



# **Annual Report 2020**

## **FIRST NATIONAL BANK MODARABA**

**Managed By:**

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

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## CORPORATE INFORMATION

<b>Board of Directors</b>	<b>Mr. Muhammad Imran Malik</b> <b>Mr. Rehmat Ali Hasnie</b> <b>Syed Jamal Baquar</b> <b>Khawaja Waheed Raza</b> <b>Mr. Jamal Nasim*</b> <b>Mr. Muhammad Iqbal Hussain</b> <b>Mr. Abbas Azam</b>	Chairman Director Director Director Director Director CEO
<b>Shari'ah Advisor</b>	<b>Mufti Ehsan Waquar Ahmed</b>	
<b>Chief Financial Officer/</b>	<b>Farah Aslam</b>	
<b>Company Secretary</b>		
<b>Audit Committee</b>	<b>Mr Jamal Nasim</b> <b>Khawaja Waheed Raza</b> <b>Syed Jamal Baquar</b>	Chairman Member Member
<b>HR &amp; Remuneration Committee</b>	<b>Khawaja Waheed Raza</b> <b>Mr. Muhammad Iqbal Hussain</b> <b>Mr. Rehmat Ali Hasnie</b>	Chairman Member Member
<b>Auditors</b>	<b>CROWE HUSSAIN CHAUDHURY &amp; CO.</b> Chartered Accountants	
<b>Bankers</b>	<b>National Bank of Pakistan</b> <b>Bank Alfalah Limited</b> <b>Al Baraka Islamic Bank</b> <b>Habib Bank Limited</b> <b>MCB Bank Limited</b> <b>Bank Islami Pakistan Limited</b>	
<b>Legal Advisor</b>	<b>Cornelius Lane &amp; Mufti</b> <b>Advocates and Solicitors</b> <b>Nawa-i-Waqt House</b> <b>4 - Shahrah-e-Fatima Jinnah, Lahore Tel.: 36360824, Fax: 36303301</b>	
<b>Shares Registrar</b>	<b>Hameed Majeed Associates (Pvt.) Limited</b> <b>H. M. House, 7 - Bank Square, Lahore</b> <b>Tel: 37235081-2, Fax: 37358817</b>	
<b>Registered Office</b>	<b>Ground Floor, NBP RHQs Building,</b> <b>26 - McLagon Road, Lahore</b> <b>Tel: 042-99211200, Fax: 042-99213247</b> <b>URL: <a href="http://www.nbmodaraba.com">http://www.nbmodaraba.com</a></b> <b>E-mail: <a href="mailto:info@nbmodaraba.com">info@nbmodaraba.com</a></b>	

\* Mr. Jamal Nasim resigned subsequent to the year end.

## **NOTICE OF 17TH ANNUAL REVIEW MEETING & BOOK CLOSURE**

Notice is hereby given that the 17<sup>th</sup> Annual Review Meeting of certificate holders of First National Bank Modaraba will be held on Tuesday, October 27, 2020 at 11:00 a.m. at Ground Floor, NBP RHQs Building, 26 – McLagon Road, Lahore to review the performance of the Modaraba for the year ended June 30, 2020.

The Certificate Transfer Book will remain closed from October 21, 2020 to October 27, 2020 (both days inclusive) for the purpose of eligibility to attend the Annual Review Meeting.

The certificate holders whose names appear on the Register of Certificate Holders of First National Bank Modaraba at the close of business as on October 20, 2020 will be eligible to attend the Annual Review Meeting. All transfers received in order, up to the close of business on October 20, 2020 at our Registrar's Office, Hameed Majeed Associates (Pvt.) Limited, H.M House, 7 – Bank Square, Lahore will be considered in time.

**By order of the Board**



**Farah Aslam**

Company Secretary

National Bank Modaraba Management Company Limited

Managers of First National Bank Modaraba

Lahore: September 29, 2020

### Vision:

To offer Shariah compliant Islamic Financial Products in the financial market so as to achieve optimum customer satisfaction and develop sustainable business relationships.

### Mission:

Promote an Islamic Financial Institution where values of management excellence, professionalism, human resource development are promoted such that interests of all stakeholders are safeguarded.



## Annual Shari'ah Advisor's Report

While conducting the Shari'ah review of First National Bank Modaraba managed by National Bank Modaraba, Management Company Limited (NBMMCL), a wholly owned subsidiary of National Bank of Pakistan for the financial year ended June 30, 2020, we found that FNBM did not extend any fresh financing. Further, the Modaraba did not receive any fresh funds were accepted. Therefore, the report remains more or less the same. In my opinion:

- i. The Modaraba has a mechanism for Shari'ah compliance and the systems, procedures and policies adopted by the Modaraba are in line with the Shari'ah principles;
- ii. No significant developments took place during the year.
- iii. The previous financing agreement(s) entered into by the Modaraba are Shari'ah compliant and the agreement(s) have been executed on the formats as approved by the Shariah advisor and all the related conditions have been met;
- iv. To the best of my information and according to the explanations given to me, the business transactions undertaken by the Modaraba and all other matters incidental thereto are in conformity with the Shari'ah requirements as well as the requirements of the Prospectus, Islamic Financial Accounting Standards as applicable in Pakistan and the Shari'ah Compliance and Shari'ah Audit Regulations for Modarabas
- v. Profit sharing ratios, profits and charging of losses (if any) relating to any deposit raising product conform to the basis and principles of Shari'ah.
- vi. Earnings realized from non-compliant sources were credited to charity accounts.

### Observation(s)

However, during the review, we found that it has been found that no fresh financial activity took place, so observations remain same as previous:

- i. FNBM is maintaining bank accounts with conventional Bank.
- ii. Financing from conventional Bank(s) have been secured.


### Recommendation(s)

Following are some recommendation:

- i. FNBM must maintain account(s) in Islamic Banks/Islamic Windows of Conventional Banks only.
- ii. Matter arising from previous report where we instructed to replace all credit lines with conventional banks with Islamic Banking facilities. It is still outstanding and the management needs to resolve this at the earliest.
- iii. Charity received must be disbursed to welfare institutions within the subsequent year-end.

### Conclusion

Based on the above-mentioned fact, I am of the view that the business operations of First National Bank Modaraba are Shariah compliant up to the best of my knowledge.

  
Mufti Ehsan Waquar  
Shari'ah Advisor  
Dated: September 07, 2020

## DIRECTORS' REPORT

Board of Directors of National Bank Modaraba Management Company Limited (NBMMCL), the management Company of First National Bank Modaraba (FNB), is pleased to present the directors report on the 17<sup>th</sup> annual accounts of FNB for the period ended June 30, 2020. These accounts have been audited by the statutory auditors of the Modaraba and are accompanied by their audit report.

### 1. Financial Results:

(Amounts in Rupees)

	Year Ended June 30, 2020	Year Ended June 30, 2019	Year Ended June 30, 2018	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
Balance Sheet Size	238,951,705	303,068,110	356,066,321	508,478,472	841,306,270	1,248,349,011
Total Equity	(63,161,052)	(22,110,114)	8,154,162	16,333,070	87,692,752	141,525,254
Total Operating & Other Income	23,351,818	22,260,145	76,030,467	179,801,462	314,368,924	451,401,503
Operating & Financial Exp.	54,403,262	52,357,465	71,817,951	163,231,481	302,048,194	460,444,217
Profit for the period	(34,071,784)	(35,716,364)	(8,178,908)	(71,359,682)	(53,832,502)	(122,176,070)
Modaraba Co.'s Management Fee	Nil	Nil	Nil	Nil	Nil	Nil
Net profit after tax	(34,071,784)	(35,716,364)	(8,178,908)	(71,359,682)	(53,832,502)	(122,176,070)
Earning per certificate (Rs.)	(1.36)	(1.43)	(0.33)	(2.85)	(2.15)	(4.89)
Return on Assets (%)	(14.28)	(11.78)	(2.30)	(13.9)	(6.39)	(9.76)
Return on Equity (%)	N/A	N/A	(101)	(436.9)	(61.52)	(87.14)
Dividend Paid (%)	Nil	Nil	Nil	Nil	Nil	Nil
Breakup value per certificate (Rs.)	(2.52)	(1.42)	.33	0.64	3.52	5.64

### 2. Economic and Sector Outlook:

During the year 2019-2020, and before the Covid-19 pandemic, the economy was taking some direction and expectations about economic stability were strengthening. The deadly virus had put the economic activity to almost a halt for almost a quarter of the year. Pakistan, in spite of this, performed relatively well compared to rest of the World in this global battle of man versus the virus and emerged triumphant from the situation. Besides, some macroeconomic indicators, particularly the interest rates and import-export balance kept improving, while the inflation rate remained unfavorable for ordinary consumer. Although theoretically rising prices attracts activity on supply side of economy and stimulates growth, however such correlation is yet to be seen on ground. Certain sectors like construction are being heavily incentivized by the Govt. which coupled with initiation of some mega construction projects in the hydro power sector carries potential of providing a boost to the economic activity in the coming years. Such positive developments are likely to have similar impact on investors' confidence and overall business environment.

Financial sector, including the Modaraba sector, remained more or less steady. Although the market interest rates rationalized during the year which positively affected equities and real estate, however the momentum of industrial investments did not appear to have picked up so far. The sustainable performance of the financial sector depends on the growth in private entrepreneurship and investments, including rehabilitation of those sick industrial units where most of the sector's credit portfolio is stuck up. Islamic financial industry still carries big growth potential, provided that the industry's drive for research in Islamic financing and development of Shari'ah compliant financial products and services remains alive.

## Going Concern Assumption

Due to accumulated losses, Board of Directors of parent bank, National Bank of Pakistan (NBP) in its meeting held on 22<sup>nd</sup> June, 2018 resolved to review and reverse its earlier decision of cessation of Modaraba and to re-capitalize it with Rs. 300 Million by issuing certificates at Rs 10 per certificate. For this purpose Securities and Exchange Commission of Pakistan (SECP) accorded its approval on December 3, 2018 for issuance of further certificates other than right to NBP. Subsequently NBP went to seek its regulator's (SBP) approval. While the approval was still in pendency, SECP however issued an order on October 31, 2019 under section 23(I)(ii)(b) of Modaraba Companies and Modaraba (Floatation & Control) Ordinance 1980 that an application may be filed with the Modaraba Tribunal Lahore for winding up of the Modaraba. The said application was reportedly filed by SECP in June 2020 though a formal notice of hearing from the Modaraba Tribunal has not yet been received.

Under the prevailing circumstances NBP, being the only sponsor and the credit financier of the Modaraba, may as well decide the future of the Modaraba in the best interest of all the stakeholders especially of the Modaraba certificate holders.

Therefore in the absence of fresh equity and until the decision of NBP or of the Modaraba Tribunal, there exists material uncertainty that casts significant doubts about the Modaraba's ability to continue as a going concern. Therefore on advice of our external auditors, these financial statements have been prepared on the basis of estimated realizable / settlement values of assets and liabilities respectively as fully explained in note 1.2 to the financial statements.

## Review of Operations:

During the period under review, the management remained focused only on recovery from non-performing portfolio. Several recovery suits that were earlier initiated against defaulter parties were decreed in FNBM's favor by the relevant Banking Courts, and their execution proceedings were underway. Furthermore some restructuring arrangements were also struck with the defaulters during the period. However due to Covid-19 related lock down in the third and fourth quarter of the financial year the cash inflows due under the restructuring arrangements did not come about as expected and on the other hand the legal proceedings also slowed down considerably. Now as the lockdown has been lifted and economic activity is coming back to normal we are foreseeing some meaty cash recoveries from NPL in the ensuing financial year.

The balance sheet size shrunk from Rs.295.9 million in the corresponding year to Rs.238.9 million this year. The Income from credit portfolio has decrease considerably due to maturities of the regular portfolio. Compared to Rs.22.39 Million last year, the finance cost, owing to NBP RF line which expired on October 31, 2019 and having outstanding balance of Rs.217 Million, was accrued at Rs.28.57 Million during the year, which included an amount of Rs.18.17 Million provisionally accrued for the period after expiry of the facility. The Modaraba has requested NBP for renewal of the RF facility with reduction/waiver of Mark-up and deferral in payment of accrued mark-up. However its approval was still under consideration with NBP by the year end. Despite general inflation the operating expenses were kept under control and remained around Rs.15 Million which was same as last year. However the operating loss when coupled with a net charge of further provisioning on account of reduction in the impact of FSVs of collaterals held against some old classified accounts, resulted in a net loss of Rs.34 million The loss per certificate accordingly remained at Rs1.36 as against Rs.1.43 in the corresponding year.

## Shariah Compliance and Corporate Social Responsibility:

FNBM ensures conformity with the Shariah compliance and Shariah audit mechanism for Modarabas. In this respect Sharia'h Advisor's report is attached. The amounts advised by the Sharia'h advisor to be paid as charity, has been credited to the charity account. During the year, an amount of Rs.0.5 Million was paid as charity to approved charitable institutions as per policy approved by the Board of Directors.



## Profit Distribution

Board in its meeting held on September 29, 2020 did not declare any dividends due to the aforementioned reasons.

## Future Outlook:

One of the main tasks ahead for the Modaraba is to recover its NPLs. Most of the recovery suits against defaulter parties have been decreed by the honorable Banking Courts in favor of the Modaraba and their execution proceedings are underway. Besides litigations, settlements/restructurings on favorable terms are also being negotiated with the defaulter clients. As majority of the default belong to textiles and the relevant clients are out of business for long, therefore it is foreseen that with the expected improvement of general business environment in the coming years, the settlements/restructurings with these defaulters could be executed favorably. As a result, and also with the help of parent bank NBP, the Modaraba is expecting to recover substantial portion of its accumulated loss that were mainly incurred due to charge of provisioning on NPLs.

Furthermore if the Modaraba continues as a going concern entity after the decision of NBP (or the Modaraba Tribunal) about its future, then the new business activity is planned to be focused mainly on small ticket financing of consumer/ commercial vehicles and standalone machinery/equipment to small and medium size enterprises. The returns on new financing, coupled with recoveries from existing non-performing classified portfolio, are expected to enable the Modaraba to start earning profits in few years.

### 3. Corporate and Financial Reporting Framework:

- The financial statements, prepared by the management of the Modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Modaraba have been maintained.
- Accounting policies have been applied consistently, unless otherwise stated in financial statements, in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, International accounting standards, and Islamic Financial Accounting Standards as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements.
- The system of internal control, which is sound in design is in place and is being continuously reviewed by internal audit. The process of review will continue and any weakness in controls will be removed.
- These financial statements are prepared on non-going concern basis.
- There has been no material departure from the best practices of corporate governance as detailed in the listing regulations except for those specifically mentioned in the statement of compliance with the CCG.
- There are no statutory payments on account of taxes, duties, levies and charges, which are outstanding as on June 30, 2020 except those disclosed in the financial statements.
- During the year ended June 30, 2020 five (05), meetings of the Board of Directors were held. Besides (04) four Audit committee and One (01) HR Committee meetings along with two (02) risk management committee meetings were also held. Attendance by each directors is as follows:

Name	No. of Attendance			
	Board	Audit Committee	HR Committee	RM Committee
i. Mr. Imran Malik	5	N/A	N/A	N/A
ii. Mr. Rehmat Ali Hasnie	4	N/A	N/A	N/A
iii. Syed Jamal Baquar	4	3	N/A	N/A
iv. Khawaja Waheed Raza	5	4	1	2
v. Mr. Jamal Nasim	4	4	N/A	2
vi. Mr. Muhammad Iqbal Hussain	5	N/A	1	2
vii. Mr. Abbas Azam	5	N/A	N/A	N/A

The remuneration of the CEO and meeting fee of the non-executive members of the board of directors are paid by the management company, NBMMCL.

The pattern of certificate holders is annexed.

4. Auditors:

The auditors M/s. Crowe Hussain Chaudhry & Co Chartered Accountants, who were auditors of previous year as well, have given their consent to act as auditors for the year ending June 30, 2021. Their appointment has been confirmed by the Board, subject to approval by the Registrar, Modaraba Companies and Modarabas SECP.

5. Acknowledgement:

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

For and on Behalf of the Board



Chief Executive Officer

September 29, 2020

## ڈائریکٹرز رپورٹ

فرسٹ نیشنل بینک مضاربہ (FNBM) کی اختتامی کمیٹی نیشنل بینک مضاربہ منیجمنٹ کمپنی لمیٹڈ (NBMMC) بورڈ آف ڈائریکٹرز 30 جون 2020ء کو اختتام پذیر سال کے لئے FNBM کے سولہویں (17 ویں) سالانہ اکاؤنٹس پر ڈائریکٹرز رپورٹ پیش کرتے ہیں۔ ان کھاتوں کو مضاربہ کے مجاز آڈیٹرز نے آڈٹ کیا ہے اور وہ اپنی آڈٹ رپورٹ پیش کرتے ہیں۔

(رقم روپوں میں)

1. مالیاتی نتائج

30 جون 2015ء	30 جون 2016ء	30 جون 2017ء	30 جون 2018ء	30 جون 2019ء	30 جون 2020ء	
1,248,349,011	841,306,270	508,478,472	356,066,321	303,068,110	238,951,705	بیلنس شیٹ سائز
141,525,254	87,692,752	16,333,070	8,154,162	(22,110,114)	(63,161,052)	کل ایکویٹی
451,401,503	314,368,924	179,801,462	76,030,467	22,260,145	23,351,818	کل آپریٹنگ و دیگر آمدنی
460,444,217	302,048,194	163,231,481	71,817,951	52,357,465	54,403,262	آپریٹنگ اور مالیاتی اخراجات
(122,176,070)	(53,832,502)	(71,359,682)	(8,178,908)	(35,716,364)	(34,071,784)	دورانہ میں منافع
Nil	Nil	Nil	Nil	Nil	Nil	مضاربہ کمپنی کی اختتامی فیس
(122,176,070)	(53,832,502)	(71,359,682)	(8,178,908)	(35,716,364)	(34,071,784)	خالص منافع علاوہ ٹیکس
(4.89)	(2.15)	(2.85)	(0.33)	(1.43)	(1.36)	فی سرٹیفکیٹ آمدنی (روپے)
(9.76)	(6.39)	(13.9)	(2.30)	(11.78)	(14.28)	اثاثہ جات پر ریٹرن (%)
(87.14)	(61.52)	(436.9)	(101)	N/A	N/A	ایکویٹی پر ریٹرن (%)
Nil	Nil	Nil	Nil	Nil	Nil	اداشدہ منافع منقسمہ (%)
5.64	3.52	0.64	0.33	(1.42)	(2.52)	فی سرٹیفکیٹ بریک اپ ویلیو (روپے)

2. معاشی اور شعبہ جاتی نقطہ نظر

Covid-19 وبا سے پہلے سال 2019-2020 کے دوران معیشت کی ایک واضح سمت اور معاشی استحکام سے متعلق توقعات میں اضافہ ہو رہا تھا۔ وائرس اور انسان کے درمیان بقا کی عالمی جنگ میں اگرچہ پاکستان نے مقابلتا اچھی کارکردگی دکھائی اور اس بحران میں فاتح رہا لیکن اس مہلک وائرس نے اقتصادی سرگرمی کو تقریباً ایک سہ ماہی کے لئے مفلوج کر دیا۔ چند معاشی اشاریوں خصوصاً شرح سود اور درآمدات اور برآمدات میں توازن میں بہتری آئی لیکن عام صارف کے لئے افراط زر کی شرح غیر موافق رہی۔ نظریاتی طور پر اگرچہ بڑھتی ہوئی قیمتیں معیشت کی ترقیاتی سرگرمیوں کو مائل اور متحرک کرتی ہیں تاہم اس رابطہ کا زمینی صورت حال پر اثر دکھائی دینا ابھی باقی ہے۔ تعمیراتی شعبہ جیسے سیکٹرز میں حکومت نے بھاری رعایت دی ہے۔ ہائیڈرو پاور سیکٹر میں چند بڑے تعمیراتی منصوبوں کے آغاز سے آئندہ برسوں میں اقتصادی سرگرمیوں میں اضافہ کی توقع ہے۔

اس مثبت پیش رفت کے سرمایہ داروں سے اعتماد اور مجموعی طور پر کاروباری ماحول پر مثبت اثرات ہوں گے۔

مالیاتی شعبہ بشمول مضاربہ کم و بیش متوازن رہا۔ اگرچہ مارکیٹ شرح سود میں معافقت آئی جس سے ایکویٹیز اور رینٹل اسٹیٹ شعبہ پر مثبت اثرات مرتب ہوئے تاہم صنعتی سرمایہ داری کی رفتار میں ابھی تک خاطر خواہ تیزی دکھائی نہیں دی۔ مالیاتی شعبہ کی موافق کارکردگی نجی کاروبار اور سرمایہ داری پر منحصر ہے جس میں بیماری صنعتی یونٹوں کی بحالی بھی شامل ہے جہاں اس شعبہ کا کریڈٹ پورٹ فولیو منجمد ہو چکا ہے۔ اسلامک فنانشل صنعت میں نمو کی بے پناہ صلاحیت موجود ہے اگر اس صنعت میں تحقیق اور شریعت پر مبنی مالیاتی پروڈکٹس اور خدمات کی ترقی کی جستجو زندہ رہے۔

کاروباری جاری رکھنے کی توقعات

مجموعی خصلتوں کی وجہ سے نیشنل بینک آف پاکستان (NBP) کے بورڈ آف ڈائریکٹرز کے جون 22 2018ء کے اجلاس میں مضاربہ کے کاروبار منجمد کرنے کے فیصلہ پر نظر ثانی اور 10 روپے فی سرٹیفکیٹ کے حساب سے 300 ملین روپے سرمایہ میں اضافہ کی قرارداد منظور ہوئی۔ اس مقصد کے لئے سیکورٹیز اینڈ ایکسچینج کمیشن آف پاکستان (SECP) نے

رائٹ کے علاوہ NBP کو مزید تحقیق کے اجراء کے لئے منظوری دی۔ جب کہ یہ منظوری اسٹیٹ بینک آف پاکستان (SBP) میں التوا کا شکار تھی تاہم SECP نے 31 اکتوبر 2019ء مضارب کمپنیز اور مضاربہ (فلوئنگ اور کنٹرول) آرڈیننس 1980ء کے سیکشن (b)(ii)(b) 23 کے تحت ایک حکم جاری کیا کہ مضاربہ کی تحلیل کے لئے مضاربہ ٹریبونل لاہور میں درخواست دائر کی جائے۔ مذکورہ درخواست جون 2020ء میں SECP نے درج کرائی تھی اور مضاربہ ٹریبونل نے سماعت کے لئے ابھی تک باقاعدہ نوٹس موصول نہ ہوا ہے۔

موجودہ حالات میں مضاربہ کے واحد سرمایہ دار اور معاون کی حیثیت میں NBP میں تمام سٹیک ہولڈرز خصوصاً مضاربہ ٹھیکہ ہولڈرز کے بہترین مفاد میں مضاربہ کے مستقبل کا فیصلہ کر سکتا ہے۔

لہذا تازہ ایکویٹی کی غیر موجودگی اور NBP یا مضاربہ ٹریبونل کے حتمی فیصلہ تک غیر یقینی صورت حال عیاں ہے کہ مضاربہ کی کاروبار جاری رکھنے کی صلاحیت میں نمایاں شکوک و شبہات موجود ہیں۔ لہذا اپنے خارجی آڈیٹرز کی مشاورت سے اندازاً قابل فروخت اثاثہ جات کی قیمت اور واجبات کی بنیاد پر یہ مالیاتی اسٹیٹمنٹس تیار کی گئی ہیں جس کی مکمل تفصیل نوٹ 1.2 میں بیان کی گئی ہے۔

## آپریٹنگ کا جائزہ

زیر جائزہ مدت کے دوران انتظامیہ غیر فعال پورٹ فولیو سے وصولی پر بھرپور توجہ دیتی رہی۔ نادہندگان کے خلاف وصولی کی متعدد درخواستوں پر متعلقہ بینکنگ کورٹس نے FNBم کے حق میں فیصلہ دیا ہے اور اس پر عمل درآمد کی کارروائی جاری رہی۔ مزید برآں، اس دورانیہ میں نادہندگان کے ساتھ ری سٹرکچرنگ کا عمل بھی انجام دیا گیا تھا۔ تاہم مالیاتی سال کی تیسری اور چوتھی سہ ماہی میں Covid-19 بندش کی وجہ سے زیر ری سٹرکچرنگ کے تحت رقوم کی وصولی توقعات کے برعکس تھی اور دوسری جانب قانونی کارروائیاں کی رفتار بھی نمایاں طور پر سست روی کا شکار رہی۔ چونکہ لاک ڈاؤن ختم کر دیا گیا ہے اور معاشی سرگرمی معمول کے مطابق جاری ہے لہذا ہم آئندہ برس NPL سے بھاری رقوم کی وصولی کی اُمید رکھتے ہیں۔

بیلنس شیٹ کا ساؤتھ گڈز شدہ برس میں 295.9 ملین روپے کے مقابلہ میں سیکڑ کر 238.9 ملین روپے رہ گیا۔ ریگولر پورٹ فولیو کی میچورٹی ک وجہ سے کریڈٹ پورٹ فولیو سے آمدنی میں کمی واقع ہوئی۔ گڈز شدہ برس 22.39 ملین روپے کے مقابلہ میں قرضوں پر لاگت 31 اکتوبر 2019 کو ختم ہونے والی NBP RF لائن اور 217 ملین روپے کے واجبات کی وجہ سے زیر جائزہ سال میں 28.57 ملین روپے رہی جس میں 18.17 ملین روپے کی رقم اس دورانیہ میں سہولت کے اختتام پر جمع ہوئی۔ مضاربہ نے NBP سے مارک اپ میں کمی/ارعایت اور مارک اپ کی ادائیگی میں رعایت کے لئے RF سہولت کی تجدید کی درخواست کی ہے۔ تاہم سال کے اختتام تک NBP اس منظوری پر غور کر رہی ہے۔ افراط زر کے باوجود آپریٹنگ اخراجات کو کنٹرول میں رکھا گیا جو گڈز شدہ برس کی طرح 15 ملین روپے پر قرار رہا۔ تاہم پرانے کلاسیفائیڈ اکاؤنٹس کی مدد میں ضمانت کے FSV کے اثرات میں کمی پرنیٹ چارج کے ساتھ آپریٹنگ خسارہ کی وجہ سے خالص خسارہ 34 ملین روپے رہا۔ خسارہ فی سٹرٹیفکٹ گڈز شدہ برس میں 1.43 روپے کے مقابلہ میں 1.36 روپے رہا۔

## شریعت و انڈیکس پیروی اور کارپوریٹ سماجی ذمہ داریاں

FNBم مضاربہ کے لئے شریعت قواعد اور شریعہ آڈٹ کے ضابطہ کی پیروی کو یقینی بناتا ہے۔ اس تناظر میں شریعہ مشیر کی رپورٹ ساتھ منسلک ہے۔ شریعہ مشیر کی ہدایت پر بطور چیرٹی واجب الادا رقوم کو چیرٹی اکاؤنٹ میں جمع کر دیا گیا ہے۔ سال بھر میں، بورڈ آف ڈائریکٹرز کی منظور شدہ پالیسی کے تحت 0.5 ملین روپے کی رقم منظور شدہ خیراتی اداروں کو بطور چیرٹی ادا کی گئی۔

## نفع کی تقسیم

29 ستمبر 2020 کو بورڈ اجلاس میں مذکورہ بالا واجبات کی بنا پر کسی بھی قسم کا منافع منقسمہ تجویز نہ کیا گیا ہے۔

## مستقبل کا منظر نامہ

مضاربہ کا سب سے زیادہ ترجیحی کام NPL کی وصولی ہے۔ فاضل بینکنگ عدالتوں نے نادہندگان کے خلاف وصولی کی درخواستوں پر مضاربہ کے حق میں فیصلہ دیا ہے اور اس پر عمل درآمد کی کارروائی جاری ہے۔ قانونی کارروائی کے علاوہ نادہندہ کلائنٹ کے ساتھ قابل قبول شرائط پر سٹیلمنٹ/ری سٹرکچرنگ پر بھی تبادلہ خیال جاری ہے۔ چونکہ زیادہ تر نادہندگان کے معاملات ٹیکسٹائل شعبہ سے ہیں اور متعلقہ کلائنٹ کا کاروبار کافی عرصہ سے مفلوج ہے لہذا یہ ادراک کیا جاتا ہے کہ آئندہ سالوں میں کاروباری ماحول میں متوقع بہتری کی وجہ سے ان نادہندگان کے ساتھ موافق شرائط پر سٹیلمنٹ/ری سٹرکچرنگ پر عمل درآمد ہو جائے گا۔ نتیجتاً مرکزی بینک NBP کی مدد سے مضاربہ خسارہ کی بھاری رقوم حاصل کر لے گا جو NPLs کی پروڈکٹنگ کی وجہ سے ہوا تھا۔

مزید برآں NBP (یا مضاربہ ٹریبونل) کے فیصلہ کے بعد اگر مضاربہ اپنا کاروبار جاری رکھتا ہے تو مصرف/کمرشل گاڑیوں اور مشینری/آلات پر چھوٹے اور درمیانے درجے کے کاروبار کی چھوٹی فنانسنگ کے منصوبہ کو مد نظر رکھ کر کاروباری سرگرمی کا از سر نو آغاز کیا جائے گا۔ نئی فنانسنگ پر آمدنی اور موجودہ غیر فعال کلاسیفائیڈ پورٹ فولیو سے وصولی کی مدد سے مضاربہ چند سالوں میں نفع حاصل کرنا شروع کر دے گا۔

3.

کاروباری اور مالیاتی رپورٹنگ فریم ورک

مضاربہ کی انتظامیہ کی تیار کردہ مالیاتی اسٹیٹمنٹس کاروباری امور، آپریشنز کے نتائج، کمیشن فلو اور ایکویٹی میں تبدیلی کی واضح عکاسی کرتی ہیں۔

مضاربہ کھاتوں کی باقاعدہ کتابیں تیار کی گئی ہیں۔

مالیاتی اسٹیٹمنٹس کی تیاری میں اکاؤنٹنگ پالیسیوں کا حسب ضابطہ اطلاق کیا گیا ہے اور اکاؤنٹنگ تخمینہ جات باوثوق اور موزوں فیصلوں کی بنیاد پر لگائے جاتے ہیں۔

مالیاتی اسٹیٹمنٹس کی تیاری میں پاکستان مضاربہ پر لاگو بین الاقوامی مالیاتی رپورٹنگ معیارات، بین الاقوامی اکاؤنٹنگ معیارات اور اسلامی مالیاتی اکاؤنٹنگ

معیارات کی پیروی کی گئی ہے۔

داخلی نظم و ضبط کا نظام مربوط نظام قائم ہے اور داخلی آڈٹ اس پر مسلسل نظر ثانی کی جاتی ہے۔ نظر ثانی کا عمل جاری رہے گا اور کنٹرولز میں ہر قسم کی کمزوری کو دور کیا جائے گا۔

یہ مالیاتی اسٹیٹمنٹس کاروباری جاری نہ رکھ سکنے کی بنیاد پر تیار کی گئی ہیں۔

ضابطہ کے تعمیلی بیان میں بیان کردہ مندرجات کے علاوہ لمبنڈر ضوابط میں بیان کردہ کارپوریٹ گورننس کی بہترین عمل داری میں کوئی ابہام نہ ہے۔

مالیاتی اسٹیٹمنٹس میں بیان کردہ مندرجات کے علاوہ 30 جون 2020ء تک ٹیکس، ڈیوٹی، لیوی اور چارجز کی مد میں کوئی واجبات واجب الادا نہ ہیں۔

30 جون 2020ء کو اختتام پذیر سال میں بورڈ آف ڈائریکٹرز کے پانچ (05) اجلاس منعقد ہوئے۔ اس کے علاوہ آڈیٹ کمیٹی کے چار (04)، ایچ آر کمیٹی کا ایک

(01) اور رسک مینجمنٹ کمیٹی کے دو (02) اجلاس منعقد ہوئے۔ تمام ڈائریکٹرز کی حاضری کی تفصیل حسب ذیل ہے:

تعداد حاضری				نام
بورڈ	آڈٹ کمیٹی	ایچ آر کمیٹی	آرام کمیٹی	
5	-	-	-	1. محمد عمران ملک
4	-	-	-	2. رحمت علی حسنی
4	3	-	-	3. سید جمال باقر
5	4	1	2	4. خواجہ وحید رضا
4	4	-	2	5. جمال نسیم
5	-	1	2	6. محمد اقبال حسین
5	-	-	-	7. عباس اعظم

CEO کی تنخواہ اور بورڈ آف ڈائریکٹرز کے نان ایگزیکٹو اراکین کی اجلاس فیصلہ انتظامی NBMCL نے ادا کی۔

سرٹیفکیٹ ہولڈرز کی وضع ساتھ منسلک ہے۔

4.

آڈیٹرز

گذشتہ برس کے آڈیٹرز کو حسین چودھری اینڈ کمپنی چارٹرڈ اکاؤنٹنٹس نے 30 جون 2021ء کو اختتام پذیر سال کے لئے بطور آڈیٹرز کام کے لئے اپنی رضامندی کا

اظہار کیا ہے۔ رجسٹرڈ مضاربہ کمپنیوں اور مضاربہ SECP کی منظوری سے مشروط بورڈ نے ان کی تقرری کی تصدیق کر دی ہے۔

5.

اعتراف

بورڈ اپنے معزز صارفین کے کمپنی پر اعتماد اور بھروسہ اور سیکیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان، پاکستان شاؤٹ ایکسچینج اور NBFI اور مضاربہ ایسوسی ایشن آف

پاکستان کی حمایت و تعاون کا تہہ دل سے شکر گزار ہے۔

برائے، منجانب بورڈ



29 ستمبر 2020

چیف ایگزیکٹو آفیسر

## Statement of Compliance with Listed Companies (Code of Corporate Governance) Regulations, 2019 of First National Bank Modaraba For the year ended June 30, 2020

The Modaraba Management Company (hereafter referred to as the Company) has complied with the requirements of the Regulations in the following manner:-

1. The total number of directors are seven as per the following,-
  - a. Male: 7
  - b. Female: 0

2. The composition of the Board is as follows:

Independent Director	Muhammad Iqbal Hussain
Non-Executive Directors	Imran Malik
	Khawaja Waheed Raza
	Jamal Nasim
	Rehmat Ali Hasnie
	Jamal Baquar
Executive Director	Abbas Azam
Female Director	Nil


3. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this company.
4. The company has prepared a code of conduct and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
5. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. The Board has ensured that complete record of particulars of the significant policies along with their date of approval or updating is maintained by the company; and is also available on website.
6. All the powers of the Board have been duly exercised and decisions on relevant matters have been taken by the Board/ certificate holders as empowered by the relevant provisions of the Act and these Regulations.
7. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. The Board has complied with the requirements of Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of the Board.
8. The Board has a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations.
9. The Board has arranged Directors' Training program.
10. The Board has approved appointment of chief financial officer, company secretary and head of internal audit, including their remuneration and terms and conditions of employment and complied with relevant requirements of the Regulations.
11. Chief financial officer and chief executive officer duly endorsed the financial statements before approval of the Board.
12. The Board has formed committees comprising of members given below. -

a) Audit Committee	Chairman	Jamal Nasim
	Member	Khawaja Waheed Raza
	Member	Syed Jamal Baquar
b) HR and Remuneration Committee	Chairman	Khawaja Waheed Raza
	Member	Rehmat Ali Hasnie
	Member	Muhammad Iqbal Hussain
c) Risk Management Committee	Chairman	Khawaja Waheed Raza
	Member	Jamal Nasim
	Member	Muhammad Iqbal Hussain

13. The terms of reference of the aforesaid committees have been formed, documented and advised to the committee for compliance.
14. The frequency of meetings (quarterly/half yearly/ yearly) of the committee were as per following, -
 

a) Audit Committee;	4
b) HR and Remuneration Committee ;	1
c) Risk Management Committee	2
15. The Board has set up an effective internal audit function who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the company.
16. The statutory auditors of the company have confirmed that they have been given and satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan, that they and all their 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 and that they and the partners of the firm involved in the audit are not a close relative (spouse, parent, dependent and non-dependent children) of the chief executive officer, chief financial officer, head of internal audit, company secretary or director of the company.
17. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, these Regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard.
18. We confirm that all requirements of regulations 3, 6, 7, 8, 27, 32, 33 and 36 of the Regulations have been complied to the extent applicable on us, except 27 (2(ii) which requires that Chairman of Audit Committee shall be an independent director.
19. Explanation for non-compliance with requirements, other than regulations 3, 6, 7, 8, 27,32, 33 and 36 are below :

Sr.No	Description	Explanation
1	Chairman of Human Resource and Remuneration is not independent director as required under Regulation 28 of the Regulations, 2019.	Noted for future compliance.
2	The Chief financial Officer and Company Secretary of the Company is same person.	Noted for future compliance.



Signature  
Chairman



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**INDEPENDENT AUDITOR'S REVIEW REPORT TO THE  
CERTIFICATE HOLDERS  
OF  
FIRST NATIONAL BANK MODARABA  
REVIEW REPORT ON THE STATEMENT OF COMPLIANCE  
CONTAINED IN LISTED COMPANIES (CODE OF CORPORATE  
GOVERNANCE) REGULATIONS, 2019**

We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019 (the Regulations) prepared by the Board of Directors of National Bank Modaraba Management Company Limited (the Company) for and on behalf of First National Bank Modaraba (the Modaraba) for the year ended June 30, 2020 in accordance with the requirements of regulation 36 of the Regulations.

The responsibility for compliance with the Regulations is that of the Board of Directors of the Company. Our responsibility is to review whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Regulations and report if it does not and to highlight any non-compliance with the requirements of the Regulations. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Regulations.

As a part of our audit of the 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 of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Regulations require the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval, its related party transactions. 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 of Directors upon recommendation of the Audit Committee.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the requirements contained in the Regulations as applicable to the Company for the year ended June 30, 2020.

Further, we highlight below instances of non-compliance with the requirements of the Regulations as reflected in the paragraph reference where these are stated in the Statement of Compliance:

Sr. No	Paragraph Reference	Description
1	12	Chairman of Audit Committee is not an independent director.
2	12	Chairman of Human Resource and Remuneration Committee is not an independent director.
3	19	The position of Chief financial Officer and Company Secretary is currently held by same individual.

*Crowe Hussain Ch3f3*

Lahore  
Dated: September 29, 2020

**CROWE HUSSAIN CHAUDHURY & CO.**  
Chartered Accountants

Engagement Partner  
Amin Ali

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## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of **First National Bank Modaraba** ("the Modaraba") as at June 30, 2020 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of accounts have been kept by the Modaraba Company in respect of the Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981;
- b) in our opinion;
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of accounts and are further in accordance with the accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at June 30, 2020 and of the loss, comprehensive loss, its cash flows and changes in equity for the year then ended; and
- d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

We draw attention to Note 1.2 of the accompanied financial statements, which indicates that the Modaraba incurred a net loss of Rs. 34.071 million during the year ended June 30, 2020. As of that date the Modaraba's current liabilities exceeded its current assets by Rs. 102.825 million, its net liabilities amounted to Rs. 63.161 million and its accumulated losses amounted to Rs. 357.116 million. The short term running facility obtained from National Bank of Pakistan (NBP) was expired on October 31, 2019 that has yet not been renewed and markup outstanding thereupon is also outstanding. Moreover, after the issuance of order dated October 31, 2019 of Registrar Modaraba, the winding up petition has been filed on June 16, 2020 before the Honorable Modaraba Tribunal, Lahore. This situation indicates that a material uncertainty exists that may cast significant doubt on the Modaraba's ability to continue as going concern. Therefore, these financial statements have been prepared on the basis of estimated realizable / settlement values of assets and liabilities respectively. Estimated realizable / settlement values are based on the management's best estimate. Estimation involves judgment based on the latest available, reliable information, historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. In future, these estimates may need revision if changes occur in the circumstances on which the estimates are based or as a result of new information. Hence, the ultimate values at which assets will be realized and liabilities will be settled may be different from those carried in these financial statements. Our opinion is not qualified in respect of this matter.

LAHORE

Dated: September 29, 2020

  
CROWE HUSSAIN CHAUDHURY & CO.

Chartered Accountants  
(Engagement Partner: Amin Ali)

## BALANCE SHEET AS AT JUNE 30, 2020

	Note	2020 Rupees	2019 Rupees (Restated)
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and bank balances	7	22,655,332	11,329,223
Short term murabaha investments - secured	8	5,638,222	16,138,222
Accrued profit	9	1,202,746	2,192,041
Short term investments	10	73,997,842	67,428,863
Ijarah rentals receivable	11	62,456,119	69,521,441
Advances, prepayments and other receivables	12	5,354,411	4,421,491
Current portion of non current assets	13	27,982,964	34,922,373
		199,287,636	205,953,654
<b>NON-CURRENT ASSETS</b>			
Net investment in ijarah finance	14	-	-
Diminishing musharaka financing - secured	15	-	-
Long term murabaha investments - secured	16	-	5,893,939
Long term loans and deposits	17	39,500	190,780
Intangible asset	18	-	-
Fixed assets under ijarah arrangements	19	39,565,335	83,900,189
Fixed assets - own use	20	59,234	39,747
		39,664,069	90,024,655
<b>TOTAL ASSETS</b>		<b>238,951,705</b>	<b>295,978,309</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accrued profit		28,495,826	4,505,879
Short term finances - secured	21	217,063,388	217,063,388
Creditors, accrued and other liabilities	22	9,826,010	17,928,939
Current portion of non-current liabilities	23	46,727,533	82,555,415
		302,112,757	322,053,621
<b>NON-CURRENT LIABILITIES</b>			
Security deposits against ijarah assets	24	-	890,000
Deferred murabaha income	25	-	2,234,603
		-	3,124,603
<b>TOTAL LIABILITIES</b>		<b>302,112,757</b>	<b>325,178,224</b>
<b>NET LIABILITIES</b>		<b>(63,161,052)</b>	<b>(29,199,915)</b>
<b>FINANCED BY:</b>			
Certificate capital	26	250,000,000	250,000,000
Statutory reserves	27	43,955,189	43,955,189
Accumulated loss		(357,116,241)	(323,155,104)
<b>CONTINGENCIES AND COMMITMENTS</b>	28	-	-
<b>TOTAL EQUITY AND RESERVES</b>		<b>(63,161,052)</b>	<b>(29,199,915)</b>

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



Chief Executive Officer  
National Bank Modaraba  
Management Company Limited



Director  
National Bank Modaraba  
Management Company Limited



Director  
National Bank Modaraba  
Management Company Limited



Chief Financial Officer  
National Bank Modaraba  
Management Company Limited

Lahore: September 29, 2020

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020 Rupees	2019 Rupees
<b>INCOME FROM OPERATIONS</b>			
Ijarah rentals earned / income from ijarah finance		2,561,756	8,444,363
Profit on diminishing musharaka financing		100,312	1,709,031
Profit on murabaha investments		-	67,948
Profit on bank deposits		311,733	920,506
Profit on disposal of ijarah assets		-	679,410
Profit on disposal of owned assets		-	30,000
Profit on short term investment		11,711,175	6,369,850
		14,684,976	18,221,108
<b>OTHER INCOME</b>			
Reversal of provision charged for doubtful receivables - net	32	1,902,510	4,000,003
Excess liabilities written back		6,746,296	-
Other income	29	18,036	39,034
		8,666,842	4,039,037
<b>TOTAL INCOME</b>		<b>23,351,818</b>	<b>22,260,145</b>
<b>EXPENSES</b>			
Depreciation on ijarah assets	19	(6,636,208)	(14,795,254)
Operating expenses	30	(14,910,330)	(15,137,194)
Loss on disposal of ijarah assets		(314,746)	-
Finance cost	31	(28,557,431)	(22,425,017)
Excess receivable written off		(3,984,547)	-
<b>TOTAL EXPENSES</b>		<b>(54,403,262)</b>	<b>(52,357,465)</b>
<b>OPERATING LOSS BEFORE PROVISIONS AND TAXATION</b>		<b>(31,051,444)</b>	<b>(30,097,320)</b>
Provision charged for doubtful receivables - net	32	(3,020,340)	(5,619,044)
Impairment loss on ijarah assets - net	19	-	-
		(34,071,784)	(35,716,364)
Modaraba Company's management fee	33	-	-
<b>LOSS BEFORE TAXATION</b>		<b>(34,071,784)</b>	<b>(35,716,364)</b>
Taxation	34	-	-
<b>NET LOSS FOR THE YEAR</b>		<b>(34,071,784)</b>	<b>(35,716,364)</b>
<b>LOSS PER CERTIFICATE - BASIC AND DILUTED</b>	35	<b>(1.36)</b>	<b>(1.43)</b>


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



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Lahore: September 29, 2020

**STATEMENT OF COMPREHENSIVE INCOME**  
FOR THE YEAR ENDED JUNE 30, 2020

	2020	2019
	Rupees	Rupees (Restated)
<b>Net Loss for the Year</b>	(34,071,784)	(35,716,364)
<b>Other Comprehensive Income:</b>		
<i>Items that will not be reclassified to profit and loss</i>	-	-
<i>Items that may be reclassified subsequently to profit and loss</i>		
- Surplus / (Deficit) on revaluation of sukuk	110,647	(1,628,033)
Other comprehensive income / (loss) for the year	110,647	(1,628,033)
<b>Total Comprehensive Loss for the Year</b>	<u>(33,961,137)</u>	<u>(37,344,397)</u>

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

  
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Lahore: September 29, 2020

## CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2020

		2020	2019
		Rupees	Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	36	22,414,513	14,365,415
Finance cost paid		(4,567,484)	(20,483,886)
Income taxes paid / deducted at source		(1,258,593)	(934,047)
Profit received on bank deposits		311,733	920,506
Long term loans recovered		279,343	427,874
<b>Net Cash Generated from / (Used in) Operating Activities</b>		17,179,512	(5,704,138)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Fixed assets - own use acquired		(48,000)	-
Short term investments acquired		(20,000,000)	(31,807,729)
Short term investments redeemed		13,541,668	(6,354,167)
Proceeds from disposal of own assets		-	30,000
Proceeds from disposal of ijarah assets		652,929	3,511,468
<b>Net Cash Used in Investing Activities</b>		(5,853,403)	(34,620,428)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		-	-
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>		11,326,109	(40,324,566)
Cash and cash equivalents at the beginning of the year		11,329,223	51,653,789
<b>Cash and Cash Equivalents at the End of the Year</b>		22,655,332	11,329,223

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



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Lahore: September 29, 2020

**STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED JUNE 30, 2020

Particulars	Certificate Capital	Statutory Reserve	Accumulated Loss	Total Equity
	Rupees			
<b>Balance as at June 30, 2018</b>	250,000,000	43,955,189	(285,810,707)	8,144,482
<b>Comprehensive loss for the year</b>				
Net loss for the year	-	-	(35,716,364)	(35,716,364)
Other comprehensive loss for the year -restated	-	-	(1,628,033)	(1,628,033)
Total comprehensive loss for the year	-	-	(37,344,397)	(37,344,397)
Transferred to statutory reserve	-	-	-	-
<b>Balance as at June 30, 2019 as restated</b>	250,000,000	43,955,189	(323,155,104)	(29,199,915)
<b>Balance as at June 30, 2019 as previously reported</b>	250,000,000	43,955,189	(316,065,303)	(22,110,114)
Impact of re-statement - note 6	-	-	(7,089,801)	(7,089,801)
<b>Balance as at June 30, 2019 as restated</b>	250,000,000	43,955,189	(323,155,104)	(29,199,915)
<b>Comprehensive loss for the year</b>				
Net loss for the year	-	-	(34,071,784)	(34,071,784)
Other comprehensive income for the year	-	-	110,647	110,647
Total comprehensive loss for the year	-	-	(33,961,137)	(33,961,137)
Transferred to statutory reserve	-	-	-	-
<b>Balance as at June 30, 2020</b>	250,000,000	43,955,189	(357,116,241)	(63,161,052)

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

  
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Lahore: September 29, 2020

## NOTES TO AND FORMING PART OF THE THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Note 1

### Legal Status and Nature of Business

- 1.1** First National Bank Modaraba ("the Modaraba") is a multi-purpose, perpetual and multi-dimensional Modaraba formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and Rules framed thereunder. The Modaraba is managed by National Bank Modaraba Management Company Limited (a wholly owned subsidiary of the National Bank of Pakistan (NBP)), incorporated in Pakistan under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017) and registered with the Registrar of Modaraba Companies. The registered office of the Modaraba is situated at Ground Floor, National Bank of Pakistan, Regional Headquarters Building, 26-Mc Lagon Road, Lahore.

The Modaraba is listed on Pakistan Stock Exchange Limited (PSX). It commenced its operations on December 4, 2003 and is currently engaged in various Islamic modes of financing and operations including ijarah, musharaka and murabaha arrangements.

**1.2 Going concern assumption**

During the year, the Modaraba made loss before 'Modaraba Company's Management Fee' of Rs. 34.071 million (2019: Rs. 35.716). As at the reporting date, its current liabilities exceed its current assets by Rs. 102.825 million (2019: Rs. 116.099 million) and its accumulated losses amount to Rs. 357.116 million (2019: Rs. 323.155 million). Further as referred in Note 21 and Note 31, the short term running finance facility obtained from National Bank of Pakistan (NBP) was expired on October 31, 2019 that has yet not been renewed and markup outstanding thereupon is also outstanding.

In purview of the consistent losses of the Modaraba, the Registrar Modaraba issued a show cause notice to it as to why should the proceedings to wind up the Modaraba not be initiated in terms of Section 23(1)(ii)(b) of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. Further, the Registrar Modaraba in exercise of powers conferred under Section 23(1)(ii)(b) of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and show cause notice referred in previous paragraph, has passed an order dated October 31, 2019, for filing an application for winding up before the Modaraba Tribunal, Lahore. Subsequent to order dated October 31, 2019 of Registrar Modaraba, the winding up petition has been filed on June 16, 2020 under section 23(1)(ii)(b) before the Honorable Modaraba Tribunal, Lahore.

Accumulated losses as on June 30, 2020 contain Rs. 332.421 million against provision for doubtful receivables ; the management believes that these amounts are notional in nature and these provisions are reversible in future to the extent of actual cash recoveries, as and when realized, from the defaulter clients. The Modaraba has filed legal suits for recovery against all its defaulter clients and Rs. 400.436 million have been decreed in Modaraba's favor by the Honorable Banking Courts, against principal amount, that are pending execution. Total current liabilities amounting to Rs. 302.112 million include Rs. 245.558 million payable to National Bank of Pakistan (NBP) on account of outstanding principal and mark-up on short term running finance facility that the management believes is not readily payable. Further, the current liabilities also include Rs. 44.440 million worth security deposits that are not immediately repayable rather shall be adjusted against the residual value of ijarah assets.

However, the winding up petition filed by the Registrar Modaraba indicates the existence of material uncertainty that casts significant doubts about the Modaraba's ability to continue as a going concern, and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. Therefore, these financial statements have been prepared on the basis of estimated realizable / settlement values of assets and liabilities respectively.

## Note 2

### Basis of Preparation

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#### 2.1 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS Standards) issued by International Accounting Standards Board (IASB) and Islamic Financial Accounting Standards (IFAS) issued by Institute of Chartered Accountants of Pakistan as notified under the provisions of the Companies Act, 2017;
- Provisions of and directives issued under the Companies Act, 2017, Modaraba Companies and Modarabas (Flotation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan.

Wherever, the requirements of Modaraba Companies and Modarabas (Flotation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 or the directives issued by the Securities and Exchange Commission of Pakistan (SECP), differ with the requirement of IFRS or IFAS, the Companies Act, 2017, and the said directives shall prevail.

#### 2.2 Accounting convention

These financial statements have been prepared on the basis other than going concern using estimated realizable / settlement values of assets and liabilities respectively. In realizable / settlement value basis, assets are carried at amount of cash and cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Liabilities are carried at their settlement values, that is the undiscounted amount of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business.

#### 2.3 Functional and presentation currency

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

## Note 3

### Use of Estimates and Judgments

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

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



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

Judgments made by the management that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are as under:

### Ijarah assets and fixed assets in own use

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

### Ijarah rentals, musharaka and murabaha investments

Ijarah rentals, diminishing musharaka financing and murabaha investments are stated net of provision against doubtful receivables. Provision is recognized for ijarah rentals receivable, diminishing musharaka financing and murabaha investments in accordance with the Prudential Regulations for Modarabas issued by the SECP and on subjective evaluation by the management. Bad debts are written off when identified.

### Estimated realizable / settlement values of assets and liabilities respectively

Based on the management's best estimate, as on the reporting date, carrying values of assets and liabilities reflect estimated realizable / settlement values respectively. The Modaraba has recognized provision for doubtful short term murabaha investments, provision for ijarah rentals receivables and provision for long term murabaha investment on the basis of prudential regulations and subjective evaluation of non-performing receivables / assets after considering the current situation, that the Modaraba may not be able to continue as going concern. These provisions are made in addition to the time based criteria given in the Regulation of classification and provisioning for non-performing assets in Prudential Regulations for Modarabas. As per guidelines on the basis of preparation of financial statements that are not considered going concern issued by the Institute of Chartered Accountants of Pakistan, analysis of upside not recognized in the profit and loss account of the Modaraba on assets is disclosed in Note 15.2.1 in these financial statements. Cumulative effect of upside not recognized in the profit and loss of the Modaraba for the year ended June 30, 2020 amounts to Rs. 1.340 million.

## Note 4

### Adoption of new and revised standards, amendments and interpretations:

#### 4.1 New and amended standards and interpretations to published approved accounting standards that are effective in the current year:

The following amendments to existing standards and interpretations have been published and are mandatory for accounting periods beginning on or after July 1, 2019 and are not considered to be relevant to the Modaraba's financial statements:

Annual improvements to IFRSs (2015-2017 Cycle)	January 01, 2019
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#### 4.2 New and amended standards and interpretations to published approved accounting standards that are not yet effective in the current year

The following standards and amendments to published accounting standards were not effective during the year and have not been early adopted by the Modaraba.

	<b>Effective Date</b> (Period beginning on or after)
Conceptual Framework in IFRS Standards [Amendments]	January 01, 2020
Interest Rate Benchmark Reform- Amendments to IFRS 9, IAS 39 and IFRS 7	January 01, 2020
IAS 1 and IAS 8 [Amendments]	January 01, 2020

## Note 4, Basis of Preparation - Continued...

### 4.3 New and amended standards and interpretations to published approved accounting standards that are not relevant

There are certain new standards, amendments to the approved accounting standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2019, but are considered not to be relevant or have any significant effect on the Modaraba's reporting and are therefore, not disclosed in these financial statements.

## Note 5

### Summary of Significant Accounting Policies

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The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented.

#### 5.1 Cash and cash equivalents

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

#### 5.2 Receivables

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

#### 5.3 Murabaha investment

Murabaha investments are stated net of provision. Provision is recognized for Murabaha investments in accordance with the time based criteria of the Prudential Regulations for Modarabas issued by the SECP and subjective evaluation of management. Outstanding balances are written off when there is no realistic prospect of recovery.

Murabaha receivable are recorded by the Modaraba at the invoiced amount and disclosed as such in the balance sheet. Purchases and sales under murabaha and the resultant profit are accounted for on the culmination of murabaha transaction.

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

#### 5.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### 5.4.1 Financial assets

All financial assets are recognized at the time when the Modaraba becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognized and derecognized, as applicable, using trade-date accounting or settlement date accounting.

## Note 5, Summary of Significant Accounting Policies - Continued ...

### **Classification**

The Modaraba classifies its financial assets in the following categories: at amortized cost, at fair value through other comprehensive income and at fair value through profit and loss. The classification is based on its business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The management determines the classification of its financial assets at the time of initial recognition.

#### **a) Financial assets at amortized cost**

A financial asset is measured at amortized cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

#### **b) Financial assets at fair value through other comprehensive income**

A financial asset is measured at fair value through other comprehensive income if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

#### **c) Financial assets at fair value through profit and loss**

A financial asset is measured at fair value through profit and loss unless it is measured at amortized cost or at fair value through other comprehensive income.

### **Reclassification**

When the Modaraba changes its business model for managing financial assets, it reclassifies all affected financial assets accordingly. The Modaraba applies the reclassification prospectively from the reclassification date.

In case of reclassification out of the amortized cost measurement category to fair value through profit and loss measurement category, fair value of the financial asset is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost and fair value is recognized in profit and loss.

In case of reclassification out of fair value through profit and loss measurement category to the amortized cost measurement category, fair value of the financial asset at the reclassification date becomes its new gross carrying amount.

In case of reclassification out of the amortized cost measurement category to fair value through other comprehensive income measurement category, fair value of the financial asset is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost and fair value is recognized in other comprehensive income. The effective mark up rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

In case of reclassification out of fair value through profit and loss measurement category to the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

## *Note 5, Summary of Significant Accounting Policies - Continued...*

In case of reclassification out of fair value through other comprehensive income measurement category to the fair value through profit and loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit and loss as a reclassification adjustment at the reclassification date.

### ***Initial recognition and measurement***

All financial assets are recognized at the time when the Modaraba becomes a party to the contractual provisions of the instrument. Regular purchases and sales of investments are recognized on trade-date – the date on which the Modaraba commits to purchase or sell the asset. With the exception of trade receivables that do not contain a significant financing component or for which the Modaraba has applied the practical expedient, the Modaraba initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Modaraba has applied the practical expedient are measured at the transaction price determined under IFRS 15.

### ***Subsequent measurement***

Financial assets carried at amortized cost are subsequently measured using the Effective Interest Rate (EIR) method.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Modaraba recalculates the gross carrying amount of the financial asset and recognizes a modification gain or loss in profit and loss.

Financial assets 'at fair value through other comprehensive income' are marked to market using the closing market rates and are carried in the balance sheet at fair value. Net gains and losses arising on changes in fair values of these financial assets are recognized in other comprehensive income. Mark-up calculated using the effective interest rate method is credited to the statement of profit and loss. Dividends on equity instruments are credited to the statement of profit and loss when the Modaraba's right to receive payments is established.

Financial assets 'at fair value through profit and loss' are marked to market using the closing market rates and are carried in the balance sheet at fair value. Net gains and losses arising on changes in fair values of these financial assets are taken to the profit and loss account in the period in which these arise.

Fair values of quoted investments are based on current prices. If the market for a financial asset is not active (and for unlisted securities), the Modaraba measures the investments at cost less impairment in value, if any.

### ***Derecognition***

Financial assets are derecognized when:

- the contractual rights to receive cash flows from the assets have expired; or
- the Modaraba has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - a) the Modaraba has transferred substantially all the risks and rewards of the asset; or

## Note 5, Summary of Significant Accounting Policies - Continued ...

- b) the Modaraba has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The difference between the carrying amount and the consideration received is recognized in profit and loss.

If the Modaraba transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognizes either a servicing asset or a servicing liability for that servicing contract.

When the Modaraba has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Modaraba continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Modaraba also recognizes an associated liability which cannot be offset with the related asset. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Modaraba has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Modaraba could be required to repay.

If the Modaraba's continuing involvement is in only a part of a financial asset, the Modaraba allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the consideration received for the part no longer recognized is recognized in profit and loss.

### ***Impairment of financial assets***

The Modaraba directly reduces the gross carrying amount of a financial asset when it has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Modaraba recognizes the impairment at each reporting date for outstanding Ijarah, murabaha and musharakah receivables on the basis of Prudential Regulations issued for Modarabas by the Securities and Exchange Commission of Pakistan (SECP).

## **5.4.2 Financial liabilities**

### ***Initial recognition and measurement***

All financial liabilities are recognized at the time when the Modaraba becomes a party to the contractual provisions of the instrument.

Financial liabilities are classified, at initial recognition, as financial liabilities at amortized cost except for financial liabilities at fair value through profit and loss, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

The Modaraba does not reclassify any of its financial liabilities.

Financial liabilities are initially recognized at fair value minus transaction costs for all financial liabilities not carried at fair value through profit and loss. Financial liabilities carried at fair value through profit and loss are initially recognized at fair value and transaction costs are recognized in the profit and loss account.

The Modaraba's financial liabilities include trade and other payables and loans and borrowings etc.

## Note 5, Summary of Significant Accounting Policies - Continued ...

### ***Subsequent measurement***

The measurement of financial liabilities depends on their classification, as described below:

### ***Financial liabilities at fair value through profit and loss***

Such liabilities, including derivatives that are liabilities, are subsequently measured at fair value.

Financial liabilities at fair value through profit and loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss. The Modaraba has not designated any financial liability as at fair value through profit and loss.

### ***All other liabilities***

All other financial liabilities are measured at amortized cost using the Effective Interest Rate (EIR) method. Gains and losses are recognized in profit and loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the profit and loss account.

### ***Derecognition***

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in the profit and loss account. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit and loss.

If the Modaraba repurchases a part of a financial liability, the Modaraba allocates the previous carrying amount of the financial liability between the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the repurchase. The difference between the carrying amount allocated to the part derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognized is recognized in profit and loss.

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

Financial assets and liabilities are offset and net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognized amount and the Modaraba intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

### **5.5 Diminishing musharaka financing**

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

## Note 5, Summary of Significant Accounting Policies - Continued ...

### 5.6 Lease (ijarah) accounting

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

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

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

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

### 5.7 Fixed assets

#### 5.7.1 Fixed assets under ijarah arrangements

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

#### 5.7.2 Assets in own use - Tangible

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

Depreciation is charged to profit and loss using the straight line method at the rates as specified in note 19 to these financial statements so as to write off the cost of assets over their estimated useful lives without taking into account any residual value. Depreciation on additions to the tangible fixed assets is charged from the month in which an asset is available for use while no depreciation is charged for the month in which the asset is disposed off.

## Note 5, Summary of Significant Accounting Policies - Continued ...

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

### 5.7.3 Assets in own use - Intangible

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

## 5.8 Provisions

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

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

## 5.9 Borrowing costs

Borrowing costs on long term finances are capitalized up to the date of commissioning of respective qualifying assets acquired out of the proceeds of such long term finances. All other borrowing costs are recognized in profit and loss account.

## 5.10 Revenue recognition

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

For lease (ijarah) agreements executed on or after July 1, 2008 lease rentals are recognized as income on accrual basis, as and when the rental becomes due over the ijarah period.

The deferred murabaha income i.e. the excess of aggregate murabaha installments over the cost of the asset under murabaha investment is deferred and then amortized over the term of the murabaha, so as to produce a constant rate of return on murabaha investment. Documentation charges, front-end fee and other murabaha income are recognized as income on receipt basis.

Return on deposits with banks is recognized on time proportionate basis.

Profit on diminishing musharaka financing is recognized under the effective mark up rate method based on the amount outstanding.



## Note 5, Summary of Significant Accounting Policies - Continued ...

### 5.11 Taxation

#### 5.11.1 Current

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

#### 5.11.2 Deferred

Deferred tax is provided, using the balance sheet method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilized.

### 5.12 Profit distribution

Profit distribution to certificate holders is recognized as a liability in the period in which such distribution is announced.

### 5.13 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (the Chief Executive Officer of the Modaraba). Segment results, assets and liabilities include items directly attributable to a segment. Segment capital expenditure is the total cost incurred during the year to acquire fixed assets and intangible assets.

### 5.14 Contingent liabilities

Contingent liability is disclosed when there is a possible obligation that arises from past events and whose existence is confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Modaraba.

A contingent liability is also disclosed when there is a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits would be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

### 5.15 Related party transactions

Transactions in relation to business activities with related parties are made at arm's length prices determined in accordance with the Modaraba's policy.

## Note 6

### Restatement of Financial Statements

#### 6.1 Rectification of Prior Period Error

The Modaraba has corrected its financial statements in respect of error in calculation of value of its short term investments. The error has been corrected with retrospective effect in accordance with the requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and comparative figures have been restated.

- 6.1.1 The Modaraba had incorrectly calculated the fair value in its short term investments. Since the effect of error of Rs. 112,190 in the year 2018 is too immaterial, it is included in the year 2019 and hence 3 balance sheets are not presented. This restatement has no impact on the Profit and Loss Account and Cash Flow Statement as the impact is routed through other comprehensive income. The effect of rectification of prior period errors and corresponding change in balances is as under:

	As at June 30, 2019		
	As previously reported on June 30, 2019	Adjustment	As restated on June 30, 2019
<b>Effect on balance sheet</b>			
Short term investments	74,518,664	(7,089,801)	67,428,863

#### Effect on statement of changes in equity

Accumulated loss	(316,065,303)	(7,089,801)	(323,155,104)
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	As at June 30, 2019		
	As previously reported on June 30, 2019	Adjustment	As restated on June 30, 2019
	-----Rupees-----		

#### Effect on statement of other comprehensive income

Surplus on revaluation of sukuks	5,461,768	(7,089,801)	(1,628,033)
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## Note 7

### Cash and Bank Balances

	Note	2020	2019
		Rupees	Rupees
Cash in hand		7,148	-
Current accounts:			
Associated undertaking - National Bank of Pakistan		82,652	223,869
Others		15,751	370,055
		98,403	593,924
Saving accounts:	7.1		
Associated undertaking - National Bank of Pakistan		86,866	117,319
Others		22,462,915	10,617,980
		22,549,781	10,735,299
		22,655,332	11,329,223

- 7.1 These carry mark up at the rate of 5.50% to 10.50% (2019: 3.50% to 9.50%) per annum.

## Note 8

### Short Term Murabaha Investments - Secured

	Note	2020 Rupees	2019 Rupees
Considered good		-	-
Considered doubtful		233,101,181	243,601,181
		233,101,181	243,601,181
Add: Deferred murabaha income		2,654,776	2,654,776
		235,755,957	246,255,957
Less: Provision for non-performing murabaha investments	8.2	(227,462,959)	(227,462,959)
Less: Suspended income		(2,654,776)	(2,654,776)
		<u>5,638,222</u>	<u>16,138,222</u>

**8.1** These represent investments under murabaha arrangements on deferred payment basis at specified profit margins. These investments carry profit ranging from 8.36% to 14.64% (2019: 10.36% to 15.54%) per annum and are secured against charge over fixed and current assets, personal guarantees of directors of customer companies, registered and equitable mortgage of properties, demand promissory notes and post dated cheques varying from case to case.

### 8.2 Provision for non-performing murabaha investments

Opening balance	227,462,959	227,462,959
Charged during the year	-	-
Reversed during the year	-	-
Closing balance	<u>227,462,959</u>	<u>227,462,959</u>

**8.3** This represents the receivable from 9 (2019: 9) customers under the Murabaha finance. Legal proceedings against these customers are in process in the Honorable Courts of Law. The Courts have awarded decree in favour of Modaraba in 8 (2019: 6) cases for recovery of Rs. 256.12 million (2019: 180.51 million), while the order to execute decree is awaited.

## Note 9

### Accrued Profit

	Note	2020 Rupees	2019 Rupees
Profit on diminishing musharaka receivable	9.1	487,711	558,385
Profit receivable on short term investments		715,035	1,633,656
		<u>1,202,746</u>	<u>2,192,041</u>

### 9.1 Profit held in suspense

Profit receivable on musharaka finances	1,330,806	1,401,480
Suspended income	(843,095)	(843,095)
	<u>487,711</u>	<u>558,385</u>

## Note 10

### Short Term Investments

2020	2019		2020	2019
Number of Units		Note	Rupees	Rupees (Restated)
<b>Investments in sukuk of Rs 100,000 each - fair value through OCI</b>				
550	550	Neelum Jehlum Sukuk	42,301,875	49,278,797
		Byco Petroleum Pakistan		
200	200	Limited	11,695,967	18,150,066
<u>750</u>	<u>750</u>		<u>53,997,842</u>	<u>67,428,863</u>
<b>Bankislami Pakistan Limited Islami Aamdani Certificate - TDRs</b>				
		10.3	20,000,000	-
			<u>73,997,842</u>	<u>67,428,863</u>

**10.1** The outstanding principle per unit is Rs. 75,000 (2019: Rs. 87,500) having fair value of Rs. 102.5500 (2019: 102.3975) per unit as at the reporting date.

**10.2** The outstanding principle per unit is Rs. 58,334 (2019: Rs. 91,667) having fair value of Rs. 100.25 (2019: Rs. 99.00) per unit as at the reporting date.

**10.3** These term deposits certificates yields profit at the rate of 12.75% to 13%.

## Note 11

### Ijarah Rentals Receivable

		2020	2019
	Note	Rupees	Rupees
Considered good - secured		643,924	1,883,253
Considered doubtful	11.1	108,742,226	119,364,371
Less: Provision for doubtful ijarah rentals receivable	11.2	(24,211,493)	(29,007,645)
Less: Profit held in suspense account		(22,718,538)	(22,718,538)
		<u>61,812,195</u>	<u>67,638,188</u>
		<u>62,456,119</u>	<u>69,521,441</u>
<b>11.1 Considered doubtful</b>			
Considered doubtful - gross balance	11.4	119,364,371	119,364,371
Less: Excess recorded receivable written off against provision		(7,816,492)	-
Less: Receivable written off		(2,805,653)	-
Considered doubtful- net balance		<u>108,742,226</u>	<u>119,364,371</u>
<b>11.2 Provision for doubtful ijarah rentals receivable</b>			
Opening balance		29,007,645	25,303,438
Charged during the year		3,020,340	3,704,207
Provision written off during the year	11.3	(7,816,492)	-
Net (reversal) / charged during the year		(4,796,152)	3,704,207
Closing balance		<u>24,211,493</u>	<u>29,007,645</u>

**11.3** This represents receivables from various customers under the Ijarah finance. Legal proceedings against 7 (2019: 7) customers are in process in the Honorable Courts of Law. The Courts have awarded decree in favour of Modaraba in 6 (2019: 2) cases for recovery of Rs. 141.67 million (2019: 26.54 million), while the order to execute decree is awaited.

**11.4** This represent write off provision against excess recorded receivables.

## Note 12

### Advances, Prepayments and Other Receivables

		2020	2019
	Note	Rupees	Rupees
Income tax deducted at source		4,600,270	3,341,677
Prepayments		-	440,136
Other receivables	12.1	754,141	639,678
		<u>5,354,411</u>	<u>4,421,491</u>

#### 12.1 Other receivables

Considered good		754,141	639,678
Considered doubtful		4,121,995	30,083,188
		4,876,136	30,722,866
Provision against doubtful other receivables	12.2	(4,121,995)	(30,083,188)
		<u>754,141</u>	<u>639,678</u>

#### 12.2 Provision against doubtful other receivables

Opening balance		30,083,188	29,680,817
Charged during the year - net		-	402,371
Written off against provision during the year		(25,961,193)	-
Closing balance		<u>4,121,995</u>	<u>30,083,188</u>

## Note 13

### Current Portion of Non Current Assets

		2020	2019
	Note	Rupees	Rupees
Net investment in ijarah finance	14	13,496,734	15,718,248
Diminishing musharaka financing	15	11,809,705	13,730,858
Long term murabaha investments	16	2,525,245	5,193,924
Long term loans and deposits	17	151,280	279,343
		<u>27,982,964</u>	<u>34,922,373</u>

## Note 14

### Net Investment in Ijarah Finance

Net Investment in Ijarah Finance	2020			2019		
	Not later than one year	Later than one and less than five	Total	Not later than one year	Later than one and less than five years	Total
-----Rupees-----						
Minimum ijarah rentals receivable	50,785,554	-	50,785,554	50,840,981	-	50,840,981
Residual value of ijarah assets	46,700	-	46,700	2,268,214	-	2,268,214
Gross investment in ijarah finance	50,832,254	-	50,832,254	53,109,195	-	53,109,195
Less: Unearned finance income	(24,109,320)	-	(24,109,320)	(24,164,747)	-	(24,164,747)
Net investment in lease ijarah finance	26,722,934	-	26,722,934	28,944,448	-	28,944,448
Less: Provision for doubtful net investment in ijarah finance (Note 14.2)	(13,226,200)	-	(13,226,200)	(13,226,200)	-	(13,226,200)
	13,496,734	-	13,496,734	15,718,248	-	15,718,248
Less: Current portion (Note 14)			(13,496,734)			(15,718,248)
			-			-

**14.1** The Modaraba entered into various ijarah agreements for periods spanning 8 to 14 years (2019: 8 to 14 years). Security deposits ranging from 0.1% to 10% (2019: 0.1% to 10%) are obtained at the time of disbursement. The rate of profit implicit in ijarah ranges from 8.7% (2019: 9.87% to 16.55%) per annum.

**14.2** This represents receivable from 1 customer under the ijarah finance. Legal proceedings against the customer are in process in the Honorable Court of Law. The Court has yet not awarded decree in favour of Modaraba, while the liquidator has been appointed on the customer for its winding up.

### 14.3 Provision for doubtful net investment in ijarah finance

	2020	2019
	Rupees	Rupees
Opening balance	13,226,200	11,713,734
Charged during the year	-	1,512,466
Reversed during the year	-	-
Net charged during the year	-	1,512,466
Closing balance	13,226,200	13,226,200

## Note 15

### Diminishing Musharaka Financing - Secured

	Note	2020 Rupees	2019 Rupees
Considered good		7,472,071	9,393,224
Considered doubtful		4,337,634	4,337,634
Provision against doubtful diminishing musharaka	15.2	-	-
		4,337,634	4,337,634
		11,809,705	13,730,858
Less: Current portion	13	(11,809,705)	(13,730,858)
		-	-

**15.1** This represents diminishing musharaka financing arrangements entered for a term of three to four years. The Modaraba has provided financing to the extent of 23.69% to 90% of the value of musharaka assets. This financing is secured by first charge on all present and future fixed assets of the client, personal guarantee of directors, registered and equitable mortgage on properties, post dated cheques and joint ownership of musharaka assets on case to case basis. These carry profit at rates ranging between 9.05% to 17.41% (2019: 11.02% to 17.61%) per annum and are repayable on monthly basis.

**15.2** The provision against doubtful diminishing musharaka financing has not been incorporated as the forced sale value of collaterally held assets is greater than the amount receivable from the respective parties.

**15.2.1** The collaterally held asset is valued at Rs. 5.678 million by the management in previous years, that has shown an upside of Rupees 1.340 million which is not recognized in the profit and loss account of the Modaraba.

## Note 16

### Long Term Murabaha Investments - Secured

	Note	2020 Rupees	2019 Rupees
Considered good		237,723	8,800,341
Considered doubtful		63,399,069	65,301,579
		63,636,792	74,101,920
Add: Deferred murabaha income	25	31,675,826	31,675,826
	16.1	95,312,618	105,777,746
Less: Provision for doubtful murabaha investments	16.2	(63,399,069)	(65,301,579)
Less: Suspension for doubtful murabaha investments		(29,388,304)	(29,388,304)
		2,525,245	11,087,863
Less: Current portion	13 & 16.3	(2,525,245)	(5,193,924)
		-	5,893,939

**16.1** These represent investments under murabaha arrangements on deferred payment basis at a profit margin ranging from 9.85% to 14.61% (2019: 9.38% to 15.50%) per annum. These investments are secured against charge over fixed and current assets, registered and equitable mortgage of properties, personal guarantees of the directors of customer companies, demand promissory notes and post-dated cheques varying from case to case.

**16.2** This represents the receivable from 3 (2019: 3) customers under the Murabaha finance. Legal proceedings against 2 (2019: 2) customers are in process in the Honorable Courts of Law. The Courts have awarded decree in favour of Modaraba in 2 (2019: 2) cases for recovery of Rs. 64.22 million (2019: 64.22 million), while the order to execute decree is awaited.

## Note 16, Long Term Murabaha Investments - Secured - Continued...

		2020	2019
16.3 Provision for doubtful murabaha investments	Note	Rupees	Rupees
Opening balance		65,301,579	69,301,582
Charged during the year		-	-
Reversed during the year		(1,902,510)	(4,000,003)
Net reversed during the year		(1,902,510)	(4,000,003)
Closing balance		63,399,069	65,301,579

## 16.4 Current portion of long term murabaha investments

Murabaha investments		237,723	5,141,005
Deferred murabaha income	25	2,287,522	52,919
		2,525,245	5,193,924

## Note 17

### Long Term Loans and Deposits

		2020	2019
	Note	Rupees	Rupees
Long term loans to employees	17.1	151,280	430,623
Security deposits		39,500	39,500
		190,780	470,123
Less: Current portion	13	(151,280)	(279,343)
		39,500	190,780

- 17.1** These loans are given to employees of the Modaraba for purchase of vehicles and carry profit at 5% (2019: 5%) per annum. Maximum aggregate balance due from employees at the end of any month during the year was Rs. 151,280 (2019: Rs. 431,143). As a security, vehicles are registered in the name of the Modaraba. The discounting is not performed as the impact is immaterial.

## Note 18

### Intangible Asset

	2020	2019
	Rupees	Rupees
Cost	1,131,300	1,131,300
Accumulated amortization	(1,131,300)	(1,131,300)
Net book value	-	-

- 18.1** This represents ERP software. As at the reporting date, the intangible asset is fully amortized but still in use of the Modaraba.



Note 19

## Fixed Assets under Ijarah Arrangements

Description	Plant and Machinery	Vehicles	Total
-----Rupees-----			

### Year Ended June 30, 2020

#### **Cost**

Balance as at July 01, 2019	341,306,396	157,862,184	499,168,580
Additions	-	-	-
Disposals / Adjustments	(105,943,225)	(106,134,458)	(212,077,683)
Balance as at June 30, 2020	235,363,171	51,727,726	287,090,897

#### **Accumulated depreciation**

Balance as at July 01, 2019	306,449,350	89,547,682	395,997,032
Charge for the year	3,773,979	2,862,229	6,636,208
Disposals / Adjustments	(95,270,489)	(79,108,548)	(174,379,037)
Balance as at June 30, 2020	214,952,840	13,301,363	228,254,203

#### **Accumulated Impairment Loss**

Balance as at July 01, 2019	17,106,617	2,164,742	19,271,359
Impairment charged	-	-	-
Balance as at June 30, 2020	17,106,617	2,164,742	19,271,359
<b>Total as at June 30, 2020</b>	<b>3,303,714</b>	<b>36,261,621</b>	<b>39,565,335</b>

### Year Ended June 30, 2019

#### **Cost**

Balance as at July 01, 2018	345,098,196	261,190,434	606,288,630
Additions	-	-	-
Disposals	(3,791,800)	(103,328,250)	(107,120,050)
Balance as at June 30, 2019	341,306,396	157,862,184	499,168,580

#### **Accumulated depreciation**

Balance as at July 01, 2018	293,670,374	168,475,439	462,145,813
Charge for the year	16,191,604	(1,396,350)	14,795,254
Disposals	(3,412,628)	(77,531,407)	(80,944,035)
Balance as at June 30, 2019	306,449,350	89,547,682	395,997,032

#### **Accumulated Impairment Loss**

Balance as at July 01, 2018	17,106,617	2,164,742	19,271,359
Impairment charged	-	-	-
Balance as at June 30, 2019	17,106,617	2,164,742	19,271,359
<b>Total as at June 30, 2019</b>	<b>17,750,429</b>	<b>66,149,760</b>	<b>83,900,189</b>

## 19.1 General description of significant ijarah arrangements (IFAS-2)

The Modaraba has entered into various Ijarah agreements for periods ranging from 3 to 14 years (2019: 3 to 14 years). Security deposits ranging from 0% to 71% (2019: 0% to 71%) are obtained at the time of disbursement. The rate of profit implicit in ijarah ranges from 9.87% to 16.99% (2019: 9.76% to 11.97%) per annum.

## 19.2 Aggregate amount of future ijarah rentals receivable on the basis of ijarah arrangements executed up to the reporting date are as follows:

	2020	2019
	Rupees	Rupees
<b>Future Ijarah Rental Receivables</b>		
Not later than one year	4,891,087	18,327,543
Later than one year but not later than five years	-	5,351,332
	<u>4,891,087</u>	<u>23,678,875</u>

Note 20

### Fixed Assets under Own Use

Description	Vehicle	Computers and accessories	Electrical Equipment	Total
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-----Rupees-----

### Period Ended June 30, 2020

#### Cost

Balance as at July 01, 2019	1,390,182	1,820,558	309,664	3,520,404
Additions	-	-	48,000	48,000
Disposals	-	-	-	-
Balance as at June 30, 2020	<u>1,390,182</u>	<u>1,820,558</u>	<u>357,664</u>	<u>3,568,404</u>

#### Accumulated depreciation

Balance as at July 01, 2019	1,362,882	1,808,111	309,664	3,480,657
Charge for the year	7,800	4,715	15,998	28,513
Disposals	-	-	-	-
Balance as at June 30, 2020	<u>1,370,682</u>	<u>1,812,826</u>	<u>325,662</u>	<u>3,509,170</u>
<b>Total as at June 30, 2020</b>	<u>19,500</u>	<u>7,732</u>	<u>32,002</u>	<u>59,234</u>

### Year Ended June 30, 2019

#### Cost

Balance as at July 01, 2018	1,390,182	1,825,558	434,664	3,650,404
Additions	-	-	-	-
Disposals	-	(5,000)	(125,000)	(130,000)
Balance as at June 30, 2019	<u>1,390,182</u>	<u>1,820,558</u>	<u>309,664</u>	<u>3,520,404</u>

#### Accumulated depreciation

Balance as at July 01, 2018	1,358,982	1,809,146	434,664	3,602,792
Charge for the year	3,900	3,965	-	7,865
Disposals	-	(5,000)	(125,000)	(130,000)
Balance as at June 30, 2019	<u>1,362,882</u>	<u>1,808,111</u>	<u>309,664</u>	<u>3,480,657</u>
<b>Total as at June 30, 2019</b>	<u>27,300</u>	<u>12,447</u>	<u>-</u>	<u>39,747</u>

#### Annual rate of depreciation

20 %	33.33 %	20 - 33.33 %
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20.1 These contain fully depreciated assets of Rs. 3,459,904 (2019: Rs. 3,459,904) that are still in use by the Modaraba.

## Note 21

### Short Term Finance - Secured

		2020	2019
	Note	Rupees	Rupees
<b>From banking companies</b>			
Running finance	21.1	<u>217,063,388</u>	<u>217,063,388</u>

**21.1** The Modaraba has obtained running finance facility of Rs. 250 million (2019: Rs. 250 million) from the National Bank of Pakistan carrying mark-up / profit at 1 month KIBOR plus 0.50% (2019: 1 month KIBOR plus 0.50%) per annum payable monthly. The effective mark-up / profit rate charged during the year ranged from 8.83% to 13.34% (2019: 8.03% to 13.79%) per annum. This facility is secured by way of first joint pari passu hypothecation charge on all present and future receivables, leased assets and related lease receivables and present and future assets of the Modaraba to the extent of Rs 277.778 million (2019: Rs 277.778 million).

This facility was expired on October 31, 2019 and has yet not been renewed.

## Note 22

### Creditors, Accrued and Other Liabilities

		2020	2019
	Note	Rupees	Rupees
Advances from customers		8,081,944	16,515,548
Accrued expenses		701,525	694,313
Sales tax payable		15,118	-
Unclaimed profit distribution		425,218	425,218
Charity payable	22.1	<u>602,205</u>	<u>293,860</u>
		<u>9,826,010</u>	<u>17,928,939</u>

**22.1** The reconciliation is as follows:

Opening balance	286,860	350,714
Additions during the year	815,345	336,146
Charity paid during the year	<u>(500,000)</u>	<u>(400,000)</u>
Closing balance	<u>602,205</u>	<u>286,860</u>

None of the directors and employees of the Modaraba Management Company have any interest in the charity.

## Note 23

### Current Portion of Non-Current Liabilities

		2020	2019
	Note	Rupees	Rupees
Security deposits against ijarah assets	24	44,440,011	82,502,496
Deferred murabaha income	25	<u>2,287,522</u>	<u>52,919</u>
		<u>46,727,533</u>	<u>82,555,415</u>

## Note 24

### Security Deposits against Ijarah Assets

		2020	2019
	Note	Rupees	Rupees
Security deposits against ijarah assets		44,440,011	83,392,496
Less: Current portion	23	<u>(44,440,011)</u>	<u>(82,502,496)</u>
		<u>-</u>	<u>890,000</u>

## Note 25

### Deferred Murabaha Income

		2020	2019
	Note	Rupees	Rupees
Long term deferred murabaha income	16	31,675,826	31,675,826
Suspended income		(29,388,304)	(29,388,304)
Net of suspension		2,287,522	2,287,522
Less: Current portion	23	(2,287,522)	(52,919)
		<u>-</u>	<u>2,234,603</u>

## Note 26

### Certificate Capital

	2020	2019		2020	2019
				Rupees	Rupees
Number of certificates					

#### Authorized:

<u>60,000,000</u>	<u>60,000,000</u>	Modaraba certificates of Rupees 10 each	<u>600,000,000</u>	<u>600,000,000</u>
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#### Issued, subscribed and paid-up certificate capital

<u>25,000,000</u>	<u>25,000,000</u>	Modaraba certificates of Rupees 10 each	<u>250,000,000</u>	<u>250,000,000</u>
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**26.1** 7,500,000 (2019: 7,500,000) certificates of the Modaraba are held by National Bank Modaraba Management Company Limited, the modaraba management company.

**26.2** No certificates of the Modaraba have been issued / cancelled during the year.

## Note 27

### Statutory Reserves

Statutory reserves represent profits set aside in compliance with the requirements of prudential regulations for Modarabas issued by the SECP. These regulations require the Modarabas to transfer at least 20% after tax profit, if any, up to a maximum of 50%, in statutory reserves until the reserves equal 100% of the paid up capital. Thereafter, a sum not less than 5% of the after tax profit is to be transferred into the statutory reserves each year. During the year no amount (2019: Rs. Nil) is transferred in the statutory reserves owing to net loss for the year.

## Note 28

### Contingencies and Commitments

**28.1** Assistant Commissioner Inland Revenue raised demand of tax payables of Rs. 333.26 million for tax year 2011. Appeal was filed before the Commissioner Inland Revenue (Appeals) - CIR(A) who deleted the demand. The Department filed an appeal against the order of the CIR(A) before the Appellate Tribunal Inland Revenue. The notice of hearing is awaited from the Tribunal.

**28.2** Assistant Commissioner Inland Revenue raised demand of tax payables of Rs. 127.362 million for tax year 2014. Appeal was filed before the Commissioner Inland Revenue (Appeals)-CIR(A) who deleted the demand.

## Note 29

### Other Income

	2020	2019
	Rupees	Rupees
Service charges	14,036	32,034
Documentation charges	4,000	7,000
	<u>18,036</u>	<u>39,034</u>

## Note 30

### Operating Expenses

		2020	2019
	Note	Rupees	Rupees
Salaries, allowances and other benefits	30.1	10,921,056	10,863,803
Legal and professional		1,211,971	1,700,019
Fees and subscription		1,050,392	486,500
Stationery and printing		370,514	456,002
Auditors' remuneration	30.2	375,000	375,000
Communication		235,355	253,376
Repairs and maintenance		155,726	279,992
Entertainment		154,643	158,644
Vehicles' running expenses		169,495	186,741
Advertisement		48,000	126,400
Postage and stamps		45,952	43,463
Insurance		94,807	99,409
Travelling and conveyance		6,010	2,510
Depreciation on fixed assets - own use	20	28,513	7,865
Balances written off		-	-
Other sundry expenses		42,896	97,470
		<u>14,910,330</u>	<u>15,137,194</u>

#### 30.1 Salaries, allowances and other benefits

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

	2020			2019		
	Officers	Employees	Total	Officers	Employees	Total
	-----Rupees-----					
Basic salary	2,802,088	1,984,692	4,786,780	2,722,800	2,244,460	4,967,260
allowance	1,406,780	673,864	2,080,644	1,361,400	832,694	2,194,094
Utilities	337,636	161,736	499,372	326,736	200,457	527,193
Bonus	636,454	305,215	941,669	578,595	369,415	948,010
Others	1,295,724	1,316,867	2,612,591	933,428	1,293,818	2,227,246
	<u>6,478,682</u>	<u>4,442,374</u>	<u>10,921,056</u>	<u>5,922,959</u>	<u>4,940,844</u>	<u>10,863,803</u>
Number of persons	<u>4</u>	<u>8</u>	<u>12</u>	<u>4</u>	<u>8</u>	<u>12</u>

**30.1.1** Average number of employees during the year was 12 (2019: 12). All employees are on contract.

**30.1.2** All employees are entitled for reimbursement of fuel expenses up to certain limits.

#### 30.2 Auditors' remuneration

	2020	2019
	Rupees	Rupees
Audit fee	253,200	253,200
Half yearly review fee	96,800	96,800
Certifications	25,000	25,000
	<u>375,000</u>	<u>375,000</u>

**30.3** Office space, utilities and related expenditure are borne by National Bank Modaraba Management Company Limited, the Modaraba management company.

## Note 31

### Finance Cost

		2020	2019
	Note	Rupees	Rupees
Short term finances	31.1	28,495,826	22,397,957
Bank and other charges		61,605	27,060
		<u>28,557,431</u>	<u>22,425,017</u>
<b>31.1</b> Finance cost on facility up to its expiry on October 31, 2019		10,318,516	22,397,957
Provisional finance cost facility after its expiry	31.1.1	18,177,310	-
		<u>28,495,826</u>	<u>22,397,957</u>

**31.1.1** The Modaraba has requested NBP for renewal of the facility with waiver/reduction in mark-up, and for deferral in payment of accrued mark-up, until NBP injects Rs. 300 million equity approved by NBP's Board on June 22, 2018. However as on June 30, 2020 the request is still under process with NBP. The provisional finance cost is calculated on the facility's previous mark-up rate.

## Note 32

### Provision for Doubtful Receivables

		2020	2019
	Note	Rupees	Rupees
Opening balance		365,081,571	363,462,530
Add: Charged during the year	32.1	3,020,340	5,619,044
Less: Excess provision written off during the year	11 & 12	(33,777,685)	-
Less: Reversed during the year	16	(1,902,510)	(4,000,003)
Net provision (reversed) /charged for the year		<u>(32,659,855)</u>	<u>1,619,041</u>
Closing balance	32.2	<u>332,421,716</u>	<u>365,081,571</u>

**32.1** This includes provision of Rs. 3.020 million (2019: Rs. 5.619 million) recognized during the year on the basis of subjective evaluation of non-performing short term murabaha investments, ijarah rentals receivable and long term murabaha investments. The break-up is as under:

<b>32.1.1</b> Provision for doubtful ijarah rentals receivable	11.1	3,020,340	3,704,207
Provision charged on other receivables	12.2	-	402,371
Provision for doubtful net investment in ijarah finance	14.2	-	1,512,466
		<u>3,020,340</u>	<u>5,619,044</u>

### 32.2 Break up of closing balance

Provision against doubtful murabaha investments	8.2 & 16.3	290,862,028	292,764,538
Provision for doubtful ijarah rental receivables	11.2	24,211,493	29,007,645
Provision against doubtful other receivables	12.2	4,121,995	30,083,188
Provision for doubtful net investment in ijarah finance	14.2	13,226,200	13,226,200
		<u>332,421,716</u>	<u>365,081,571</u>

## Note 33

### Modaraba Management Company Fee

In accordance with Section 18 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, management fee @ 10% of annual profits is paid to the modaraba management company. Owing to the loss during the year, the modaraba management company's fee has not been provided for.

## Note 34

### Taxation

**34.1** No provision for current tax is recognized as the Modaraba has brought forward tax losses of Rs. 357.116 million (2019: Rs 323.155 million). Further, provision of minimum tax is not applicable to the Modaraba as per sub clause (xiii) of clause 11A of part IV of second schedule to the Income Tax Ordinance, 2001.

34.2	Deferred tax Asset / (Liability)		2020	2019
		Note	Rupees	Rupees
	Deductible / (Taxable) temporary differences on:			
	Deferred tax asset has originated relating to the following:			
	Accelerated tax depreciation		56,839,368	(45,760,527)
	Carry forward tax losses		100,414,768	(79,792,104)
	Revaluation surplus on sukuks		(207,188)	1,365,442
			157,046,948	(124,187,189)
	Less: Deferred tax asset not recognized	34.2.1	(157,046,948)	124,187,189
			-	-

**34.2.1** The deferred tax asset of Rs. 157.046 million (2019: Rs. 124.187 million) has not been recognized in these financial statements as the temporary differences are not expected to reverse in foreseeable future; taxable profits may not be available against which the temporary differences can be utilized.

## Note 35

### Loss Per Certificate - Basic and Diluted

		2020	2019
		Rupees	Rupees
Loss attributable to ordinary certificates holders	Rupees	<u>(34,071,784)</u>	<u>(35,716,364)</u>
Weighted average number of ordinary certificates outstanding during the year	Numbers	<u>25,000,000</u>	<u>25,000,000</u>
Loss per certificate	Rupees	<u>(1.36)</u>	<u>(1.43)</u>

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

**35.2** There is no dilution in loss per certificate as the Modaraba has not issued any instrument which would have an impact on its loss per certificate.

## Note 36

### Cash Generated from Operations

	2020	2019
	Rupees	Rupees
<b>Net loss for the Year</b>	(34,071,784)	(35,716,364)
Adjustment for:		
- Depreciation on fixed assets under own use	28,513	7,865
- Depreciation on fixed assets under ijarah arrangements	6,636,208	14,795,254
- Loss / (profit) on termination of ijarah arrangements	314,746	(679,410)
- Gain on sale of fixed assets under owned use	-	(30,000)
- Profit on short term investments	(11,711,175)	(6,369,850)
- Charge of provision against doubtful ijarah rentals receivable - net	3,020,340	3,704,207
- Balances written off	2,805,653	-
- Provision against doubtful other receivables - net	-	402,371
- Charge of provision against net investment in ijarah finance - net	-	1,512,466
- Liabilities written back	(6,746,296)	-
- Reversal of provision long term murabaha investments - net	(1,902,510)	(4,000,003)
- Finance cost	28,557,431	22,425,017
- Profit on term deposit receipts and bank deposits	(311,733)	(920,506)
	<u>20,691,177</u>	<u>30,847,411</u>
<b>Operating (loss) before working capital changes</b>	(13,380,607)	(4,868,953)
Decrease / (Increase) in operating assets:		
- Accrued profit	12,700,470	5,275,806
- Ijarah rentals receivable	1,239,329	1,034,053
- Advances, prepayments and other receivables	325,673	(565,417)
- Short term murabaha investments	10,500,000	169,779
- Diminishing musharaka financing	1,921,153	8,663,558
- Long term murabaha investments	10,465,128	5,759,650
(Decrease) in operating liabilities:		
- Creditors, accrued and other liabilities	(1,356,633)	(1,103,061)
<b>Net changes in working capital</b>	35,795,120	19,234,368
<b>Cash Generated from Operations</b>	<u>22,414,513</u>	<u>14,365,415</u>

### 36.1 Liabilities Arising from Financing Activities

	As at June 30, 2019	Non-cash changes	Cash flows (Net)	As at June 30, 2020
			Rupees	
Short term borrowings	217,063,388	-	-	217,063,388



## Note 37

### Financial Risk Management

- Credit risk
- Liquidity risk
- Market risk

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

#### 37.1 Credit risk

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

Financial assets	2020	2019
	Rupees	Rupees
Bank balances	22,648,184	11,329,223
Ijarah rentals receivable	62,456,119	69,521,441
Advances, prepayments and other receivables	754,141	639,678
Accrued profit	1,202,746	2,192,041
Murabaha investments - net of provision	8,163,467	27,226,085
Net investment in ijarah finance	13,496,734	15,718,248
Diminishing musharaka financing	11,809,705	13,730,858
Short term investments	73,997,842	67,428,863
Long term loans and deposits	190,780	470,123
	<u>194,719,718</u>	<u>208,256,560</u>

#### 37.1.1 Credit quality of banks

The credit quality of the Modaraba's bank balances can be assessed with reference to external credit ratings as follows:

	Rating			2020	2019
	Short term	Long term	Agency	Rupees	Rupees
National Bank of Pakistan	A1+	AAA	PACRA	171,586	343,256
Al Baraka Bank (Pakistan)	A1	A+	JCR-VIS	19,876	20,034
Bank Alfalah Limited	A1+	AA+	JCR-VIS	-	354,300
First Women Bank Limited	A2	A-	PACRA	4,725	4,725
Habib Bank Limited	A1+	AAA	JCR-VIS	10,941	10,941
Bank Islami Pakistan	A1	A+	PACRA	22,441,056	10,595,967
				<u>22,648,184</u>	<u>11,329,223</u>

#### 37.1.2 Description of collateral held

The Modaraba's ijarah arrangements (leases) are secured against ijarah assets, demand promissory notes, post dated cheques and personal guarantees varying from case to case. In a few arrangements additional collateral is also obtained in the form of charge on fixed assets. Murabaha investments are secured against charge over fixed and current assets, registered and equitable mortgage of properties, personal guarantees of directors of customer companies, demand promissory notes and post dated cheques varying from case to case. Diminishing musharaka financings are secured by first charge on all present and future fixed assets of the client, registered and equitable mortgage on properties, personal guarantee of directors, post dated cheques and joint ownership of musharaka assets varying from case to case.

Note 37, Financial Risk Management - Continued...

## 37.1.3 Age analysis of profit accrued on murabaha investments

Past due	June 30, 2020				
	Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	Carrying amount
	Rupees				
0 days	2,287,522	2,287,522	-	-	2,287,522
1 day - 89 days	-	-	-	-	-
90 days - 179 days	-	-	-	-	-
180 days - 364 days	-	-	-	-	-
1 year - less than 2 year	5,302,747	-	5,302,747	5,302,747	-
2 year - less than 3 year	14,989,061	-	14,989,061	14,989,061	-
3 year or more	9,096,496	-	9,096,496	9,096,496	-
<b>Total</b>	<b>31,675,826</b>	<b>2,287,522</b>	<b>29,388,304</b>	<b>29,388,304</b>	<b>2,287,522</b>

Past due	June 30, 2019				
	Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	Carrying amount
	Rupees				
0 days	-	-	-	-	-
1 day - 89 days	2,400,000	-	2,400,000	2,400,000	-
90 days - 179 days	2,476,929	-	2,476,929	2,476,929	-
180 days - 364 days	425,818	-	425,818	425,818	-
1 year - less than 2 year	3,549,131	-	3,549,131	3,549,131	-
2 year - less than 3 year	985,773	-	985,773	985,773	-
3 year or more	8,110,723	-	8,110,723	8,110,723	-
<b>Total</b>	<b>17,948,374</b>	<b>-</b>	<b>17,948,374</b>	<b>17,948,374</b>	<b>-</b>

## 37.1.4 Age analysis of murabaha investments

Past due	June 30, 2020				
	Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision made under Prudential Regulations	Carrying amount
	Rupees				
0 days	237,723	7,087,867	-	-	237,723
1 day - 179 days	-	-	-	-	-
180 days - 364 days	-	-	-	-	-
1 year - less than 2 year	-	-	-	-	-
2 year - less than 3 year	-	-	-	-	-
3 year or more	296,500,250	-	296,500,250	290,862,028	5,638,222
<b>Total</b>	<b>296,737,973</b>	<b>7,087,867</b>	<b>296,500,250</b>	<b>290,862,028</b>	<b>5,875,945</b>

Past due	June 30, 2019				
	Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision made under Prudential Regulations	Carrying amount
	Rupees				
0 days	7,087,867	7,087,867	-	-	7,087,867
1 day - 179 days	-	-	-	-	-
180 days - 364 days	-	-	-	-	-
1 year - less than 2 year	-	-	-	-	-
2 year - less than 3 year	-	-	-	-	-
3 year and above	310,615,234	-	310,615,234	296,764,538	13,850,696
<b>Total</b>	<b>317,703,101</b>	<b>7,087,867</b>	<b>310,615,234</b>	<b>296,764,538</b>	<b>20,938,563</b>

# Annual Report 2020

Note 37, Financial Risk Management - Continued...

## 37.1.5 Age analysis of ijarah rentals receivable

Past due

June 30, 2020				
Gross amount	Amount on which no provision / suspension is required	Amount on which provision / suspension is required	Provision/ suspension made under Prudential Regulations	Carrying amount

Rupees

0 days	-	-	-	-
1 day -89 days	643,924	643,924	-	643,924
90 days -179 days	-	-	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 years	-	-	-	-
3 year or more	108,742,226	-	108,742,226	46,930,031
<b>Total</b>	<b>109,386,150</b>	<b>643,924</b>	<b>108,742,226</b>	<b>46,930,031</b>

Past due

June 30, 2019				
Gross amount	Amount on which no provision / suspension is required	Amount on which provision / suspension is required	Provision/ suspension made under Prudential Regulations	Carrying amount

Rupees

0 days	-	8,942,043	-	-
1 day -89 days	8,942,043	-	-	8,942,043
90 days -179 days	-	-	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 years	-	-	-	-
3 year or more	112,305,581	-	112,305,581	51,726,183
<b>Total</b>	<b>121,247,624</b>	<b>8,942,043</b>	<b>112,305,581</b>	<b>51,726,183</b>

## 37.1.6 Age analysis of diminishing musharaka financing

Past due

June 30, 2020				
Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision made under Prudential Regulations	Carrying amount

Rupees

0 days	-	-	-	-
1 day -179 days	7,472,071	7,472,071	-	7,472,071
180 days- 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	-	-	-	-
3 year or more	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 years	-	-	-	-
3 year or more	4,337,634	-	4,337,634	-
<b>Total</b>	<b>11,809,705</b>	<b>7,472,071</b>	<b>4,337,634</b>	<b>11,809,705</b>

Note 37, Financial Risk Management - Continued...

## Past due

June 30, 2019				
Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision made under Prudential Regulations	Carrying amount
-----Rupees-----				
0 days	-	-	-	-
1 day-179 days	9,393,224	9,393,224	-	9,393,224
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	-	-	-	-
3 year and above	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 years	-	-	-	-
3 year or more	4,337,634	-	4,337,634	4,337,634
<b>Total</b>	<b>13,730,858</b>	<b>9,393,224</b>	<b>4,337,634</b>	<b>13,730,858</b>

## 37.1.7 Age analysis of profit accrued on diminishing musharaka financing

### Past due

June 30, 2020				
Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	Carrying amount
-----Rupees-----				
0 days	-	-	-	-
90 days - 179 days	487,711	487,711	-	487,711
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	-	-	-	-
3 year or more	-	-	-	-
2 year - less than 3 years	-	-	-	-
3 year or more	843,095	-	843,095	-
<b>Total</b>	<b>1,330,806</b>	<b>487,711</b>	<b>843,095</b>	<b>487,711</b>

### Past due

June 30, 2019				
Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	Carrying amount
-----Rupees-----				
0 days	-	-	-	-
90 days - 179 days	558,385	558,385	-	558,385
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	-	-	-	-
3 year or more	-	-	-	-
2 year - less than 3 years	-	-	-	-
3 year or more	843,095	-	843,095	-
<b>Total</b>	<b>1,401,480</b>	<b>558,385</b>	<b>843,095</b>	<b>558,385</b>

Provisions are recognized by the Modaraba on the basis of time based criteria given under Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

# Annual Report 2020

Note 37, Financial Risk Management - Continued...

**37.1.8** The Modaraba manages credit risk and its concentration through diversification of activities to avoid undue concentration of risks with individuals, groups or specific industry segments. For this purpose, the Modaraba has established exposure limits for individuals and industrial sectors. Break-up of credit risk exposure by class of business is as follows:

	June 30, 2020					
	Ijarah receivables and assets	Net Investment in Ijarah finance	Murabaha investments	Diminishing musharaka	Total	% age
	-----Rupees-----					
Transport and communications	11,908,634	-	-	1,489,301	13,397,935	10.06%
Education	1,705,455	-	-	-	1,705,455	1.28%
Power	1,418,228	-	4,500,000	-	5,918,228	4.44%
Textiles	25,880,552	26,722,934	250,486,540	-	303,090,026	227.54%
Engineering	102,240	-	-	4,337,634	4,439,874	3.33%
Food	30,376,099	-	17,915,282	-	48,291,381	36.25%
Individuals	37,659,339	-	-	315,104	37,974,443	28.51%
Financial institutions	2,617,828	-	-	-	2,617,828	1.97%
Manufacturing industries	17,734,222	-	23,836,151	-	41,570,373	31.21%
Miscellaneous	19,548,888	-	-	5,667,666	25,216,554	18.94%
Less: Portfolio provided	(46,930,031)	(13,226,200)	(290,862,028)	-	(351,018,259)	-263.52%
<b>Total</b>	<b>102,021,454</b>	<b>13,496,734</b>	<b>5,875,945</b>	<b>11,809,705</b>	<b>133,203,838</b>	<b>100%</b>

	June 30, 2019					
	Ijarah receivables and assets	Net Investment in Ijarah finance	Murabaha investments	Diminishing musharaka	Total	% age
	-----Rupees-----					
Transport and communications	14,047,543	-	-	1,489,301	15,536,844	7.48%
Education	1,705,455	-	-	-	1,705,455	0.82%
Power	1,418,228	-	15,000,000	-	16,418,228	7.90%
Textiles	33,569,562	28,944,448	260,951,668	-	323,465,678	155.65%
Engineering	102,240	-	-	4,337,634	4,439,874	2.14%
Food	70,376,099	-	17,915,282	-	88,291,381	42.49%
Individuals	43,338,248	-	-	558,236	43,896,484	21.12%
Financial institutions	2,617,828	-	-	-	2,617,828	1.26%
Manufacturing industries	18,525,112	-	23,836,151	-	42,361,263	20.38%
Miscellaneous	19,448,888	-	-	7,345,687	26,794,575	12.89%
Less: Portfolio provided	(51,726,183)	(13,226,200)	(292,764,538)	-	(357,716,921)	-172.14%
<b>Total</b>	<b>153,423,020</b>	<b>15,718,248</b>	<b>24,938,563</b>	<b>13,730,858</b>	<b>207,810,689</b>	<b>100%</b>

## 37.2 Liquidity risk

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

June 30, 2020					
Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years
Rupees					
<b>Non-derivative financial liabilities</b>					
Accrued profit	28,495,826	28,495,826	28,495,826	-	-
Short term finances	217,063,388	217,063,388	217,063,388	-	-
Creditors, accrued and other liabilities	701,525	701,525	701,525	-	-
<b>Total</b>	<b>246,260,739</b>	<b>246,260,739</b>	<b>246,260,739</b>	<b>-</b>	<b>-</b>

June 30, 2019					
Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years
Rupees					
<b>Non-derivative financial liabilities</b>					
Accrued profit	4,505,879	4,505,879	4,505,879	-	-
Short term finances	217,063,388	217,063,388	217,063,388	-	-
Creditors, accrued and other liabilities	694,313	694,313	694,313	-	-
<b>Total</b>	<b>222,263,580</b>	<b>222,263,580</b>	<b>222,263,580</b>	<b>-</b>	<b>-</b>

## Note 37, Financial Risk Management - Continued...

**37.2.1** The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up / profit rates effective as at the reporting date (and includes both principal and profit payable thereon).

### 37.3 Market risk

Market risk is the risk that changes in market price such as foreign exchange rates, interest / profit rates and equity prices will effect the Modaraba's income or the value of its holdings of financial instruments.

#### 37.3.1 Currency risk

Currency risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies. Currently, the Modaraba does not have any receivables or payables that exist due to transactions in foreign currencies which expose it to currency risk.

#### 37.3.2 Interest / profit rate risk

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest / profit rates.

The Modaraba's interest / profit rate risk arises from short term finances, bank balances in savings accounts, net investment in ijarah finance, diminishing musharaka, murabaha investments and loans to employees. Short term investments, short term finances, murabaha investments, diminishing musharaka and balances in savings accounts are at variable rates, that expose the Modaraba to cash flow interest / profit rate risks. Long term loans to employees made at fixed rate expose the Modaraba to fair value interest / profit rate risk. As at the reporting date the interest / profit rate profile of the Modaraba's interest bearing financial instruments was:

	2020	2019
	Rupees	Rupees
<b>Fixed rate instruments</b>		
<b>Financial assets</b>		
Loans to employees	151,280	430,623
Murabaha investments	8,163,467	27,226,085
Short term investments	20,000,000	-
<b>Floating rate instruments</b>		
<b>Financial assets</b>		
Ijarah rentals receivable	62,456,119	69,521,441
Bank balances	22,655,332	11,329,223
Diminishing musharaka financing	11,809,705	13,730,858
Net investment in ijarah finance	13,496,734	15,718,248
Short term investments	53,997,842	67,428,863
<b>Financial liabilities</b>		
Short term finances	217,063,388	217,063,388

#### Fair value sensitivity analysis for fixed rate instruments

The Modaraba does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest / profit rate at the reporting date would not affect profit or loss of the Modaraba.

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

A change of 100 basis points in interest / profit rates at the reporting date would have increased / (decreased) the loss for the year by the amounts shown below. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the year 2019. Following will be impact on the profit and loss account and the equity of the Modaraba:

	June 30, 2020		June 30, 2019	
	100 bps		100 bps	
	Increase	Decrease	Increase	Decrease
	Rupees	Rupees	Rupees	Rupees
Floating rate financial assets	1,925,792	(1,925,792)	2,120,445	(2,120,445)
Floating rate financial liabilities	(2,170,634)	2,170,634	(2,170,634)	2,170,634
Net effect	(244,842)	244,842	(50,189)	50,189

The sensitivity analysis prepared is not necessarily indicative of the effects on loss for the year and assets / liabilities of the Modaraba. This analysis is prepared assuming that amounts of liabilities and assets outstanding at reporting dates were outstanding for the entire year.

Note 37, Financial Risk Management - Continued...

## 37.3.3 Other price risk

Other price risk represents 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 interest / 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 instrument traded in the market. The Modaraba is not exposed to commodity price risk and equity price risk.

## 37.4 Financial instruments by categories

	At fair value through profit	At amortized cost	At fair value through other	Total
	Rupees	Rupees	Rupees	Rupees
<b>Financial assets as at June 30, 2020</b>				
Cash and bank balances	-	22,655,332	-	22,655,332
Ijarah rentals receivable	-	62,456,119	-	62,456,119
Accrued profit	-	1,202,746	-	1,202,746
Short term investments	-	20,000,000	53,997,842	73,997,842
Murabaha investments	-	8,163,467	-	8,163,467
Net investment in ijarah finance	-	13,496,734	-	13,496,734
Diminishing musharaka financing	-	11,809,705	-	11,809,705
Advances, prepayments and other receivables	-	754,141	-	754,141
Long term loans and deposits	-	190,780	-	190,780
	-	140,729,024	53,997,842	194,726,866

## Financial assets as at June 30, 2019

Cash and bank balances	-	11,329,223	-	11,329,223
Ijarah rentals receivable	-	69,521,441	-	69,521,441
Accrued profit	-	2,192,041	-	2,192,041
Short term investments	-	-	74,518,664	74,518,664
Murabaha investments	-	27,226,085	-	27,226,085
Net investment in ijarah finance	-	15,718,248	-	15,718,248
Diminishing musharaka financing	-	13,730,858	-	13,730,858
Advances, prepayments and other receivables	-	639,678	-	639,678
Long term loans and deposits	-	470,123	-	470,123
	-	140,827,697	74,518,664	215,346,361

## Financial liabilities at amortized cost

	2020	2019
	Rupees	Rupees
Accrued profit payable	28,495,826	4,505,879
Short term finances	217,063,388	217,063,388
Creditors, accrued and other liabilities	701,525	694,313
	246,260,739	222,263,580

## Note 38

### Recognized Fair Value Measurements - Financial Instruments

#### Fair value hierarchy

Certain financial assets and financial liabilities are not measured at fair value if the carrying amounts are a reasonable approximation of fair value. Due to short term nature, carrying amounts of certain financial assets and financial liabilities are considered to be the same as their fair value. For the majority of the non-current receivables, the fair values are also not significantly different from their carrying amounts. Judgments and estimates are made in determining the fair values of the financial instruments that are recognized and measured at fair value in these financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Modaraba classifies its financial instruments into the following three levels. As at the reporting date, the Modaraba has short term investments which are required to be grouped into level 2. These levels are explained as under:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and securities at fair value through OCI or profit and loss ) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the modaraba is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

## Note 39

### Balances And Transactions With Related Parties

Related parties comprise associated companies, modaraba management company and its holding undertaking, directors of the Modaraba management company and key management personnel. Detail of transactions with related parties and balances outstanding with them at the reporting dates, except for remuneration are as follows:

			2020 Rupees	2019 Rupees
<b>39.1</b>	<b>Balances outstanding at the reporting date</b>			
	Bank accounts with National Bank of Pakistan		169,518	341,188
	Finances from National Bank of Pakistan		217,063,388	217,063,388
	Mark up payable		28,495,826	4,505,879
<b>39.2</b>	<b>Transactions during the year</b>			
	<b>Related party</b>	<b>Relationship</b>	<b>Nature of Transaction</b>	
	National Bank of Pakistan	Modaraba	Mark up expense	28,495,826
		Management	Mark up paid	22,397,957
		Company's		4,505,879
		holding company		20,483,886



## Note 40

### Impact of COVID-19 on the Financial Statements

The outbreak of COVID-19 pandemic and the lockdown situation in the country have impacted businesses to varying degrees, having implications on their operations, financial position, profitability, liquidity and in certain cases, the going concern status. The management has evaluated the impacts of COVID-19 on the Financial Statements of the Modaraba and has identified following implications on carrying amounts of assets and liabilities or items of income and expenses, as required under the relevant accounting and reporting standards, that require specific disclosure in the financial statements:

- Owing to the lockdown in the Country, the Modaraba could not recover amounts due from its receivables at an accelerated rate. Sufficient provision against these receivables is already recorded in these financial statements and does not require further provisioning against assets or impairment against its fixed assets.
- Since the Modaraba is already preparing its financial statements on a basis other than the going concern since June 30, 2019, there are no further worse impacts on the going concern assumption of the Modaraba.

## Note 41

### Segment Information

- 41.1** As per IFRS 8, operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Chief Executive officer (CEO) of the Modaraba is identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.
- 41.2** The CEO is responsible for the Modaraba's entire product portfolio and he considers the business as a single operating segment. The Modaraba's asset allocation decisions are based on a single integrated investment strategy and the Modaraba's performance is evaluated on an overall basis.
- 41.3** The internal reporting provided to the CEO for the Modaraba's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of approved accounting and reporting standards as applicable in Pakistan. The Modaraba is domiciled in Pakistan. All of the Modaraba's income is from investment in entities incorporated in Pakistan. The Modaraba also has a diversified certificate holder population. As at June 30, 2020, there is only one (June 30, 2019: one) certificate holder (National bank of Pakistan - the holding company of the Modaraba Management Company) who held more than 10% of the Modaraba's certificate capital. Its holding is 30% (June 30, 2019: 30%).

## Note 42

### Date of Authorization For Issue

These financial statements have been approved by the Board of Directors of National Bank Modaraba Management Company Limited and authorized for issuance on September 29, 2020.

## Note 43

### General

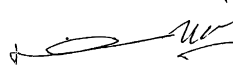
Comparative figures are re-arranged, wherever necessary, to facilitate comparison. No material re-arrangements have been made in these financial statements.



Chief Executive Officer  
National Bank Modaraba  
Management Company Limited



Director  
National Bank Modaraba  
Management Company Limited



Director  
National Bank Modaraba  
Management Company Limited



Chief Financial Officer  
National Bank Modaraba  
Management Company Limited

Lahore: September 29, 2020

## PATTERN OF CERTIFICATE HOLDING

AS ON JUNE 30, 2020

Number of Certificate Holders	Certificate Holdings From	To	Total Number of Certificate held	Percentage of Total Capital
78	1 -	100	2,521	0.01
340	101 -	500	162,946	0.65
197	501 -	1000	183,748	0.73
191	1001 -	5000	537,530	2.15
82	5001 -	10000	658,260	2.63
31	10001 -	15000	415,923	1.66
22	15001 -	20000	399,292	1.60
22	20001 -	25000	503,990	2.02
16	25001 -	30000	461,877	1.85
5	30001 -	35000	156,575	0.63
8	35001 -	40000	312,000	1.25
3	40001 -	45000	131,965	0.53
6	45001 -	50000	293,990	1.18
1	50001 -	55000	53,772	0.22
1	55001 -	60000	57,500	0.23
3	60001 -	65000	183,500	0.73
1	65001 -	70000	66,500	0.27
3	75001 -	80000	233,495	0.93
7	95001 -	100000	700,000	2.80
4	100001 -	105000	408,250	1.63
1	115001 -	120000	115,500	0.46
1	130001 -	135000	132,500	0.53
1	150001 -	155000	153,000	0.61
1	155001 -	160000	159,800	0.64
1	165001 -	170000	168,000	0.67
1	180001 -	185000	181,500	0.73
2	195001 -	200000	400,000	1.60
1	205001 -	210000	209,000	0.84
1	215001 -	220000	216,500	0.87
1	225001 -	230000	226,966	0.91
1	240001 -	245000	242,002	0.97
1	265001 -	270000	267,000	1.07
1	270001 -	275000	273,998	1.10
1	275001 -	280000	278,000	1.11
3	295001 -	300000	896,600	3.59
1	405001 -	410000	409,500	1.64
1	590001 -	595000	590,500	2.36
1	1870001 -	1875000	1,874,500	7.50
1	1935001 -	1940000	1,935,500	7.74
1	2845001 -	2850000	2,846,000	11.38
1	7495001 -	7500000	7,500,000	30.00
<b>1,045</b>			<b>25,000,000</b>	<b>100.00</b>

**CATEGORIES OF CERTIFICATE HOLDERS  
AS ON JUNE 30, 2020**

Ser #	Code	Category	No. of Certificate Holder	Certificate Held	Percentage of Total Capital
1	1	Individuals	1,034	16,659,501	66.6380
2	4	Joint Stock Companies	7	216,601	0.8664
3	9	Modaraba Management Cos	1	7,500,000	30.0000
4	10	Funds	1	300,000	1.2000
5	24	Others	2	323,898	1.2956

<b>TOTAL:</b>	<b>1,045</b>	<b>25,000,000</b>	<b>100.0000</b>
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## CATEGORIES DETAILS AS ON JUNE 30, 2020

Catagory		Numbers of Certificates
Individuals		16,659,501
Joint Stock Companies		
1	MAPLE LEAF CAPITAL LIMITED	1
2	MUHAMMAD AHMED NADEEM SECURITIES (SMC-PVT) LIMITED	100
3	AMZ SECURITIES (PVT) LIMITED	500
4	FIKREES (PRIVATE) LIMITED	500
5	DOSSLANI'S SECURITIES (PVT) LIMITED	500
6	MUHAMMAD BASHIR KASMANI (PRIVATE) LIMITED	15,000
7	MUHAMMAD SALIM KASMANI SECURITIES (PVT.) LTD.	39,500
		216,601
Modaraba Management Cos		
1	NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED	7,500,000
		7,500,000
Funds		
1	TRUSTEES D.G.KHAN CEMENT CO.LTD.EMP. P.F	300,000
		300,000
Others		
1	TRUSTEES ALOO & MINOCHER DINSHAW CHR. TRUST	49,900
2	TEACHERS RESOURCE CENTRE	273,998
		323,898
		25,000,000
Certificate Holding Of 5% Or Above		
	NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED	7,500,000
	SHAKEEL ARSHAD	1,874,500
	DURAIN CASSIM	1,935,500
	DINAZ CASSIM	2,846,000

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- Risk profiler\*
- Financial calculator
- Subscription to Alerts (event notifications, corporate and regulatory actions)
- Jamapunji application for mobile device
- Online Quizzes



SECP  
Securities and Exchange Commission of Pakistan

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

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