **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 and deposit accounts.

#### **4.5 Financial instruments**

##### **Financial assets**

Significant financial assets include short and long term finances, investments, advances and receivables, long term deposits 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 and long term borrowings, certificates of musharika, deposits against Ijara 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 recognised amounts and there is an intention to settle on net basis, or realise the asset and settle the liabilities simultaneously.

## **4.6 Provisions**

Provisions are recognised 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 recognised as income on receipt basis. Unrealized Ijara 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.

**Income on bank deposits**

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 recognised 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 recognised 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 recognised as expense in the period in which they are incurred.



Profit on Musharikah 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.

#### **4.16 Related party transaction**

All transactions with the related parties are priced on arm's length basis. Prices for those transactions are determined on the basis of admissible valuation methods.



## 5. Tangible fixed assets

### 5.1 Ijarah assets

Description	Plant and machinery	Vehicle	Cessna aircraft	Consumer products	Consumer products to staff	Total
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
<b>Net carrying value as at 01 July 2010</b>						
Opening net book value (NBV)	1,232,714,630	198,398,158	12,926,214	3,533,689	243,560	1,447,816,251
Additions	299,474,760	125,539,300	13,552,604	1,565,154	-	440,131,818
Transfers (at NBV)	(107,553,856)	(37,097,704)	(7,072,877)	-	-	(151,724,437)
Depreciation charged	(439,735,443)	(82,130,014)	(6,650,861)	(2,826,837)	(105,385)	(531,448,540)
Impairment	(17,444,516)	-	-	-	-	(17,444,516)
<b>Balance at 30 June 2011 (NBV)</b>	<b>967,455,575</b>	<b>204,709,740</b>	<b>12,755,080</b>	<b>2,272,006</b>	<b>138,175</b>	<b>1,187,330,576</b>
<b>Rate of Depreciation</b>	<b>20% to 33.33%</b>	<b>20% to 33.33%</b>	<b>50%</b>	<b>50% to 100%</b>	<b>20%</b>	
<b>Gross carrying value as at 30 June 2011</b>						
Cost	2,137,363,880	348,955,377	13,552,604	5,056,661	534,900	2,505,463,422
Accumulated depreciation	(1,138,830,986)	(144,114,212)	(797,524)	(2,784,655)	(396,725)	(1,286,924,102)
Accumulated impairment loss	(31,077,319)	(131,425)	-	-	-	(31,208,744)
<b>Net book value</b>	<b>967,455,575</b>	<b>204,709,740</b>	<b>12,755,080</b>	<b>2,272,006</b>	<b>138,175</b>	<b>1,187,330,576</b>
<b>Net carrying value as at 30 June 2009</b>						
Opening net book value (NBV)	1,347,624,539	194,397,753	19,417,852	71,287,795	456,620	1,633,184,559
Additions	427,069,532	85,291,195	-	3,491,507	-	515,852,234
Transfers (at NBV)	(35,909,666)	(7,871,956)	-	(203,888)	-	(43,985,510)
Depreciation charged	(495,246,727)	(73,287,409)	(6,491,638)	(71,041,725)	(213,060)	(646,280,559)
Impairment	(10,823,048)	(131,425)	-	-	-	(10,954,473)
<b>Balance at 30 June 2010 (NBV)</b>	<b>1,232,714,630</b>	<b>198,398,158</b>	<b>12,926,214</b>	<b>3,533,689</b>	<b>243,560</b>	<b>1,447,816,251</b>
<b>Rate of Depreciation</b>	<b>20% to 33.33%</b>	<b>20% to 33.33%</b>	<b>20%</b>	<b>50% to 100%</b>	<b>20%</b>	
<b>Gross carrying value as at 30 June 2010</b>						
Cost	2,261,185,554	366,858,225	35,000,000	18,759,629	557,900	2,682,361,308
Accumulated depreciation	(1,014,838,121)	(168,328,642)	(22,073,786)	(15,225,940)	(314,340)	(1,220,780,829)
Accumulated impairment loss	(13,632,803)	(131,425)	-	-	-	(13,764,228)
<b>Net book value</b>	<b>1,232,714,630</b>	<b>198,398,158</b>	<b>12,926,214</b>	<b>3,533,689</b>	<b>243,560</b>	<b>1,447,816,251</b>

5.1.1 Transfers represent the assets disposed off 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	Office premises	Office equipment	Furniture and fixtures	Vehicles	Leasehold improvement	Total
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
<b>Net carrying value as at 01 July 2010</b>						
Opening net book value (NBV)	2,520,933	1,746,222	681,809	2,376,594	2,206,255	9,531,813
Additions	-	218,055	200,030	2,461,293	2,538,905	5,418,283
Transfers (at NBV)	-	(26,089)	-	(172,585)	(31,205)	(229,879)
Depreciation charged	(692,266)	(571,284)	(177,216)	(813,798)	(1,346,274)	(3,600,838)
<b>Balance at 30 June 2011 (NBV)</b>	<b>1,828,667</b>	<b>1,366,904</b>	<b>704,623</b>	<b>3,851,504</b>	<b>3,367,681</b>	<b>11,119,379</b>
<b>Gross carrying value as at 30 June 2011</b>						
Cost	6,937,864	3,830,350	1,355,686	5,383,706	4,845,045	22,352,651
Accumulated depreciation	(5,109,197)	(2,463,446)	(651,063)	(1,532,202)	(1,477,364)	(11,233,272)
<b>Net book value</b>	<b>1,828,667</b>	<b>1,366,904</b>	<b>704,623</b>	<b>3,851,504</b>	<b>3,367,681</b>	<b>11,119,379</b>
<b>Rate of Depreciation</b>	<b>10%</b>	<b>15% &amp; 30%</b>	<b>15%</b>	<b>20%</b>	<b>As per term</b>	
<b>Net carrying value as at 30 June 2009</b>						
Opening net book value (NBV)	2,867,589	2,127,745	744,052	2,099,219	2,855,961	10,694,566
Additions	-	246,577	49,432	1,759,713	46,840	2,102,562
Transfers (at NBV)	-	(90,250)	-	(560,237)	-	(650,487)
Depreciation charged	(346,656)	(537,850)	(111,675)	(922,101)	(696,546)	(2,614,828)
<b>Balance at 30 June 2010 (NBV)</b>	<b>2,520,933</b>	<b>1,746,222</b>	<b>681,809</b>	<b>2,376,594</b>	<b>2,206,255</b>	<b>9,531,813</b>
<b>Gross carrying value as at 30 June 2010</b>						
Cost	6,937,864	3,685,162	1,158,656	4,848,923	3,485,923	20,116,528
Accumulated depreciation	(4,416,931)	(1,938,940)	(476,847)	(2,472,329)	(1,279,668)	(10,584,715)
<b>Net book value</b>	<b>2,520,933</b>	<b>1,746,222</b>	<b>681,809</b>	<b>2,376,594</b>	<b>2,206,255</b>	<b>9,531,813</b>
<b>Rate of Depreciation</b>	<b>5%</b>	<b>20%</b>	<b>10%</b>	<b>20%</b>	<b>As per term</b>	

**5.2.1 Disposal of assets in own use**

	2 0 1 1					Mode of disposal	Disposed to
	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain/(Loss)		
	Rupees	Rupees	Rupees	Rupees	Rupees		
Vehicles	606,000	606,000	-	367,000	367,000	Auction	Sajjad Dogar
Vehicles	713,303	713,303	-	471,011	471,011	Auction	Ch. Muhammad Asghar
Vehicles	607,207	434,622	172,585	300,000	127,415	As per terms of employment	Shafqat Pervaiz
Office equipment	3,000	3,000	-	2,800	2,800	Negotiation	Shabir Ahmed
Office equipment	7,300	6,724	576	500	(76)	Negotiation	Sufyan Computers
Office equipment	6,500	5,344	1,156	500	(656)	Negotiation	Sufyan Computers
Office equipment	59,067	34,709	24,358	20,700	(3,658)	Auction	Asif Awan
	<b>2,002,377</b>	<b>1,803,702</b>	<b>198,675</b>	<b>1,162,511</b>	<b>963,836</b>		
<b>2 0 1 0</b>							
	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain/(Loss)	Mode of disposal	Disposed to
	Rupees	Rupees	Rupees	Rupees	Rupees		
Office equipment	109,200	61,338	47,862	35,000	(12,862)	Negotiation	Numerous people
Office equipment	67,400	25,012	42,388	32,000	(10,388)	As per terms of employment	Ex-Chief Executive, Modaraba Company
Vehicles	1,002,500	442,263	560,237	570,826	10,589	As per terms of employment	Ex-Chief Executive, Modaraba Company
	<b>1,179,100</b>	<b>528,613</b>	<b>650,487</b>	<b>637,826</b>	<b>(12,661)</b>		



	Note	2011 Rupees	2010 Rupees
<b>6. Intangible assets</b>			
Corporate membership of Lahore Stock Exchange		37,100,000	37,100,000
Less: Impairment		(1,100,000)	(1,100,000)
		36,000,000	36,000,000
Room at Lahore Stock Exchange		9,000,000	9,000,000
Computer software	6.1	1,036,142	-
		<b>46,036,142</b>	<b>45,000,000</b>
<b>6.1 Computer software</b>			
<b>Net carrying value</b>			
Purchase during the year		1,295,000	-
Amortization charged		(258,858)	-
Balance at 30 June (NBV)		1,036,142	-
Rate of amortization		20%	-
<b>Gross carrying value</b>			
Cost		1,295,000	-
Accumulated amortization		(258,858)	-
Net book value		1,036,142	-

#### 7. Long term musharikhah investment - secured

Musharikhah investment		98,482,291	47,792,448
Less: Current portion of long term musharikhah investment	9	(52,605,670)	(25,622,700)
Less: Provision against musharikhah investment		(7,154,714)	(2,617,200)
		<b>38,721,907</b>	<b>19,552,548</b>

**7.1** The profit charged on these facilities ranged from 14.37% to 20.07% (2010:14.41% to 20.07%). These facilities are secured by way of personal guarantees and mortgage of properties.

	Note	2011 Rupees	2010 Rupees
<b>8. Short term morabaha investment - secured</b>			
Gross Morabaha Investment		962,398,941	909,869,350
Add: Unearned morabaha income	8.2	6,810,367	19,238,582
		969,209,308	929,107,932
Less: Provision for doubtful morabaha investment	8.3	(291,795,157)	(244,365,169)
		<b>677,414,151</b>	<b>684,742,763</b>





**8.1** These are secured against mortgage of properties, hypothecation and pledge of stocks, personal guarantees and demand promissory notes. The rates of profit charged on morabaha investments ranges from 15.23% to 18.78% (2010: 16.10% to 19.69%).

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

	Note	2011 Rupees	2010 Rupees
<b>8.3 Provision for doubtful morabaha investment</b>			
Opening balance		244,365,169	227,028,128
Additions during the year		49,991,628	18,475,357
Transferred / reversed during the year		(2,561,640)	(1,138,316)
Closing balance		291,795,157	244,365,169

**9. Current maturity of long term investment**

Morabaha investment	9.1	-	2,000,000
Unearned morabaha income		-	-
		-	2,000,000
Musharikah investment		52,605,670	25,622,700
		52,605,670	27,622,700

**9.1 Morabaha investment**

Morabaha Investment		8,800,000	11,500,000
Less: Provision for doubtful morabaha investment	9.1.1	(8,800,000)	(9,500,000)
		-	2,000,000

**9.1.1 Provision for doubtful morabaha investment**

Opening balance		9,500,000	15,000,000
Reversed during the year		(700,000)	(5,500,000)
Closing balance		8,800,000	9,500,000



	Note	2011 Rupees	2010 Rupees
<b>10. Advances, deposits, prepayments and other receivables</b>			
Profit receivable			
Morabaha investment	10.1	17,792,098	12,330,502
Musharikhah investment	10.2	1,955,955	283,704
		19,748,053	12,614,206
Ijarah rental receivables	10.3	373,346,204	308,730,111
Prepayments		273,024	165,356
Property acquired in satisfaction of claims	10.4	6,050,000	22,850,000
Other receivables		44,349,433	46,575,243
		443,766,714	390,934,916
Less: Provision for non performing assets		(12,347,036)	(4,332,642)
		431,419,678	386,602,274
<b>10.1 Morabaha profit receivable</b>			
Morabaha profit receivable		55,647,326	46,028,412
Less: Income transferred to suspense	10.1.1	(37,855,228)	(33,697,910)
		17,792,098	12,330,502
<b>10.1.1 Income transferred to suspense (morabaha)</b>			
Opening balance		33,697,910	28,657,630
Income suspended during the year - net		4,157,318	5,040,280
Closing balance		37,855,228	33,697,910
<b>10.2 Musharikhah profit receivable</b>			
Musharikhah profit receivable		13,754,546	6,810,677
Less: Income transferred to suspense	10.2.1	(11,798,591)	(6,526,973)
		1,955,955	283,704
<b>10.2.1 Income transferred to suspense (musharikhah)</b>			
Opening balance		6,526,973	4,251,999
Income suspended during the year - net		5,271,618	2,274,974
Closing balance		11,798,591	6,526,973
<b>10.3 Ijara rental receivables</b>			
Ijara rental receivables		468,824,246	393,062,485
Less: Income transferred to suspense	10.3.1	(95,478,042)	(84,332,374)
		373,346,204	308,730,111



	2011 Rupees	2010 Rupees
<b>10.3.1 Income transferred to suspense (Ijarah)</b>		
Opening balance	84,332,374	31,645,905
Income suspended during the year - net	11,145,668	52,686,469
Closing balance	<u>95,478,042</u>	<u>84,332,374</u>

**10.4** This represents one plot (2010: two plots) acquired from a party against satisfaction of morabaha investment. This plot is not held for appreciation in value or for earning rentals and is to be sold to recover the amount in near future.

	Note	2011 Rupees	2010 Rupees
<b>11. Cash and bank balances</b>			
Cash with banks			
Current accounts	11.1	18,704,045	3,207,064
Deposit accounts	11.2	68,700,000	37,591,780
Saving accounts		95,006,217	1,443,209
Current account with State Bank of Pakistan	11.3	361	4,084
		<b>182,410,623</b>	42,246,137
Cash in hand		85	656
		<u>182,410,708</u>	<u>42,246,793</u>

**11.1** The balance of Rs.7.442 million (2010: Rs. 3.181 million) is maintained with The Bank of Punjab (the holding Company of the Modaraba's Management Company).

**11.2** Under the terms and conditions 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.

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

**11.4** The rate of profit on deposit and saving accounts ranges between 5% to 13.15% (2010: 5% to 13%).

	2011 Rupees	2010 Rupees
<b>12. 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	200,000,000	200,000,000
14,020,000 modaraba certificates of Rs 10 each issued as fully paid bonus certificates	140,200,000	140,200,000
	<u>340,200,000</u>	<u>340,200,000</u>

**12.1** As at 30 June 2011, The Punjab Modaraba Services (Private) Limited (The management company) holds 13,320,694 (2010: 13,320,694) certificates of Rs. 10 each.



	Note	2011 Rupees	2010 Rupees
<b>13. Reserves</b>			
<b>Capital reserve</b>			
Statutory reserve	13.1	114,199,168	114,199,168
<b>Revenue reserves</b>			
Accumulated loss		(157,953,556)	(84,369,529)
		<b>(43,754,388)</b>	29,829,639

**13.1** This represents profit set aside to comply with the requirement of 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	2011 Rupees	2010 Rupees
<b>14. Security deposits</b>			
Long term security deposits against Ijarah Margin against LG	14.1	258,273,368	291,573,542
Less: Current maturity of security deposits	18	(85,282,309)	(87,627,272)
		<b>175,460,664</b>	223,009,586

**14.1** This include security deposits amounting to Rs. 57.84 million (2010: Rs 9.61 million) against those Ijarahs where the customer has defaulted payments of rentals and the Morabaha 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	2011 Rupees	2010 Rupees
<b>15. Long term musharikhah finances - secured</b>			
Opening balance		885,035,859	1,012,682,385
Additions during the year		2,157,931,991	2,923,804,871
Less: Paid during the year		(2,164,480,593)	(3,051,451,397)
		<b>(6,548,602)</b>	(127,646,526)
Closing balance		<b>878,487,257</b>	885,035,859
Transferred to current liabilities	15.1	<b>(878,487,257)</b>	-
		-	885,035,859

**15.1** The long term musharikhah facility (the facility) from The Bank of Punjab (BOP) (the holding Company of the Modaraba's Management Company) was expired on 31 December 2010 and was not renewed rather extended on quarterly basis since then. As at 30 June 2011, the facility is expired and the renewal of the said facility is subject to approval of a three year business plan by the BOD of the Modaraba. Subsequent to 30 June 2011, the said business plan has been approved by the BOD of Modaraba and the renewal of the facility is under process by BOP.



**15.2** During the year the Modaraba has availed musharikhah finance facilities from BOP having approved extension of limits of Rs.1,060 million (2010: Rs.1,063 million). These facilities are secured by way of hypothecation charge over present and future book debts and receivables of Modaraba for an amount of Rs. 1,900 million. The estimated share of profit payable on musharikhah facilities ranges from 14.09% to 15.28% (2010: 13.29% to 15.50%).

	Note	2011 Rupees	2010 Rupees
<b>16. Long term morabaha finance-secured</b>			
Opening balance		-	-
Additions during the year		<b>40,588,000</b>	-
Less: Paid during the year		<b>(1,777,778)</b>	-
		<b>38,810,222</b>	-
Less: Current maturity	18	<b>(27,058,666)</b>	-
Closing balance		<b>11,751,556</b>	-

**16.1** During the year the Modaraba has availed morabaha finance facilities from a commercial bank having approved limits of Rs.80 million (2010: Nil). This facility is secured by way of hypothecation charge over present and future book debts and receivables of Modaraba for an amount of Rs. 267 million. The estimated share of profit payable on morabaha facility ranges from 14.32% to 14.35% (2010: Nil). The tenure of facility is eighteen months.

	Note	2011 Rupees	2010 Rupees
<b>17. Redeemable capital - participatory and unsecured</b>			
Redeemable capital -Long term	17.1	<b>83,700,000</b>	83,700,000
Less: Current portion of long term Redeemable capital	18	<b>(76,500,000)</b>	(2,850,000)
		<b>7,200,000</b>	80,850,000

**17.1** The share of profit payable on certificates of Musharikhah ranges from 13% to 15% (2010: 13% to 16%).

	Note	2011 Rupees	2010 Rupees
<b>18. Current maturity of non current liabilities</b>			
Security deposits	14	<b>85,282,309</b>	87,627,272
Morabaha finance		<b>27,058,666</b>	-
Redeemable capital	17	<b>76,500,000</b>	2,850,000
		<b>188,840,975</b>	90,477,272
<b>19. Short term finances - secured</b>			
Morabaha finances	19.1	-	262,000,000

**19.1** These facilities had been availed from commercial banks. These facilities were fully paid during the year ended 30 June 2011.



	2011 Rupees	2010 Rupees
<b>20. Redeemable capital - participatory and unsecured</b>		
Opening balance	609,988,404	569,772,305
Issued during the year	2,153,777,639	1,900,444,521
Less: Redeemed during the year	(1,800,704,283)	(1,860,228,422)
	353,073,356	40,216,099
Closing balance	963,061,760	609,988,404

**20.1** The share of profit payable on certificates of Musharikhah ranges from 11.20% to 15.50% (2010: 13% to 15.38%).

	Note	2011 Rupees	2010 Rupees
<b>21. Markup payable</b>			
Musharikhah finances		-	29,165,227
Morabaha finances		9,618,185	16,511,785
Redeemable capital		18,312,458	9,762,057
		27,930,643	55,439,069
<b>22. Trade and other payables</b>			
Due to Modaraba management company		-	781,243
Accrued expenses		351,000	342,500
Advance Ijarah rentals		279,070	774,120
Ijara participation money		40,500	54,122
Tax deducted at source		1,049,355	3,033
Tax payable		-	266,780
Margin against LG	22.1	50,357,067	48,757,848
Other payables	22.2	7,958,729	6,017,496
		60,035,721	56,997,142

**22.1** It includes margin held on behalf of issuing bank against guarantees issued by the bank.

**22.2** These include Rs.162,000 (2009: Rs.162,000) charged as penalty @ 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 Shariah.



## 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 honourable Income Tax Appellate Tribunal, which has been decided in favour of Modaraba, however Income Tax Department has filed appeal before honourable Lahore High Court which is pending for adjudication.

**23.1.2** Taxation Officer/ Additional Commissioner issued orders under section 122 (5A) of the Income Tax Ordinance, 2001, (the Ordinance) 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. 36,083,005. The Modaraba filed appeal before the CIT (Appeals) for tax years 2003 and 2004 against those orders. In this regard, after hearing of the appeals, the CIT (Appeals) by accepting the claims of exemption has issued favorable orders to the Modaraba while deleting the tax liability of Rs. 36,083,005. The income tax department has filed appeals before Appellate Tribunal Inland Revenue against the orders of CIT which are pending for adjudication.

**23.1.3** The Taxation Officer / Additional Commissioner issued order under section 122 (5A) of the Ordinance for tax year 2005 by rejecting the claim of exemption in an arbitrary manner and assessing the taxable income at Rs. 49,845,335 and tax liability at Rs. 17,667,886. The Modaraba has filed an appeal before the CIT (Appeals) against this order. The appeal is pending for adjudication.

**23.1.4** Aggregate amount of guarantee given by a bank on behalf of the Modaraba in respect of the Bid Bond, Performance, Advance Payment and Payment Guarantee aggregates to Rs.225.022 million. (2010: Rs. 272.468 million).

### 23.2 Commitments

**23.2.1** Ijarah commitments approved but not disbursed as on balance sheet date amount to Rs.50.90 million (2010 : Rs. 514.48 million).

**23.2.2** Morabaha commitments approved but not disbursed as on balance sheet date amount to Rs.25 million (2010 : Rs.69.66 million).



	2011 Rupees	2010 Rupees
<b>24. Operating income</b>		
<b>24.1 Income from ijarah</b>		
Ijarah Income	788,413,781	901,631,980
Less: Rentals suspended	(11,145,668)	(52,686,467)
<b>Total Income from ijarah</b>	<b>777,268,113</b>	<b>848,945,513</b>
<b>24.2 Profit earned on Morabaha investment</b>		
Morabaha investment	52,673,384	66,490,741
Less: Suspension	(4,157,318)	(5,040,280)
<b>Total Income from Morabaha investment</b>	<b>48,516,066</b>	<b>61,450,461</b>
<b>24.3 Profit earned on Musharikah investment</b>		
Musharika investment	11,016,912	8,776,162
Less: Suspension	(5,271,618)	(6,526,973)
<b>Total Income from Musharikah investment</b>	<b>5,745,294</b>	<b>2,249,189</b>
	<b>831,529,473</b>	<b>912,645,163</b>
<b>25. Other income</b>		
<b>Income from financial assets</b>		
Profit on bank deposits	4,707,541	3,668,932
<b>Income from other than financial assets</b>		
Processing fee	12,481,997	35,601,555
Commission income	3,869,276	2,278,552
Miscellaneous income	1,143,987	8,961,008
	<b>17,495,260</b>	<b>46,841,115</b>
	<b>22,202,801</b>	<b>50,510,047</b>





	Note	2011 Rupees	2010 Rupees
<b>26. Operating expenses</b>			
Salaries, wages and other benefits	26.2	16,601,011	12,965,710
Depreciation on fixed assets - owned	5.2	3,600,838	2,614,828
Amortization of computer software	6.1	258,858	-
Travelling and conveyance		222,716	171,598
Legal and professional		2,000,934	1,809,542
Printing and stationery		954,544	846,939
Insurance		215,527	551,351
Brokerage and commission		112,000	-
Fee and subscription		600,312	517,314
Auditors' remuneration	26.3	568,000	567,437
Repair and maintenance		993,198	789,308
Vehicle running and maintainance		2,484,348	2,073,447
Power & utilitiles		1,415,315	1,184,636
Entertainment		378,650	403,277
Advertisement		126,780	112,000
Telephone and postage		903,217	669,187
Corporate Expenses		563,578	647,688
Staff training		4,000	53,289
Rent, rates and taxes		62,654	164,412
Security charges		302,518	221,000
Miscellaneous		239,224	115,492
		<b>32,608,222</b>	<b>26,478,455</b>

**26.1** Office space expenses are borne by Punjab Modaraba Services (Private) Limited (the management company).

**26.2** Salaries and other benefits include Rs. 1.201 (2010: Rs.1.247) on account of provident fund contribution.

	2011 Rupees	2010 Rupees
<b>26.3 Auditors' remuneration</b>		
Audit fee	500,000	500,000
Out of pocket expenses	68,000	67,437
	<b>568,000</b>	<b>567,437</b>

## 27. Finance cost

Profit on morabaha finances	23,954,721	40,502,246
Profit on musharikhah finances	137,619,068	140,375,832
Profit on redeemable capital	107,998,545	99,994,628
Bank and other charges	1,418,132	312,107
	<b>270,990,466</b>	<b>281,184,813</b>



		2011 Rupees	2010 Rupees
<b>28. (Loss)/earnings per certificate - basic and diluted</b>			
(Loss) / earnings for the year	<i>Rupees</i>	<b>(70,182,027)</b>	7,031,191
Weighted average number of ordinary certificates	<i>Numbers</i>	<b>34,020,000</b>	34,020,000
(Loss) / earnings per certificate	<i>Rupees</i>	<b>(2.06)</b>	0.21

**29. Future Ijara rentals receivables**

Aggregate amount of future Ijara rentals receivable on the basis of agreements executed upto June 30, 2011 are as follows:

		2011 Rupees	2010 Rupees
Upto one year		<b>607,166,190</b>	664,676,960
Above one year and upto five year		<b>777,297,647</b>	839,805,325
		<b>1,384,463,837</b>	1,504,482,285

**30. Transactions with related parties**

The related parties and associated undertakings comprise of 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:

		2011 Rupees	2010 Rupees
<b>30.1 Balance outstanding at the end of period</b>			
<b>30.1.1 The Bank of Punjab (Holding company of the Modaraba's Management Company)</b>			
Musharikhah finances		<b>878,487,255</b>	888,410,859
Profit payable on musharikhah finances		-	29,334,802
Net book value of the Ijara assets to employees		<b>10,227,581</b>	14,483,400
Ijara security deposits		<b>2,497,970</b>	4,808,470
Certificates of musharikhah		<b>300,000,000</b>	300,000,000
Profit payable on certificates of musharikhah		<b>3,688,767</b>	3,322,877
<b>30.1.2 BOP Employee Provident Fund</b>			
Certificates of musharikhah		<b>75,000,000</b>	75,000,000
Profit payable on certificates of musharikhah		<b>171,375</b>	3,723,836
<b>30.1.3 Punjab Modaraba Services (Pvt) Limited (Modaraba's Management company)</b>			
Due to management company		-	781,243



	2011 Rupees	2010 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	7,526,598	10,199,664
Profit charged on finances	137,619,068	134,327,703
Ijarah contracts entered during the period	-	5,710,200
Profit charged on certificates of musharikhah	41,671,918	40,235,754
<b>30.2.2 BOP Employee Provident Fund</b>		
Profit charged on certificates of musharikhah	10,425,000	24,970,942
<b>30.2.3 Punjab Modaraba Services (Pvt) Limited (Modaraba's Management company)</b>		
Management fee accrued	-	781,243

**31. Remuneration of officers and executives**

	2011		
	Officers	Other employees	Total
	Rupees	Rupees	Rupees
Remuneration	12,718,069	785,978	13,504,047
Medical allowance	790,607	37,818	828,425
Utility allowance	790,607	37,818	828,425
Provident Fund contribution	1,165,474	35,840	1,201,314
Expenses reimbursed	46,800	-	46,800
	<b>15,511,557</b>	<b>897,454</b>	<b>16,409,011</b>
Number of employees at the year end	<b>26</b>	<b>8</b>	<b>34</b>
	2010		
	Officers	Other employees	Total
	Rupees	Rupees	Rupees
Remuneration	10,226,753	683,755	10,910,508
Medical allowance	656,769	36,105	692,874
Utility allowance	656,769	36,105	692,874
Provident Fund contribution	471,324	13,404	484,728
Expenses reimbursed	54,000	-	54,000
	<b>12,065,615</b>	<b>769,369</b>	<b>12,834,984</b>
Number of employees at the year end	<b>23</b>	<b>4</b>	<b>27</b>



## 32. Financial instruments

The Company 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 represents the financial loss that would be recognized at the balance sheet date if counter party fail completely to perform as contracted / fail to discharge an obligation / commitment that it has entered into with the Modaraba. It arises principally from deposits and other receivables, bank balances, security deposits, mark up accrued and investments in morabaha and musharikhah. 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:

	2011 Rupees	2010 Rupees
Cash and bank balances	182,410,708	42,246,793
Musharikhah investment	91,327,577	45,175,248
Morabaha investment	677,414,151	686,742,763
Advances, deposits and other receivables	425,096,654	363,586,918
Long term deposits	656,944	165,060
	1,376,906,034	1,137,916,782

#### 32.1.1 Bank balances

The Company 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 Company's Ijarah are secured against Ijara assets. In a few Ijarah 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.

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

**32.1.3 Aging Analysis of Morabaha receivables**

<u>Past due</u>	2011			
	Carrying Amount	Amount on which no suspension recognised	Amount on which suspension recognised	Suspension recognised
	-----Rupees-----			
0 days	6,428,925	6,428,925	-	-
1 day - 89 days	5,263,173	5,263,173	-	-
90 days - 179 days	899,451	899,451	-	-
180 days - 364 days	3,200,549	3,200,549	-	-
1 year - less than 2 year	2,000,000	2,000,000	14,627,621	14,627,621
2 year - less than 3 year	-	-	14,742,264	14,742,264
3 year or more	-	-	8,485,343	8,485,343
<b>Total</b>	<b>17,792,098</b>	<b>17,792,098</b>	<b>37,855,228</b>	<b>37,855,228</b>

<u>Past due</u>	2010			
	Carrying Amount	Amount on which no suspension recognised	Amount on which suspension recognised	Suspension recognised
	-----Rupees-----			
0 days	8,456,317	8,456,317	-	-
1 day - 89 days	1,059,472	1,059,472	-	-
90 days - 179 days	1,587,847	1,587,847	3,021,951	3,021,951
180 days - 364 days	-	-	7,448,352	7,448,352
1 year - less than 2 year	1,226,866	1,226,866	14,742,264	14,742,264
2 year - less than 3 year	-	-	1,741,350	1,741,350
3 year or more	-	-	6,743,993	6,743,993
<b>Total</b>	<b>12,330,502</b>	<b>12,330,502</b>	<b>33,697,910</b>	<b>33,697,910</b>

Suspension is recognised 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**

<u>Past due</u>	2011			
	Carrying Amount	Amount on which no provision recognised	Amount on which provision recognised	Provision recognised
	-----Rupees-----			
0 days	208,234,367	208,234,367	-	-
1 day - 179 days	164,505,593	164,505,593	-	-
180 days - 364 days	82,285,714	12,000,000	72,000,000	1,714,286
1 year - less than 2 year	138,481,803	-	173,787,500	35,305,697
2 year - less than 3 year	9,174,232	-	39,712,500	30,538,268
3 year or more	74,732,442	22,151,685	285,617,663	233,036,906
<b>Total</b>	<b>677,414,151</b>	<b>406,891,645</b>	<b>571,117,663</b>	<b>300,595,157</b>



<u>Past due</u>	2010			
	Carrying Amount	Amount on which no provision recognised	Amount on which provision recognised	Provision recognised
	-----Rupees-----			
0 days	381,532,084	381,532,084	-	-
1 day -179 days	53,900,000	53,900,000	-	-
180 days- 364 days	155,609,923	-	158,787,500	3,177,577
1 year - less than 2 year	25,609,168	-	39,712,500	14,103,332
2 year - less than 3 year	7,015,500	-	13,000,000	5,984,500
3 year or more	63,076,088	-	293,675,848	230,599,760
<b>Total</b>	<b>686,742,763</b>	<b>435,432,084</b>	<b>505,175,848</b>	<b>253,865,169</b>

Provision is recognised 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 receivables

<u>Past due</u>	2011			
	Carrying Amount	Amount on which no suspension recognised	Amount on which suspension recognised	Suspension recognised
	-----Rupees-----			
0 days	14,083,531	14,083,531	-	-
1 day -179 days	58,599,189	58,599,189	-	-
180 days - 364 days	28,912,263	28,912,263	2,504,100	2,504,100
1 year - less than 2 year	80,713,258	80,713,258	30,473,036	30,473,036
2 year - less than 3 years	107,211,092	107,211,092	40,200,046	40,200,046
3 year or more	83,826,874	83,826,874	22,300,860	22,300,860
<b>Total</b>	<b>373,346,207</b>	<b>373,346,207</b>	<b>95,478,042</b>	<b>95,478,042</b>

<u>Past due</u>	2010			
	Carrying Amount	Amount on which no suspension recognised	Amount on which suspension recognised	Suspension recognised
	-----Rupees-----			
0 days	10,969,085	10,969,085	-	-
1 day -179 days	82,668,908	82,668,908	-	-
180 days - 364 days	46,541,661	46,541,661	14,629,479	14,629,479
1 year - less than 2 year	93,366,295	93,366,295	47,775,449	47,775,449
2 year - less than 3 years	75,184,162	75,184,162	21,927,446	21,927,446
3 year or more	-	-	-	-
<b>Total</b>	<b>308,730,111</b>	<b>308,730,111</b>	<b>84,332,374</b>	<b>84,332,374</b>

Suspension is recognised 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 receivables**

<u>Past due</u>	2011			
	Carrying Amount	Amount on which no suspension recognised	Amount on which suspension recognised	Suspension recognised
	-----Rupees-----			
0 days	783,482	783,482	-	-
1 day -179 days	1,172,473	1,172,473	-	-
180 days - 364 days	-	-	282,332	282,332
1 year - less than 2 year	-	-	196,236	196,236
2 year - less than 3 year	-	-	11,320,023	11,320,023
	<b>1,955,955</b>	<b>1,955,955</b>	<b>11,798,591</b>	<b>11,798,591</b>

<u>Past due</u>	2010			
	Carrying Amount	Amount on which no suspension recognised	Amount on which suspension recognised	Suspension recognised
	-----Rupees-----			
0 days	38,305	38,305	-	-
1 day -179 days	245,399	245,399	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	6,526,973	6,526,973
	<b>283,704</b>	<b>283,704</b>	<b>6,526,973</b>	<b>6,526,973</b>

Suspension is recognised 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**

<u>Past due</u>	2011			
	Carrying Amount	Amount on which no provision recognised	Amount on which provision recognised	Provision recognised
	-----Rupees-----			
0 days	57,732,773	57,732,773	-	-
1 day -364 days	3,449,700	3,449,700	-	-
1 year - less than 2 year	1,039,854	-	1,299,818	259,964
2 year - less than 3 year	29,105,250	-	36,000,000	6,894,750
<b>Total</b>	<b>91,327,577</b>	<b>61,182,473</b>	<b>37,299,818</b>	<b>7,154,714</b>

<u>Past due</u>	2010			
	Carrying Amount	Amount on which no provision recognised	Amount on which provision recognised	Provision recognised
	-----Rupees-----			
0 days	10,595,336	10,595,336	-	-
1 day -364 days	1,197,112	1,197,112	-	-
1 year - less than 2 year	33,382,800	-	36,000,000	2,617,200
<b>Total</b>	<b>45,175,248</b>	<b>11,792,448</b>	<b>36,000,000</b>	<b>2,617,200</b>

Provision is recognised by the Modaraba on the basis of provision requirements given under Prudential Regulations for Modaraba 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 risks with individuals, groups or specific industry segments. For this purpose, the Modaraba has established exposure limits for individuals and industrial sectors.

Break down of credit risk exposure by class of business as at 30 June 2011 is as follows:

	Ijarah Asset Rupees	Morabaha investment Rupees	Musharikhah investment Rupees	Total Rupees	% age
Banks and NBFIs	11,236,035	-	-	11,236,035	0.57
Textiles spinning and composite	191,937,226	92,437,399	-	284,374,625	14.54
Sugar and allied	328,560,350	-	-	328,560,350	16.80
Electric goods	-	69,346,250	-	69,346,250	3.55
Chemicals and Pharmaceuticals	27,448,388	152,861,591	-	180,309,979	9.22
Paper and board	27,204,011	26,256,742	-	53,460,753	2.73
Food and allied	51,090,796	29,595,000	57,335,927	138,021,723	7.06
Individuals	75,849,685	42,869,061	1,636,629	120,355,375	6.15
Jute	-	-	29,105,272	29,105,272	1.49
Oil and Gas	28,841,942	7,700,000	-	36,541,942	1.87
Miscellaneous	164,371,854	121,525,146	3,249,749	289,146,749	14.78
Aviation and transport	14,775,497	-	-	14,775,497	0.76
Engineering, Steel and Construction	250,047,282	134,822,962	-	384,870,244	19.68
Cement	15,967,510	-	-	15,967,510	0.82
	<b>1,187,330,576</b>	<b>677,414,151</b>	<b>91,327,577</b>	<b>1,956,072,304</b>	<b>100</b>

Break down of credit risk exposure by class of business as at 30 June 2010 is as follows:

	Asset leased out Rupees	Morabaha finance Rupees	Musharikhah finance Rupees	2010 Total Rupees	% age
Banks and NBFIs	21,978,961	-	-	21,978,961	1.01
Textiles spinning and composite	285,040,280	138,838,385	4,853,830	428,732,495	19.67
Sugar and allied	312,017,648	14,000,000	-	326,017,648	14.96
Electric goods	106,856,516	204,399,998	-	311,256,514	14.28
Chemicals and Pharmaceuticals	54,242,902	158,148,019	-	212,390,921	9.74
Paper and board	55,251,150	25,700,684	-	80,951,834	3.71
Food and allied	51,302,180	24,812,348	-	76,114,528	3.49
Individuals	30,799,125	-	2,553,558	33,352,683	1.53
Jute	-	-	34,453,017	34,453,017	1.58
Oil and Gas	41,600,437	16,628,827	-	58,229,264	2.67
Miscellaneous	255,066,437	36,714,502	3,314,843	295,095,782	13.54
Aviation and transport	2,868,651	-	-	2,868,651	0.13
Engineering	227,516,038	67,500,000	-	295,016,038	13.53
Cement	3,275,926	-	-	3,275,926	0.15
	<b>1,447,816,251</b>	<b>686,742,763</b>	<b>45,175,248</b>	<b>2,179,734,262</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:

	2011					
	Carrying Amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years
	-----Rupees-----					
<b>Financial liabilities</b>						
Redeemable capital	1,046,761,760	1,113,661,421	805,022,031	300,508,716	8,130,674	-
Morabaha finance	38,810,222	43,540,821	16,081,627	15,113,069	12,346,125	-
Security deposits	260,742,973	260,742,973	58,501,000	84,120,788	52,598,446	65,522,739
Musharikhah finance	-	1,054,333,931	-	1,054,333,931	-	-
Deferred morabaha income	6,810,367	6,810,367	6,810,367	-	-	-
Unclaimed profit distribution	12,329,312	12,329,312	12,329,312	-	-	-
Trade and other payable	60,035,721	60,010,657	60,010,657	-	-	-
Markup payable	27,930,643	27,930,643	27,930,643	-	-	-
	<b>1,453,420,998</b>	<b>2,579,360,125</b>	<b>986,685,637</b>	<b>1,454,076,504</b>	<b>73,075,245</b>	<b>65,522,739</b>
<b>-----Rupees-----</b>						
2010						
	Carrying Amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years
<b>-----Rupees-----</b>						
<b>Financial liabilities</b>						
Redeemable capital	693,688,404	784,839,060	386,992,716	304,946,759	92,899,585	-
Morabaha finance	262,000,000	296,516,800	296,516,800	-	-	-
Security deposits against lease	291,573,542	291,573,542	51,424,640	28,064,236	114,164,286	97,920,380
Musharikhah finance	885,035,859	1,006,993,800	-	1,006,993,800	-	-
Deferred morabaha income	19,238,582	19,238,582	19,238,582	-	-	-
Unclaimed profit distribution	12,032,753	12,032,753	12,032,753	-	-	-
Trade and other payable	56,997,142	56,997,142	56,997,142	-	-	-
Markup payable	55,439,069	55,439,069	55,439,069	-	-	-
	<b>2,276,005,351</b>	<b>2,523,630,748</b>	<b>878,641,702</b>	<b>1,340,004,795</b>	<b>207,063,871</b>	<b>97,920,380</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 15, 16, 17, 19 and 20 to these financial statements.

### 32.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will effect the modaraba's income on the value of its holdings of its financial instruments. The Modaraba has adopted appropriate policies to minimise 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:

	<b>2011</b>	2010	<b>2011</b>	2010
	<b>Effective interest rate (Percentage)</b>		<b>Carrying amount (Rupees)</b>	
<b>Financial assets</b>				
Musharikhah investment	<b>14.37 - 20.07</b>	14.41 - 20.07	<b>91,327,577</b>	45,175,248
Morabaha investment	<b>15.23 - 18.78</b>	16.10 - 19.69	<b>677,414,151</b>	686,742,763
Cash and bank balances	<b>5.00 - 13.00</b>	5.00 - 13.00	<b>182,410,708</b>	42,246,793
			<b>951,152,436</b>	774,164,804
<b>Financial liabilities</b>				
redeemable Capital	<b>11.20 - 15.50</b>	11.20 - 16.00	<b>1,046,761,760</b>	693,688,404
Morabaha finances	<b>12.28 - 14.35</b>	12.65 - 19.68	<b>38,810,222</b>	262,000,000
Musharikhah finances	<b>14.09 - 15.28</b>	13.29 - 15.50	<b>878,487,257</b>	885,035,859
Deferred morabaha income	<b>15.23 - 18.78</b>	16.10 - 19.69	<b>6,810,367</b>	19,238,582
Markup payable	<b>11.20 - 15.50</b>	11.20 - 16.00	<b>27,930,643</b>	55,439,069
			<b>1,964,059,239</b>	1,840,724,263

### 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, in particular foreign currency rates, remain constant. The analysis is performed on the basis for 2011.

	<b>Profit and loss 100 bps</b>	
	<b>Increase</b>	<b>Decrease</b>
<b>As at 30 June 2011</b>		
Cash flow sensitivity-Variable rate financial assets	<b>16,194,995</b>	<b>(16,422,781)</b>
Cash flow sensitivity-Variable rate financial liabilities	<b>(19,463,033)</b>	<b>19,343,033</b>
Net effect	<b>(3,268,038)</b>	<b>2,920,252</b>
<b>As at 30 June 2010</b>		
Cash flow sensitivity-Variable rate financial assets	17,444,995	(17,572,781)
Cash flow sensitivity-Variable rate financial liabilities	(20,263,033)	20,151,853
Net effect	(2,818,038)	2,579,072

The sensitivity analysis prepared is not necessarily indicative of the effects on profit for the year and assets / liabilities of the Modaraba.

### 32.2.2 Currency risk

As at 30 June 2011 there is no foreign exchange exposure on Morabaha'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 behaviour. 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 other financial assets and financial liabilities reported in balance sheet approximate their fair values. The Group 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

Investment in ordinary shares of listed companies is valued using quoted prices in active market, hence, fair value of such investments fall within Level 1 in fair value hierarchy as mentioned above.

### 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.



	2011 Rupees	2010 Rupees
<b>33. Cash generated from operations</b>		
(Loss) / profit before taxation	<b>(70,182,027)</b>	7,031,191
Adjustment for non cash expenses and other items:		
Provision for morabaha investment	<b>46,729,988</b>	11,837,043
Provision for musharikhah investment	<b>4,537,514</b>	2,617,200
(Reversal) / provision for impairment of assets	<b>28,159,752</b>	10,954,473
Other provisions	<b>8,014,395</b>	3,101,011
Depreciation of Ijarah assets	<b>531,448,540</b>	646,280,559
Depreciation on owned assets	<b>3,859,696</b>	2,614,828
Finance cost on redeemable capital	<b>109,416,677</b>	100,134,963
Profit on morabaha/musharikhah finances	<b>161,573,789</b>	180,878,078
(Loss) / Gain on disposal of assets under Ijarah arrangements	<b>1,789,261</b>	(8,100,148)
Gain on sale of investment	-	(19,023,290)
Gain / (loss) on disposal of fixed assets in own use	<b>(363,836)</b>	12,661
Other Expenses	<b>1,504,238</b>	-
Operating profit before working capital changes	<b>826,487,987</b>	938,338,569
<b>Working capital changes</b>		
<b>Decrease / (Increase) in current assets</b>		
Morabaha investment	<b>(52,529,591)</b>	226,560,688
Purchase of assets under Ijarah arrangements	<b>(440,131,818)</b>	(515,852,234)
Proceeds from disposal of assets under Ijarah arrangement	<b>138,760,753</b>	52,085,696
Long term deposits	<b>(491,884)</b>	(33,500)
Proceeds against banking claim	<b>16,200,000</b>	-
Advances, deposits, prepayments and other receivables	<b>(69,631,798)</b>	(109,848,409)
	<b>(407,824,338)</b>	(347,087,759)
<b>(Decrease) / Increase in current liabilities</b>		
Trade and other payables	<b>3,305,359</b>	29,059,842
Security deposit received against Ijarah arrangements	<b>31,764,055</b>	33,155,826
Security deposit refunded against Ijarah arrangements	<b>(65,064,229)</b>	(21,566,592)
	<b>(29,994,815)</b>	40,649,076
<b>Net changes in operating assets and liabilities</b>	<b>(437,819,153)</b>	(306,438,683)
<b>Cash generated from operations</b>	<b>388,668,834</b>	631,899,886



### 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.

Judgments made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below:

#### 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 income of non-trading modarabas is exempt from tax provided that not less than 90% of their profits are distributed to the certificate-holders.

However, due to loss for the year, no provision for taxation has been made in these financial statements.

#### 34.3 Change in accounting estimate

During the period the Modaraba reviewed the useful life of some of the operating assets and estimated that it is lower than the existing estimate, consequently depreciation rates of building, office equipment, computers and furniture and fixture were increased from 5% to 10%, 10% to 15%, 10% to 30 and 10% to 15% per annum respectively. This change has been accounted for as change in accounting estimate according to the requirement of IAS-8 "Accounting Policies, Change in Accounting Estimate and Errors". The effect of change has been recognized in the financial statements prospectively.

Had there been no change in accounting estimate, the loss before tax for the year would be lower by Rs. 400,867 and the written down value of these operating assets would have been higher due to the use of lower rate of depreciation.

### 35. Date of authorization for issue

The financial statements of Modaraba were approved by the directors of Modaraba Management Company and authorized for issue on December 23, 2011.

### 36. General

- Figures have been rounded off to the nearest rupee.
- Figures have been rearranged and reclassified where necessary for better presentation.

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

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

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