



KASB Modaraba

An Islamic Financial Institution



## ANNUAL REPORT 2015

صاف اور شفاف آمدنی،  
سچا سکون ہے...

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

Social values of Islam provide the faithful with a large measure of spiritual peace and serenity, and this contentment can be reaped while pursuing business aspirations within the confines of Islamic law. We visualize creating an institution where society can seek a just and fair advantage from the richness of Islamic system of trade finance.

# CONTENTS

◆ CORPORATE INFORMATION	05
◆ DIRECTORS' REPORT	06
◆ KEY FINANCIAL AND OPERATIONAL DATA	09
◆ STATEMENT OF COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE	10
◆ SHARIAH ADVISOR'S REPORT	12
◆ AUDITORS' REVIEW REPORT ON COMPLIANCE OF CORPORATE GOVERNANCE	13
◆ AUDITORS' REPORT TO THE CERTIFICATE HOLDERS	14
◆ BALANCE SHEET	15
◆ PROFIT AND LOSS ACCOUNT	16
◆ STATEMENT OF COMPREHENSIVE INCOME	17
◆ CASH FLOW STATEMENT	18
◆ STATEMENT OF CHANGES IN EQUITY	19
◆ NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS	20
◆ PATTERN OF CERTIFICATE HOLDING	44
◆ NOTICE OF ANNUAL REVIEW MEETING	46
◆ INFORMATION OF JAMA PUNJI	47

# CORPORATE INFORMATION

## Board of Directors

Syed Waseem-ul-Haq Haqqie  
Rashid K. Siddiqui  
Syed Muhammad Rehmanullah  
Farrukh S. Ansari

Chairman  
Chief Executive Officer  
Director  
Director

## Chief Financial Officer

Aftab Afroz Mahmoodi

## Company Secretary

Zia-ul-Haq

## Head of Internal Audit

Syed Shahid Owais

## Management Company

KASB Invest (Private) Limited

## Auditors

Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants

## Audit Committee

Farrukh S. Ansari  
Syed Muhammad Rehmanullah  
Syed Waseem-ul-Haq Haqqie

Chairman  
Member  
Member

## Human Resource and Remuneration Committee

Farrukh S. Ansari  
Syed Waseem-ul-Haq Haqqie  
Syed Muhammad Rehmanullah  
Rashid K. Siddiqui

Chairman  
Member  
Member  
Member

## Bankers

Al-Baraka Islamic Bank  
Burj Bank Limited  
Meezan Bank  
Bank Islami  
Bank Al-Falah Limited  
Silk Bank Limited Emaan  
Soneri Bank Limited  
Dubai Islamic Bank  
Bank of Khyber  
Summit Bank Limited

## Registered & Head Office

8-C, Block-6,  
P.E.C.H.S  
Off: Shahrah-e-Faisal  
Karachi.  
Telephone: 021-34398852-55

## Certificate Transfer Office

C&K Management Associates (Private) Limited  
404, Trade Tower,  
Abdullah Haroon Road,  
Near Metropole Hotel  
Karachi - 75530  
Telephone: 021-35687839 - 021-35685930

## Legal Advisor

Ahmed & Qazi  
S&B Durrani Law Associates

## Shariah Advisor

Mufti Abdul Sattar Laghari

## PECHS Branch:

Address : 8-C, Block-6,  
PECHS, Off. Shahrah-e-Faisal,  
Karachi.  
PABX: 021-34398852-55  
Fax: 021-34398858.

## DHA Branch:

74-C, 13th Commercial Street,  
DHA Phase II (Ext), Karachi.  
Phone No.: 021-35313939-40.

## Islamabad Branch:

Basement, 90-91, Razia Sharif Plaza,  
Jinnah Avenue, Blue Area F-7,  
Islamabad  
Phone No.: 051-2344422-24

## Gulshan Branch:

Shop# B-38/G3, B-38/G4, Block 13-A  
Gulshan-e-Iqbal, Karachi.  
Phone No: 021-34822814-18 & 34983102-3

## Lahore Branch:

83/A, Block-E/1, Main Boulevard  
Gulberg-III, Lahore  
Phone No.: 042-35790447-9 & 042-35790442

## Web Address

www.kasbmodaraba.com

## E-mail

sales.mod@kasb.net | takaful.mod@kasb.net

## DIRECTORS' REPORT



The Board of Directors of KASB Invest (Private) Limited, the Management Company of KASB Modaraba is pleased to present the annual audited financial statements of the Modaraba for the year ended June 30, 2015.

These results have reinforced our belief in Halal and Shariah Compliant Business.

### FINANCIAL HIGHLIGHTS

Financial highlights for the period under review are summarized as under:-

BALANCE SHEET	Rupees	
	June 2015 Rs "000"	June 2014 Rs "000"
Modaraba Finance	22,740	36,236
Musharaka Finance	45,490	93,777
Murabaha Finance	312,873	395,090
Diminishing Musharaka Finance	354,488	399,437
Ijarah Assets	34,525	72,363
Property acquired in satisfaction of financing facility	-	33,760
Total Assets	982,728	1,305,559
Net Assets	385,234	289,672

PROFIT & LOSS ACCOUNT	Rupees	
	June, 2015 Rs "000"	June 2014 Rs "000"
Gross Income	184,414	185,224
Operating & Financial Charges	(182,092)	(166,379)
Operating Profit/Loss	13,095	27,149
Management Company Fee	(1,717)	(2,714)
Net Profit/Loss for the Year	11,155	23,994
Earning per Modaraba Certificate (Rupees)	0.23	0.85

### OPERATIONS AND PERFORMANCE

By the Grace of Allah, KASB Modaraba has successfully completed its financial year ended June 30, 2015. The period closed with net profit of Rs. 11.2 million and Earning per Certificate was Rs. 0.23. During the year, the gross income was Rs. 184.4 million and other income was Rs. 10.7 million. The operating and financial charges were 182.1 million.

The year started with commencement of a Dairy Project with an outlook of substantial growth and profitability. However, due to certain regulatory constraints, despite obtaining positive advices from Sharia advisor, legal and financial consultants, the investment in the Dairy Project was discontinued at the start of the second half of the year. This halted the expected future earnings of the Modaraba.

During the year issuance of rights increased the certificate capital of the Modaraba from Rs. 283 million to Rs. 382 million. This improved the liquidity position of the Modaraba and helped to keep a positive bottom line.

However, due to placement of moratorium on KASB Bank, the deposits of the Modaraba sharply shrank. Such an unpleasant incident adversely impacted the plans and the crisis management diverted the concentration from business expansion and growth, to overcoming the situation. By the Grace of Allah, your Modaraba successfully came out of the situation and regained the confidence and comfort of the stakeholders.

SECP, during the year, has given the administrative/ management control of First Pak Modaraba and First Prudential Modaraba to KASB Invest (Private) Limited for which we express our gratitude to the regulators for reposing trust on us in assigning the task.

The discontinuation of Dairy Project and the decrease in the deposit size resulted in the reduction of profitability of the Modaraba to record a net profit of Rs. 11.2 million in 2015 (June 30, 2014: Rs. 23.9 million). The administrative and operating expenses were Rs. 116.4 million (June 30, 2014: Rs. 69.6 million). Financial charges were reduced from Rs. 96.7 million in 2014 to 65.7 million in 2015.

The auditors in their report have expressed their concern over non provisioning against one of the short term Modaraba finance facility. However, the management believes that no provision against the same is required and the amount involved there against will be recovered in due course of time.



## CREDIT RATING

Despite the difficult time and hurdles in the way, the management kept its morale high and strived for keeping the graph up. We are pleased to announce that the long term entity rating of the Modaraba has been upgraded from BBB to BBB+ and short term entity rating from A3 to A2 with a positive future outlook to your Modaraba. The credit rating agency for the current year was the Pakistan Credit Rating Agency Limited (PACRA).

## DIVIDEND

The Board of Directors is pleased to announce a final cash dividend for the year ended June 30, 2015 @ 1.1% i.e Re. 0.11 per certificate. This is the result of the untiring efforts by the management, its unsheltered belief in the Sharia compliant business coupled with the blessings of the Almighty.

## YEAR AT A GLANCE

Though discontinuation of a growing business line and decline in the deposit size, the profitability of the Modaraba reduced. However, the management is committed and is striving its best efforts for achieving better results.

## FUTURE PROSPECTS

Our business strategy & approach is sound. We are confident that our Modaraba has all the potential and capabilities to enhance further business and profit. Being a multipurpose Modaraba, we are planning to explore new sharia compliant business ventures where we would exploit our potential and expect to generate good returns for the certificate holders.

## CORPORATE AND FINANCIAL REPORTING

The Board of Directors is fully aware of its duties and responsibilities under Code of Corporate Governance issued by Securities and Exchange Commission of Pakistan. The following statements demonstrate the Board's philosophy and commitment towards maintaining high standards of Corporate Governance:

- 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.
- Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards (IASs) as applicable in Pakistan have been followed in preparation of Financial Statements and any departure there from has been adequately disclosed.
- The system of internal controls is sound in design and has been effectively implemented and monitored.
- The Modaraba is financially sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Modaraba's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- The Modaraba operates an unapproved unfunded gratuity scheme for its permanent employees, value of which is Rs. 4,773,205/- as at June 30, 2015.
- Key operating and financial data for the last six years in summarized form is included in this annual report.
- There are no statutory payments on account of taxes, duties, levies and charges outstanding as on June 30, 2015 except as disclosed in the financial statements.
- None of the directors of Modaraba, CEO, CFO, Company Secretary and their spouses and minor children has carried out trading of certificates of the Modaraba.
- During the year, five meetings of the Board of Directors were held. Attendance by each director is as follows:

## DIRECTORS' REPORT



Name		No of Meetings Attended
Syed Waseem Haqqie	Chairman	5
S. M. Rehmanullah	Director	5
Farrukh S. Ansari	Director	5
Rashid K. Siddiqui	Chief Executive	5

- The pattern of holding of Certificates by the Certificate-holders is included in this annual report.

### COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

The requirements of the Code of Corporate Governance set out by the Karachi Stock Exchange in its Rule Book relevant for the year ended June 30, 2015 have been adopted by the Modaraba and have been duly complied with. A statement to this effect is annexed with the report.

### HUMAN RESOURCES

The Board is confident that the management and employees of your Modaraba will continue to work with the integrity and zeal that has been their hallmark, and your Modaraba shall Insha'Allah continue to prosper. Investment in Human Resources is the cornerstone of our policy.

### AUDITORS

The term of appointment of present auditors M/s. Ernst and Young Ford Rhodes SidatHyder & Co., Chartered Accountants is expiring on the date of the ensuing Annual Review Meeting of the Modaraba. On the recommendation of the Audit Committee, the Board has approved the appointment of M/s. AvasHyderLiaquatNauman, Chartered Accountants, as auditors for the year ending June 30, 2016, subject to approval by the Registrar of Modaraba Companies and Modaraba.

### ACKNOWLEDGEMENT

The Board greatly appreciates the support co-operation of the regulatory authorities, certificate holders, customers and bankers and looks forward to their continued support and advice in future.

We pray to Almighty Allah for the success of your Modaraba.

For and behalf of Board of Directors

**Syed Waseem-ul-Haq Haqqie**  
Chairman  
Dated: 8th October, 2015  
Karachi.



## KEY FINANCIAL AND OPERATIONAL DATA AT A GLANCE



	2015	2014	2013	2012	2011	2010
	-----Rupees in Thousand-----					
Total Assets	982,728	1,305,559	1,516,092	1,636,965	1,113,872	953,667
Musharika Finance	45,490	93,777	98,161	82,207	42,798	83,634
Murabaha Finance	312,873	395,090	627,204	807,764	480,436	362,561
Modaraba Finance	22,739	36,236	83,696	77,455	75,630	154,440
Diminishing Musharaka	354,488	399,437	424,230	470,812	279,101	131,600
Ijarah Assets	34,525	72,363	47,368	66,459	56,235	65,997
Investment in Lease	685	1,630	1,110	1,541	7,329	45,002
Equity	385,234	289,672	265,717	330,221	307,640	274,753
Current Assets	680,456	1,004,538	1,175,724	1,164,791	769,492	762,536
Current Liabilities	345,046	846,682	1,187,542	1,189,717	633,387	665,904
Income	195,187	174,401	239,148	205,017	167,843	89,730
Taxation	-	-	-	-	-	-
Profit/(Loss) after Tax	11,155	23,994	(46,029)	40,678	40,139	17,096
Dividend (Rs.)	0.11	0.24	-	0.65	0.64	0.28
EPS (Rs.)	0.23	0.85	(1.63)	1.44	1.42	0.6

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE



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

Regardless of the fact that KASB Invest (Private) Limited, the management company of the KASB Modaraba (the Modaraba), is a Private Limited Company, the Board of Directors of management company are pleased to confirm that the Code of Corporate Governance is being complied with in all material respects.

Modaraba Management Company (hereafter referred as Company) has applied the principles contained in the Code in the following manner.

1. The company encourages effective representation of independent non-executive directors and directors representing minority interests on its Board of directors. At present the board includes:

Category	Names
Independent Director	Farrukh S. Ansari
Independent Director	Syed Waseem-ul-HaqHaqqie
Independent Director	Syed Muhammad Rehmanullah
Executive Directors	Rashid K.Siddiqui

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this company (excluding the listed subsidiaries of listed holding companies, where applicable).
3. All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBF1 or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. During the year no casual vacancy occurred on the Board.
5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Modaraba along with its supporting policies and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies 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, including appointment and determination of remuneration and terms and conditions of employment of the CEO, and other directors, have been taken 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 papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. All Directors are certified except one who is exempted for director's training program by virtue of his experience as prescribed by SECP in clause XI of CCG.
10. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
11. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the board.
12. The directors, CEO and executives do not hold any interest in the Certificates of the Modaraba, except as disclosed in the pattern of shareholding annexed to the financial statements.
13. The Modaraba has complied with all the corporate and financial reporting requirements of the CCG.
14. The Board has formed an Audit Committee. It comprises of three members, of whom are all independent directors.
15. The meetings of the Audit Committee were held prior to approval of interim and final results of the Modaraba. The terms of reference of the committee has been formed and advised to the committee for compliance.
16. The Board has formed an HR and Remuneration Committee. It comprises of four members, three of whom are independent directors.



17. The Board has appointed CFO and Company Secretary during the year 2014-2015 who is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Modaraba.
18. The board has set up an effective internal audit function.
19. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the ICAP, 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 its partners are in compliance with International Federation of Accountants (IFAC) Guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Modaraba's securities, was determined and intimated to directors, employees and stock exchange(s).
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).
23. In terms of the Code, the Board has implemented the mechanism for an annual evaluation of the Board's own performance.
24. We confirm that all other material principles enshrined in the Code have been complied with.

For and on behalf of the Board

**Syed Waseem-ul-HaqHaqqie**  
Chairman  
Karachi

# بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

All praise is due to ALLAH, the Cherisher of the world  
Peace and Blessings be upon the Prophet of ALLAH, on his family and all his companions, and  
on those who follow him with Iman till the day of Aakhirah

## Shariah Advisor's Report 2015

Alhamdulillah, I have conducted the Shariah audit & review of KASB Modaraba managed by KASB Invest (Private) Limited, Modaraba Management Company for the year ended June30, 2015, in accordance with the requirements of the Shariah Compliance and Shariah Audit Mechanism for Modarabas and report that except the observations as reported hereunder, in my opinion:

- i. KASB Modaraba is in process to introduce a mechanism which may strengthen the Shariah compliance, in letter and spirit to a better extent. The systems, procedures and policies adopted by the KASB Modaraba during the period, most of these are in line with guidelines issued by SECP.
- ii. The agreement(s) entered into by the KASB Modaraba are approved by religious board of SECP and the financing agreements have been executed on these formats and it has been tried to meet all the related conditions.
- iii. KASB Modaraba is doing business mainly in area of Diminishing Musharakah and Murabahah. KASB Modaraba is also doing Musharakah on finance side.
- iv. KASB Modaraba raises its funds through approved scheme of Certificate of Musharakah. The Profit sharing weightages / ratios, profits distribution relating to Certificate of Musharakah (COM) are announced on quarterly basis and a practice paying HIBA is also a part of profit payments.

Any Payment received over and above due payments due to delay:

- I. KASB Modaraba has collected and credited to charity account Rs. 332,466/- during the period.

### Observations:

1. The mechanism of allocation of weightages / profit rates needs further better development in addition with the IT system / module being used for it.
2. KASB Modaraba has its portfolio of assets insured through commercial insurance companies. However it is being shifted towards Takaful.
3. The senior management and staff of KASB Modaraba cooperates in observing Shariah compliance with its true spirit.

### Recommendation:

In my opinion and best of my knowledge and information provided by KASB Modaraba management with relevant explanation, I am of the view that there is a need of more efforts to strengthen Shariah Compliance. However, the business operations of the Modaraba are in lines with Shariah Compliant.

And Allah Taala knows Better & Perfect.



Mufti Abdul Sattar Laghari  
Shariah Advisor



Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants  
Progressive Plaza, Beaumont Road  
P.O. Box 15541, Karachi 75530  
Pakistan

Tel: +9221 3565 0007-11  
Fax: +9221 3568 1965  
eyfrsh.khi@pk.ey.com  
ey.com/pk

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

We have reviewed the Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the Code) for the year ended 30 June 2015 prepared by the Board of Directors of KASB Invest (Private) Limited (the Management Company) to comply with the Listing Regulations No. 35 (Chapter XI) of the Karachi and Lahore Stock Exchanges, where the Modaraba is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

The Code requires the Management Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board for their review and approval the Modaraba's 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 and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Modaraba's compliance, in all material respects, with the best practices contained in the Code as applicable to the Modaraba for the year ended 30 June 2015.

Chartered Accountants

**Audit Engagement Partner: Arslan Khalid**

**Date: 08 October 2015**

**Karachi**

# AUDITORS' REPORT TO THE CERTIFICATE HOLDERS



**EY**

Building a better  
working world

Ernst & Young Ford Rhodes Tisot Hyder  
Chartered Accountants  
Progressive Plaza, Beaumont Road  
P.O. Box 25041, Karachi 75330  
Pakistan

Tel: +9221 3565 0007 11  
Fax: +9221 3568 1968  
eyfrn.kh@pk.ey.com  
ey.com/pk

## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of KASB Modaraba (the Modaraba) as at 30 June 2015 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 (here-in-after 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 Management Company's [KASB Invest (Private) Limited] responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of 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 above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, 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) Included in Short term modaraba finance (Note 9 to the financial statements) and accrued profit (Note 15 to the financial statements) is an outstanding amount of Rs. 7.543 million and Rs. 0.798 million respectively, which, in our view is doubtful of recovery, however, no provision has been made against the same in the financial statements.
- (b) In our opinion, proper books of accounts have been kept by the Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, and the Modaraba Companies and Modaraba Rules, 1981;
- (c) In our opinion :
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in note 4.1 to the financial statements, with which we concur;
  - (ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- (d) except for the financial effect of matter referred to in the paragraph (a) above, 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 30 June 2015 and of the profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and
- (e) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Modaraba and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Chartered Accountants

Audit Engagement Partner: Arslan Khalid

Date: 08 October 2015

Karachi

# BALANCE SHEET

AS AT 30 JUNE 2015




	Note	2015	2014
(Rupees)			
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank balances	7	145,845,016	172,123,131
Short-term investments	8	1,000,000	58,224,203
Short term modaraba finance	9	22,739,500	36,235,793
Short term musharaka finance	10	45,490,042	93,777,447
Current portion of long term murabaha finance - gross	11	247,871,070	360,807,368
Current portion of long term diminishing musharaka finance	12	169,358,244	220,026,203
Current portion of long term net investment in finance lease	13	98,756	383,595
Ijarah rentals receivable	14	2,539,147	2,423,351
Advances, prepayments and other receivables	15	45,514,503	26,776,911
Property acquired in satisfaction of financing facility		-	33,759,860
		<b>680,456,278</b>	<b>1,004,537,862</b>
<b>Non-current assets</b>			
Long-term investments	8	2,609,452	6,266,507
Long-term murabaha finance - gross	11	65,001,709	34,283,128
Long-term diminishing musharaka finance	12	185,130,263	179,411,703
Long-term net investment in finance lease	13	-	133,070
Long-term deposits		685,300	1,630,300
Ijarah assets	16	34,525,218	72,363,491
Fixed assets	17	14,319,938	6,933,390
		<b>302,271,880</b>	<b>301,021,589</b>
<b>TOTAL ASSETS</b>		<b>982,728,158</b>	<b>1,305,559,451</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Current portion of redeemable capital	18	293,680,000	771,505,343
Current portion of long term security deposits	19	1,921,348	5,449,328
Current portion of long term deferred murabaha income	11	9,968,907	20,350,419
Creditors, accrued and other liabilities	20	37,638,138	47,769,185
Unclaimed profit distribution		1,837,275	1,607,401
		<b>345,045,668</b>	<b>846,681,676</b>
<b>Non-current liabilities</b>			
Long term portion of redeemable capital	18	236,240,000	153,985,000
Long term security deposits	19	4,180,050	2,687,100
Long-term deferred murabaha income	11	7,255,054	10,968,227
Deferred liabilities - staff gratuity	21	4,773,205	1,565,644
		<b>252,448,309</b>	<b>169,205,971</b>
<b>TOTAL LIABILITIES</b>		<b>597,493,977</b>	<b>1,015,887,647</b>
<b>NET ASSETS</b>		<b>385,234,181</b>	<b>289,671,804</b>
<b>REPRESENTED BY</b>			
<b>CAPITAL AND RESERVES</b>			
Certificate capital			
Authorised:			
50,000,000 (June 30, 2014: 50,000,000) certificates of Rs. 10/- each		<b>500,000,000</b>	<b>500,000,000</b>
Issued, subscribed and paid-up capital	22	<b>480,664,800</b>	<b>282,744,000</b>
Discount on issuance of certificates		<b>(98,960,400)</b>	
Statutory reserve	23	<b>78,468,762</b>	<b>72,891,382</b>
Accumulated loss		<b>(74,938,981)</b>	<b>(67,187,781)</b>
Unrealised Gain on revaluation of available for sale investments		-	<b>1,224,203</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	24		
		<b>385,234,181</b>	<b>289,671,804</b>

The annexed notes 1 to 40 form an integral part of these financial statements.

For KASB Invest (Private) Limited  
(Management Company)

  
Chief Executive

  
Director

  
Director

# PROFIT AND LOSS ACCOUNT

## FOR THE YEAR ENDED 30 JUNE 2015




Note	2015	2014
	----- (Rupees) -----	
Income from:		
- diminishing musharaka finance	66,061,326	65,312,031
- murabaha finance	43,266,061	64,696,525
- ijarah finance	25 50,293,167	24,252,760
- musharaka finance	6,293,330	11,854,779
- modaraba finance - gross	366,178	4,887,924
- dairy project - gross	4,691,988	-
- sukuk bonds	518,697	978,098
- Gain on sale of 'Available-for-sale' investments - net	26 2,066,158	-
	<u>173,556,905</u>	<u>171,982,117</u>
Financial charges	27 (65,699,697)	(96,757,989)
Direct Cost:		
- Musharaka, Murabaha Finance	(331,800)	-
- Biological assets	(2,270,900)	-
- Modaraba finance	(6,730,477)	(5,589,322)
- Depreciation on assets under ijarah arrangements	16.1 (40,852,230)	(19,127,515)
	<u>(115,885,104)</u>	<u>(121,474,826)</u>
	57,671,801	50,507,291
Other income	28 21,630,174	21,547,141
Administrative and operating expenses	29 (66,206,931)	(44,904,880)
	13,095,044	27,149,552
Modaraba management company's fee (Inclusive of Sales tax)	30 (1,717,189)	(2,714,955)
Provision for Workers' Welfare Fund	31 (223,095)	(439,849)
	<u>11,154,760</u>	<u>23,994,748</u>
<b>Profit before taxation</b>		
Taxation	32 -	-
<b>Net profit for the year</b>	<u>11,154,760</u>	<u>23,994,748</u>
Earnings per certificate - basic and diluted	33 <u>0.23</u>	<u>0.85</u>

The annexed notes 1 to 40 form an integral part of these financial statements.

For KASB Invest (Private) Limited  
(Management Company)

  
Chief Executive

  
Director

  
Director



**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2015**



	2015	2014
	----- (Rupees) -----	
<b>Net profit for the year</b>	11,154,760	23,994,748
<b>Other comprehensive income</b>		
<b>Item to be reclassified to profit and loss account in subsequent periods:</b>		
Unrealised gain on remeasurement of investments classified as 'available for sale'	-	1,224,203
Reclassification to profit and loss account upon disposal of investments	(1,224,203)	-
	(1,224,203)	1,224,203
<b>Items not to be reclassified to profit or loss in subsequent periods:</b>		
Actuarial loss on defined benefit plans (note 21.7)	(1,792,625)	(762,017)
<b>Total comprehensive income for the year</b>	<u>8,137,932</u>	<u>24,456,934</u>

The annexed notes 1 to 40 form an integral part of these financial statements.

**For KASB Invest (Private) Limited**  
 (Management Company)

  
 Chief Executive

  
 Director

  
 Director

# CASH FLOW STATEMENT

## FOR THE YEAR ENDED 30 JUNE 2015



	2015	2014
	-----Rupees-----	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	11,154,760	23,994,748
<b>Adjustments for non-cash charges and other items:</b>		
Gain on sale of investments - net	(2,066,158)	-
Gain on disposal of fixed assets - net	(2,000)	(4,500,000)
Gain on disposal of Ijarah assets	(915,830)	(407,069)
Gain on disposal of Property	(1,187,740)	
Depreciation	42,939,106	20,440,026
Amortisation	206,046	219,000
Provision for Workers' Welfare Fund	223,095	439,849
Provision for gratuity	1,805,155	847,850
	<b>52,156,434</b>	<b>45,078,404</b>
<b>(Increase) / decrease in assets</b>		
Modaraba finance	13,496,293	47,460,325
Musharaka finance	48,287,405	4,383,916
Murabaha finance	82,217,717	198,354,522
Diminishing musharaka finance	44,949,399	24,792,937
Net investment in finance lease	417,909	6,250
Ijarah rentals receivable	(115,796)	624,864
Advances, prepayments and other receivables	(18,737,592)	(1,503,649)
Property acquired in satisfaction of financing facility	34,947,600	
Long-term deposits	945,000	(520,000)
	<b>206,407,935</b>	<b>273,599,165</b>
<b>Increase / (decrease) in liabilities</b>		
Security deposits	(2,035,030)	(847,350)
Deferred murabaha income	(14,094,685)	(16,640,715)
Creditors, accrued and other liabilities	(10,354,142)	8,388,270
	<b>(26,483,857)</b>	<b>(9,099,795)</b>
Profit distribution paid	(11,306,081)	(43,643)
Staff gratuity paid	(390,219)	(1,661,239)
	<b>(11,696,300)</b>	<b>(1,704,882)</b>
<b>Net cash generated from operating activities</b>	<b>220,384,212</b>	<b>307,843,892</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(9,687,470)	(1,730,282)
Sales proceeds from disposal of fixed assets	10,000	580,000
Purchase of Ijarah assets	(15,738,072)	(49,712,914)
Sales proceeds from disposal of Ijarah assets	13,639,945	5,997,290
Investments - net	61,723,213	(39,771,948)
<b>Net cash (used in) / generated from investing activities</b>	<b>49,947,616</b>	<b>(84,637,854)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Issue of certificates at discount	98,960,400	
Certificate of musharaka - net	(395,570,343)	(226,234,657)
<b>Net cash (used in) / generated from financing activities</b>	<b>(296,609,943)</b>	<b>(226,234,657)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(26,278,115)</b>	<b>(3,028,619)</b>
Cash and cash equivalents at the beginning of the year	172,123,131	175,151,750
<b>Cash and cash equivalents at the end of the year</b>	<b>145,845,016</b>	<b>172,123,131</b>

The annexed notes 1 to 40 form an integral part of these financial statements.

For KASB Invest (Private) Limited  
(Management Company)

  
Chief Executive

  
Director

  
Director

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2015




	Certificate capital	Discount on issuance of certificates	Statutory reserve	Accumulated loss	Unrealised Gain on revaluation of available for sale investments	Total
	(Rupees)					
Balance as at 30 June 2013	282,744,000	-	60,894,008	(78,423,138)	-	265,214,870
Net profit for the year	-	-	-	23,994,748	-	23,994,748
Other comprehensive loss	-	-	-	(762,017)	1,224,203	462,186
Transfer to statutory reserve at 50%	-	-	11,997,374	(11,997,374)	-	-
Balance as at 30 June 2014	282,744,000	-	72,891,382	(67,187,781)	1,224,203	289,671,804
Issue of right certificates (Note 25)	<b>197,920,800</b>	<b>(98,960,400)</b>	-	-	-	98,960,400
Net profit / (loss) for the year	-	-	-	11,154,760	-	11,154,760
Other comprehensive income / (loss)	-	-	-	(1,792,625)	(1,224,203)	(3,016,828)
Profit distribution for the year ended June 30, 2014 @Rs. 0.24 per certificate	-	-	-	(11,535,955)	-	(11,535,955)
Transfer to statutory reserve at 50%	-	-	5,577,380	(5,577,380)	-	-
Balance as at 30 June 2015	<b>480,664,800</b>	<b>(98,960,400)</b>	<b>78,468,762</b>	<b>(74,938,981)</b>	-	<b>385,234,181</b>

The annexed notes 1 to 40 form an integral part of these financial statements.

For KASB Invest (Private) Limited  
(Management Company)

  
Chief Executive

  
Director

  
Director

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015



## 1. LEGAL STATUS AND NATURE OF BUSINESS

KASB Modaraba (the Modaraba) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the rules framed thereunder and is managed by KASB Invest (Private) Limited (the Management Company), a company incorporated in Pakistan. The registered office of the Modaraba is located at 8-C, Block 6, PECHS Off. Shahrah-e-Faisal, Karachi.

The Modaraba is a multipurpose perpetual modaraba and is primarily engaged in ijarah financing, musharaka financing, murabaha financing, modaraba financing, diminishing musharaka and investing in sukuk bonds and mutual funds. The Modaraba is listed on the Karachi and Lahore Stock Exchanges.

## 2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, Islamic Financial Accounting Standards (IFASs) issued by the Institute of Chartered Accountants of Pakistan, the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981, Islamic Financial Accounting Standards (IFASs) and the directives issued by the SECP differ with the requirements of IFRSs, the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981, Islamic Financial Accounting Standards (IFASs) or the directives issued by the SECP prevail.

## 3. BASIS OF MEASUREMENT

These financial statements have been prepared on the historical cost basis, except for available for sale financial assets that are carried at fair value and certain staff retirement benefits that are carried at present value of defined benefit obligation.

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 4.1 New Standards, Interpretations and Amendments

The Modaraba has adopted the following accounting standard and the amendments and interpretation of IFRSs which became effective for the current year:

- IAS 19 - Employee Benefits - (Amendment) Defined Benefit Plans: Employee Contributions
- IAS 32 - Financial Instruments: Presentation - (Amendment) - Offsetting Financial Assets and Financial Liabilities
- IAS 36 - Impairment of Assets - (Amendment) - Recoverable Amount Disclosures for Non-Financial Assets
- IAS 39 - Financial Instruments: Recognition and Measurement - (Amendment) - Novation of Derivatives and Continuation of Hedge Accounting
- IFRIC 21 - Levies
- Improvements to Accounting Standards Issued by the IASB
- IFRS 2 Share-based Payment - Definitions of vesting conditions
- IFRS 3 Business Combinations - Accounting for contingent consideration in a business combination
- IFRS 3 Business Combinations - Scope exceptions for joint ventures
- IFRS 8 Operating Segments - Aggregation of operating segments
- IFRS 8 Operating Segments - Reconciliation of the total of the reportable segments' assets to the entity's assets
- IFRS 13 Fair Value Measurement - Scope of paragraph 52 (portfolio exception)

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2015



IAS16 Property, Plant and Equipment and IAS 38 Intangible Assets – Revaluation method – proportionate restatement of accumulated restatement of accumulated depreciation / amortisation

IAS 24 Related Party Disclosures - Key management personnel

IAS 40 Investment Property - Interrelationship between IFRS 3 and IAS 40 (ancillary services)

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any effect on the financial statements of the Modaraba.

### 4.2 Cash and cash equivalents

These comprise cash in hand and balances with banks in current and deposit accounts.

### 4.3 Financial assets

#### 4.3.1 Classification

The Modaraba classifies its financial assets in accordance with the requirements of IAS 39 - Financial Instruments: Recognition and Measurement as 'fair value through profit or loss', 'loans and receivables', 'held to maturity' and 'available-for-sale'.

#### At fair value through profit or loss

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in market prices are classified under 'financial assets at fair value through profit or loss' category.

#### Loans and receivables

These are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market.

#### Held to maturity

These are financial assets with fixed or determinable payments and fixed maturity which the Modaraba has positive intent and ability to hold till maturity.

#### Available-for-sale financial assets

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices, are classified as 'available-for-sale'. Available-for-sale financial instruments are those non-derivative financial assets that are not classified as held to maturity and financial assets at fair value through profit or loss.

#### 4.3.2 Initial recognition and measurement

Financial assets are initially measured at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially measured at fair value and transaction costs associated with these financial assets are taken directly to the profit and loss account.

#### 4.3.3 Subsequent measurement

Subsequent to initial recognition, financial assets are valued as follows:

#### 'Financial asset at fair value through profit or loss' and 'available-for-sale'

The investment in listed equity securities are marked to market using the closing market rates and are carried on the balance sheet at fair value.

Gains and losses arising from the difference between the carrying amount and the value determined in accordance with the criteria mentioned above in respect of financial assets at fair value through profit or loss are taken to the profit and loss account.

Net gains and losses arising from the excess of value determined in accordance with the above mentioned criteria over the carrying amount in respect of 'available for sale' financial assets are recognised in other comprehensive income until the 'available-for-sale' investment is derecognised. At this time, the cumulative gain or loss previously

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015



recognised in other comprehensive income is transferred to the profit and loss account.

### 'Loans and receivables' and 'held to maturity'

Loans and receivables and held to maturity financial assets are carried at amortised cost.

#### 4.3.4 Regular way contracts

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognised at the trade date. Trade date is the date on which the Modaraba commits to purchase or sell the assets.

#### 4.3.5 Impairment

The management assesses at each balance sheet date whether there is objective evidence that the financial asset or a group of financial assets is impaired.

##### i) Financial assets carried at amortised cost

For financial assets carried at amortised cost, provision for impairment is made at each reporting date in accordance with the requirements of Prudential Regulations for Modaraba issued by the SECP.

##### ii) Financial assets classified as 'available-for-sale'

In the case of equity securities classified as 'available-for-sale', a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for 'available-for-sale' financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is reclassified from comprehensive income and recognised in the profit and loss account. Impairment losses recognised on equity instruments are not reversed through profit and loss.

#### 4.3.6 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or have been transferred and the Modaraba has transferred substantially all the risks and rewards of ownership.

#### 4.4 Net Investment in Finance lease

Leasing transactions entered into by the Modaraba prior to 1 July 2008 whereby assets are provided under leasing arrangements are included in the financial statements as "Net investment in finance lease" at an amount equal to the present value of the lease payments, including estimated residual value. Unearned income i.e. excess of aggregate rentals over the cost of the asset is recorded at the inception of the lease and is amortised over the term of the lease so as to produce a constant rate of return on net investment in lease. Allowance for non-performing leases are made in accordance with the Prudential Regulations for Modarabas issued by SECP and is charged to the profit and loss account currently.

#### 4.5 Receivable from terminated / matured contracts

These are stated net of impairment loss. Impairment loss is recognised for doubtful receivables on the basis of Prudential Regulations for Modarabas issued by the SECP or based on the judgment of management, whichever is higher. Receivables that becomes irrecoverable are written off.

#### 4.6 Ijarah rentals , murabaha finance, musharaka finance, diminishing musharaka finance and modaraba finance

Ijarah rentals receivables, murabaha finance, musharaka finance, diminishing musharaka finance and modaraba finance receivables are stated net of provisions and suspense income. Provision is recognised for non performing receivables in accordance with Prudential Regulations for Modaraba. Receivables that becomes irrecoverable are written off.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015



## 4.7 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Assets and Liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

## 4.8 Financial liabilities

All financial liabilities are recognised at the time when the Modaraba becomes a party to the contractual provisions of the instrument. They are initially recognised at fair value and subsequently stated at amortised cost.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

## 4.9 Fixed assets - Tangible

### 4.9.1 Owned assets

Assets are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Modaraba and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

Depreciation is charged to income applying the straight-line method whereby the cost of an asset is written-off over its estimated useful life. Depreciation is charged on additions from the month the asset is available for use and on disposals up to the month preceding the month of disposal.

Repairs and maintenance are charged to income as and when incurred.

### 4.9.2 Ijarah assets

Leased assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight line method whereby the cost of an asset less salvage value is written off over the lease period, which is considered to be the estimated useful life of the asset. In respect of additions and disposals during the year, depreciation is charged on monthly basis from the date of commencement of lease. While no depreciation is charged in the month of maturity / termination.

### 4.9.3 Gain or loss on disposal

Gains / losses on disposal of fixed assets / ijarah assets are charged to the profit and loss account currently.

### 4.9.4 Impairment

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

### 4.9.5 Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only where it is probable that the future economic benefits associated with the asset will flow to the Modaraba and the cost of item can be measured reliably. Amortisation is charged to income using the straight line method in accordance with the rates specified in note 17.2 to these financial statements after taking into account residual value, if any. The residual values, useful lives and amortisation method are reviewed and adjusted, as appropriate, at each balance sheet date. Amortisation is charged from the month the asset is available for use while in the case of assets disposed of, it is charged till the month preceding the month of disposal.

Intangible assets having an indefinite useful life are stated at cost less accumulated impairment losses, if any. These assets are not amortised as they are expected to have an indefinite life and are marketable.

Gain and loss on disposal of intangible assets, if any, are taken to the profit and loss account.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015



## 4.10 Loans, advances and other receivables

These are stated at cost less estimates made for doubtful receivables based on a review of all outstanding amounts at the balance sheet date. Balances considered bad and irrecoverable are written off when identified.

## 4.11 Earnings per certificate

The Modaraba presents basic and diluted earnings / loss per certificate for its certificate holders. Basic earnings / loss per certificate is calculated by dividing the profit or loss attributable to the certificate holders of the Modaraba by the weighted average number of certificates outstanding during the year.

## 4.12 Taxation

### Current

Provision for current taxation is made on taxable income at the prevailing rates of tax after taking into account tax credits available, if any. Under clause 100 of Part - I of the Second Schedule to the Income Tax Ordinance, 2001, the income of non-trading modarabas is exempt from tax provided that not less than 90 percent of their profits are distributed to the certificate holders.

### Deferred

The Modaraba accounts for deferred taxation on all material temporary differences using the liability method arising between the amounts attributed to assets and liabilities for financial reporting purposes and financial statements used for taxation purposes. However, deferred tax liability has not been provided in these financial statements as the management believes that the future income of Modaraba will not be taxable in the foreseeable future due to the fact that the Modaraba intends to continue availing the tax exemption through profit distribution to the extent of 90 percent of distributable profit.

## 4.13 Creditors, accrued and other liabilities

These are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services.

## 4.14 Provisions

Provisions are recognised 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 will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

## 4.15 Staff retirement benefits

### Unfunded gratuity scheme

The Modaraba operates an unfunded gratuity scheme for all eligible employees who have completed the minimum qualifying period of service. Annual provision is made on the basis of actuarial recommendations. The actuarial valuations are carried out using The Projected Unit Credit method. All actuarial gains and losses are recognised in 'other comprehensive income' as they occur and are not reclassified to profit or loss in subsequent periods.

## 4.16 Revenue recognition

### 4.16.1 Finance Lease

The Modaraba follows the finance method for recognising income on Finance lease. Under this method the unearned income i.e. the excess of aggregate lease rentals (including residual value) over the net investment (cost of finance lease) outstanding is deferred and then amortised over the term of the lease, so as to produce a constant periodic rate of return on net investment in the lease. Documentation charges, front-end fee and other lease income are recognised as income on receipt basis.

### 4.16.2 Ijarah

Income on Ijarah is recognised on an accrual basis. In case of Ijarah arrangements with staggered rentals, the income is recognised on a straight line basis over the Ijarah term.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015



## 4.16.3 Musharaka Finance

Profit on Musharaka arrangements is recognised on the basis of the projected rate of profit. The effect of adjustments, if any, between actual rate and projected rate of profit is accounted for at the end of the transaction after determination of the actual rate.

## 4.16.4 Murabaha Finance

The Modaraba follows the finance method in recognising income on murabaha finance. Under this method the unearned income i.e. the excess of aggregate murabaha instalments over the cost of the asset under murabaha facility is deferred and then amortised over the term of the murabaha, so as to produce a constant rate of return on murabaha finance. Documentation charges, front-end fee and other murabaha income are recognised as income on a receipt basis.

## 4.16.5 Modaraba Finance

Profit on modaraba finance is recognised on the basis of pre-agreed profit / loss sharing ratio when actual gain / loss on transaction is computed upon termination / completion of transaction.

## 4.16.6 Non-performing financing arrangements

Unrealised income in respect of non-performing financing arrangements is held in suspense account, where necessary, in accordance with the requirements of Prudential Regulations for Modarabas issued by the SECP.

## 4.16.7 Dividend Income

Dividend income is recognised when the Modaraba's right to receive the dividend is established.

## 4.17 Proposed profit distribution to modaraba certificate holders

Profit distribution and other appropriations of profit are recognized in the year in which these are approved. Transfer to statutory reserve and any of the mandatory appropriations as may be required by law are recognized in the period to which these relate.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with approved accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires management to exercise judgment in application of the Modaraba's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both the current and future periods.

The Modaraba reviews its loan portfolio of Ijarah, Musharaka and Murabaha financing to assess amount of non-performing contracts and provision required there against on a regular basis. The provision is made in accordance with the Prudential Regulations issued by the SECP. The areas where various assumptions and estimates are significant to the Modaraba's financial statements or where judgment was exercised in application of accounting policies are as follows:

- i) Classification and valuation of investments (notes 4.3 and 8)
- ii) Provision for non-performing finance lease (notes 4.4 and 13.2)
- iii) Provision for non-performing finance arrangements (notes 4.6 and 10, 11)
- iv) Determining the residual values and useful lives of fixed assets (notes 4.9, 16 and 17)
- v) Accounting for staff retirement benefits (notes 4.15 and 21)

## 6. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2015



Standard or Interpretation	Effective date (accounting periods beginning on or after)
IFRS 10 – Consolidated Financial Statements	01 January 2015
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities (Amendment)	01 January 2015
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities: Applying the Consolidation Exception (Amendment)	01 January 2016
IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	01 January 2016
IFRS 11 – Joint Arrangements	01 January 2015
IFRS 11 Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation (Amendment)	01 January 2016
IFRS 12 – Disclosure of Interests in Other Entities	01 January 2015
IFRS 13 – Fair Value Measurement	01 January 2015
IAS 1 – Presentation of Financial Statements - Disclosure Initiative (Amendment)	01 January 2016
IAS 16 Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)	01 January 2016
IAS 16 Property, Plant and Equipment IAS 41 Agriculture - Agriculture: Bearer Plants (Amendment)	01 January 2016
IAS 27 – Separate Financial Statements – Equity Method in Separate Financial Statements (Amendment)	01 January 2016

The above standards and amendments are not expected to have any material impact on the Modaraba's financial statements in the period of initial application.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2016. The Modaraba expects that such improvements to the standards will not have any material impact on the Modaraba's financial statements in the period of initial application.

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

Standards	IASB effective date (accounting periods beginning on or after)
IFRS 9 – Financial Instruments Classification and Measurement	1 January 2018
IFRS 14 – Regulatory Deferral Accounts	1 January 2016
IFRS 15 – Revenue from Contracts with Customers	1 January 2018

	Note	2015	2014
----- (Rupees) -----			
<b>7. CASH AND BANK BALANCES</b>			
Cash at bank in :			
- current accounts		1,905,753	30,258,660
- saving accounts	7.1	143,737,494	141,643,441
		145,643,247	171,902,101
Cash in hand		176,305	112,650
Stamp papers		25,464	108,380
		145,845,016	172,123,131

7.1 The expected profit rates on these accounts range between 4.00% and 7.30% (2014: 6.0% and 9.40%).

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2015



		2015	2014
		----- (Rupees) -----	
<b>8. INVESTMENTS</b>			
<b>8.1 Short-term investments</b>			
<b>Available-for-sale</b>			
- Unit trust scheme - KASB Islamic Income Opportunity Fund		-	57,224,203
<b>Held to maturity</b>			
Current portion of Sukuk Bonds - unlisted	8.2	<u>1,000,000</u>	<u>1,000,000</u>
		<u>1,000,000</u>	<u>58,224,203</u>

### 8.2 Sukuk bonds - unlisted

			Carrying amount	
			2015	2014
			----- (Rupees) -----	
<b>Name of investee company</b>	<b>Profit rate</b>	<b>Maturity</b>		
(Sukuk bonds of Rs.5,000 each)				
Maple Leaf Cement Factory Limited - 1st issue	(3M KIBOR + 1.00%)	December 2018	<u>3,609,452</u>	<u>7,266,507</u>
Total Sukuk bonds			<u>3,609,452</u>	<u>7,266,507</u>
Less: Current portion of Sukuk Bonds			<u>(1,000,000)</u>	<u>(1,000,000)</u>
			<u>2,609,452</u>	<u>6,266,507</u>

### 9. MODARABA FINANCE - considered good

The Modaraba has provided funds under modaraba arrangements on profit and loss sharing basis to various entities. The profit/loss is to be shared in pre-agreed ratios. Modaraba arrangements are secured against pledge of stocks and personal guarantees.

Modaraba Finance includes an aggregate outstanding balance of Rs. 10.543 million and accrued profit amounting to Rs. 0.798 million included in note 15 to the financial statements on account of a modaraba transaction with a customer. Due to the financial difficulty of the said customer, the underlying asset was sold during the year to settle this transaction and the sum of Rs. 3 million was received subsequent to the year end. The management believes that the balance of Rs. 8.342 million will also be recovered in due course of time through profit expected to be earned from another financing facility provided to the said customer, hence no provision against the same has been made in these financial statements.

		2015	2014
		----- (Rupees) -----	
<b>10. MUSHARAKA FINANCE</b>			
Musharaka finance - considered good		<u>31,390,042</u>	<u>79,677,447</u>
- considered doubtful		<u>38,702,297</u>	<u>38,702,297</u>
		<u>70,092,339</u>	<u>118,379,744</u>
Less: provision for non-performing musharaka arrangements		<u>(24,602,297)</u>	<u>(24,602,297)</u>
		<u>45,490,042</u>	<u>93,777,447</u>

10.1 The Modaraba has provided funds under musharaka arrangements on profit and loss sharing basis. Expected rate of profit ranges between 17.50% and 20.00% (2014: 17.50% and 20.00%) per annum. Musharaka arrangements are secured against property mortgage and personal guarantees.

### 11. MURABAHA FINANCE - considered good

Murabaha finance - considered good		<u>312,872,779</u>	<u>395,090,496</u>
- considered doubtful		<u>44,327,865</u>	<u>44,327,865</u>
		<u>357,200,644</u>	<u>439,418,361</u>
Less: provision for non-performing murabaha arrangements		<u>(44,327,865)</u>	<u>(44,327,865)</u>
		<u>312,872,779</u>	<u>395,090,496</u>
Murabaha finance - due after one year		<u>(65,001,709)</u>	<u>(34,283,128)</u>
Current portion of murabaha finance		<u>247,871,070</u>	<u>360,807,368</u>

### 11.1 Deferred murabaha income

Deferred murabaha income		<u>17,223,961</u>	<u>31,318,646</u>
Deferred murabaha income - due after one year		<u>(7,255,054)</u>	<u>(10,968,227)</u>
Current portion of deferred murabaha income		<u>9,968,907</u>	<u>20,350,419</u>

11.2 The profit rates on these murabaha arrangements range between 15.00% and 25.00% (2014: 15.00% and 22.00%).

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2015



	2015	2014
	----- (Rupees) -----	
<b>12. DIMINISHING MUSHARKA FINANCE - considered good</b>		
Diminishing musharaka finance - gross	429,851,207	475,661,365
Unearned Income	(75,362,695)	(76,223,459)
	354,488,512	399,437,906
Diminishing musharaka due after one year	(185,130,268)	(179,411,703)
Current portion of diminishing musharaka	169,358,244	220,026,203

12.1 The profit rates on these diminishing musharaka arrangements range between 9.51% and 21.00% (2014: 9.51% and 21.00%). Diminishing musharaka arrangements are secured by way of Modaraba's title over underlying assets and personal guarantees.

**13. NET INVESTMENT IN FINANCE LEASE**

	2015			2014		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	----- (Rupees) -----					
Minimum lease payments receivable	273,442	-	273,442	308,704	133,070	441,774
Residual value	-	-	-	253,700	-	253,700
	273,442	-	273,442	562,404	133,070	695,474
Unearned finance income	(74)	-	(74)	(184)	-	(184)
Suspended income	-	-	-	(4,013)	-	(4,013)
Allowance for non-performing leases	(174,612)	-	(174,612)	(174,612)	-	(174,612)
Present value of minimum lease payments	98,756	-	98,756	383,595	133,070	516,665

13.1 There are no lease contracts receivable over six years. The Modaraba's implicit rate of return on lease finance ranges between 14.28% and 18.39% per annum (2014: 14.28% and 18.39%). Finance lease arrangements are secured against leased assets and personal guarantees.

13.2 As at 30 June 2015, leases with outstanding principal of Rs. 0.174 million (2014: Rs. 0.174 million) have been classified as non-performing as per the requirements of Prudential Regulations for Modarabas issued by the SECP.

**14. IJARAH RENTAL RECEIVABLES**

	2015	2014
	----- (Rupees) -----	
Ijarah rentals receivable - considered good	2,539,147	2,423,351
- considered doubtful	7,121,049	2,909,175
	9,660,196	5,332,526

**15. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES**

Advances to:			
- executives	15.1	1,579,917	307,882
- employees	15.1	929,364	591,974
Advances to suppliers		12,287,696	6,028,787
Prepayments		7,107,272	4,358,365
Advance against subscription for shares		-	1,248,000
Short term security deposits		750,000	-
Accrued profit	15.2	10,621,863	7,198,998
Advance tax		1,120,291	894,386
Others		11,118,100	6,148,519
		45,514,503	26,776,911

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2015



15.1 Represents short term non mark-up bearing advances to executives and employees of the Modaraba, for domestic purposes.

	Note	2015	2014
		------(Rupees)-----	
<b>15.2 Accrued Profit</b>			
Accrued profit on modaraba		1,153,163	1,466,048
Accrued profit on Sukuk Bonds		2,248,640	3,095,703
Accrued profit on bank deposits		567,074	484,260
Accrued profit on musharaka arrangements		6,652,986	2,152,987
		<u>10,621,863</u>	<u>7,198,998</u>

### 16 IJARAH ASSETS

Equipment		140,009	93,420
Plant and machinery		2,923,346	13,893,746
Motor vehicles		31,461,863	58,376,325
	16.1	<u>34,525,218</u>	<u>72,363,491</u>

16.1 The following is a statement of Ijarah assets:

	2015							Rate of depreciation %
	Cost			Accumulated Depreciation		Book value		
	As at 01 July 2014	Additions/ Deletions	As at 30 June 2015	As at 01 July 2014	Charge for the year	As at 30 June 2015	As at 30 June 2015	
(Rupees)								
Equipment	705,500	-	403,600	612,080	156,978	263,591	140,009	20 - 66
		(301,900)			(505,467)			
Plant and machinery	46,924,934	-	13,752,000	33,031,188	7,677,589	10,828,654	2,923,346	14 - 33
		(33,172,934)			(29,880,123)			
Motor vehicles	74,862,217	15,738,072	60,716,035	16,485,892	33,017,663	29,254,172	31,461,863	20 - 50
		(29,884,254)			(20,249,383)			
	<u>122,492,651</u>	<u>15,738,072</u>	<u>74,871,635</u>	<u>50,129,160</u>	<u>40,852,230</u>	<u>40,346,417</u>	<u>34,525,218</u>	
		(63,359,088)			(50,634,973)	-		

	2014							Rate of depreciation %
	Cost			Accumulated Depreciation		Book value		
	As at 01 July 2013	Additions/ Deletions	As at 30 June 2014	As at 01 July 2013	Charge for the year	As at 30 June 2014	As at 30 June 2014	
(Rupees)								
Equipment	700,500	273,000	705,500	291,436	497,542	612,080	93,420	20 - 66
		(268,000)			(176,896)			
Plant and machinery	46,924,934	-	46,924,934	22,703,392	10,327,796	33,031,188	13,893,746	14 - 33
Motor vehicles	33,653,875	49,439,914	74,862,217	10,916,168	8,302,177	16,485,892	58,376,325	20 - 50
		(8,231,572)			(2,732,453)			
	<u>81,279,309</u>	<u>49,712,914</u>	<u>122,492,651</u>	<u>33,910,996</u>	<u>19,127,515</u>	<u>50,129,160</u>	<u>72,363,491</u>	
		(8,499,572)			(2,909,351)			

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015



## 16.2 Disposal of Ijarah Assets

The following assets were disposed off during the year having carrying value of more than Rs 50,000:

	Cost	Accumulated depreciation	Net Book Value	Sale proceeds	Gain	Mode of disposal	Particulars of buyer
	(Rupees)						
Vehicles	181,500	101,500	80,000	80,000	-	As per Modarba's policy	Abdul Ghafoor
Vehicles	876,838	438,420	438,418	526,362	87,944	do	Filly Transport Services
Vehicles	1,353,800	1,176,450	177,350	177,350	-	do	Saidar Kazi
Vehicles	7,681,600	6,913,440	768,160	768,160	-	do	General Fan Company
Vehicles	2,400,000	2,040,000	360,000	360,000	-	do	Maqbool Associates
Vehicles	1,996,000	1,796,400	199,600	199,600	-	do	Maqbool Associates
Vehicles	1,477,500	1,329,750	147,750	147,750	-	do	Maqbool Associates
Vehicles	657,000	301,136	355,864	355,864	-	do	Imran Brohi
Vehicles	1,700,000	342,174	1,357,826	1,438,408	80,582	do	Liaquat Mahmood Shah
Vehicles	1,290,000	81,666	1,208,334	1,234,152	25,818	do	Muhammad Ammar
Vehicles	430,000	62,574	367,426	382,794	15,368	do	Shakil Khan
Vehicles	233,909	233,909	-	-	-	do	ISIS Pharmaceutical & Chemicals
Vehicles	447,830	447,830	-	-	-	do	ISIS Pharmaceutical & Chemicals
Vehicles	448,877	256,500	192,377	178,826	(13,551)	do	Novins International (Pvt.) Ltd.
Vehicles	390,817	390,817	-	-	-	do	Ali Mansoor
Vehicles	594,458	330,255	264,203	271,740	7,537	do	Amalgamated Textiles
Vehicles	365,680	365,680	-	-	-	do	Invest Capital Markets Limited
Vehicles	525,312	429,804	95,508	151,943	56,435	do	Seven Star Water Supply
Vehicles	575,132	575,132	-	-	-	do	Musko Printing Solutions (Pvt.) Ltd.
Vehicles	512,548	236,562	275,986	404,940	128,954	do	Nuzzer Pharmaceuticals and Nutritions
Vehicles	1,466,186	676,704	789,482	842,008	52,526	do	Nuzzer Pharmaceuticals and Nutritions
Vehicles	566,427	125,874	440,553	483,899	43,346	do	Sufyan Ali
Vehicles	996,260	996,260	-	-	-	do	Model Service Station
Vehicles	164,029	164,029	-	-	-	do	Millennium Entertainment (Pvt.) Ltd.
Vehicles	308,957	308,957	-	-	-	do	Millennium Entertainment (Pvt.) Ltd.
Vehicles	810,595	81,060	729,535	732,035	2,500	do	Raza & Co.
Equipment	7,737,924	6,964,132	773,792	773,792	-	do	Quetta Textile Mills Limited
Equipment	7,310,000	6,579,000	731,000	731,000	-	do	Quetta Textile Mills Limited
Equipment	5,718,564	5,146,708	571,856	571,856	-	do	Quetta Textile Mills Limited
Equipment	1,052,025	946,822	105,203	105,203	-	do	Quetta Textile Mills Limited
Equipment	1,158,630	1,042,767	115,863	115,863	-	do	Quetta Textile Mills Limited
Equipment	10,146,567	9,131,910	1,014,657	1,014,657	-	do	General Fan Company
<b>2015</b>	<b>61,574,965</b>	<b>50,014,222</b>	<b>11,560,743</b>	<b>12,048,202</b>	<b>487,459</b>		

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2015



### 17. FIXED ASSETS

	Note	2015	2014
		----- (Rupees) -----	
Tangible assets	17.1	14,125,175	6,532,581
Intangible assets	17.2	194,763	400,809
		<u>14,319,938</u>	<u>6,933,390</u>

#### 17.1 Tangible Assets

	2015							Rate of depreciation %
	Cost		Accumulated Depreciation			Book value		
	As at 01 July 2014	Additions/ Deletions	As at 30 June 2015	As at 01 July 2014	Charge for the year	As at 30 June 2015	As at 30 June 2015	
	(Rupees)							
<b>Owned</b>								
Furniture and fixtures	6,277,734	4,434,002	10,711,736	2,482,875	863,850	3,346,725	7,365,011	10
Office equipment	322,060	-	322,060	120,001	59,132	179,133	142,927	20
Electrical equipment	3,102,599	489,692 (92,850)	3,499,441	1,227,716	545,520 (84,850)	1,688,386	1,811,055	20
Motor vehicles	188,074	4,155,950 (26,394)	4,317,630	95,707	332,146 (8,344)	419,509	3,898,121	20
Computers and accessories	2,092,112	625,676	2,717,988	1,523,699	286,228	1,809,927	908,061	30
	<u>11,982,579</u>	<u>9,705,520 (119,244)</u>	<u>21,568,855</u>	<u>5,449,998</u>	<u>2,086,876 (93,194)</u>	<u>7,443,680</u>	<u>14,125,175</u>	

	2014							Rate of depreciation %
	Cost		Accumulated Depreciation			Book value		
	As at 01 July 2013	Additions/ Deletions	As at 30 June 2014	As at 01 July 2013	Charge for the year	As at 30 June 2014	As at 30 June 2014	
	(Rupees)							
<b>Owned</b>								
Furniture and fixtures	6,223,154	54,580	6,277,734	1,901,797	581,078	2,482,875	3,794,859	10
Office equipment	322,060	-	322,060	62,439	57,562	120,001	202,059	20
Electrical equipment	2,685,449	1,367,150 (950,000)	3,102,599	1,685,459	397,257 (855,000)	1,227,716	1,874,883	20
Motor vehicles	188,074	-	188,074	63,372	32,335	95,707	92,367	20
Computers and accessories	1,783,560	308,552	2,092,112	1,279,420	244,279	1,523,699	568,413	30
	<u>11,202,297</u>	<u>1,730,282 (950,000)</u>	<u>11,982,579</u>	<u>4,992,487</u>	<u>1,312,511 (855,000)</u>	<u>5,449,998</u>	<u>6,532,581</u>	

#### 17.1.1 Disposal of tangible assets

The following assets were disposed off during the year having carrying value of more than Rs. 50,000/-:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain	Mode of disposal	Particulars of buyer
	(Rupees)						
Electrical equipment	92,850	84,850	8,000	10,000	2,000	Asset trade in	Pakistan office products
<b>2015</b>	<u>92,850</u>	<u>84,850</u>	<u>8,000</u>	<u>10,000</u>	<u>2,000</u>		

#### 17.2 Intangible assets

	2015							Rate of amortization %
	Cost		Accumulated Amortization			Book value		
	As at 01 July 2014	Additions/ Deletions	As at 30 June 2015	As at 01 July 2014	Charge for the year	As at 30 June 2015	As at 30 June 2015	
	(Rupees)							
Computer software	1,870,000	-	1,870,000	1,469,191	206,046	1,675,237	194,763	30 - 33

	2014							Rate of amortization %
	Cost		Accumulated Amortization			Book value		
	As at 01 July 2013	Additions/ Deletions	As at 30 June 2014	As at 01 July 2013	Charge for the year	As at 30 June 2014	As at 30 June 2014	
	(Rupees)							
Computer software	1,870,000	-	1,870,000	1,250,191	219,000	1,469,191	400,809	30 - 33

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2015



	Note	2015	2014
----- (Rupees) -----			
<b>18. REDEEMABLE CAPITAL - PARTICIPATORY AND UNSECURED</b>			
Certificates of Musharaka	18.1	529,920,000	925,490,343
Less: Long Term portion of redeemable capital		<u>(236,240,000)</u>	<u>(153,985,000)</u>
		<u>293,680,000</u>	<u>771,505,343</u>

18.1 The estimated share of profit payable on Certificate of Musharaka ranges between 7.75% and 13.50% (2014: 8.75% and 14.75%) per annum. It includes an amount of Rs. 20.600 million (2014: Rs. 159.425 million) due to related parties carries profit at a rate ranging between 7.75% and 10.00% (2014: 8.75% and 11%).

### 19. SECURITY DEPOSITS

	2015			2014		
	Finance lease	Ijarah	Total	Finance lease	Ijarah	Total
----- (Rupees) -----						
Security deposits	-	6,101,398	6,101,398	253,699	7,882,729	8,136,428
Less: adjustable after one year	-	4,180,050	4,180,050	-	2,687,100	2,687,100
Current portion of security deposits	-	<u>1,921,348</u>	<u>1,921,348</u>	253,699	<u>5,195,629</u>	<u>5,449,328</u>

19.1 Represent sums received under finance / ijarah lease arrangements, adjustable at the expiry of the lease period.

	Note	2015	2014
----- (Rupees) -----			
<b>20. CREDITORS, ACCRUED AND OTHER LIABILITIES</b>			
Modaraba management company's fee (Inclusive of Sales tax)	20.1	1,717,189	2,714,955
Sundry creditors		10,099,684	14,778,289
Accrued expenses		2,413,012	2,431,049
Accrued financial charges	20.2	10,184,391	17,659,703
Charity payable		629,737	363,707
Insurance premium received in Advance		8,573,358	4,159,159
Advance ijarah rentals		1,591,079	3,624,712
Other liabilities		2,429,688	2,037,611
		<u>37,638,138</u>	<u>47,769,185</u>

20.1 This includes Sales Tax Payable amounting to Rs 167,321 and Rs 434,393 for the year ended 30 June 2015 and 2014 respectively Pursuant to Order of Sindh Revenue Board (SRB), the Modaraba has recorded a provision in respect of Sindh sales tax on Management Company's remuneration at the rate of 15% (2014: 16%) per annum with effect from November 1,2011 which is pending adjudication.

Considering the view that the amount is a profit sharing rather than a fixed fee against rendering of management services by the Management Company up to the 10% of Modarabas profit as provided in the Modaraba Ordinance, in case of loss in Modaraba venture the Management Company is not entitled to claim any remuneration, the NBF and Modaraba Association, on behalf of various Modarabas, has filed a constitutional petition in Honorable High Court of Sindh ( SHC) and challenged said levy. Subsequently, the SHC in its judgement dated February 02, 2015 directed to seek remedy from Appellate Tribunal of SRB which has been recently constituted.

20.2 Amounts due to associated undertakings as at 30 June 2015 aggregated to Rs. 0.274 million (2014: Rs. 5.004 million).

### 21. STAFF RETIREMENT BENEFIT SCHEME

#### 21.1 Staff Gratuity Scheme

As disclosed in note 4.15, the Modaraba operates an unapproved, unfunded gratuity scheme for its permanent employees. The latest actuarial valuation was carried out by actuaries as at 30 June 2015, using the Projected Unit Credit Method. The benefits under the gratuity scheme are payable on cessation of service as under:



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015



## Number of years of eligible service completed: Amount of gratuity payable:

Less than 3 years	Nil
Equal to 3 years	0.6 times of last drawn basic salary for each year of service
Equal to 4 years	0.8 times of last drawn basic salary for each year of service
Greater than or equal to 5 years	1 times last drawn basic salary for each year of service

### 21.2 Principal actuarial assumptions used:

The following significant assumptions have been used for the valuation of this scheme:

### 21.3 Significant Actuarial Assumptions

#### Financial Assumptions

- Valuation discount rate	9.75%	13.25%
- Expected rate of increase in salaries	15.00%	10.75%

#### Demographic Assumptions

Mortality rates (for death in service)	SLIC(2001-05)	SLIC(2001-05)
Rates of employee turnover	High	High
	2015	2014
	----- (Rupees) -----	

### 21.4 Statement of Financial Position

Present value of defined benefit obligation	4,773,205	1,565,644
---	-----------	-----------

### 21.5 Movement in the defined benefit liability

Balance accrued as at the beginning of the year	1,565,644	1,617,016
Periodic benefit cost for the year ended	1,805,155	847,850
Benefits paid during the year	(390,219)	(1,661,239)
Amount of remeasurements losses recognised in Other Comprehensive Income during the year	1,792,625	762,017
Balance accrued as at the end of the year	<u>4,773,205</u>	<u>1,565,644</u>

### 21.6 Defined Benefit Cost for the Year

#### Cost recognised in Profit and Loss Account for the year

Current service cost	1,623,559	757,414
Interest Cost on defined benefit obligation	181,596	90,436
	<u>1,805,155</u>	<u>847,850</u>

#### Re-measurements recognised in Other Comprehensive Income during the year

Actuarial loss on obligation	1,792,625	762,017
------------------------------	-----------	---------

#### Total defined benefit cost recognised in Profit & Loss Account and Other Comprehensive Income

	<u>3,597,780</u>	<u>1,609,867</u>
--	------------------	------------------

### 21.7 Remeasurements recognised in Other Comprehensive (Income) / expense during the year

#### Actuarial gain / (loss) on obligation

Loss due to change in financial assumptions	266,498	-
Loss due to change in demographic assumptions	-	(1,620)
Loss due to change in experience adjustments		
- Due to actual salary increase	1,526,127	240,977
- Due to other reasons	-	522,660
	<u>1,526,127</u>	<u>763,637</u>
Total actuarial loss on obligation	<u>1,792,625</u>	<u>762,017</u>

### 21.8 Maturity profile of the defined benefit obligation

Distribution of timing of benefit payments within the next 12 months (next annual reporting period)	780,307	295,535
between 2 and 5 years	5,894,183	828,302
between 5 and 10 years	8,884,721	706,399
Beyond 10 years	90,230,378	3,725,651
	<u>105,789,589</u>	<u>5,555,887</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015



	SLIC(2001-05) High 2015	SLIC(2001-05) High 2014
	------(Rupees)-----	
<b>21.9 Sensitivity Analysis on significant actuarial assumptions:</b>		
<b>Actuarial Liability</b>		
Discount Rate +1%	4,479,587	1,471,327
Discount Rate -1%	5,103,735	1,671,877
Long Term Salary Increases +1%	5,121,111	1,673,393
Long Term Salary Increases -1%	4,459,000	1,468,496
Withdrawals Rates +10%	4,731,964	1,566,818
Withdrawals Rates -10%	4,815,635	1,562,805
1 Year Mortality age set back	4,775,051	1,566,160
1 Year Mortality age set forward	4,772,359	1,565,124

21.10 Based on actuarial advice, the Modaraba estimates a gratuity expense of Rs. 3,309,061/- during the year ending 30 June 2016.

## 22. CERTIFICATE CAPITAL

### Authorised certificate capital

2015	2014		2015	2014
Number of certificates			------(Rupees)-----	
<u>50,000,000</u>	<u>50,000,000</u>	Modaraba Certificates of Rs. 10/- each	<u>500,000,000</u>	<u>500,000,000</u>

### Issued, subscribed and paid-up capital

24,958,400	24,958,400	Modaraba Certificates of Rs. 10/- each fully paid in cash	249,584,000	249,554,000
3,316,000	3,316,000	Modaraba Certificates of Rs. 10/- each issued as fully paid bonus certificates	33,160,000	33,160,000
19,792,080	-	Modaraba Certificates of Rs. 10/- each issued at 50% discount as right certificates	197,920,800	-
<u>48,066,480</u>	<u>28,274,400</u>		<u>480,664,800</u>	<u>282,744,000</u>

22.1 As at 30 June 2015, the Management Company held 23,930,973 (2014: 4,141,695) certificates.

22.2 The modaraba during the year issued 70% right certificates of Rs. 10/- each at a discounted price of Rs. 5/- each amounting to Rs. 98,960,400 out of which 85% certificates were subscribed by the management company as underwriter to the issue.

## 23. STATUTORY RESERVE

Statutory reserve represents profits set aside to comply with the Prudential Regulations for Modarabas issued by the SECP. These regulations require a modaraba to transfer not less than 20% and not more than 50% of its after tax profit till such time that reserves equal 100% of the paid up capital. Thereafter, a sum not less than 5% of the after tax profit is to be transferred to the reserve.

## 24. CONTINGENCIES AND COMMITMENTS

24.1 There were no contingencies and commitments as at 30 June 2015.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**



**25. INCOME FROM IJARAH FINANCE**

2015  
 -----(Rupees)-----  
 2014

Ijarah Rentals	11,682,127	11,411,863
Plant and machinery	40,816,908	14,529,870
Motor vehicle	286,025	880,218
Other	915,830	407,069
Gain on disposal of ijarah assets	53,700,890	27,229,020
<b>Less:</b>		
Direct cost associated with ijarah assets	10,250	123,310
Suspended income	3,397,473	2,852,950
	3,407,723	2,976,260
	50,293,167	24,252,760
	<u>50,293,167</u>	<u>24,252,760</u>

**26. GAIN ON SALE OF INVESTMENTS - net**

Investments 'available-for-sale'	2,066,158	-
----------------------------------	-----------	---

**27. FINANCIAL CHARGES**

Profit on Certificates of Musharaka	65,400,514	96,622,244
Bank charges	299,183	135,745
	<u>65,699,697</u>	<u>96,757,989</u>

**28. OTHER INCOME**

Gain on sale of property acquired in satisfaction of financing facility	1,187,740	-
Gain / (loss) on disposal of fixed assets - net	2,000	485,000
Documentation income	655,685	478,276
Front end fee	41,082	-
Deferred income on transfer of assets	15,945	47,856
Insurance income	4,333,106	3,047,331
Bank deposits	10,856,850	13,242,507
Others	4,537,766	4,246,171
	<u>21,630,174</u>	<u>21,547,141</u>

**29. ADMINISTRATIVE AND OPERATING EXPENSES**

Salaries and benefits	29.1	35,878,662	22,852,654
Utilities		2,955,414	2,522,664
Insurance		2,518,858	2,053,313
Vehicle running and maintenance		2,271,114	2,810,295
Postage		248,210	248,712
Repairs and maintenance		1,364,137	294,965
Entertainment		466,070	665,140
Printing and stationery		627,039	856,810
Travelling and conveyance		559,010	230,716
Fee and subscriptions		3,410,999	1,669,120
Auditors' remuneration	29.2	534,000	535,500
Legal and professional charges		3,194,759	2,018,694
Depreciation		2,086,878	1,312,511
Amortization		206,046	219,000
Advertisements		3,564,302	435,815
Rent, rate and taxes		2,589,681	2,258,609
Generator expenses		191,970	162,994
Newspapers and periodicals		29,734	87,687
CIB charges		-	23,342
Verysis charges		5,225	32,497
Security services		1,091,927	396,718
Training and seminar		25,000	121,200
Outsource expense		1,556,621	2,673,980
Others		831,275	421,944
		<u>66,206,931</u>	<u>44,904,880</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015



## 29.1 REMUNERATION TO OFFICERS AND OTHER EMPLOYEES

	2015		2014	
	Officers	Other Employees	Officers	Other Employees
	(Rupees)		(Rupees)	
Managerial remuneration	10,818,011	9,216,127	4,377,234	8,866,863
Medical allowance	1,081,789	922,820	437,742	886,731
House rent allowance	3,499,962	2,768,438	1,313,174	2,660,073
Utility allowance	1,081,834	922,820	437,721	886,688
Employee benefits	3,391,996	1,435,927	473,216	1,282,023
EOBI contribution	8,320	36,618	5,760	93,840
Bonus	226,000	468,000	321,589	810,000
	<u>20,107,912</u>	<u>15,770,750</u>	<u>7,366,436</u>	<u>15,486,218</u>
Number of persons	10	75	6	51

29.1.1 Certain executives have been entitled for reimbursement of fuel expenses.

	2015	2014
	(Rupees)	
Annual audit fee	325,000	325,000
Review of interim financial statements	95,000	95,000
Out of pocket expenses	114,000	115,500
	<u>534,000</u>	<u>535,500</u>

## 29.2 Auditors' Remuneration

## 30. MODARABA MANAGEMENT COMPANY FEE

In accordance with the Modaraba Companies and Modaraba Rules, 1981, management remuneration at the rate of 10% of annual profits is payable to the Management Company.

## 31. PROVISION FOR WORKERS' WELFARE FUND

The Finance Act, 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance) due to which the Modaraba became liable to pay contribution to Workers' Welfare Fund (WWF) at the higher of the profit before taxation as per the financial statements or the return of income.

## 32. TAXATION

The income of the Modaraba is exempt from tax subject to the condition that not less than ninety per cent of its total profits in the year as reduced by the amount transferred to a mandatory reserve, required under the provisions of Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) are distributed amongst the shareholders.

No provision for current and deferred taxation has been made in these financial statements in accordance with the accounting policy of the Modaraba as disclosed in note 4.12 to the financial statements.

## 33. EARNINGS / (LOSS) PER CERTIFICATE - BASIC AND DILUTED

	2015	2014
Profit / (loss) for the year (Rupees)	<u>11,154,760</u>	<u>23,994,748</u>
Weighted average number of certificates (Number)	<u>48,066,480</u>	<u>28,274,400</u>
Earnings / (loss) per certificate -basic and diluted	<u>0.23</u>	<u>0.85</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2015



	2015	2014
	(Rupees)	
<b>34. FINANCIAL INSTRUMENTS BY CATEGORY</b>		
<b>Financial assets as per balance sheet</b>		
<b>Loans and receivables</b>		
Cash and bank balances	145,845,016	172,123,131
Murabaha finance	312,872,779	395,090,496
Modaraba finance	22,739,500	36,235,793
Musharaka finance	45,490,042	93,777,447
Diminishing musharaka finance	354,488,507	399,437,906
Net investment in finance lease	98,756	516,665
Ijarah rental receivable	2,539,147	2,423,351
Advances and other receivables	26,119,535	8,296,375
Accrued profit	10,621,863	7,198,998
Long-term deposits	685,300	1,630,300
<b>Held to maturity</b>		
Investments	3,609,452	7,266,507
<b>Available for sale</b>		
Investments	-	57,224,203
	<u>925,109,897</u>	<u>1,181,221,172</u>
<b>Financial liabilities as per balance sheet</b>		
<b>Amortized Cost</b>		
Redeemable capital	529,920,000	925,490,343
Security deposits	6,101,398	8,136,428
Creditors, accrued and other liabilities	37,638,138	47,769,185
Unclaimed profit distribution	1,837,275	1,607,401
Deferred liabilities - staff gratuity	4,773,205	1,565,644
	<u>580,270,016</u>	<u>984,569,001</u>

**35. FINANCIAL RISK MANAGEMENT**

The Modaraba finances its operations mainly through equity and deposits. The Modaraba utilises funds in ijarah financing, modaraba financing, musharaka financing, diminishing musharaka and murabaha financing. These activities are exposed to a variety of financial risks that are market risk, credit risk and liquidity risk.

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

**35.1 Market risk**

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market interest rates or the market prices of securities due to change in credit rating of the issuer of the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

Market risk comprises of three types of risk namely currency risk, profit rate risk and price risk.

**35.1.1 Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Modaraba, at present is not exposed to currency risk as all transactions are carried out in Pak Rupees.

**35.1.2 Profit rate risk**

Profit rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the market profit rates. The Modaraba has adopted appropriate policies to minimise its exposure to this risk.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2015



Yield / profit rate sensitivity position for on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date.

Effective yield / profit rate %	Total	2015					
		Up to one month	Over one month to 3 months	Over three months to one year	Over one year to five years	Not exposed to yield / profit risk	
(Rupees)							
<b>Assets</b>							
Cash and bank balances	4.00% - 7.30%	145,845,016	143,737,494	-	-	-	2,107,522
Investments	10.58% - 10.98%	3,609,452	-	-	1,000,000	2,609,452	-
Murabaha finance	15%-25%	312,872,779	49,400,000	34,100,000	11,500,000	121,289,284	96,583,495
Modaraba Finance	-	22,739,500	-	-	-	-	22,739,500
Musharaka finance	17.50% - 20%	45,490,042	15,964,147	13,893,151	-	-	15,632,744
Diminishing musharaka finance	9.51%-21%	354,488,507	6,892,972	3,230,605	29,087,487	315,277,443	-
Net investment in finance lease	14.28%-18.39%	98,756	-	-	-	-	98,756
Ijarah rentals receivable	-	2,539,147	-	-	-	-	2,539,147
Advances, prepayments and other receivables	-	26,119,535	-	-	-	-	26,119,535
Accrued profit	-	10,621,863	-	-	-	-	10,621,863
Long-term Deposit	-	685,300	-	-	-	-	685,300
<b>Total</b>		<b>925,109,897</b>	<b>215,894,613</b>	<b>51,223,756</b>	<b>41,587,487</b>	<b>439,176,179</b>	<b>177,127,862</b>
<b>Liabilities</b>							
Certificate of musharaka	7.75% - 13.50%	529,920,000	27,730,000	114,935,000	130,745,000	256,510,000	-
Security deposits	-	6,101,398	-	-	-	-	6,101,398
Creditors, accrued and other liabilities	-	37,638,138	-	-	-	-	37,638,138
Unclaimed profit distribution	-	1,837,275	-	-	-	-	1,837,275
Deferred Liabilities - staff gratuity	-	4,773,205	-	-	-	-	4,773,205
<b>Total</b>		<b>580,270,016</b>	<b>27,730,000</b>	<b>114,935,000</b>	<b>130,745,000</b>	<b>256,510,000</b>	<b>50,350,016</b>
<b>Total yield / profit risk sensitivity gap</b>			<b>188,264,613</b>	<b>(63,711,244)</b>	<b>(89,157,513)</b>	<b>182,666,179</b>	
<b>Cumulative yield / profit risk sensitivity gap</b>			<b>188,264,613</b>	<b>124,553,369</b>	<b>35,395,856</b>	<b>218,062,035</b>	

Effective yield / profit rate %	Total	2014					
		Up to one month	Over one month to 3 months	Over three months to one year	Over one year to five years	Not exposed to yield / profit risk	
(Rupees)							
<b>Assets</b>							
Cash and bank balances	6% - 9.40%	172,123,131	141,643,441	-	-	-	30,479,690
Investments	10.58% - 10.98%	64,490,710	57,224,203	-	1,000,000	6,266,507	-
Murabaha finance	15%-22%	395,090,496	58,238,393	66,623,534	75,437,497	26,979,171	167,811,901
Modaraba Finance	-	36,235,793	4,500,000	-	4,000,000	-	27,735,793
Musharaka finance	17.50% - 20%	93,777,447	21,351,365	21,137,252	38,151,474	-	13,137,356
Diminishing musharaka finance	9.51%-21%	399,437,906	18,011,092	34,182,605	130,787,632	178,573,295	37,883,082
Net investment in Ijarah finance	14.28%-18.39%	516,665	15,401	30,802	138,609	133,070	198,783
Ijarah rentals receivable	-	2,423,351	-	-	-	-	2,423,351
Advances, prepayments and other receivables	-	8,296,375	-	-	-	-	8,296,375
Accrued profit	-	7,198,998	-	-	-	-	7,198,998
Long-term Deposit	-	1,630,300	-	-	-	-	1,630,300
<b>Total</b>		<b>1,181,221,172</b>	<b>300,883,895</b>	<b>121,974,393</b>	<b>249,515,212</b>	<b>211,952,043</b>	<b>296,795,629</b>
<b>Liabilities</b>							
Certificate of musharaka	8.75% - 14.75%	925,490,343	85,450,329	90,580,000	227,635,000	153,985,000	367,840,014
Security deposits	-	8,136,428	-	-	-	-	8,136,428
Creditors, accrued and other liabilities	-	47,769,185	-	-	-	-	47,769,185
Unclaimed profit distribution	-	1,607,401	-	-	-	-	1,607,401
Deferred Liabilities - staff gratuity	-	1,565,644	-	-	-	-	1,565,644
<b>Total</b>		<b>984,569,001</b>	<b>85,450,329</b>	<b>90,580,000</b>	<b>227,635,000</b>	<b>153,985,000</b>	<b>426,916,672</b>
<b>Total yield / profit risk sensitivity gap</b>			<b>215,533,566</b>	<b>31,394,393</b>	<b>21,880,212</b>	<b>57,967,043</b>	
<b>Cumulative yield / profit risk sensitivity gap</b>			<b>215,533,566</b>	<b>246,927,959</b>	<b>268,808,171</b>	<b>326,775,214</b>	

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2015



### Sensitivity analysis for financial instruments

The sensitivity of the net income for the year is the effect of the assumed changes in profit rates on the floating rate financial instruments held at the year end. The following table demonstrates the sensitivity of the Modaraba's income for the year to a reasonably possible change in profit rates, with all other variables held constant.

Changes in basis point	Impact on profit or loss	
	2015	2014
	----- (Rupees) -----	
+100	1,354,161	1,605,078
-100	(1,354,161)	(1,605,078)

In practice, the actual results may differ from the sensitivity analysis shown above.

### 35.1.3 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

### 35.2 Credit risk

35.2.1 Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Modaraba is exposed to credit risk in respect of net investment in finance lease, musharaka, murabaha, modaraba, diminishing musharaka and ijarah rental receivables.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of an entity's performance to developments affecting a particular industry.

The Modaraba attempts to control credit risk by diversification of financing activities to avoid undue concentration of credit risk with individuals or groups of customers in specific locations or businesses, monitoring credit exposures, limiting transactions to specific counterparties and continually assessing the credit worthiness of counterparties. It also obtains securities when appropriate.

The Modaraba follows two sets of guidelines. It has its own operating policy and the management of the Modaraba also adheres to the regulations issued by the SECP. The operating policy defines the extent of fund and non-fund based exposures with reference to a particular sector or group.

Out of the total financial assets of Rs. 913,368 million (2014: Rs. 1,179,237 million) the financial assets which are subject to credit risk amounted to Rs. 735,689 million (2014: Rs. 926,676 million).

35.2.2 The analysis below summarises the credit quality of the Modaraba's financial assets:

	2015	2014
	----- (Rupees) -----	
<b>Bank balances</b>		
AAA	29,105	29,324,862
AA	2,126	5,883
A	66,588	58,643,318
A-	35,454,511	8,583,247
A1+	-	75,319,919
A+	696,666	
AA-	109,312,336	-
<b>Sukuk Bonds ratings</b>		
Un-rated	3,609,452	7,266,507
<b>Short term investments</b>		
BBB+ (f)	-	57,224,203

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2015



35.2.3 An analysis of the age of significant financial assets that are past due but not required to be impaired by applicable laws are as under:

	2015		2014	
	Total outstanding amount	Payment overdue (in days)	Total outstanding amount	Payment overdue (in days)
Ijarah rentals receivable	519,363	1 - 87 Days	132,639	1 - 75 Days
Murabaha Finance	1,607,087	1 - 87 Days	22,985,533	1 - 87 Days
Diminishing Musharaka Finance	2,671,898	1 - 89 Days	2,800,244	1 - 84 Days
Musharaka Finance	-	-	1,952,932	1 - 03 Days

35.2.4 An analysis of the financial assets that are individually impaired as per the requirements of the Prudential Regulations for Mudarabas are as under:

	2015				
	OAEM	Substandard	Doubtful	Loss	Total
	Rupees				
Net investment in finance lease	-	-	-	174,612	174,612
Ijarah rentals receivable	2,358,577	7,528,718	-	96,689	9,983,984
Murabaha Finance	90,893,583	61,053,256	43,500,795	927,070	196,374,704
Musharaka Finance	250,000	10,170	-	38,702,297	39,962,467
Diminishing Musharaka Finance	6,882,299	5,011,139	2,421,435	-	14,314,873
	2014				
	OAEM	Substandard	Doubtful	Loss	Total
	Rupees				
Net investment in finance lease	-	-	-	174,612	174,612
Ijarah rentals receivable	7,260	1,733,812	-	96,689	1,837,761
Murabaha Finance	42,484,907	-	23,032,535	17,500,000	83,017,442
Musharaka Finance	-	250,000	38,702,297	-	38,952,297
Diminishing Musharaka Finance	21,725,507	6,883,465	263,865	-	28,872,837

35.2.5 Concentration of credit risk

35.2.5.1 Net Investment in Finance Lease

	2015		2014	
	(Rupees)	%	(Rupees)	%
Electrical and engineering Individuals	-	-	383,595	74.24
	98,756	100.00	133,070	25.76
	98,756	100.00	516,665	100.00

35.2.5.2 Ijarah Assets

	2015		2014	
	(Rupees)	%	(Rupees)	%
Fuel and energy	7,840,677	22.71	13,775,712	19.04
Food and beverage	-	-	810,595	1.12
Dairy and poultry	-	-	4,506,722	6.23
Financial institutions	-	-	2,143,839	2.96
Travel and transport	2,799,995	8.11	10,185,434	14.08
Textile	2,099,133	6.08	9,351,539	12.92
Electrical and engineering	5,613,800	16.26	7,808,337	10.79
Paper and board	928,728	2.69	2,331,244	3.22
Construction	1,633,043	4.73	5,023,567	6.94
Individuals	1,872,827	5.42	1,523,546	2.11
Others	11,737,015	34.00	14,902,956	20.59
	34,525,218	100.00	72,363,491	100.00



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015



## 35.2.5.3 For Musharaka, Murabaha, Modaraba and Diminishing Musharaka Finance

	2015		2014	
	(Rupees)	%	(Rupees)	%
Textile and allied	159,032,289	21.62	199,681,338	21.60
Trading	63,225,007	8.60	72,523,019	7.84
Leather	47,300,000	6.43	52,097,331	5.63
Pharmaceutical and chemicals	24,322,549	3.31	39,117,672	4.23
Food and beverage	31,562,060	4.29	7,688,112	0.83
Construction	44,035,908	5.99	86,026,972	9.30
Fuel and energy	24,867,769	3.38	19,993,513	2.16
Financial institutions	64,708,348	8.80	45,062,579	4.87
Paper and board	12,788,212	1.74	19,429,883	2.10
Sugar and allied	4,686,674	0.64	8,170,635	0.88
Distribution	-	-	4,500,000	0.49
Travel and transport	45,619,730	6.20	104,706,853	11.33
Dairy and poultry	32,758,971	4.45	26,809,737	2.90
Technology and telecommunication	47,014,804	6.39	50,574,532	5.47
Electrical and engineering	45,064,706	6.13	46,827,018	5.06
Steel and allied	21,527,992	2.93	59,948,648	6.48
Others	67,075,809	9.12	81,383,800	8.80
	<u>735,590,828</u>	<u>100.00</u>	<u>924,541,642</u>	<u>100.00</u>

## 35.2.5.4 Finance arrangements

	2015	2014
	(Rupees)	
Murabaha finance	312,872,779	395,090,496
Musharaka finance	45,490,042	93,777,447
Diminishing Musharaka finance	354,488,507	399,437,906
Modaraba finance	22,739,500	36,235,793
	<u>735,590,828</u>	<u>924,541,642</u>

## 35.3 Liquidity risk

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

The table below analyses the Modaraba's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	2015			
	Total	Upto three months	More than three months and upto one year	More than one year
			Rupees	
<b>Liabilities</b>				
Redeemable capital	529,920,000	142,665,000	130,745,000	256,510,000
Security deposits	6,101,398	1,921,348	-	4,180,050
Creditors, accrued and other liabilities	37,638,138	37,638,138	-	-
Unclaimed profit distribution	1,837,275	-	-	1,837,275
Deferred liabilities - staff gratuity	4,773,205	-	-	4,773,205
<b>Total liabilities</b>	<u>580,270,016</u>	<u>182,224,486</u>	<u>130,745,000</u>	<u>267,300,530</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015



	2014			
	Total	Upto three months	More than three months and upto one year	More than one year
	Rupees			
<b>Liabilities</b>				
Redeemable capital	925,490,343	543,870,343	227,635,000	153,985,000
Security deposits	8,136,428	5,449,328	-	2,687,100
Creditors, accrued and other liabilities	47,769,185	47,769,185	-	-
Unclaimed profit distribution	1,607,401	-	-	1,607,401
Deferred liabilities - staff gratuity	1,565,644	-	-	1,565,644
<b>Total liabilities</b>	<b>984,569,001</b>	<b>597,088,856</b>	<b>227,635,000</b>	<b>159,845,145</b>

## 35.4 Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Mudaraba is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The estimated fair value of financial assets and liabilities is considered not significantly different from book values as the items are either short - term in nature or periodically repriced.

## 36. CAPITAL RISK MANAGEMENT

The Mudaraba's prime objective when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for certificate-holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Mudaraba 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 Certificate of Mudaraka and borrowings less cash and bank balances. Total capital is calculated as equity as shown in the balance sheet plus net debt.

	2015	2014
	(Rupees)	
Total borrowings and deposits	529,920,000	925,490,343
Cash and bank balances	(145,845,016)	(172,123,131)
Net debt	384,074,984	753,367,212
Total equity	385,234,181	289,671,804
Total capital	<b>769,309,165</b>	<b>1,043,039,016</b>
<b>Gearing ratio</b>	<b>49.9%</b>	<b>72.2%</b>

## 37. RELATED PARTIES TRANSACTIONS

The related parties of the Mudaraba comprise of its Management Company, associated companies, directors of the Management Company and key management personnel. Transactions with related parties other than remuneration and benefits to key management personnel (which are employed by the Management Company) under the terms of their employment are as follows:

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2015



	2015	2014
	----- (Rupees) -----	
<b>37.1 Transactions during the year</b>		
<b>Management company</b>		
Modaraba management fee	1,115,476	2,714,955
<b>Associated companies</b>		
Financial charges	10,851,889	11,599,569
Rent expense	1,120,000	210,000
Supervision fee	600,000	-
<b>Other related parties</b>		
Financial charges	904,862	726,819
Vehicle running expense	289,100	-
Salaries and other benefits	3,262,938	-
Income from diminishing musharaka finance	1,000,360	80,957
<b>37.2 Balances due to / from related parties at the year end</b>		
<b>Management company</b>		
Modaraba management fee payable	1,115,476	2,714,955
Issue of certificates at discount	98,946,390	-
<b>Associated companies</b>		
Certificate of Musharaka	29,000,000	153,000,000
Accrued mark-up payable	273,918	2,289,369
Creditors, accrued and other liabilities	670,000	447,618
<b>Other related parties</b>		
Certificate of Musharaka	20,600,000	6,425,000
Accrued mark-up payable	660,442	217,183
Short-term investments	-	57,224,203

The Modaraba enters into transactions with related parties for lease of assets, borrowings under musharaka and diminishing musharaka finances and other general banking services.

37.3 The terms and conditions of the transactions are stated in the respective notes.

### 38. NON ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors have approved dividend for the year ended June 30, 2015 of Re 0.11 per certificate (2014: Re. 0.24 per certificate), amounting to Rs. 5,287,313 (2014: Rs. 11,535,955) at their meeting held on 08-10-2015. The financial statements for the year ended June 30, 2015 do not include the effect of the above which will be accounted for in the period in which it is declared.

### 39. GENERAL

Figures in these financial statements have been rounded off to the nearest Rupee.

### 40. DATE OF AUTHORISATION

These financial statements were authorised for issue by the Board of Directors of the Management Company in their meeting held on 8 October 2015.

For KASB Invest (Private) Limited  
(Management Company)

Chief Executive

Director

Director

# PATTERN OF CERTIFICATE HOLDING FORM "34"

SHAREHOLDERS STATISTICS AS AT JUNE 30, 2015



NO. OF SHOLD	SHARE HOLDING		TOTAL SHARES HOLD
	FROM	TO	
417	1	- 100	17,554
268	101	- 500	70,537
157	501	- 1000	127,941
172	1001	- 5000	381,736
40	5001	- 10000	303,120
12	10001	- 15000	151,635
12	15001	- 20000	207,275
6	20001	- 25000	137,998
5	25001	- 30000	145,845
3	30001	- 35000	95,200
9	35001	- 40000	332,000
3	40001	- 100000	199,877
2	100001	- 105000	204,000
1	150001	- 115000	113,100
1	120001	- 125000	122,823
1	125001	- 170000	166,320
1	170001	- 300000	270,000
1	300001	- 305000	304,389
2	305001	- 400000	744,245
2	400001	- 475000	891,202
1	795001	- 800000	795,980
1	3850001	- 3900000	3,851,000
1	3900001	- 4500000	4,054,963
1	10445001	- 10450000	10,446,767
1	10450001	- 25000000	23,930,973
<b>1120</b>		<b>Total</b>	<b>48,066,480</b>

# PATTERN OF CERTIFICATE HOLDING FORM "34"

SHAREHOLDERS STATISTICS AS AT JUNE 30, 2015



CATAGORIES OF CERTIFICATE HOLDERS	NUMBER	CERTIFICATE HELD	PERCENTAGE
INDIVIDUALS	1,083	4,155,621	8.65%
INSURANCE COMPANIES	3	796,380	1.66%
JOINT STOCK COMPANIES**	16	8,510,837	17.71%
FINANCIAL INSTITUTIONS	8	10,472,004	21.79%
LEASING COMPANIES	1	1,246	0.00%
MODARABA COMPANIES	3	36	0.00%
CHARITABLE TRUSTS	3	98,083	0.20%
OTHERS	2	101,300	0.21%
MODARABA MANAGEMENT COMPANIES*	1	23,930,973	49.79%
	1,120	48,066,480	100.00%

\*Includes KASB Invest (Private) Limited (4,141,695 certificates)

\*\*Includes KASB Corporation Limited (304,389 certificates)

CATAGORIES OF CERTIFICATE HOLDERS	NUMBER	CERTIFICATE HELD	PERCENTAGE
<b>Associated Companies</b>			
KASB Corporation Limited		304,389	0.63%
KASB Invest (Private) Limited		23,930,973	49.79%
	2	24,235,362	50.42%
<b>NIT and ICP</b>			
National Bank of Pakistan, Trustee Deptt.		392,245	0.82%
Investment Corporation of Pakistan		8,002	0.02%
	2	400,247	0.83%
<b>Directors, CEO &amp; their Spouse and Minor Children</b>			
		-	-
<b>Executives</b>			
	1	500	0.00%
<b>Public Sector Companies and Corporations</b>			
		-	-
<b>Banks, Development Finance Institutions, Non Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds</b>			
	22	1,315,027	2.74%
<b>Certificate -holders holding five percent or more certificates in the Modaraba</b>			
Al-Hoqqani Securities and Investment Corporation	1	4,054,963	8.44%
Sulaiman Ahmed Saeed Al-Hoqqani	1	3,851,000	8.01%

## NOTICE OF ANNUAL REVIEW MEETING



Notice is hereby given that the 24th Annual Review meeting of the Modaraba's Certificate Holders of KASB Modaraba will be held on Saturday October 31, 2015 at 8:45 pm at KASBIT Auditorium, 84-B, S.M.C.H.S, Off Shahr-e-Faisal, Karachi to review the performance of Modaraba for the year ended June 30, 2015 in terms of clause 20 of the Prudential Regulations for Modaraba issued vide Circular No. 5/2000 by Registrar Modaraba.

By Order of the Board

Karachi  
October 10, 2015

Zia-ul-Haq  
Company Secretary

### Notes

1. The Modaraba Certificates transfer book shall remain closed from October 24, 2015 to October 30, 2015 (both days inclusive) to determine the names of Certificate Holders eligible to attend the Annual Review Meeting. Transfer received in order at the Registrar Office of the KASB Modaraba (whose address is given below) up to the close of business hours on October 23, 2015 will be treated in time.
2. The Certificate holders are advised to notify to the Registrar of KASB Modaraba of any change in their addresses to ensure prompt delivery of mails. Further, any Certificates for transfer, etc, should be lodged with the Registrar, C & K Management Associates (Private) Limited, 404, Trade Tower, Abdullah Haroon Road, near Metropole Hotel, Karachi. (Phone: 35687839-35685930).
3. Account Holders holding book entry securities of the KASB Modaraba in Central Depository Company of Pakistan Limited, who wish to attend the Annual Review Meeting, are requested to bring original Computerized National Identity Card for identification purpose and will in addition, have to follow the guidelines as laid down in Circular No. 1 of 2000 dated January 25, 2000 of the Securities and Exchange Commission of Pakistan (SECP) for attending the meeting.
4. Pursuant to the provisions of the Finance Act 2015 effective July 01, 2015, the rates of deduction of income tax from dividend payments under the Income Tax Ordinance have been revised as follows:

a) Rate of tax deduction for filers of income tax returns	12.5%
b) Rate of tax deduction for non-filers of income tax returns	17.5%

All the certificate holders of KASB Modaraba who hold certificates in physical form are therefore requested to send a valid copy of their CNIC and NTN Certificate, to KASB Modaraba Registrar, C & K Management (Private) Limited, at the above mentioned address to allow KASB Modaraba to ascertain the status of certificate holders.



## Be aware, Be alert, Be safe

Learn about investing at  
[www.jamapunji.pk](http://www.jamapunji.pk)

### Key features:

-  Licensed Entities Verification
-  Scam meter\*
-  Jamapunji games\*
-  Tax credit calculator\*
-  Company Verification
-  Insurance & Investment Checklist
-  FAQs Answered
-  Stock trading simulator  
(based on live feed from KSE)
-  Knowledge center
-  Risk profiler\*
-  Financial calculator
-  Subscription to Alerts (event notifications, corporate and regulatory actions)
-  Jamapunji application for mobile device
-  Online Quizzes



Jama Punji is an Investor  
Education Initiative of  
Securities and Exchange  
Commission of Pakistan

 [jamapunji.pk](http://jamapunji.pk)

 [@jamapunji\\_pk](https://twitter.com/jamapunji_pk)

\*Mobile apps are also available for download for android and ios devices

ANNUAL REPORT 2015

Book Post

Under  
Certificate  
of  
Posting

If undelivered please return to  
**KASB Modaraba**

Registered & Head Office: 8-C, Block-6, P.E.C.H.S Off Shahrah-e-Faisal, Karachi.  
Telephone: 021-34398852-55