



Annual Report
2011



First National Bank Modaraba

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

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CORPORATE INFORMATION

| | | |
|---|--|---|
| Board of Directors | Mr. Shahid Anwar Khan Mr. Wajahat A. Baqai Mr. Khawaja Waheed Raza Syed Mustafa Kamal Mr. Jamal Nasim Mr. Javaid Sadiq | Chairman Director Director Director Director Chief Executive Officer |
| Chief Financial Officer/ Company Secretary | Mr. Abbas Azam | |
| Audit Committee | Mr. Wajahat A. Baqai Mr. Khawaja Waheed Raza Mr Jamal Nasim | Chairman Member Member |
| Auditors | Horwath Hussain Chaudhury & Co. (A member firm of Crowe Horwath International) | |
| Bankers | National Bank of Pakistan Standard Chartered Bank Bank Alfalah Limited Al Baraka Islamic Bank Habib Bank Limited Allied Bank Limited MCB Bank Limited First Women Bank Limited Bank Islami Pakistan Limited | |
| Legal Advisor | Cornelius Lane & Mufti Advocates and Solicitors Nawa-i-Waqt House 4 – Shahrah-e-Fatima Jinnah, Lahore Tel.: 36360824, Fax: 36303301 | |
| Shares Registrar | Hameed Majeed Associates (Pvt.) Limited H. M. House, 7 – Bank Square, Lahore Tel: 37235081-2, Fax: 37358817 | |
| Registered Office | 5 th Floor, NBP RHQs Building, 26 – McLagon Road, Lahore Tel: 042-99211200, Fax: 042-99213247 URL: http://www.nbmodaraba.com E-mail: info@nbmodaraba.com | |

VISION

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

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

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

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

MISSION

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

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

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

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NOTICE OF 8TH ANNUAL REVIEW MEETING & BOOK CLOSURE

Notice is hereby given that the 8th Annual Review Meeting of certificate holders of First National Bank Modaraba will be held on Monday, October 31, 2011 at 11:00 a.m. at 4th Floor, NBP RHOs Building, 26 – McLagon Road, Lahore to review the performance of the Modaraba for the year ended June 30, 2011.

The Board of Directors has declared final dividend of 10% for the year ended June 30, 2011.

The Certificate Transfer Book will remain closed from October 24, 2011 to October 31, 2011 (both days inclusive) for the purpose of entitlement to dividend and eligibility to attend the Annual Review Meeting. All transfers received in order, up to the close of business on October 22, 2011 at our Registrar's Office, Hameed Majeed Associates (Pvt.) Limited, H.M House, 7 – Bank Square, Lahore will be considered in time.

The certificate holders whose names appear on the Register of Certificate Holders of First National Bank Modaraba at the close of business as on October 22, 2011 will be eligible to receive dividend and attend the Annual Review Meeting.

By order of the Board

Abbas Azam
Company Secretary
National Bank Modaraba Management Company Limited
Managers of First National Bank Modaraba
Lahore: September 28, 2011

FIRST NATIONAL BANK MODARABA

DIRECTORS' REPORT

Board of Directors of National Bank Modaraba Management Company Limited (NBMMCL), the management Company of First National Bank Modaraba (FNBM), is pleased to present the directors report on the 8th annual accounts of FNBM for the period ended June 30, 2011. These accounts have been audited by the statutory auditors of the Modaraba and are accompanied by their audit report.

1. Financial Results:

(Amounts in Rupees)

| | Year Ended June 30, 2011 | Year Ended June 30, 2010 | Year Ended June 30, 2009 | Year Ended June 30, 2008 | Year Ended June 30, 2007 | Year Ended June 30, 2006 |
|-----------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Balance Sheet Size | 2,167,572,691 | 1,761,257,802 | 2,410,441,957 | 2,778,974,825 | 2,201,495,813 | 2,074,594,990 |
| Total Equity | 337,139,427 | 331,881,894 | 288,483,487 | 306,473,205 | 313,090,449 | 295,362,450 |
| Total Operating & Other Income | 473,557,528 | 370,063,518 | 352,479,348 | 227,964,068 | 222,132,561 | 154,361,692 |
| Operating & Financial Exp. | 439,557,963 | 340,914,240 | 340,507,125 | 192,672,077 | 176,003,033 | 120,541,403 |
| Profit for the period | 33,999,565 | 29,149,278 | 11,972,223 | 35,291,991 | 46,129,528 | 33,820,289 |
| Modaraba Co.'s Management Fee | 3,399,957 | 2,914,927 | 1,197,222 | 3,529,199 | 4,612,953 | 3,382,029 |
| Net profit after tax | 30,599,608 | 26,234,350 | 10,775,001 | 31,762,792 | 41,516,575 | 30,438,260 |
| Earning per certificate | 1.22 | 1.05 | 0.43 | 1.27 | 1.66 | 1.22 |
| Return on Assets (%) | 1.42 | 1.48 | 0.45 | 1.14 | 1.89 | 1.47 |
| Return on Equity (%) | 9.02 | 7.9 | 3.74 | 10.36 | 13.26 | 10.31 |
| Dividend Paid (%) | 10 | 10 | - | 10 | 12 | 10 |
| Breakup value per certificate | 13.48 | 13.27 | 11.54 | 12.26 | 12.52 | 11.81 |

1. Sector Outlook:

Financial year 2010-11 was marked by acute power shortage, high energy prices, and excessive inflation. This state of affairs hampered the manufacturing and trading activities in the Country. The law and order situation in frontier and other parts of the Country remained a source of extreme anxiety and uncertainty. During the year the economy got stalled by the most heinous floods in the history of our Country. Many lost their lives and millions rendered homeless. Massive efforts and resources were needed for the rehabilitation of the effected people.

Financial sector in Pakistan though has shown signs of stabilization during the year; however it is still deeply haunted by the prevailing uncertainty and slowdown of activity in the real sector. Modaraba sector being a small part of the financial sector of Pakistan was directly affected by the above. Modarabas are competing with Islamic banks and Islamic banking divisions of conventional banks for a share in the Islamic financial market. Since the share of Islamic financing is growing in the overall financial sector, there is a room for modarabas to grow; provided, however, that they improve their Islamic-image on one hand and do innovation in the products being offered.

Review of Operations:

During the period under review the economy remained under pressure overall. Despite faced with adverse implications on account of above, FNBM adopted an active yet cautious marketing approach. Consequently, the size of balance sheet increased by 23% as compared to the last year. The major product of the Modaraba is Ijarah finance and by the end of current year, FNBM's made new ijarah investment to the tune of Rs.652 Millions. FNBM's Morabaha investments also increased by 17 % from Rs. 717 million as on June 30, 2010 to Rs.837 million at the end of current year. The total income of the Modaraba increased by 28% from Rs.370 Million in the last year to Rs.473 Million in the current year. Net profit increased by 16 % from Rs.26.23 Million to Rs. 30.60 Millions. Increase in net profit of the Modaraba is mainly because of increase in business, slight increase in spreads, and improved operational efficiency.

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

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

1. Profit Distribution:

Board in its meeting held on September 28, 2011 has declared Re. 1 per certificate (10%) as final dividends for the year ended June 30, 2011 to its certificate holders.

2. Entity Rating:

JCR-VIS Credit Rating Company in their report issued in July 2011 has reaffirmed long term entity rating at A+ (A plus) and short term entity rating to A-1 (A one) with a "Stable" outlook.

3. Future Outlook:

Financial sector in Pakistan has been badly hit due to increase in delayed recoveries, lack of further opportunities for profitable investments in the real sector. The challenge before FNBM is to maintain the business size and quality of its asset portfolio. FNBM plans to overcome these challenges by exploring new market opportunities to increase its market share and focusing on such market segments which have the capacity and financial strength to pay good returns at an acceptable risk.

4. Corporate and Financial Reporting Framework:

- The financial statements, prepared by the management of the Modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Modaraba have been maintained.
- Accounting policies have been applied consistently in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, International accounting standards, and Islamic Financial Accounting Standards as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements.

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- The system of internal control, which is sound in design is in place and is being continuously reviewed by internal audit. The process of review will continue and any weakness in controls will be removed.
- Board is satisfied with the Modaraba's ability to continue as going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- There are no statutory payments on account of taxes, duties, levies and charges, which are outstanding as on June 30, 2011 except those disclosed in the financial statements.
- During the year ended June 30, 2011 four (04) meetings of the Board of Directors were held. Attendance by each directors is as follows:

| Names of Directors: | No of Attendance |
|----------------------------|------------------|
| i. Mr. Qamar Hussain | 2 |
| ii. Mr. Shahid Anwar Khan | 1 |
| iii. Dr. Asif A. Brohi | 1 |
| iv. Mr. Wajahat A. Baqai | 4 |
| v. Mr. Khawaja Waheed Raza | 4 |
| vi. Syed Mustafa Kamal | 3 |
| vii. Mr. Jamal Nasim | 2 |
| viii. Mr. Javaid Sadiq | 4 |

During the year Mr. Qamar Hussain and Dr. Asif A. Brohi resigned and Mrs. Naiyer Muzafar Husain and Mr. Jamal Nasim were appointed in their place. Mrs. Naiyer Muzafar Hussain also resigned after the year end and the appointment of new director in her place is in process.

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

The pattern of certificate holders is annexed.

1. Auditors:

The present auditors Messrs Horwath Hussain Chaudhry, Chartered Accountants, being due for retirement, have offered themselves for re-appointment for the year ending June 30, 2012. Their appointment has been confirmed by the Board, subject to approval by the Registrar, Modaraba Companies and Modarabas,

2. Acknowledgement:

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

Special thanks to our certificate holders for the trust and confidence reposed in us and the Modaraba's staff for their commitment and dedicated services.

For and on Behalf of the Board

Javaid Sadiq
Chief Executive Officer

STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2011

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

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

1. The Board presently comprises of seven directors including Chief Executive Officer. Only two directors are employees of NBP (the holding company of National Bank Modaraba Management Company Ltd) and the remaining are all independent. All directors, except for Chief Executive Officer, are non-executive.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. All the resident directors of the company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFC or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. All casual vacancies are filled up by the Board of Directors after getting the approval of Registrar of Modaraba Companies and Modarabas.
5. The Modaraba has prepared a Statement of Ethics and Business Practices', which has been signed by all directors and employees of the Modaraba.
6. The Board has developed a vision/ mission statement, overall corporate strategy and significant policies of the Modaraba along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken on the Board. The terms of appointment and remuneration package of the CEO and executive directors are approved by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working paper were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors are fully aware of the relevant laws applicable to the Modaraba, its policies and procedures and provisions of the Memorandum and Articles of Association to manage the affairs of the Modaraba on behalf of the certificate holders. Further all directors have relevant experience and knowledge to manage the affairs of the Modaraba.

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

Javaid Sadiq
Chief Executive Officer

**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 for the year ended June 30, 2011 prepared by the Board of Directors of National Bank Modaraba Management Company Limited (the Management Company) in respect of First National Bank Modaraba (the Modaraba) to comply with the Listing Regulations of the Stock Exchanges in Pakistan where the Modaraba is listed.

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

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

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

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

Lahore
Dated: September 28, 2011

HORWATH HUSSAIN CHAUDHURY & CO.
Chartered Accountants
(Engagement Partner: Muhammad Nasir Muneer)

FIRST NATIONAL BANK MODARABA

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

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

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

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

- a) in our opinion, proper books of accounts have been kept by the Modaraba Company in respect of the Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981;
- b) in our opinion;
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of accounts and are further in accordance with the accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
 - (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at June 30, 2011 and of the profit, comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

LAHORE
Dated : September 28, 2011

HORWATH HUSSAIN CHAUDHURY & CO.
Chartered Accountants
(Engagement Partner: Muhammad Nasir Muneer)

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BALANCE SHEET AS AT JUNE 30, 2011

| | | 2011 Rupees | 2010 Rupees |
|---|----|----------------------|----------------------|
| ASSETS | | | |
| Current Assets | | | |
| Bank balances | 6 | 8,140,110 | 5,019,214 |
| Ijarah rentals receivable - Secured and considered good | | 41,042,491 | 16,058,922 |
| Advances, prepayments and other receivables | 7 | 174,201,991 | 68,934,002 |
| Accrued profit | 8 | 26,048,514 | 17,921,146 |
| Short term investments | 9 | 1,825,507 | 1,856,657 |
| Short term murabaha investments | 10 | 747,751,646 | 595,584,052 |
| Short term musharakah investment | 11 | 100,000,000 | 2,500,000 |
| Current portion of non-current assets | 12 | 164,760,304 | 316,255,858 |
| | | 1,263,770,563 | 1,024,129,851 |
| Non-Current Assets | | | |
| Net investment in ijarah | 13 | 124,213,765 | 254,672,831 |
| Long term murabaha investments | 14 | 49,862,728 | 55,271,791 |
| Long term sukuk certificate | 15 | 941,801 | 4,941,801 |
| Long term loans and deposits | 16 | 1,526,640 | 1,211,401 |
| Fixed assets under ijarah arrangements | 17 | 725,840,696 | 418,921,835 |
| Fixed assets under own use | 18 | 1,416,498 | 2,016,200 |
| Intangible assets | 19 | - | 92,092 |
| | | 903,802,128 | 737,127,951 |
| Total Assets | | 2,167,572,691 | 1,761,257,802 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Creditors, accrued and other liabilities | 20 | 53,757,648 | 24,879,005 |
| Accrued profit payable | | 30,689,323 | 22,228,812 |
| Short term finances | 21 | 665,022,113 | 466,728,456 |
| Short term certificates of musharakah | 22 | 120,790,290 | 80,475,882 |
| Current portion of non-current liabilities | 23 | 439,908,691 | 559,343,948 |
| | | 1,310,168,065 | 1,153,656,103 |
| Non-Current Liabilities | | | |
| Long term security deposits | 24 | 127,635,813 | 92,956,759 |
| Long term certificates of musharakah | 25 | 78,600,000 | - |
| Long term finances | 26 | 312,499,991 | 174,999,995 |
| Deferred murabaha income | 27 | 1,529,395 | 8,105,126 |
| | | 520,265,199 | 276,061,880 |
| Total Liabilities | | 1,830,433,264 | 1,429,717,983 |
| NET ASSETS | | 337,139,427 | 331,539,819 |
| REPRESENTED BY: | | | |
| Certificate capital | 28 | 250,000,000 | 250,000,000 |
| Reserves | 29 | 87,139,427 | 81,539,819 |
| Contingencies and commitments | 30 | - | - |
| | | 337,139,427 | 331,539,819 |

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

CHIEF EXECUTIVE OFFICER

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

Lahore: September 28, 2011

FIRST NATIONAL BANK MODARABA

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2011

| | | 2011 | 2010 |
|--|------|---|----------------------------------|
| | Note | Rupees | Rupees |
| INCOME | | | |
| Income from ijarah | | 359,029,514 | 239,731,340 |
| Profit on murabaha investment | | 105,782,952 | 116,967,147 |
| Profit on musharakah investment and sukuk certificates | | 915,979 | 6,417,699 |
| Profit on bank deposits | | 626,582 | 451,239 |
| Income from short term investments - net | 31 | 186,088 | 1,397,775 |
| Other income | 32 | <u>7,016,413</u> | <u>5,098,318</u> |
| | | 473,557,528 | 370,063,518 |
| EXPENSES | | | |
| Operating expenses | 33 | <u>(15,695,281)</u> | <u>(16,895,109)</u> |
| Depreciation on assets under ijarah | | (235,561,653) | (110,418,415) |
| Finance cost | 34 | <u>(175,878,029)</u> | <u>(195,198,797)</u> |
| Other operating expenses | 35 | <u>(12,423,000)</u> | <u>(18,401,919)</u> |
| | | <u>(439,557,963)</u> | <u>(340,914,240)</u> |
| Modaraba Company's management fee | 36 | <u>33,999,565</u> <u>(3,399,957)</u> | 29,149,278 <u>(2,914,928)</u> |
| Profit for the Year | | <u>30,599,608</u> | <u>26,234,350</u> |
| Earnings per Modaraba Certificate - Basic and Diluted | 37 | <u>1.22</u> | <u>1.05</u> |

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

CHIEF EXECUTIVE OFFICER
Lahore: September 28, 2011

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

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STATEMENT OF COMPREHENSIVE INCOME AS THE YEAR ENDED JUNE 30, 2011

| | 2011 | 2010 |
|--|-------------------|-------------------|
| | Rupees | Rupees |
| Profit for the Year | 30,599,608 | 26,234,350 |
| Other comprehensive income | | |
| Net unrealized gain in value of available for sale investments | - | 16,821,982 |
| Total Comprehensive Income for the Year | <u>30,599,608</u> | <u>43,056,332</u> |

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

CHIEF EXECUTIVE OFFICER
Lahore: September 28, 2011

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

FIRST NATIONAL BANK MODARABA

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2011

| | 2011 RUPEES | 2010 RUPEES |
|---|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit for the Year | 30,599,608 | 26,234,350 |
| Adjustment for: | | |
| Depreciation / amortization | 236,253,447 | 111,280,075 |
| Impairment on available for sale investments | - | 11,558,176 |
| Allowance for potential losses in ijarah and short term murabaha certificates | 12,000,000 | 6,420,743 |
| Diminution / (Appreciation) in value of investments | 31,150 | (302,958) |
| Gain on sale of shares | - | (633,902) |
| Gain on disposal of vehicle | - | (620,000) |
| Gain on termination of ijarah arrangements | (249,535) | (450,684) |
| Finance cost | 175,878,029 | 195,198,797 |
| Profit on bank deposits | (626,582) | (451,239) |
| Dividend income | (217,238) | (460,915) |
| | 423,069,271 | 321,538,093 |
| Operating profit before working capital changes (Increase)/ Decrease in operating assets | 453,668,879 | 347,772,443 |
| Advances, prepayments and other receivables | (105,290,598) | 23,710,796 |
| Ijarah rentals receivable | (24,983,569) | (6,084,387) |
| Accrued profit | (8,127,368) | 2,203,787 |
| Short term murabaha investments | (154,043,341) | 126,950,149 |
| Short term musharakah investment | (97,500,000) | 22,500,000 |
| Investment in ijarah | 255,002,468 | 479,966,235 |
| Long term security deposits - ijarah | 36,002,570 | (59,267,591) |
| Long term murabaha investment | 19,833,332 | 106,333,334 |
| Long term sukuk certificate | 4,000,000 | 4,000,000 |
| Increase/ (Decrease) in operating liabilities | | |
| Creditors, accrued and other liabilities | 28,582,683 | (10,386,716) |
| Net changes in working capital | (46,523,823) | 689,925,607 |
| Cash generated from operations | 407,145,056 | 1,037,698,050 |
| Finance cost paid | (167,417,518) | (205,199,661) |
| Income taxes paid | (7,391) | (31,114) |
| Dividend income received | 247,238 | 593,415 |
| Profit received on bank deposits | 626,582 | 451,239 |
| Net Cash from Operating Activities | 240,593,967 | 833,511,929 |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Purchase of fixed assets under ijarah arrangements | (547,397,060) | (323,318,725) |
| Proceeds from disposal of fixed assets under own use | - | 620,000 |
| Proceeds from disposal of ijarah assets | 5,166,081 | 2,975,262 |
| Proceeds from sale of short term investments | - | 26,048,860 |
| Long term loans and deposits | (246,112) | (306,639) |
| Net Cash Used in Investing Activities | (542,477,091) | (293,981,242) |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Long term finances - net | 132,499,995 | (312,500,009) |
| Short term finances | 198,293,657 | (260,241,204) |
| Short term certificates of musharakah | 40,314,408 | 26,650,882 |
| Long term certificates of musharakah | (41,400,000) | (2,300,000) |
| Dividends paid | (24,704,040) | - |
| Net Cash from / (Used in) Financing Activities | 305,004,020 | (548,390,331) |
| Net Increase / (Decrease) in Cash and Cash Equivalents | 3,120,896 | (8,859,644) |
| Cash and cash equivalents at the beginning of the year | 5,019,214 | 13,878,858 |
| Cash and Cash Equivalents at the End of the Year | 8,140,110 | 5,019,214 |

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

CHIEF EXECUTIVE OFFICER

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

Lahore: September 28, 2011

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2011

| Particulars | Certificate Capital | Reserves | | | | Total Equity |
|--|------------------------|----------------------|--|--------------------------|--------------|--------------|
| | | Statutory reserve | Unrealized gain / (loss) on investment | Unappropriated profit | Total | |
| | | Rupees | | | | |
| Balance as at June 30, 2009 | 250,000,000 | 27,061,093 | (16,821,982) | 28,244,376 | 38,483,487 | 288,483,487 |
| Total comprehensive income for the year ended June 30, 2010 | - | - | 16,821,982 | 26,234,350 | 43,056,332 | 43,056,332 |
| Transfer to statutory reserve | - | 5,246,870 | - | (5,246,870) | - | - |
| Balance as at June 30, 2010 | 250,000,000 | 32,307,963 | - | 49,231,856 | 81,539,819 | 331,539,819 |
| Total comprehensive income for the year ended June 30, 2011 | - | - | - | 30,599,608 | 30,599,608 | 30,599,608 |
| Transfer to statutory reserve | - | 6,119,922 | - | (6,119,922) | - | - |
| Profit distributed for the year ended June 30, 2010 | - | - | - | (25,000,000) | (25,000,000) | (25,000,000) |
| Balance as at June 30, 2011 | 250,000,000 | 38,427,885 | - | 48,711,542 | 87,139,427 | 337,139,427 |

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

CHIEF EXECUTIVE OFFICER
Lahore: September 28, 2011

DIRECTOR

DIRECTOR

CHIEF FINANCIAL OFFICER

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Note 1 Legal Status and Nature of Business

First National Bank Modaraba ("the Modaraba") is a multi-purpose, perpetual and multi-dimensional Modaraba formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Rules framed thereunder. The Modaraba is managed by National Bank Modaraba Management Company Limited (a wholly owned subsidiary of National Bank of Pakistan), incorporated in Pakistan under the Companies Ordinance, 1984 and registered with the Registrar of Modaraba Companies. The registered office of the Modaraba is situated at 5th Floor, National Bank of Pakistan, Regional Headquarters Building, 26-Mc Lagon Road, Lahore.

The Modaraba is listed on Karachi and Lahore stock exchanges. It commenced its operations on December 04, 2003 and is currently engaged in various Islamic modes of financing and operations including ijarah, musharakah and murabaha arrangements.

Note 2 Basis of Preparation

2.1 Statement of compliance

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

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention except for the measurement of certain financial instruments at fair value in accordance with the requirements of IAS-39 (Financial Instruments: Recognition and Measurement) and IFAS-1 (Murabaha).

2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees which is Modaraba's functional and presentation currency. All financial information presented in Pak Rupees has been rounded off to the nearest Rupee unless otherwise stated.

Note 3 Use of Estimates and Judgments

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

Note 3, Use of Estimates and Judgments - Continued...

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

Judgments made by the 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 as under:

Fixed assets

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

Short term investments

The Modaraba has recorded its short term investments by using quotations from active market. This estimates is subjective in nature and therefore, cannot be determined with precision.

Ijarah rentals and Musharakah investments

Ijarah rentals and Musharaka investments are stated net of provision. Provision is recognised for ijarah rentals receivable and musharakah investment in accordance with the Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan (SECP). Bad debts are written-off when identified.

Note 4

New and Revised Standards and Interpretations

International Accounting Standard Board (IASB) has made amendments into certain standards and further introduced new standards during the year which are explained as under :

4.1 Amendment to the published standards effective in current year and applicable to the Modaraba

There are certain new approved accounting standards, amendments to approved accounting standards and interpretations that are mandatory for accounting periods beginning on or before January 1, 2010 but are considered not to be relevant or to have any significant effect on the Modaraba's operations and are, therefore, not disclosed in these financial statements.

4.2 Amendment to the published standards effective in current year not applicable to the Modaraba

IFRS 3 – Business Combinations

Annual periods beginning
on or after July 1, 2010

The IASB has amended IFRS 3 – Business Combinations. The amendments include transition requirements for contingent consideration from a business combination that occurs before the effective date of revised IFRS, measurement on non-controlling interests and un-replaced and voluntarily replaced share based payment awards.

FIRST NATIONAL BANK MODARABA

Note 4, Basis of Preparation - Continued...

4.3 Amendment to the published standards applicable to the Modaraba not yet effective

| | <u>Effective date (annual periods beginning on or after)</u> |
|---|--|
| - IAS 12 – Income Taxes | January 1, 2012 |
| - IFRS 1 – First-time Adoption of International Financial Reporting Standards | July 1, 2011 |
| - IFRS 9 – Financial Instruments | January 1, 2013 |
| - IAS 1 – Presentation of Financial Statements | July 1, 2012 |
| - IAS 19 – Employee Benefits | January 1, 2013 |
| - IFRS 7 – Financial Instruments: Disclosures | July 1, 2011 |
| - IFRS 13 – Fair Value Measurement | January 1, 2013 |

4.4 Amendment to published standards not applicable to the Modaraba and not yet effective

| | |
|---|-----------------|
| - IAS 27 – Separate Financial Statements | January 1, 2013 |
| - IAS 28 – Investments in Associates and Joint Ventures | January 1, 2013 |
| - IFRS 10 – Consolidated Financial Statements | July 1, 2013 |
| - IFRS 11 – Joint Arrangements | July 1, 2013 |

Note 5

Summary of Significant Accounting Policies

5.1 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and balances with banks.

5.2 Receivables

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

5.3 Murabaha investment

Murabaha investments are stated net of provision against potential murabaha losses. Provision is recognized in accordance with Prudential Regulations for Modarabas issued by the SECP or on the estimate of management, whichever is higher. Bad debts are written off when identified. Murabaha receivables are recorded by the Modaraba at the invoiced amount and disclosed as such in the balance sheet.

Purchases and sales under murabaha and the resultant profit is accounted for on the culmination of murabaha transaction. However, the profit on that portion of sales revenue not due for payment is deferred and shown in the balance sheet as liability.

5.4 Financial assets

Financial assets in the scope of IAS 39, are classified as either financial assets at fair value through profit or loss, loans and receivable, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction cost. The Modaraba determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Note 5 - Summary of Significant Accounting Policies ... Contd.

5.4.1 Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category ' Financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, if any, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the profit and loss account.

5.4.2 Held-to-maturity

Non-derivatives financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Modaraba has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments, that are intended to be held-to-maturity, are subsequently measured at amortized cost.

This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization, using the effective interest rate method, of a difference between the initially recognised amount and the maturity amount. This calculation includes all fees and charges paid or received between parties to the contract that are an integral part of the effective interest rate, transaction cost and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in the profit and loss account and then the investments are derecognized or impaired, as well as, through the amortization process.

5.4.3 Loans and receivables

Loans and receivables are not derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the profit and loss account when the loans and receivables are derecognized or impaired, as well as, through the amortization process.

5.4.4 Available-for-sale

Available-for-sale financial assets are those non derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains and losses being recognized as a separate component of equity until the investments are derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid price at the close of business on the balance sheet date. For investments where there is no active market, value is determined using valuation techniques.

5.5 Trade date accounting

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

5.6 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities are secured deposits against ijarah (lease) assets declared and unclaimed profit distribution and other liabilities.

Note 5 - Summary of Significant Accounting Policies ... Contd.

5.7 Recognition and derecognition of financial instruments

Financial assets are recognized initially at fair value or in case of financial asset that are not carried at fair value through profit or loss, at fair value plus transaction cost.

All financial assets and liabilities are recognized at the time when entity becomes party to the contractual provisions of the instrument and are derecognized in the case of asset, when the contractual rights under the instrument are derecognized, expired or surrendered and in case of liability, when the obligation is discharged, cancelled or expired.

Any gain / (loss) on the recognition and derecognition of financial assets and liabilities is included in the profit / (loss) for the period in which it arises.

Assets and liabilities that are not of contractual nature and that are created as a result of statutory requirements imposed by the Government are not financial instruments of the Modaraba.

5.8 Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set-off the recognized amounts and the Modaraba intends to either settle on a net basis, or to recognize the asset and settle the liability simultaneously.

5.9 Musharakah investment

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

5.10 Lease (ijarah) accounting

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

Under the ijarah arrangements up to June 30, 2008, amount due from lessees under finance leases are recorded as receivables at the amount of the net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

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

Net investment in ijarah is stated at present value of minimum ijarah payments. Impairment losses on non-performing ijarah are recognized at higher of provision required in accordance with the Prudential Regulations for Modarabas or at a level which in the judgment of the management is adequate to provide for potential ijarah losses. These losses can be reasonably anticipated as the difference between the carrying amount of receivables and present value of expected cash flows discounted at the rates implicit in the ijarah agreement.

Note 5 - Summary of Significant Accounting Policies ... Contd.

5.11 Fixed assets

Assets given to customers under ijarah arrangements

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

Assets in own use - Tangible

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

Depreciation is charged to income using the straight line method at the rates as specified in note 18 to these financial statements so as to write off the cost of assets over their estimated useful lives without taking into account any residual value. Depreciation on additions to the tangible fixed assets is charged from the month in which an asset is available for use while no depreciation is charged for the month in which the asset is disposed off.

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

Assets in own use - Intangible

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

5.12 Provisions

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

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

5.13 Creditors and other liabilities

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

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Note 5 - Summary of Significant Accounting Policies ... Contd.

5.14 Revenue recognition

For lease (ijarah) agreements executed on or before June 30, 2008, the unearned finance income is deferred and amortized to income over the term of ijarah, applying the annuity method to produce a constant rate of return on net investment in ijarah. Unrealized ijarah income on potential lease losses is excluded from the income from ijarah operations in accordance with the requirements of the Prudential Regulations for Modaraba issued by the SECP.

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

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

Return on deposits with bank is recognized on accrual basis.

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

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

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

5.15 Borrowing costs

Borrowing costs are charged to income as and when incurred except those costs that are directly attributable to acquisition, construction or production of qualifying assets that are capitalized as part of the cost of assets.

5.16 Taxation

Under the current tax law, the income of non-trading Modaraba is exempt from income tax provided that the Modaraba distributes ninety percent (90%) of its profits for the year, as cash dividend to the certificate holders, after appropriating statutory reserves. Where such profit is not distributed, provision for tax is made on taxable income at the current tax rates applicable to the Modaraba after taking into account the available tax exemptions and tax credits, if any.

5.17 Profit distribution

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

5.18 Related party transactions

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

Note 6

Bank Balances

| | Note | 2011 Rupees | 2010 Rupees |
|----------------------------------|------|----------------|----------------|
| Profit bearing bank accounts | 6.1 | 7,961,563 | 4,442,920 |
| Non profit bearing bank accounts | | 178,547 | 576,294 |
| | | 8,140,110 | 5,019,214 |

6.1 These carry profit at the rate of 1.50% to 2.00% (2010: 1.50% to 2.00%) per annum and also represent redemption reserve funds set aside by the Modaraba in compliance with the requirements of the Registrar Modarabas for the issuance of Certificates of Musharakah (refer to Note 9.1 and 15.2 also).

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Note 7

Advances, Prepayments and Other Receivables

| | 2011 | 2010 |
|--|--------------------|-------------------|
| | Rupees | Rupees |
| Advances for ijarah (Secured - Considered good) | 173,422,286 | 68,231,185 |
| Advances to employees for expenses (Unsecured - Considered good) | 23,055 | 14,825 |
| Income tax deducted at source | 547,816 | 540,425 |
| Prepayments | 185,418 | 82,194 |
| Dividends receivable | - | 30,000 |
| Other receivable | 23,416 | 35,373 |
| | <u>174,201,991</u> | <u>68,934,002</u> |

Note 8

Accrued Profit

| | 2011 | 2010 |
|-----------------------|-------------------|-------------------|
| | Rupees | Rupees |
| Murabaha investment | 25,423,413 | 16,961,116 |
| Musharakah investment | 368,673 | 885,994 |
| Bank deposits | 256,428 | 74,036 |
| | <u>26,048,514</u> | <u>17,921,146</u> |

Note 9

Short Term Investments

| | | 2011 | 2010 |
|--|----------|------------------|------------------|
| | | Rupees | Rupees |
| At fair value through profit or loss | Note 9.1 | | |
| Quoted | | | |
| National Bank of Pakistan | | | |
| - 36,206 (2010: 28,965) fully paid ordinary shares including 16,896 (2010: 9,655) bonus shares | | | |
| Market value per share is Rs. 50.42 (2010: Rs. 64.10) | | | |
| Cost of investment is Rs. 4,507,810 (2010: Rs. 4,507,810) | | <u>1,825,507</u> | <u>1,856,657</u> |

9.1 This investment also represent redemption reserve funds set aside by the Modaraba in compliance with the requirements of the Registrar Modarabas for the issuance of Certificates of Musharakah. This fund is maintained at minimum of 5.00% of the Certificates of Musharakah outstanding at any month end (Refer to Note 6.1 and 15.2 also).

Note 10

Short Term Murabaha Investments

| | | 2011 | 2010 |
|---|------|---------------------|--------------------|
| | Note | Rupees | Rupees |
| Short term murabaha investments (Secured) | | 731,443,491 | 577,400,150 |
| Unearned murabaha income | 27 | 29,808,155 | 19,683,902 |
| | | <u>761,251,646</u> | <u>597,084,052</u> |
| Less: allowance for potential murabaha losses | | <u>(13,500,000)</u> | <u>(1,500,000)</u> |
| | | <u>747,751,646</u> | <u>595,584,052</u> |

10.1 These represent investments under murabaha arrangements on deferred payment basis at specified profit margins. These investments carry profit at the rate of 17.76% to 14.36% (2010: 14.10% to 16.44%) per annum and are secured against charge over fixed and current assets, personal guarantees of directors of customer companies, demand promissory notes and post dated cheques varying from case to case basis.

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Note 11
Short Term Musharakah Investment - Unsecured

This represents an unsecured investment with Albaraka Islamic Bank Limited under musharakah arrangement and carries profit at the rate of 13.25% (2010: 14.33%) per annum, effectively. The investment has been matured subsequent to the balance sheet date.

Note 12
Current Portion of Non-Current Assets

| | Note | 2011 Rupees | 2010 Rupees |
|--------------------------------|------|--------------------|--------------------|
| Net investment in ijarah | 13 | 120,169,184 | 244,712,586 |
| Long term murabaha investments | 14 | 39,982,249 | 66,865,274 |
| Long term sukuk certificate | 15 | 4,000,000 | 4,000,000 |
| Long term loans and deposits | 16 | 608,871 | 677,998 |
| | | <u>164,760,304</u> | <u>316,255,858</u> |

Note 13
Net Investment in Ijarah

| | Note | 2011 Rupees | 2010 Rupees |
|---|------|----------------------|----------------------|
| Minimum ijarah rentals receivable | 13.1 | 216,142,107 | 467,511,242 |
| Residual value | | <u>69,717,236</u> | <u>106,916,892</u> |
| Gross investment in ijarah (Secured) | 13.2 | 285,859,343 | 574,428,134 |
| Unearned finance income | | <u>(36,555,651)</u> | <u>(70,121,974)</u> |
| Net investment in ijarah | 13.3 | 249,303,692 | 504,306,160 |
| Less: Allowance for potential ijarah losses | | <u>(4,920,743)</u> | <u>(4,920,743)</u> |
| Less: Current portion | 12 | <u>(120,169,184)</u> | <u>(244,712,586)</u> |
| | | <u>124,213,765</u> | <u>254,672,831</u> |

13.1 Minimum ijarah rentals receivable

| | | |
|--|--------------------|--------------------|
| Due within one year | 103,445,612 | 236,663,496 |
| Due after one year but not later than five years | <u>112,696,495</u> | <u>230,847,746</u> |
| | <u>216,142,107</u> | <u>467,511,242</u> |

13.2 Gross investment in ijarah

| | | |
|--|--------------------|--------------------|
| Due within one year | 179,783,747 | 318,380,756 |
| Due after one year but not later than five years | <u>106,075,596</u> | <u>256,047,378</u> |
| | <u>285,859,343</u> | <u>574,428,134</u> |

13.3 Net investment in ijarah

| | | |
|--|--------------------|--------------------|
| Due within one year | 120,169,184 | 244,712,586 |
| Due after one year but not later than five years | <u>124,213,765</u> | <u>254,672,831</u> |
| | <u>244,382,949</u> | <u>499,385,417</u> |

13.4 General description of significant ijarah arrangements (IFAS-2)

The Modaraba has entered into various ijarah arrangements carrying profit at the rate of 18.26% to 14.18% (2010: 8.25% to 16.80%) per annum. The arrangements are for three to five years' period. These are secured against assets under ijarah, personal / corporate guarantees, promissory notes given by lessees and other collaterals.

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Note 13 - Net Investment in Ijarah ... Contd.

13.5 Aggregate amount of future Ijarah rentals receivable on the basis of ijarah arrangements executed from July 01, 2008 onwards are as follows:

| | 2011 | 2010 |
|---|-------------|-------------|
| | Rupees | Rupees |
| Not later than one year | 382,487,844 | 198,518,324 |
| Later than one year and not later than five years | 513,779,397 | 289,415,422 |
| Later than five years | - | - |
| | 896,267,241 | 487,933,746 |

13.6 Assets given under ijarah arrangements are disclosed in Note 17 to these financial statements.

Note 14

Long Term Murabaha Investments

| | | 2011 | 2010 |
|--|------|--------------|--------------|
| | Note | Rupees | Rupees |
| Long term murabaha investments (Secured) | | 83,291,667 | 103,124,999 |
| Deferred murabaha income | 27 | 6,553,310 | 19,012,066 |
| | | 89,844,977 | 122,137,065 |
| Less: Current portion | 12 | (39,982,249) | (66,865,274) |
| | | 49,862,728 | 55,271,791 |

14.1 These represent investments under murabaha arrangements on deferred payment basis at a profit margin ranging from 17.36% to 14.36% (2010: 13.54% to 16.23%) per annum. These investments are secured against charge over fixed and current assets, personal guarantees of the directors of customer companies, demand promissory notes and post dated cheques varying from case to case basis.

Note 15

Long Term Sukuk Certificate - Secured

| | | 2011 | 2010 |
|-----------------------------|------|-------------|-------------|
| | Note | Rupees | Rupees |
| Long term sukuk certificate | | 4,941,801 | 8,941,801 |
| Less: Current portion | 12 | (4,000,000) | (4,000,000) |
| | | 941,801 | 4,941,801 |

15.1 This represents sukuk certificate issued to Sitara Energy Limited under musharakah arrangement that carries profit at the rate of 14.35% (2010: 14.27%) per annum, effectively. This investment is secured against first pari passu charge over fixed assets and title over the financed asset of Sitara Energy Limited. This arrangement shall last by July 2012.

15.2 This certificate also represents funds invested by the Modaraba in compliance with the requirements of the Registrar Modarabas for the issuance of Certificates of musharakah (Refer to Note 6.1 and 9.1 also).

Note 16

Long Term Loans and Deposits

| | | 2011 | 2010 |
|---|------|-----------|-----------|
| | Note | Rupees | Rupees |
| Loans to employees (secured - considered goods) | 16.1 | 2,096,011 | 1,849,899 |
| Less: Current portion of loans to employees | 12 | (608,871) | (677,998) |
| | | 1,487,140 | 1,171,901 |
| Security deposits | | 39,500 | 39,500 |
| | | 1,526,640 | 1,211,401 |

16.1 These loans are given to employees of the Modaraba for purchase of vehicles and carry profit at the rate of 5% (2010: 5.00%) per annum. Maximum aggregate balance due from employees at the end of any month during the year was Rs. 2,096,011 (2010: Rs. 2,108,819).

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Note 17
Fixed Assets under Ijarah Arrangement

| Particulars | As at 01-07-2010 | | Additions | | Cost (Deletions) | | Total as at 30-06-2011 | | Rate % | Depreciation | | Written Down value 30-06-2011 | |
|--------------------------|--------------------|--------------------|---------------------|----------------------|------------------|--------------------|------------------------|--------------------|--------------------|--------------|------------------|-------------------------------|------------------------|
| | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | | For the year | As at 01-07-2010 | Adjustment | Total as at 30-06-2011 |
| Plant and machinery | 284,003,594 | 303,820,914 | (17,815,542) | 570,008,966 | 20 - 33.3% | 51,365,661 | 109,532,859 | 143,082,978 | 426,925,988 | | | | |
| Vehicles | 293,581,724 | 243,576,146 | (9,617,682) | 527,540,188 | 20 - 33.3% | 107,297,822 | 126,028,794 | 228,625,480 | 298,914,708 | | | | |
| Total Rupees 2011 | 577,585,318 | 547,397,060 | (27,433,224) | 1,097,549,154 | | 158,663,483 | 235,561,653 | 371,708,458 | 725,840,696 | | | | |

| Particulars | As at 01-07-2009 | | Additions | | Cost (Deletions) | | Total as at 30-06-2010 | | Rate % | Depreciation | | Written Down value 30-06-2010 | |
|--------------------------|--------------------|--------------------|--------------------|--------------------|------------------|-------------------|------------------------|--------------------|--------------------|--------------|------------------|-------------------------------|------------------------|
| | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | | For the year | As at 01-07-2009 | Adjustment | Total as at 30-06-2010 |
| Plant and machinery | 202,823,671 | 83,931,762 | (2,751,839) | 284,003,594 | 20 - 33.3% | 39,514,351 | 68,303,263 | 107,297,822 | 176,705,772 | | | | |
| Vehicles | 55,849,282 | 238,043,616 | (311,174) | 293,581,724 | 20 - 33.3% | 9,269,152 | 42,115,152 | 51,365,661 | 242,216,063 | | | | |
| Total Rupees 2010 | 258,672,953 | 321,975,378 | (3,063,013) | 577,585,318 | | 48,783,503 | 110,418,415 | 158,663,483 | 418,921,835 | | | | |

Note 18
Fixed Assets under Own Use

| Particulars | As at 01-07-2010 | | Additions | | Cost (Deletions) | | Total as at 30-06-2011 | | Rate % | Depreciation | | | Written Down value 30-06-2011 |
|---------------------------|------------------|----------|-----------|----------|------------------|----------|------------------------|--------|------------------|--------------|----------------|------------------|-------------------------------|
| | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | | Rupees | Rupees | Rupees | |
| Vehicles | 2,937,010 | - | - | - | - | - | 2,937,010 | 20 | 933,110 | - | 587,402 | 1,520,512 | 1,416,498 |
| Computers and accessories | 972,697 | - | - | - | - | - | 972,697 | 33.33 | 960,397 | - | 12,300 | 972,697 | - |
| Electric equipment | 325,764 | - | - | - | - | - | 325,764 | 20 | 325,764 | - | - | 325,764 | - |
| Total Rupees 2011 | 4,235,471 | - | - | - | - | - | 4,235,471 | | 2,219,271 | - | 599,702 | 2,818,973 | 1,416,498 |

| Particulars | As at 01-07-2009 | | Additions | | Cost (Deletions) | | Total as at 30-06-2010 | | Rate % | Depreciation | | | Written Down value 30-06-2010 |
|---------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------------|----------------|------------------|------------------|--------|--------|-------------------------------|
| | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | | Rupees | Rupees | Rupees | |
| Vehicles | 2,409,293 | 1,326,947 | (799,230) | 2,937,010 | 20 | 1,233,414 | (799,230) | 498,926 | 933,110 | 2,003,900 | | | |
| Computers and accessories | 956,297 | 16,400 | - | 972,697 | 33.33 | 786,838 | - | 173,559 | 960,397 | 12,300 | | | |
| Electric equipment | 325,764 | - | - | 325,764 | 20 | 273,268 | - | 52,496 | 325,764 | - | | | |
| Total Rupees 2001 | 3,691,354 | 1,343,347 | (799,230) | 4,235,471 | | 1,690,527 | - | 724,981 | 2,219,271 | 2,016,200 | | | |

Note 19
Intangible Assets

| Particulars | As at 01-07-2010 | | Additions | | Cost (Deletions) | | Total as at 30-06-2011 | | Rate % | Depreciation | | | Written Down value 30-06-2011 |
|---------------------------|------------------|----------|-----------|----------------|------------------|----------------|------------------------|----------------|----------------|---------------|--------|--------|-------------------------------|
| | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees | | Rupees | Rupees | Rupees | |
| Software and license fees | 697,300 | - | - | 697,300 | 33.33 | 605,208 | - | 92,092 | 697,300 | - | | | |
| Total Rupees 2011 | 697,300 | - | - | 697,300 | 33.33 | 605,208 | - | 92,092 | 697,300 | - | | | |
| Total Rupees 2010 | 697,300 | - | - | 697,300 | 33.33 | 468,529 | - | 136,679 | 605,208 | 92,092 | | | |

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Note 20

Creditors, Accrued and Other Liabilities

| | Note | 2011 Rupees | 2010 Rupees |
|--|------|-------------------|-------------------|
| Advances from customers | | 44,344,835 | 13,536,232 |
| Modaraba Company's management fee (Unsecured) | | 7,059,585 | 7,659,628 |
| Payable to modaraba management company (Unsecured) | 20.1 | 370,212 | 370,212 |
| Accrued expenses | | 429,500 | 2,103,059 |
| Withholding tax payable | | 7,526 | 78,818 |
| Dividends payable | | 833,377 | 537,417 |
| Others | | 712,613 | 593,639 |
| | | <u>53,757,648</u> | <u>24,879,005</u> |

20.1 This represents payable against utility services. Maximum aggregate amount due to modaraba management company at the end of any month during the year was Rs. 370,212 (2010: Rs. 2,286,282).

Note 21

Short Term Finance - Secured

| | Note | 2011 Rupees | 2010 Rupees |
|---------------------------------------|------|--------------------|--------------------|
| Finance under musharakah arrangements | | | |
| National Bank of Pakistan (NBP) | 21.2 | 120,850,995 | 155,068,981 |
| Finance under murabaha arrangements | | | |
| Other financial institutions | 21.3 | 544,171,118 | 311,659,475 |
| | | <u>665,022,113</u> | <u>466,728,456</u> |

21.1 The aggregate unavailed short term borrowing facilities amount to Rs. 404.98 million (2010: Rs. 733.271 million).

21.2 Terms and conditions of borrowings

Purpose

These facilities have been obtained from National Bank of Pakistan with sanctioned limit, funded and unfunded, of Rs. 250 million (2010: 250 million) to meet the working capital requirements of the Modaraba. These facilities have been renewed during the year.

Mark up

Mark up on short term borrowings is based upon one month KIBOR (2010: one month KIBOR).

| | | |
|--|-------------------|-------------------|
| | 2011 | 2010 |
| | Rupees in Million | Rupees in Million |

Securities

These facilities are secured against:

| | | |
|---|-----|-----|
| First joint pari passu hypothecation charge on all present and future assets of Modaraba including leased assets and receivables against leased assets, musharakah and murabaha investments of the Modaraba | 800 | 800 |
|---|-----|-----|

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Note 21 - Short Term Finance - Secured ... Contd.

21.3 Terms and conditions of borrowings

Purpose

These facilities have been obtained from various banking companies with sanctioned limit, funded and unfunded, of Rs. 820 million (2010: 770 million) to meet the working capital requirements of the Modaraba. These facilities have been renewed during the year. These facilities have been renewed during the year.

Mark up

Mark up on short term borrowings is based upon one month KIBOR plus 0.75% to 3.00% (2010: one month KIBOR plus 1.00% to 3.00%) per annum.

| | 2011 | 2010 |
|--|-------------------|-------------------|
| | Rupees in Million | Rupees in Million |

Securities

These facilities are secured against:

| | | |
|---|----------|----------|
| First pari passu charge on all the present and future receivables of the Modaraba; joint pari passu charge over all leased assets; present and future current and non-current assets of the Modaraba and first pari passu hypothecation charge over present and future current assets of the Modaraba | 1,000.33 | 1,050.33 |
|---|----------|----------|

Note 22

Short Term Certificates of Musharakah - Unsecured

This represents Certificates of Musharakah through private placement. These certificates have different denominations and are repayable within twelve months. The estimated share of profit on these certificates ranges from 11% to 13.65 (2010: 11% to 13.50%) per annum.

Note 23

Current Portion of Non-Current Liabilities

| | | 2011 | 2010 |
|--------------------------------------|------|-------------|-------------|
| | Note | Rupees | Rupees |
| Long term security deposits | 24 | 68,409,954 | 67,086,438 |
| Long term certificates of musharakah | 25 | - | 120,000,000 |
| Long term finance | 26 | 336,666,667 | 341,666,668 |
| Deferred murabaha income | 27 | 34,832,070 | 30,590,842 |
| | | 439,908,691 | 559,343,948 |

Note 24

Long Term Security Deposits

| | | 2011 | 2010 |
|---------------------------|------|--------------|--------------|
| | Note | Rupees | Rupees |
| Security deposit - ijarah | 24.1 | 196,045,767 | 160,043,197 |
| Less: Current portion | 23 | (68,409,954) | (67,086,438) |
| | | 127,635,813 | 92,956,759 |

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

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Note 25

Long Term Certificates of Musharakah - Unsecured

| | Note | 2011 Rupees | 2010 Rupees |
|----------------------------|------|-------------------|----------------|
| Certificates of Musharakah | | 78,600,000 | 120,000,000 |
| Less: Current portion | 23 | - | (120,000,000) |
| | | <u>78,600,000</u> | <u>-</u> |

25.1 This represents long term Certificates of Musharakah issued through private placement. These certificates have different denominations and carry profit ranging from 12.49% to 14.75% (2010: 11.00% to 14.75%) per annum.

Note 26

Long-Term Finance - Secured

| | Note | 2011 Rupees | 2010 Rupees |
|---------------------------------------|------|--------------------|--------------------|
| Finance under Musharakah arrangements | | | |
| National Bank of Pakistan | 26.1 | 415,833,319 | 304,166,658 |
| Finance under Murabaha arrangements | | | |
| Other financial institutions | 26.2 | 233,333,339 | 212,500,005 |
| | | 649,166,658 | 516,666,663 |
| Less: Current portion | 23 | (336,666,667) | (341,666,668) |
| | | <u>312,499,991</u> | <u>174,999,995</u> |

26.1 This represents various facilities aggregating Rs. 850 million (2010: Rs. 800 million) obtained from National Bank of Pakistan to bridge the gap between loan / lease repayments received and new loan/lease investments of Musharakah arrangements. These facilities are repayable by April 2014 through quarterly instalments and carry profit payable at the rate of 3 months KIBOR plus 0.10% to 0.50% (2010: 3 months KIBOR plus 0.10% to 1.00%) per annum, payable quarterly. These facilities are secured against first joint pari passu charge of Rs. 800 (2010: Rs. 886) million on the assets of the Modaraba.

26.2 This represents various facilities aggregating Rs. 438 million (2010: Rs. 675 million) obtained from various commercial banks. These facilities are repayable by June 2013 through quarterly / half-yearly instalments and carry profit at the rate of 3 to 6 months KIBOR plus 1.50% to 3.00% (2010: 3 to 6 months KIBOR plus 0.40% to 3.00%) per annum, payable quarterly / half-yearly. These facilities are secured against first ranking pari passu hypothecation charge on all present and future moveable and leased assets of the Modaraba including ijarah, murabaha and musharakah assets along with their related receivables / rentals and ranking charge over assets of the Modaraba amounting to Rs. 493.5 million (2010: Rs. 1,166 million).

Note 27

Deferred Murabaha Income

| | Note | 2011 Rupees | 2010 Rupees |
|---------------------------------|------|------------------|------------------|
| Short term murabaha investments | 10 | 29,808,155 | 19,683,902 |
| Long term murabaha investments | 14 | 6,553,310 | 19,012,066 |
| | | 36,361,465 | 38,695,968 |
| Less: Current portion | 23 | (34,832,070) | (30,590,842) |
| | | <u>1,529,395</u> | <u>8,105,126</u> |

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Note 28

Certificate Capital

| | 2011 | 2010 | | 2011 | 2010 |
|---------------------------------|-------------------|-------------------|--|--------------------|--------------------|
| | | | Number of certificates | Rupees | Rupees |
| Authorized: | | | | | |
| | <u>60,000,000</u> | <u>60,000,000</u> | Modaraba Certificates of Rs. 10 each | <u>600,000,000</u> | <u>600,000,000</u> |
| Issued, subscribed and paid-up: | | | | | |
| | <u>25,000,000</u> | <u>25,000,000</u> | Modaraba Certificates of Rs. 10 each fully paid in cash | <u>250,000,000</u> | <u>250,000,000</u> |

28.1 There was no movement in certificate capital during the year.

28.2 7,500,000 (2010: 7,500,000) Certificates of modaraba are held by National Bank Modaraba Management Company Limited, an associated undertaking of the Modaraba.

Note 29

Reserves

| | | 2011 | 2010 |
|------------------------|------|-------------------|-------------------|
| | Note | Rupees | Rupees |
| Statutory reserve | 29.1 | 38,427,885 | 32,307,963 |
| Un-appropriated profit | | <u>48,711,542</u> | <u>49,231,856</u> |
| | | <u>87,139,427</u> | <u>81,539,819</u> |

29.1 Statutory reserve represents profit set aside in compliance with the requirements of Prudential Regulations for Modarabas issued by the SECP. These regulations require the Modaraba to transfer at least 20% after tax profit, upto a maximum of 50% in the statutory reserves until the reserves equal 100% of the paid up capital. Thereafter, 5% of its profit after tax is to be transferred into the statutory reserve each year.

Note 30

Contingencies and Commitments

30.1 Contingencies

There were no material contingencies as at June 30, 2011 (2010: Nil).

30.2 Commitments

These represents ijarah / murabaha facilities approved but not disbursed or partially disbursed amounting to Rs. 111,998,949 (2010: Rs. 61,108,000).

Note 31

Income from Short Term Investments - Net

| | | 2011 | 2010 |
|---|------|-----------------|------------------|
| | Note | Rupees | Rupees |
| Gain on sale of short term investments | | - | 633,902 |
| Dividend income | | 217,238 | 460,915 |
| Unrealized (loss) / gain in value of short term investments | 31.1 | <u>(31,150)</u> | <u>302,958</u> |
| | | <u>186,088</u> | <u>1,397,775</u> |

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31.1 Unrealized gain / (loss) in value of short term investments

Investment at fair value through profit or loss

| | | |
|---|-----------|-------------|
| Unrealized loss at the beginning of the year | 2,651,153 | 8,445,649 |
| Reversal of unrealized loss on investments disposed off | - | (5,491,538) |
| Reversal of unrealized loss on remaining investment | - | (302,958) |
| Impairment loss on investment | 31,150 | - |
| Loss / (gain) during the year | 31,150 | (5,794,496) |
| Unrealized loss at the end of the year | 2,682,303 | 2,651,153 |

Note 32

Other Income

| | 2011 | 2010 |
|--|-----------|-----------|
| | Rupees | Rupees |
| Service charges | 560,748 | 206,774 |
| Documentation charges | 6,206,130 | 3,820,860 |
| Gain on termination of ijarah arrangements | 249,535 | 450,684 |
| Gain on disposal of fixed assets under own use | - | 620,000 |
| | 7,016,413 | 5,098,318 |

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Note 33

Operating Expenses

| | | 2011 | 2010 |
|---|------|------------|------------|
| | Note | Rupees | Rupees |
| Salaries, allowances and other benefits | 33.2 | 12,046,440 | 13,018,667 |
| Communication expenses | | 248,281 | 279,418 |
| Travelling and conveyance | | 161,186 | 261,608 |
| Vehicle running expenses | 33.3 | 194,580 | 153,526 |
| Postage and stamps | | 75,655 | 72,808 |
| Advertisement | | 102,880 | 38,242 |
| Legal and professional charges | | 462,733 | 457,353 |
| Fees and subscription | | 616,686 | 731,690 |
| Repairs and maintenance | | 361,069 | 346,521 |
| Insurance | | 177,154 | 166,722 |
| Stationery, printing and other expenses | | 304,839 | 362,771 |
| Depreciation / amortization: | | | |
| - Owned - tangible | | 599,701 | 724,981 |
| - Intangible assets | | 92,091 | 136,679 |
| Central Depository Company charges | | - | 7,915 |
| Entertainment | | 105,115 | 97,344 |
| Others | | 146,871 | 32,364 |
| Zakat | | - | 6,500 |
| | | 15,695,281 | 16,895,109 |

33.1 Office space, utilities and related expenditure are borne by National Bank Modaraba Management Company Limited.

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Note 33 - Operating Expenses ... Contd.

33.2 Salaries, allowances and other benefits

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

| | Officers | | Employees | |
|----------------------|------------------|------------------|------------------|------------------|
| | 2011 Rupees | 2010 Rupees | 2011 Rupees | 2010 Rupees |
| Salary | 2,552,300 | 2,192,071 | 2,286,382 | 3,298,451 |
| House rent allowance | 1,220,232 | 981,540 | 1,082,913 | 1,221,885 |
| Utilities | 292,856 | 235,572 | 259,125 | 293,228 |
| Bonus | 1,422,972 | 1,385,873 | 726,644 | 1,505,330 |
| Expenses reimbursed | 742,626 | 657,205 | 1,460,390 | 1,247,510 |
| | <u>6,230,986</u> | <u>5,452,261</u> | <u>5,815,454</u> | <u>7,566,404</u> |
| Number of persons | <u>4</u> | <u>4</u> | <u>11</u> | <u>12</u> |

33.3 The Chief Executive Officer and Senior Executives of the Modaraba are provided with free use of vehicles owned and maintained by the Modaraba.

Note 34

Finance Cost

| | 2011 Rupees | 2010 Rupees |
|-------------------------------------|--------------------|--------------------|
| Profit on musharakah finance | 48,535,584 | 68,101,783 |
| Profit on murabaha finance | 103,930,776 | 96,748,335 |
| Profit on certificate of musharakah | 23,212,693 | 30,260,476 |
| Bank charges | 198,976 | 88,203 |
| | <u>175,878,029</u> | <u>195,198,797</u> |

Note 35

Other Operating Expenses

| | Note | 2011 Rupees | 2010 Rupees |
|--|--------|-------------------|-------------------|
| Impairment on available for sale investments | 35.1 | - | 11,558,176 |
| Allowance for potential loss in ijarah and short term murabaha investments | | 12,000,000 | 6,420,743 |
| Auditors' remuneration | 35.2 | 423,000 | 423,000 |
| | | <u>12,423,000</u> | <u>18,401,919</u> |
| 35.1 Impairment on available for sale investments | | | |
| Transferred to the profit and loss account from net unrealized loss in value of available for sale investments | 35.1.2 | - | 16,821,980 |
| Net realized / unrealized gain in the value of available for sale investments | | - | (5,263,804) |
| | | <u>-</u> | <u>11,558,176</u> |

35.1.1 This amount is transferred to the profit and loss account from net unrealized loss in value of available for sale investments.

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Note 33 - Other Operating Expenses ... Contd.

35.2.2 Movement in net unrealized loss in the value of available for sale investments is as follows:

| | | |
|--|---|--------------|
| Net unrealized loss in value of available for loss investments | - | 16,821,980 |
| Loss recognized upto December 31, 2008 | - | - |
| | - | 16,821,980 |
| Transferred to the profit and loss account | - | (16,821,980) |
| | - | - |
| Net unrealized loss in value of available for loss investments | - | - |

35.2 Auditors' remuneration

| | | |
|---|---------|---------|
| Audit fee | 250,000 | 250,000 |
| Review of half yearly financial statements and other certifications | 140,000 | 140,000 |
| Out of pocket expenses | 33,000 | 33,000 |
| | 423,000 | 423,000 |
| | 423,000 | 423,000 |

Note 36

Modaraba Company's Management Fee

In accordance with Section 18 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, management fee @ 10% of annual profits is paid to the Modaraba Management Company.

Note 37

Earnings per Modaraba Certificate - Basic and Diluted

| | 2011 | 2010 |
|--|--------|--------|
| | Rupees | Rupees |

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

| | | |
|--|------------|------------|
| Profit for the year (Rupees) | 30,599,608 | 26,234,350 |
| Weighted average number of modaraba certificates outstanding (Numbers) | 25,000,000 | 25,000,000 |
| Earnings per certificate - basic (Rupees) | 1.22 | 1.05 |

37.1 Basic earnings per modaraba certificate have been computed by dividing profit for the year as stated above with weighted average number of the Modaraba certificates.

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

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Note 38
Maturity of Assets and Liabilities

| | Up to one month | One month to three months | Three months to one year | One year to five years | Five years and above | Total |
|---|-----------------|---------------------------|--------------------------|------------------------|----------------------|---------------|
| | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees |
| Assets | | | | | | |
| Bank balances | 8,140,110 | - | - | - | - | 8,140,110 |
| Ijarah rentals receivables | 36,065,606 | 4,976,885 | - | - | - | 41,042,491 |
| Advances, prepayments and other receivables | 102,136,750 | 72,041,009 | 24,232 | - | - | 174,201,991 |
| Accrued profit | 21,809,543 | 4,238,971 | - | - | - | 26,048,514 |
| Short term investments | 1,825,507 | - | - | - | - | 1,825,507 |
| Short term morabaha investment - secured | 156,885,915 | 352,691,414 | 238,174,317 | - | - | 747,751,646 |
| Short term musharikhah investment - unsecured | 100,000,000 | - | - | - | - | 100,000,000 |
| Net investment in ijarah | 6,559,570 | 23,425,413 | 108,322,369 | 106,075,597 | - | 244,382,949 |
| Long term morabaha investment - secured | 4,299,766 | 4,164,813 | 31,517,670 | 49,862,728 | - | 89,844,977 |
| Long term musharikhah investment - secured | 2,000,000 | - | 2,000,000 | 941,801 | - | 4,941,801 |
| Long term loans and deposits | 59,729 | 120,663 | 388,979 | 1,526,640 | 39,500 | 2,135,511 |
| Fixed assets | 1,350,918 | 779,767 | 14,029,690 | 709,707,202 | 1,389,617 | 727,257,194 |
| June 30, 2011 | 441,133,413 | 462,438,935 | 394,457,257 | 868,113,968 | 1,429,117 | 2,167,572,690 |
| June 30, 2010 | 194,402,897 | 398,083,129 | 432,909,334 | 735,862,442 | - | 1,761,257,802 |

| | Up to one month | One month to three months | Three months to one year | One year to five years | Five years and above | Total |
|--|-----------------|---------------------------|--------------------------|------------------------|----------------------|---------------|
| | Rupees | Rupees | Rupees | Rupees | Rupees | Rupees |
| Liabilities | | | | | | |
| Creditors, accrued and other liabilities | 53,757,648 | - | - | - | - | 53,757,648 |
| Accrued profit payable | 21,827,864 | 6,436,140 | 2,425,318 | - | - | 30,689,323 |
| Short term finances - secured | 70,000,000 | 153,224,053 | 441,798,060 | - | - | 665,022,113 |
| Short term certificates of musharikhah - unsecured | 65,572,744 | 51,217,546 | 4,000,000 | - | - | 120,790,290 |
| Long term security deposits | 31,290,329 | 11,691,303 | 25,428,322 | 127,373,663 | 262,150 | 196,045,767 |
| Long term certificates of musharikhah - unsecured | - | - | - | 78,600,000 | - | 78,600,000 |
| Long term finance - secured | 20,000,000 | 66,666,668 | 249,999,999 | 312,499,991 | - | 649,166,658 |
| Deferred morabaha income | 4,201,727 | 18,438,537 | 13,213,263 | 507,938 | - | 36,361,465 |
| June 30, 2011 | 266,650,312 | 307,674,247 | 736,864,962 | 518,981,592 | 262,150 | 1,830,433,264 |
| June 30, 2010 | 140,202,616 | 388,542,434 | 633,016,178 | 267,956,755 | - | 1,429,717,983 |
| June 30, 2011 | 174,483,101 | 154,764,688 | (342,407,705) | 349,132,376 | 1,166,967 | 337,139,427 |
| June 30, 2010 | 54,200,281 | 9,540,695 | (200,106,844) | 467,905,687 | - | 331,539,819 |

Represented by:

Certificate capital

Reserves

| | 2011 | 2010 |
|---------------------|--------------------|--------------------|
| | Rupees | Rupees |
| Certificate capital | 250,000,000 | 250,000,000 |
| Reserves | 87,139,427 | 81,539,819 |
| | <u>337,139,427</u> | <u>331,539,819</u> |

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39.1 Geographical segments

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

39.2 Business segments

Net investment in ijarah (IAS - 17)

| | 2011 | | 2010 | |
|-------------------------------|--------------------|------------|--------------------|------------|
| | Rupees | % | Rupees | % |
| Auto and assemblers | - | - | 5,243,750 | 1.04 |
| Chemicals and pharmaceuticals | 12,924,903 | 5.18 | 18,942,222 | 3.76 |
| Education | 6,603,873 | 2.65 | 12,099,679 | 2.40 |
| Energy | - | - | 742,022 | 0.15 |
| Engineering and construction | - | - | 9,515,835 | 1.89 |
| Fabrics | 5,320,524 | 2.13 | 11,482,380 | 2.28 |
| Financial institutions | - | - | 1,058,432 | 0.21 |
| Food and beverages | 766,909 | 0.31 | 16,952,805 | 3.36 |
| Glass and ceramics | - | - | 3,158,681 | 0.63 |
| Information technology | 968,964 | 0.39 | 4,585,987 | 0.91 |
| Leather and shoe industries | - | - | 4,729,453 | 0.94 |
| Media and advertising | 218,726 | 0.09 | 3,653,169 | 0.72 |
| Poultry feed | 3,122,570 | 1.25 | 16,110,813 | 3.19 |
| Rubber and tyre | 17,673,544 | 7.09 | 31,986,042 | 6.34 |
| Sugar | 61,035,637 | 24.48 | 95,043,546 | 18.85 |
| Telecommunication | - | - | 2,929,769 | 0.58 |
| Textile | 127,217,342 | 51.03 | 245,538,835 | 48.69 |
| Miscellaneous | 13,450,700 | 5.40 | 20,532,740 | 4.07 |
| | <u>249,303,692</u> | <u>100</u> | <u>504,306,160</u> | <u>100</u> |

Murabaha investment

| | | | | |
|-----------------------------|--------------------|------------|--------------------|------------|
| Allied and engineering | - | - | 29,000,000 | 4.26 |
| Auto and assemblers | 69,900,000 | 8.58 | 10,900,000 | 1.60 |
| Cable and electric goods | 26,666,668 | 3.27 | 39,999,999 | 5.88 |
| Educational institution | 3,000,000 | 0.37 | 3,000,000 | 0.44 |
| Energy | 30,000,000 | 3.68 | 35,000,000 | 5.14 |
| Fertilizers | - | - | 20,000,000 | 2.94 |
| Leather and shoe industries | 35,000,000 | 4.30 | 35,000,000 | 5.14 |
| Media and advertising | 4,545,455 | 0.56 | 10,000,000 | 1.47 |
| Paper and board | 97,500,000 | 11.97 | - | - |
| Rice peddy | 7,500,000 | 0.92 | 7,500,000 | 1.10 |
| Sugar | 145,000,000 | 17.80 | 152,500,000 | 22.41 |
| Textile | 338,123,035 | 41.50 | 337,625,150 | 49.61 |
| Paints | 57,500,000 | 7.06 | - | - |
| | <u>814,735,158</u> | <u>100</u> | <u>680,525,149</u> | <u>100</u> |

Musharakah investment

| | | | | |
|------------------------|--------------------|----------|-------------------|------------|
| Energy | 4,941,801 | 5 | 8,941,801 | 78.15 |
| Financial institutions | 100,000,000 | - | 2,500,000 | 21.85 |
| | <u>104,941,801</u> | <u>5</u> | <u>11,441,801</u> | <u>100</u> |

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Note 39 - Segment Analysis ... Contd.

Investment in ijarah under (IFAS-2)

| | 2011 | | 2010 | |
|------------------------------------|-------------|-------|-------------|-------|
| | Rupees | % | Rupees | % |
| Auto and assemblers | 21,373,707 | 2.94 | 16,911,963 | 4.04 |
| Cable and electric goods | 13,173,090 | 1.81 | 10,101,416 | 2.41 |
| Chemicals and pharmaceuticals | 8,590,077 | 1.18 | 6,011,713 | 1.44 |
| Construction and building products | 3,743,425 | 0.52 | - | - |
| Education | 657,000 | 0.09 | 1,182,600 | 0.28 |
| Fabrics | 31,682,423 | 4.36 | 44,854,435 | 10.71 |
| Fertilizers | 484,120 | 0.07 | 661,960 | 0.16 |
| Financial institution | 96,838,886 | 13.34 | 66,721,467 | 15.93 |
| Food and beverages | 40,927,815 | 5.64 | 10,129,412 | 2.42 |
| Glass and ceramics | 15,752,565 | 2.17 | 13,295,806 | 3.17 |
| Information technology | 21,421,029 | 2.95 | 16,533,891 | 3.95 |
| Leather and shoe industry | 17,760,625 | 2.45 | - | - |
| Media advertising | 8,405,736 | 1.16 | 305,737 | 0.07 |
| Plastic | 2,270,565 | 0.31 | 1,306,516 | 0.31 |
| Poultry feed | 34,698,413 | 4.78 | 29,836,255 | 7.12 |
| Rubber and tyres | 37,309,104 | 5.14 | 31,657,238 | 7.56 |
| Sugar | 91,800,000 | 12.65 | - | - |
| Textile | 219,734,389 | 30.27 | 152,115,125 | 36.31 |
| Transport | 14,200,000 | 1.96 | - | - |
| Miscellaneous Services | 45,017,726 | 6.20 | 17,296,301 | 4.13 |
| | 725,840,696 | 100 | 418,921,835 | 100 |

Note 40

Balances and Transactions with Related Parties

Related parties comprise associated companies, directors and key management personnel. The Modaraba in the normal course of business carries out transactions with various related parties. Remuneration of key management personnel is disclosed in note 33.2 to these financial statements.

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

| 40.1 Balances outstanding at the year end | 2011 | 2010 |
|---|-------------|-------------|
| | Rupees | Rupees |
| National Income Daily Accounts (NIDA) with National Bank of Pakistan (running balances) | 7,129,661 | 5,526,723 |
| Finances under musharakah arrangement from National Bank of Pakistan | 536,684,314 | 459,234,873 |
| Net investment in ijarah to National Bank of Pakistan | 97,459,486 | 67,834,170 |
| Current accounts with National Bank of Pakistan | 817,856 | 521,896 |
| Balance payable to Modaraba Management company | 7,429,797 | 8,029,840 |

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Note 40 - Balances and Transactions with Related Parties ... Contd.

40.2 Transactions with related parties

| Related party | Relationship | Nature of transaction | | |
|---|--------------------------------------|---------------------------------------|-------------|-------------|
| Taurus Securities Limited | Common management and control | Commission paid | - | 60,172 |
| | | Purchase and sale of securities - net | - | 31,146,381 |
| National Bank of Pakistan | Management Company's holding company | Musharakah obtained - net | 300,000,000 | 76,985,666 |
| | | Musharakah repaid - net | 222,550,559 | 212,500,000 |
| | | Ijarah disbursed | 74,433,370 | 63,438,500 |
| | | Ijarah repaid | 44,808,054 | 24,435,914 |
| | | Profit paid | 47,120,133 | 69,936,886 |
| | | Profit on ijarah earned | 14,468,553 | 5,065,342 |
| National Bank Modaraba management Company Limited | Management Company | Management fee | 3,399,957 | 2,914,928 |

Transactions with related parties, except the management fee payable to the management company, are carried at an arm's length in the normal course of business.

Note 41 Capital Risk Management

While managing capital, the objectives of the Modaraba are to ensure that it continues to meet the going concern assumption, enhance certificate holders' wealth and meets stakeholders' expectations. The Modaraba ensures its sustainable growth viz. maintaining optimal capital structure and keeping its profits payable low thus maintaining smooth capital management.

In line with others in the industry, the Modaraba monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non current) less cash and cash equivalents. Total capital is calculated by adding equity, as shown in the balance sheet, into net debt.

As on the balance sheet date, the gearing ratio of the Modaraba was as under:

| | 2011 | 2010 |
|------------------------|----------------------|----------------------|
| | Rupees | Rupees |
| Total borrowings | 1,314,188,771 | 983,395,119 |
| Cash and bank balances | (8,140,110) | (5,019,214) |
| Net Debt | 1,306,048,661 | 978,375,905 |
| Equity | 337,139,427 | 331,539,819 |
| Total Capital | <u>1,643,188,088</u> | <u>1,309,915,724</u> |
| Gearing Ratio | <u>79.48%</u> | <u>74.69%</u> |

Note 42

Financial Risk Management

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

Credit risk
Liquidity risk
Market risk

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

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

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

42.2 Credit Risk:

42.2.1 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties to the financial instruments fail to perform as contracted. The Modaraba is exposed to credit risk from its operating activities (primarily from investments in ijarah, murabaha and musharakah contracts), deposits with banks and financial institutions and other financial instruments.

42.2.2 Credit risk related to receivables

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

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

42.2.3 Credit risk related to financial instruments and cash deposits

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

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Note 42 - Financial Risk Management ... Contd.

42.2.4 Exposure to credit risk

Carrying amounts of financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| Financial assets | Note | 2011 Rupees | 2010 Rupees |
|--|------|----------------------|----------------------|
| Bank balances | 6 | 8,140,110 | 5,019,214 |
| Ijarah rentals receivable | | 41,042,491 | 16,058,922 |
| Advances, prepayments and other receivables | 7 | 173,468,757 | 68,281,383 |
| Accrued profit | 8 | 26,048,514 | 17,921,146 |
| Short term investments | 9 | 1,825,507 | 1,856,657 |
| Short term murabaha investment - secured | 10 | 761,251,646 | 597,084,052 |
| Short term musharakah investment - unsecured | 11 | 100,000,000 | 2,500,000 |
| Net investment in ijarah | 13 | 249,303,692 | 504,306,160 |
| Long term murabaha investment - secured | 14 | 89,844,977 | 122,137,065 |
| Long term sukuk certificate | 15 | 4,941,801 | 8,941,801 |
| Long term loans and deposits | 16 | 1,526,640 | 1,211,401 |
| | | <u>1,457,394,135</u> | <u>1,345,317,801</u> |

Geographically all credit exposure is concentrated in Pakistan.

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

| | 2011 Rupees | 2010 Rupees |
|----------------------------------|----------------------|----------------------|
| Auto and assemblers | 91,273,707 | 33,055,713 |
| Allied and engineering | - | 29,000,000 |
| Cable and electric goods | 39,839,758 | 50,101,415 |
| Chemicals and pharmaceuticals | 21,514,980 | 24,953,935 |
| Construction & Building Products | 3,743,425 | - |
| Education | 10,260,873 | 16,282,279 |
| Energy | 30,000,000 | 35,742,022 |
| Engineering and construction | - | 9,515,835 |
| Fabrics | 37,002,947 | 56,336,815 |
| Fertilizer | 484,120 | 20,661,960 |
| Financial institutions | 196,838,886 | 70,279,899 |
| Food and beverages | 41,694,724 | 27,082,217 |
| Paper and board | 97,500,000 | - |
| Glass and ceramics | 15,752,565 | 16,454,487 |
| Information technology | 22,389,993 | 21,119,878 |
| Leather and shoe industries | 52,760,625 | 39,729,453 |
| Media and advertising | 13,169,917 | 13,958,906 |
| Poultry feed | 37,820,983 | 45,947,068 |
| Rubber and tyre | 54,982,648 | 63,643,280 |
| Sugar | 297,835,637 | 247,543,546 |
| Telecommunication and media | - | 2,929,769 |
| Textile | 685,074,765 | 735,279,110 |
| Transport | 14,200,000 | - |
| Rice peddy | 7,500,000 | 7,500,000 |
| Paints | 57,500,000 | - |
| Plastic | 2,270,565 | 1,306,516 |
| Miscellaneous | 63,410,227 | 46,770,842 |
| | <u>1,894,821,347</u> | <u>1,615,194,945</u> |

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Note 42 - Financial Risk Management ... Contd.

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

| | 2011 Rupees | 2010 Rupees |
|--------------------------|----------------------|----------------------|
| Net investment in ijarah | 249,303,692 | 504,306,160 |
| Murabaha investments | 851,096,623 | 719,221,117 |
| Musharakah investments | 104,941,801 | 11,441,801 |
| | <u>1,205,342,116</u> | <u>1,234,969,078</u> |

Impairment losses

The aging of financial assets at the reporting date was:

| | Gross 2011 Rupees | Impairment 2011 Rupees | Gross 2010 Rupees | Impairment 2010 Rupees |
|----------------------|-------------------------|------------------------------|-------------------------|------------------------------|
| Not past due | 973,847,351 | 18,420,743 | 1,223,338,642 | 6,420,743 |
| Past due 0-90 days | 180,456,379 | - | 10,980,806 | - |
| Past due 90-180 days | 51,038,386 | - | 649,630 | - |
| | <u>1,205,342,116</u> | <u>18,420,743</u> | <u>1,234,969,078</u> | <u>6,420,743</u> |

42.3 Liquidity risk

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

The maturity profile of the Modaraba's financial liabilities based on contractual amounts is disclosed in Note 38 to the financial statements.

42.3.1 Market risk

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

42.3.2 Exposure to currency risk

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

42.3.3 Fair value sensitivity analysis for fixed rate instruments

The Modaraba does not account for any fixed rate financial asset and liability at fair value through profit or loss and does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would affect the profit or loss. A change of 100 basis points in interest rates would have increased or decreased equity by Rs. 17.6 (2010: 12.51) million.

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Note 42 - Financial Risk Management ... Contd.

42.3.4 Other market price risk

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

42.3.5 Sensitivity analysis - equity price risk

A change of Rs. 5 in value of investments at fair value through profit or loss would have increased or decreased equity by Rs. 181,030 (2010: Rs. 144,825).

42.3.6 Fair value of financial assets and liabilities

The carrying value of financial assets and liabilities approximate their fair values.

Note 43

Date of Authorization for Issue

These financial statements were authorized for issue on September 28, 2011 by the Board of Directors of First National Bank Modaraba Management Company.

Note 44

Profit Distribution

The Board of Directors of Modaraba Management Company in their meeting held on September 28, 2011 have declared a final profit distribution of Re. 1 (2010: Re. 1) per Modaraba certificate which in total amount to Rs. 25,000,000 (2010: Rs. 25,000,000).

Note 45

General

Corresponding figures have been re-arranged / reorganised, wherever necessary, for better presentation of the financial statements. Material rearrangements / reclassification made in the financial statements are as under:

| Particulars | Amount | From | To |
|--|-------------|---------------------------------|---------------------------------|
| Depreciation on assets under ijarah | 110,418,415 | Operating expenses | Face of profit and loss account |
| Impairment on available for sale investments | 11,558,176 | Face of profit and loss account | Other operating expenses |
| Allowance for potential loss in ijarah and short term murabaha investments | 6,420,743 | Operating expenses | Other operating expenses |
| Auditors' remuneration | 423,000 | Operating expenses | Other operating expenses |

CHIEF EXECUTIVE OFFICER DIRECTOR DIRECTOR CHIEF FINANCIAL OFFICER
Lahore: September 30, 2011

FIRST NATIONAL BANK MODARABA

PATTERN OF CERTIFICATE HOLDING AS ON JUNE 30, 2011

| Number of Certificate Holders | From | To | No. of Certificates Held | Percentage of Total Capital |
|-------------------------------|---------|---------|--------------------------|-----------------------------|
| 69 | 1 | 100 | 3,664 | 0.01 |
| 415 | 101 | 500 | 194,949 | 0.78 |
| 228 | 501 | 1000 | 214,410 | 0.86 |
| 214 | 1001 | 5000 | 613,157 | 2.45 |
| 72 | 5001 | 10000 | 599,709 | 2.40 |
| 21 | 10001 | 15000 | 270,299 | 1.08 |
| 13 | 15001 | 20000 | 245,741 | 0.98 |
| 13 | 20001 | 25000 | 297,990 | 1.19 |
| 12 | 25001 | 30000 | 342,250 | 1.37 |
| 5 | 30001 | 35000 | 162,400 | 0.65 |
| 4 | 35001 | 40000 | 160,000 | 0.64 |
| 5 | 40001 | 45000 | 214,356 | 0.86 |
| 1 | 45001 | 50000 | 49,900 | 0.20 |
| 2 | 50001 | 55000 | 104,272 | 0.42 |
| 2 | 55001 | 60000 | 117,500 | 0.47 |
| 1 | 65001 | 70000 | 65,500 | 0.26 |
| 2 | 75001 | 80000 | 154,000 | 0.62 |
| 1 | 85001 | 90000 | 86,500 | 0.35 |
| 4 | 95001 | 100000 | 400,000 | 1.60 |
| 1 | 110001 | 115000 | 115,000 | 0.46 |
| 1 | 115001 | 120000 | 120,000 | 0.48 |
| 1 | 130001 | 135000 | 132,500 | 0.53 |
| 1 | 140001 | 145000 | 145,000 | 0.58 |
| 2 | 145001 | 150000 | 295,408 | 1.18 |
| 2 | 155001 | 160000 | 316,900 | 1.27 |
| 1 | 175001 | 180000 | 178,500 | 0.71 |
| 1 | 185001 | 190000 | 185,200 | 0.74 |
| 1 | 195001 | 200000 | 200,000 | 0.80 |
| 1 | 260001 | 265000 | 262,410 | 1.05 |
| 1 | 270001 | 275000 | 273,998 | 1.10 |
| 1 | 285001 | 290000 | 286,369 | 1.15 |
| 1 | 350001 | 355000 | 355,000 | 1.42 |
| 1 | 435001 | 440000 | 435,165 | 1.74 |
| 1 | 445001 | 450000 | 446,030 | 1.78 |
| 1 | 550001 | 555000 | 550,767 | 2.20 |
| 1 | 580001 | 585000 | 584,500 | 2.34 |
| 1 | 640001 | 645000 | 641,751 | 2.57 |
| 1 | 700001 | 705000 | 700,601 | 2.80 |
| 1 | 975001 | 980000 | 978,000 | 3.91 |
| 2 | 995001 | 1000000 | 2,000,000 | 8.00 |
| 1 | 1695001 | 1700000 | 1,700,000 | 6.80 |
| 1 | 2300001 | 2305000 | 2,300,304 | 9.20 |
| 1 | 7495001 | 7500000 | 7,500,000 | 30.00 |
| 1,111 | | | 25,000,000 | 100.00 |

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CATEGORIES OF CERTIFICATE HOLDERS AS ON JUNE 30, 2011

| Sr. # | Code | Category | No. of Certificate Holders | Certificates held | Percentage of Total Capital |
|---------------|------|--------------------------|-------------------------------|----------------------|--------------------------------|
| 1 | 1 | Individuals | 1,085 | 11,887,031 | 47.5481 |
| 2 | 3 | Insurance Companies | 1 | 65,500 | 0.2620 |
| 3 | 4 | Joint Stock Companies | 15 | 3,171,751 | 12.6845 |
| 4 | 5 | Financial Institutions | 2 | 1,619,751 | 6.4790 |
| 5 | 6 | Modarabas | 1 | 35,000 | 0.1400 |
| 6 | 9 | Modarabas Management Cos | 1 | 7,500,000 | 30.0000 |
| 7 | 9 | Funds | 4 | 397,700 | 1.5908 |
| 8 | 24 | Others | 2 | 323,898 | 1.24956 |
| TOTAL: | | | 1,111 | 25,000,000 | 100.0000 |

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

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

Associated companies, undertakings and related parties

Number of
Certificates

National Bank Modaraba Management Company Limited

7,500,000

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CATEGORIES DETAILS AS ON JUNE 30, 2011

| Category | Numbers of Certificates |
|--|-------------------------|
| Investment Companies | |
| THE CRESCENT STAR INSURANCE CO. LTD. | 65,500 |
| Joint Stock Companies | |
| FAIR EDGE SECURITIES (PRIVATE) LIMITED | 100 |
| MUHAMMAD AHMED NADEEM SECURITIES (SMC-PVT) LIMITED | 100 |
| INVEST CAPITAL MARKETS LIMITED | 300 |
| SHAFI SECURITIES (PVT) LIMITED | 400 |
| AMZ SECURITIES (PVT) LIMITED | 500 |
| DOSSLANI'S SECURITIES (PVT) LIMITED | 500 |
| AL-HAQ SECURITIES (PVT) LTD. | 500 |
| DARSON SECURITIES (PRIVATE) LIMITED | 900 |
| TREET CORPORATION LIMITED | 1,041 |
| STOCK MASTER SECURITIES (PRIVATE) LTD. | 1,800 |
| MOHAMMAD MUNIR MOHAMMAD AHMED KHANANI SECURITIES (PVT.) LTD. | 10,000 |
| HAJI ABDUL SATTAR SECURITIES (PVT.) LIMITED | 157,100 |
| TREET CORPORATION LIMITED | 262,410 |
| ASIAN SECURITIES LIMITED | 435,165 |
| 1673 TREET CORPORATION LIMITED | 2,300,304 |
| Financial Institutions | |
| NIB BANK LIMITED | 641,751 |
| THE BANK OF PUNJAB, TREASURY DIVISION. | 978,000 |
| Modarabas | |
| FIRST ALNOOR MODARABA | 35,000 |
| Modarabas Management Cos | |
| NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED | 7,500,000 |
| Funds | |
| TRUSTEES-ABBASI & CO. PVT. LTD. EMPS.P.FUND | 12,500 |
| TRUSTEES-TREET CORPORATION LIMITED G.E.GRATUITY | 100,000 |
| TRUSTEE-TREET CORPORATION LTD. GROUP EMPLOYEES SERVICE FUND | 100,000 |
| TRUSTEES-TREET CORP. LTD. E. SUPERANNVAT FUND | 185,200 |
| Others | |
| TRUSTEES, ALOO & MINOCHER DINSHAW CHARITABLE TRUST | 49,900 |
| TRUSTEES OF TEACHERS RESOURCE CENTRE | 273,998 |

BOOK POST
UNDER POSTAL CERTIFICATE

TO:



If undelivered please return to :
FIRST NATIONAL BANK MODARABA
5th Floor, NBP RHQs Building,
26 McLagon Road,
Lahore.
Tel : 99211200, Fax: 99213247