



FIRST NATIONAL BANK MODARABA

Managed By:

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

Annual Report 2019

CONTENTS

Corporate Information	02
Notice of Annual Review Meeting & Book Closure	03
Vision and Mission Statement	04
Shari'ah Advisor's Report	05
Directors' Report	06
Statement of Compliance with Listed Companies (Code of Corporate Governance) Regulations, 2017	13
Review Report on the Statement of Compliance Contained in Listed Companies (Code of Corporate Governance) Regulations, 2017	15
Auditors' Report to the Certificate Holders	16
Balance Sheet	17
Profit and Loss Account	18
Statement of Comprehensive income	19
Cash Flow Statement	20
Statement of Changes in Equity	21
Notes to the Accounts	22
Pattern of Certificate Holding	50

CORPORATE INFORMATION

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

NOTICE OF 16TH ANNUAL REVIEW MEETING & BOOK CLOSURE

Notice is hereby given that the 16th Annual Review Meeting of certificate holders of First National Bank Modaraba will be held on Monday, October 28, 2019 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, 2019.

The Certificate Transfer Book will remain closed from October 22, 2019 to October 28, 2019 (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 21, 2019 will be eligible to attend the Annual Review Meeting. All transfers received in order, up to the close of business on October 21, 2019 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 26, 2019

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, 2019, 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.

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 19, 2019

DIRECTORS' REPORT

Board of Directors of National Bank Modaraba Management Company Limited (NBMMCL), the management Company of First National Bank Modaraba (FNBM), presents the directors report on the 16th annual accounts of FNBM for the period ended June 30, 2019. 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, 2019	Year Ended June 30, 2018	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015	Year Ended June 30, 2014
Balance Sheet Size	303,068,110	356,066,321	508,478,472	841,306,270	1,248,349,011	1,692,658,474
Total Equity	(22,110,114)	8,154,162	16,333,070	87,692,752	141,525,254	263,701,324
Total Operating & Other Income	22,260,145	76,030,467	179,801,462	314,368,924	451,401,503	558,123,884
Operating & Financial Exp.	52,357,465	71,817,951	163,231,481	302,048,194	460,444,217	592,335,961
Profit for the period	(35,716,364)	(8,178,908)	(71,359,682)	(53,832,502)	(122,176,070)	(34,212,077)
Modaraba Co.'s Management Fee	Nil	Nil	Nil	Nil	Nil	Nil
Net profit after tax	(35,716,364)	(8,178,908)	(71,359,682)	(53,832,502)	(122,176,070)	(34,212,077)
Earning per certificate (Rs.)	(1.43)	(0.33)	(2.85)	(2.15)	(4.89)	(1.37)
Return on Assets (%)	(11.78)	(2.30)	(13.9)	(6.39)	(9.76)	(2.01)
Return on Equity (%)	(162)	(101)	(436.9)	(61.52)	(87.14)	(12.92)
Dividend Paid (%)	Nil	Nil	Nil	Nil	Nil	Nil
Breakup value per certificate (Rs.)	(1.42)	.33	0.64	3.52	5.64	10.52

2. Economic and Sector Outlook:

The economy during the year 2018-2019 remained turbulent and was marked with high inflation, depreciating rupee value, high interest rates etc, as the newly elected Govt. was on its toes to handle the ground realities and eventually resorted to IMF's program whereby it tightened its fiscal and monetary policies in order to manage a huge external and internal debt burden piled up over past many years. Although the movement in exchange rates favored exporters, the business activity however did not pick up in general, while many import based industries went out of business. Despite approval of IMF program, the necessary stability and certainty in the economy needed for stimulating reasonable public/private sector investments did not come about during the year. Nasty local politics and regional geo-political situation marked with military standoff involving air skirmishes on eastern borders perhaps kept potential investors waiting. The stock market indices accordingly more or less kept sliding down during the year. The energy shortages were although reduced considerably, however its cost did not appear to have suited many industrial setups. The local businessmen are still showing reluctance to come to terms with the new tax regime. Nevertheless the economy is

is expected to adjust with the changing realities and would hopefully revive in the coming years when investors begin to see any continuity and soundness of Govt's economic policies, and more and more investors get attracted towards export based industries.

Financial sector, including the Modaraba sector, remained more or less steady. Although the present level of market interest rates apparently suits financial intermediaries, however they are depriving private sector from the credit needed to fuel investment growth. Also the sustainable performance of the financial sector depends on the growth in private entrepreneurs and investments, including rehabilitation of those industrial units where most of the sector's credit portfolio is stuck up. It is hoped that the market interest rates would soon be rationalized and credit would become accessible and feasible for businesses especially for SMEs. However along with any policy of lowering the interest rates, it is essential to put regulations in place to avoid spillover of the available credit in non-productive avenues. As far as Islamic financial industry is concerned, it is growing as usual and where financial Modarabas can also prosper by developing their own niche markets through innovation, technology and product development.

Going Concern Assumption

Due to accumulated losses, Board of Directors of parent bank, National Bank of Pakistan (NBP) in its meeting held on 22nd 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) has accorded its approval on December 3, 2018 for issuance of further certificates other than right to NBP. In this respect NBP has sought SBP approval and the matter is still pending.

However, the absence of fresh equity and execution of the business plans as intended by the management, 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. In this respect, subsequent to the year end, a total of Rs. 11.5 million was recovered from a couple of defaulter clients, and more such recoveries are expected in the current year. On the other hand regular portfolio has performed well and generated income consistently.

The balance sheet size shrunk from Rs. 356 million in the corresponding year to Rs. 303 million this year. The income from credit portfolio has decrease considerably due to maturities of the regular portfolio. Finance cost has increased by almost 40% during the period under review due to increase in market interest rates. Despite general inflation the operating expenses were kept under control and remained around Rs. 15 Million which is same as last year. However the operating loss when coupled with a net charge of further provisioning on account of reduction in FSVs of collaterals held against some old classified accounts, resulted in a net loss of Rs. 35 million. The loss per certificate accordingly remained at Rs. 1.43 as against Rs. 0.33 in the corresponding year.

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. 0.45 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 26, 2019 did not declare any dividends due to the aforementioned reasons.

Future Outlook:

Following the decision of NBP for injection of equity and along with achieving substantial recoveries from non performing loans, 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 FNBM to start paying dividends regularly within 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, 2019 except those disclosed in the financial statements.
- During the year ended June 30, 2019 four (04), meetings of the Board of Directors were held. Besides (04) four Audit committee and two (02) 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. Rehmat Ali Hasnie	4	N/A	1	N/A
ii. Syed Jamal Baquar	3	1	N/A	N/A
iii. Khawaja Waheed Raza	4	4	2	2
iv. Mr. Jamal Nasim	4	4	N/A	2
v. Mr. Muhammad Iqbal Hussain	4	N/A	2	2
vi. Mr. Muhammad Imran Malik	4	N/A	N/A	N/A
vii. Mr. Abbas Azam	4	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.

1. Auditors:

The auditors M/s. Horwath 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, 2020. Their appointment has been confirmed by the Board, subject to approval by the Registrar, Modaraba Companies and Modarabas SECP.

2. Acknowledgement:

The Board would like to take this opportunity of expressing gratitude and thanks to our valued customers for their patronage and support, the Securities and Exchange Commission of Pakistan, 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 26, 2019

ڈائریکٹرز رپورٹ

بورڈ آف ڈائریکٹرز نیشنل بینک مزاربہ مینجمنٹ کمپنی لمیٹڈ (NBMMCL) منتظم فرسٹ نیشنل بینک مزاربہ، 30 جون 2019 کو اختتام پذیر سال کیلئے فرسٹ نیشنل بینک مزاربہ کی 16 ویں سالانہ ڈائریکٹرز رپورٹ بمعہ مختص شدہ مالیاتی دستاویز اور مختص کی رپورٹ پیش کر رہے ہیں۔

مالیاتی نتائج

(Amounts in Rupees)

	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	Year Ended June 30, 2014
Balance Sheet Size	303,068,110	356,066,321	508,478,472	841,306,270	1,248,349,011	1,692,658,474
Total Equity	(22,110,114)	8,154,162	16,333,070	87,692,752	141,525,254	263,701,324
Total Operating & Other Income	22,260,145	76,030,467	179,801,462	314,368,924	451,401,503	558,123,884
Operating & Financial Exp.	52,357,465	71,817,951	163,231,481	302,048,194	460,444,217	592,335,961
Profit for the period	(35,716,364)	(8,178,908)	(71,359,682)	(53,832,502)	(122,176,070)	(34,212,077)
Modaraba Co.'s Management Fee	Nil	Nil	Nil	Nil	Nil	Nil
Net profit after tax	(35,716,364)	(8,178,908)	(71,359,682)	(53,832,502)	(122,176,070)	(34,212,077)
Earning per certificate (Rs.)	(1.43)	(0.33)	(2.85)	(2.15)	(4.89)	(1.37)
Return on Assets (%)	(11.78)	(2.30)	(13.9)	(6.39)	(9.76)	(2.01)
Return on Equity (%)	(162)	(101)	(436.9)	(61.52)	(87.14)	(12.92)
Dividend Paid (%)	Nil	Nil	Nil	Nil	Nil	Nil
Breakup value per certificate (Rs.)	(1.42)	.33	0.64	3.52	5.64	10.52

معاشی اور سیکر کا جائزہ

دوران سال 2018-2019 معشیت بلند افراط زر، روپے کی قدر میں کمی اور بلند شرح سود وغیرہ کیساتھ ہنگامہ خیز رہی۔ نو منتخب حکومت نے زمینی حقائق اور مشکل معاشی حالات کے پیش نظر آخر کار IMF پروگرام کا سہارا لیا اور اپنی مالیاتی اور فیکل پالیسی سخت کی تاکہ پچھلے کئی سالوں کے بیرونی اور داخلی قرضوں کے بوجھ سے نمپٹنے کا انتظام کیا جاسکے۔ اگرچہ روپے کی قدر میں ہونے والی نقل و حرکت برآمد کنندگان کے فائدے میں رہی تاہم کاروباری سرگرمی عمومی طور پر نہیں بڑھ سکی، جبکہ بہت ساری درآمدی صنعتیں کاروبار سے باہر ہو گئیں۔ (IMF) آئی۔ ایم۔ ایف پروگرام کی منظوری کے باوجود سرکاری انجی شعبہ کی سرمایہ کاری کی حوصلہ افزائی کے لیے درکار معشیت میں ضروری استحکام اور یقینی کیفیت اس سال کے دوران سامنے نہیں آسکی۔ شاید خراب مقامی سیاست اور علاقائی صورتحال اور مشرقی سرحدوں پر فضائی جھڑپوں کیساتھ فوجی کشیدگی نے ممکنہ سرمایہ کاروں کو روک رکھا۔ دوران سال سٹاک مارکیٹ کے انڈیکس کم و بیش نیچے گرتے رہے۔ اگرچہ کہ توانائی کی قلت کافی حد تک کم کر دی گئی تھی۔ تاہم اس کی قیمت بہت سے صنعتوں کیلئے مناسب دکھائی نہیں دی۔ مقامی تاجر بھی نئے ٹیکس نظام کیساتھ ہم آہنگ دکھائی نہیں دیئے۔ اس کے باوجود توقع ہے کہ بدلتے حقائق کے ساتھ معشیت ایڈجسٹ ہو جائے گی۔ اور امید ہے کہ آئندہ چند سالوں میں معشیت بہتری کی جانب گامزن ہو جائے گی جب حکومت کی پالیسی میں کوئی ٹھوس پن اور تسلسل دکھائی دے گا اور زیادہ سے زیادہ سرمایہ کار برآمدات پر مشتمل صنعتوں کی جانب راغب ہو جائیں گے۔

مالیاتی سیکٹرز بشمول مضاربہ سیکٹر کم و بیش مستحکم رہا اگرچہ موجودہ شرح سود بظاہر مالیاتی شعبہ کے مفاد میں لگتی ہے تاہم یہ شرح سرمایہ کاری کے فروغ کیلئے نجی شعبہ کو مطلوبہ قرض کی فراہمی سے محروم کر رہی ہے نیز مالیاتی شعبہ کی پائیدار کارکردگی کا انحصار نجی کاروباری اداروں اور سرمایہ کاری کے اضافہ پر منحصر ہے۔ جس میں ان صنعتوں کی بحالی بھی شامل ہے جہاں اس شعبہ کا زیادہ تر قرض جمع ہے۔ اُمید ہے کہ مارکیٹ میں شرح سود جلد ہی مناسب سطح پر آجائے گی اور کاروبار کیلئے خاص طور پر چھوٹے کاروبار کیلئے قرض کا حصول قابل رسائی اور معائنہ عمل ہو جائے گا۔ تاہم شرح سود کی کمی کی کسی بھی پالیسی کے ساتھ مخصوص قواعد و ضوابط وضع کرنے ہونگے تاکہ سرمایہ غیر مفید شعبوں میں ضیاع کو روکا جاسکے جہاں تک اسلامی مالیاتی صنعت کا تعلق ہے تو یہ ترقی کر رہا ہے اور مالیاتی مضاربہ بھی جدت نیکنا لوجی اور اپنی خدمات کی بہتری کے ذریعہ اپنی مخصوص منڈی دریافت کر کے خوشحال ہو سکتے ہیں۔

گولڈ کنسرن قابلیت

مجموعی خسارہ جات کے پیش نظر 22 جون 2018 کو بیرونٹ بینک نیشنل بینک آف پاکستان (NBP) کے بورڈ آف ڈائریکٹرز نے مضاربہ کے خاتمے کے سابقہ فیصلہ پر نظر ثانی کر کے اور 300 ملین روپے کی 10 روپے فی صرف سٹیٹیکٹ کے حساب سے سرمایہ کاری کے ذریعہ دوبارہ فعال کرنے کا عزم کیا۔ اس مقصد کے لیے (SECP) سیکورٹی ایکسچینج کمیشن آف پاکستان نے 3 دسمبر 2018 نیشنل بینک آف پاکستان کے حق میں مزید سٹیٹیکٹ کے اجراء کی منظوری دی ہے۔ اس سلسلے میں NBP نیشنل بینک آف پاکستان نے SBP سٹیٹ بینک آف پاکستان سے منظوری طلب کی ہے اور یہ معاملہ ابھی زیر التواء ہے۔

تاہم انتظامیہ کی اپنے نئے کاروباری منصوبے پر عمل درآمد کی عدم موجودگی اور تنازعہ ایکویٹی کی عدم موجودگی میں غیر یقینی صورتحال موجود ہے۔ لہذا ہمارے بیرونی آڈیٹر کی ہدایت پر مالیاتی گوشوارے بالترتیب اثاثہ جات اور واجبات کی تخمینہ بندی پر تیار کیے گئے ہیں۔ جیسا کہ مالیاتی بیان کے نوٹ نمبر 1.2 میں مفصل بیان کیے گئے ہیں۔

آپریٹنگ کا جائزہ

زیر جائزہ مدت کے دوران انتظامیہ کی توجہ غیر فعال پورٹ فولیو پر رہی، ریکوری مقدمات جو پہلے کیے گئے تھے FNBم کے حق میں فیصلے آنا شروع ہو گئے ہیں۔ اس سلسلے میں سال کے اختتام کے فوراً بعد پر دو ناہندگان سے مجموعی طور پر 11.5 ملین روپے کی وصولی ہوئی۔ رواں سال مزید وصولیوں کی توقع ہے دوسری جانب باقاعدہ پورٹ فولیو سے مستقل آمدنی حاصل کی۔ اس سال بیننس شیٹ کا سائز 356 ملین روپے سے گھٹ کر 303 ملین روپے رہ گیا ہے۔ باقاعدہ پورٹ فولیو میں کمی کی وجہ سے کریڈٹ پورٹ فولیو سے حاصل ہونے والی آمدنی میں خاصی کمی واقع ہوئی ہے۔ دوران سال شرح سود میں اضافہ کی وجہ اس مدت میں مالی لاگت میں 40% اضافہ ہوا ہے باوجود عمومی افراط زر کے فعال اخراجات کو کنٹرول میں رکھا گیا جو گزشتہ سال کی مانند 15 ملین کے لگ بھگ رہے۔ تاہم فعال خسارہ کے ساتھ کچھ پرانے ناہندگان کے اثاثوں کی FSV میں کمی کی وجہ سے مزید 35 ملین روپے کا خسارہ ہوا۔ اس سال فی سٹیٹیکٹ 0.33 کے مقابلے میں فی سٹیٹیکٹ 1.43 کے نقصان پر رہا۔

FNBم نے مضاربہ کیلئے مختص شریعہ کے اصولوں کی پابندی کو یقینی بنایا۔ اس سلسلے میں شریعہ آڈیٹر کی رپورٹ لف کی گئی ہے شریعہ آڈیٹر نے جو رقم چیریٹی میں دینے کو کہا وہ دے دی گئی سال کے دوران 0.4 ملین روپے کی رقم چیریٹی میں بورڈ کے منظور شدہ اداروں کو دی گئی

منافع کی تقسیم

بورڈ کے ممبرز نے 26 ستمبر 2019 کو ہونے والی میٹنگ میں ڈیوڈنڈا منافع کا اعلان نہیں کیا۔

مستقبل کا جائزہ

NBP کے مزید سرمایہ کاری کے فیصلہ کے بعد غیر فعال کریڈٹ پورٹ فولیو سے خاطر خواہ وصولی کیساتھ نجی کاروباری سرگرمی کو چھوٹے کاروباری اداروں کو چھوٹے قرضہ جات کی فراہمی پر مخصوص رکھنے کا ارادہ کیا گیا ہے۔ نئی فنڈنگ پر منافع اور موجودہ نان پرفارمنگ پورٹ فولیو سے وصولی کے ساتھ توقع کی جاتی ہے کہ FNBم کچھ سالوں میں باقاعدگی سے منافع کی ادائیگی کے قابل ہو جائے گا۔

تجارتی اور مالی رپورٹنگ کا لائحہ عمل

- مضاربہ کی انتظامیہ کے تیار کردہ مالیاتی گوشوارے اس کے معاملات کی حالت، عملی امور کے نتائج، کیش فلوا اور ایکویٹی میں تبدیلی بہتر طور پر پیش کرتے ہیں۔
- کمپنی نے کھاتوں کی موزوں کتابیں قائم رکھی ہوئی ہیں۔

Annual Report 2019

- مالیاتی گوشواروں کی تیاری میں اکاؤنٹنگ کی مناسب حکمت عملی یکساں طور پر اپنائی گئی ہے۔ اکاؤنٹنگ تخمینوں کی بنیاد معقول اور محتاط رہی۔ اور ان سے کسی بھی انحراف کو مناسب طور پر ظاہر کیا گیا ہے۔
- پاکستان میں قابل اطلاق بین الاقوامی مالیاتی رپورٹنگ اور اسلامی مالیاتی معیار پر عمل کرتے ہوئے مالیاتی گوشوارے تیار کیے گئے ہیں۔
- اندرونی کنٹرول کا نظام موجود ہے اور اس کا ڈیزائن مضبوط ہے اور اس کا موثر نفاذ اور نگرانی کی گئی ہے۔
- یہ مالیاتی گوشوارے مضاربے کے جاری نہ رہنے کی بنیاد پر تیار کئے گئے ہیں۔
- لسٹنگ کے تفصیلی درج شدہ ضوابط ادارتی نظم و ضبط پر عمل کرنے کے بہترین طریقہ کار سے کوئی خاطر خواہ انحراف نہیں کیا گیا۔ سوائے ان امور کے جن کا ذکر CCG رپورٹ میں کر دیا گیا ہے۔
- ٹیکسز ڈیوٹی لیو اور چارج کی مد میں 30 جون 2019 تک واجب الادا مطالبات نہ ہیں سوائے ان کے جو مالیاتی گوشوارے میں مذکور ہیں۔
- 30 جون 2019 کو اختتام پذیر ہونے والے سال میں بورڈ آف ڈائریکٹرز کی چار (4) میٹنگز منعقد ہوئیں اس کے علاوہ آڈٹ کمیٹی کی چار (4) میٹنگ اور دو (2) HR کمیٹی کی میٹنگ اور دو (2) RM کی میٹنگ بھی منعقد ہوئی پر ڈائریکٹرز کی حاضری درج ذیل ہے۔

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

CEO کا معاوضہ اور بورڈ آف ڈائریکٹرز کے NON-EXECUTIVE ارکان کی میٹنگ فیس انتظامی کمپنی NBMMCL کی جانب سے ادا کی گئی۔

سرٹیفکیٹ ہولڈرز کی ترتیب لف پڑا ہے

آڈیٹرز

بورڈ نے موجودہ آڈیٹرز ہاروتھ حسین چودھری چارٹرڈ اکاؤنٹنٹس کی تقرری بطور آڈیٹرز 30 جون 2020 ان کی رضامندی سے منظور کی ہے۔

ان کی تقرری رجسٹرڈ امضارہ کمپنی بورڈ اور مضاربہ SECP سے منظور شدہ ہے۔

اعتراف

بورڈ اس موقع پر اپنے معزز سرٹیفکیٹ ہولڈرز سیکورٹی ایکسچینج کمیشن آف پاکستان کا۔ پاکستان اسٹاک ایکسچینج لمیٹڈ NBFI اور مضاربہ ایسوسی ایشن آف پاکستان کا ان کی مسلسل حمایت رہنمائی اور سرپرستی کے لیے شکریہ ادا کرنا چاہتا ہے۔

برائے، منجانب بورڈ



26 ستمبر 2019

چیف ایگزیکٹو آفیسر

Statement of Compliance with Listed Companies (Code of Corporate Governance) Regulations, 2017

Name of company First National Bank Modaraba
Year ending June 30,2019

The company has complied with the requirements of the Regulations in the following manner:

1. The total number of directors is 7 as per the following:

a. Male : 7
b. Female: 0

2. The composition of board is as follows:

Category	Number of Directors in each category	Name
Independent Director	3	Mr. Muhammad Iqbal Hussain
		Mr. Jamal Nasim
		Mr. Khawaja Waheed Raza
Executive Director	1	Mr. Abbas Azam
Non-Executive Director	3	Mr. Rehmat Ali Hasnie
		Mr. Syed Jamal Baquar
		Mr. Imran Malik

3. The directors have confirmed that none of them is serving as a director on more than five listed companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable)

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. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

6. All the powers of the board have been duly exercised and decisions on relevant matters have been taken by board/ shareholders 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 board. The Board has met for the first quarter of the year on 2nd October, 2018.

8. The board of directors has a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations.

9. Three out of seven directors, which is fractionally short of one half, had either acquired the prescribed certification under a director training program or obtained exemption from the Commission under the regulation. By end of next year it will be ensured that at least 75% of directors acquire the prescribed certification or obtain exemption from the commission.

10. The board has approved appointment of CFO, 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. CFO and CEO duly endorsed the financial statements before approval of the board.

Annual Report 2019

12. The board has formed committees comprising of members given below:

Committee	No of Members	Chairman of Committee	Members
Audit Committee	3	Jamal Nasim	Jamal Nasim
			Khawaja Waheed Raza
			Syed Jamal Baquar
HR & Remuneration Committee	3	Khawaja Waheed Raza	Khawaja Waheed Raza
			Rehmat Ali Hassnie
			Muhammad Iqbal Hussain
Risk Management Committee	3	Khawaj Waheed Raza	Khawaja Waheed Raza
			Muhammad Iqbal Hussain
			Jamal Nasim
Nomination Committee	NA		

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 committees was as per following:

Committee	No of Meetings
Audit Committee	4
HR and Remuneration Committee	2
Risk Management Committee	2
Nomination Committee	NA

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 a satisfactory rating under the quality control review program of the ICAP and registered with Audit Oversight Board of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.

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. The position of Company Secretary and the CFO shall be segregated to meet CCG's requirements.

19. We confirm that all other requirements of the Regulations have been complied with.



Signature (s)
Chairman

Review Report on the Statement of Compliance contained in Listed Companies (Code of Corporate Governance) Regulations, 2017

We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2017 (the Regulations) prepared by the Board of Directors of National Bank Modaraba Management Company Limited (the Management Company) for and on behalf of First National Bank Modaraba (the Modaraba) for the year ended June 30, 2019 in accordance with the requirements of regulation 40 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 and also ensure compliance with the requirements of section 208 of the Companies Act, 2017. 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. We have not carried out procedures to assess and determine the Company's process for identification of related parties and that whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the 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, 2019.

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:

Serial No.	Paragraph Reference	Description
1	7	The Board did not have a meeting in respect of first quarter until as later as October 02, 2019.
2	9	At least 50% of the Directors have not acquired the prescribed certification under the Directors Training Program or obtained exemption from the Commission as required under clause 20 of the Regulations.
3	18	The Chief financial Officer and Company Secretary of Modaraba is the same person.



Lahore
Dated: 26, September 2019

HORWATH HUSSAIN CHAUDHURY & CO.
Chartered Accountants

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

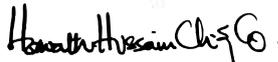
We have audited the annexed balance sheet of **First National Modaraba** ("the Modaraba") as at June 30, 2019 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred 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, 2019 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. 35.716 million during the year ended June 30, 2019. As of that date the Modaraba's current liabilities exceeded its current assets by Rs. 109.010 million, its net liabilities amounted to Rs. 22.110 million and its accumulated losses amounted to Rs. 316.065 million. Moreover, National Bank of Pakistan's plan to recapitalize the Modaraba by injecting further Rs. 300 million is awaiting approval from the State Bank of Pakistan. 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.


HORWATH HUSSAIN CHAUDHURY & CO.

Chartered Accountants
(Engagement Partner: Amin Ali)

LAHORE

Dated: September 26, 2019

First National Bank Modaraba

BALANCE SHEET AS AT JUNE 30, 2019

	Note	2019 Rupees	2018 Rupees
ASSETS			
CURRENT ASSETS			
Cash and bank balances	6	11,329,223	51,653,789
Short term murabaha investments - secured	7	16,138,222	16,308,001
Accrued profit	8	2,192,041	1,097,997
Short term investments	9	74,518,664	30,895,000
Ijarah rentals receivable	10	69,521,441	74,259,701
Advances, prepayments and other receivables	11	4,421,491	3,324,398
Current portion of non current assets	12	34,922,373	42,303,266
		<u>213,043,455</u>	<u>219,842,152</u>
NON-CURRENT ASSETS			
Net investment in ijarah finance	13	-	1,650,864
Diminishing musharaka financing - secured	14	-	1,977,113
Long term murabaha investments - secured	15	5,893,939	7,206,979
Long term loans and deposits	16	190,780	470,143
Intangible asset	17	-	-
Fixed assets under ijarah arrangements	18	83,900,189	124,871,458
Fixed assets - own use	19	39,747	47,612
		<u>90,024,655</u>	<u>136,224,169</u>
TOTAL ASSETS		303,068,110	356,066,321
LIABILITIES			
CURRENT LIABILITIES			
Accrued profit		4,505,879	2,564,748
Deferred murabaha income	7	-	-
Short term finances - secured	20	217,063,388	217,063,388
Creditors, accrued and other liabilities	21	17,928,939	19,032,000
Current portion of non-current liabilities	22	82,555,415	104,053,372
		<u>322,053,621</u>	<u>342,713,508</u>
NON-CURRENT LIABILITIES			
Security deposits against ijarah assets	23	890,000	2,802,200
Deferred murabaha income	24	2,234,603	2,406,131
		<u>3,124,603</u>	<u>5,208,331</u>
TOTAL LIABILITIES		325,178,224	347,921,839
NET (LIABILITIES) / ASSETS		(22,110,114)	8,144,482
FINANCED BY:			
Certificate capital	25	250,000,000	250,000,000
Statutory reserves	26	43,955,189	43,955,189
Accumulated loss		(316,065,303)	(285,810,707)
CONTINGENCIES AND COMMITMENTS			
	27	-	-
TOTAL EQUITY AND RESERVES		(22,110,114)	8,144,482

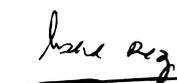
The annexed notes from 1 to 41 form an integral part of these financial statements.



Chief Executive Officer
National Bank Modaraba



Director
National Bank Modaraba



Director
National Bank Modaraba



Chief Financial Officer
National Bank Modaraba

Lahore: September 26, 2019

Management Company Limited

Management Company Limited

Management Company Limited

Management Company Limited

Annual Report 2019

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019 Rupees	2018 Rupees
INCOME FROM OPERATIONS			
Ijarah rentals earned / income from ijarah finance		8,444,363	61,957,831
Profit on diminishing musharaka financing		1,709,031	1,962,269
Profit on murabaha investments		67,948	169,780
Profit on bank deposits		920,506	944,994
Profit on disposal of ijarah assets		679,410	936,127
Profit on disposal of owned assets		30,000	-
Profit on short term investment		6,369,850	1,923,820
		18,221,108	67,894,821
OTHER INCOME			
Reversal of provision charged for doubtful receivables - net	31	4,000,003	11,494,018
Other income	28	39,034	79,929
		4,039,037	11,573,947
TOTAL INCOME		22,260,145	79,468,768
EXPENSES			
Depreciation on ijarah assets	18	(14,795,254)	(40,280,305)
Operating expenses	29	(15,137,194)	(15,551,096)
Finance cost	30	(22,425,017)	(15,986,550)
TOTAL EXPENSES		(52,357,465)	(71,817,951)
OPERATING (LOSS) / PROFIT BEFORE PROVISIONS AND TAXATION		(30,097,320)	7,650,817
Provision charged for doubtful receivables - net	31	(5,619,044)	(3,438,301)
Impairment loss on ijarah assets - net	18	-	(12,401,104)
		(5,619,044)	(15,839,405)
Modaraba Company's management fee	32	-	-
LOSS BEFORE TAXATION		(35,716,364)	(8,188,588)
Taxation	33	-	-
NET LOSS FOR THE YEAR		(35,716,364)	(8,188,588)
LOSS PER CERTIFICATE - BASIC AND DILUTED	34	(1.43)	(0.33)

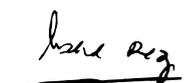
The annexed notes from 1 to 41 form an integral part of these financial statements.



Chief Executive Officer
National Bank Modaraba



Director
National Bank Modaraba



Director
National Bank Modaraba



Chief Financial Officer
National Bank Modaraba

Lahore: September 26, 2019

Management Company Limited

Management Company Limited

Management Company Limited

Management Company Limited

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
	Rupees	Rupees
Net Loss for the Year	(35,716,364)	(8,188,588)
Other Comprehensive Income:		
<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 on revaluation of sukuks	5,461,768	-
Other comprehensive income for the year	5,461,768	-
Total Comprehensive Loss for the Year	<u>(30,254,596)</u>	<u>(8,188,588)</u>

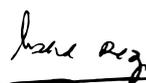
The annexed notes from 1 to 41 form an integral part of these financial statements.



Chief Executive Officer
National Bank Modaraba



Director
National Bank Modaraba



Director
National Bank Modaraba



Chief Financial Officer
National Bank Modaraba

Lahore: September 26, 2019

Management Company Limited

Management Company Limited

Management Company Limited

Management Company Limited

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2019

		2019 Rupees	2018 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES	35	14,365,415	55,563,832
Finance cost paid		(20,483,886)	(15,515,847)
Income taxes paid		(934,047)	(108,504)
Profit received on bank deposits		920,506	944,994
Long term loans and deposits - net		427,874	698,384
Net Cash (Used in) / Generated from Operating Activities		(5,704,138)	41,582,859
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed assets - own use acquired		-	(60,500)
Short term investments acquired - net		(38,161,896)	(30,895,000)
Proceeds from disposal of net investment in ijarah finance		-	19,023,150
Proceeds from disposal of own assets		30,000	-
Proceeds from disposal of ijarah assets		3,511,468	6,879,533
Net Cash Used in Investing Activities		(34,620,428)	(5,052,817)
CASH FLOWS FROM FINANCING ACTIVITIES			
Short term finances - net		-	15,428,634
Dividend paid to certificate holders		-	(12,406)
Long term finances - repaid		-	(50,000,002)
Net Cash Used in Financing Activities		-	(34,583,774)
Net (Decrease) / Increase in Cash and Cash Equivalents		(40,324,566)	1,946,268
Cash and cash equivalents at the beginning of the period		51,653,789	49,707,521
Cash and Cash Equivalents at the End of the Year		11,329,223	51,653,789

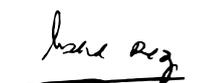
The annexed notes from 1 to 41 form an integral part of these financial statements.



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 26, 2019

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2019

Particulars	Certificate Capital	Statutory Reserve	Accumulated Loss	Total Equity
	Rupees			
Balance as at June 30, 2017	250,000,000	43,955,189	(277,622,119)	16,333,070
Comprehensive loss for the year				
Net loss for the year	-	-	(8,188,588)	(8,188,588)
Other comprehensive loss for the year	-	-	-	-
Total comprehensive loss for the year	-	-	(8,188,588)	(8,188,588)
Transferred to statutory reserve	-	-	-	-
Balance as at June 30, 2018	250,000,000	43,955,189	(285,810,707)	8,144,482
Comprehensive loss for the year				
Net loss for the year	-	-	(35,716,364)	(35,716,364)
Other comprehensive income for the year	-	-	5,461,768	5,461,768
Total comprehensive loss for the year	-	-	(30,254,596)	(30,254,596)
Transferred to statutory reserve	-	-	-	-
Balance as at June 30, 2019	250,000,000	43,955,189	(316,065,303)	(22,110,114)

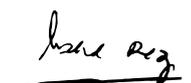
The annexed notes from 1 to 41 form an integral part of these financial statements.



Chief Executive Officer
National Bank Modaraba



Director
National Bank Modaraba



Director
National Bank Modaraba



Chief Financial Officer
National Bank Modaraba

Lahore: September 26, 2019

Management Company Limited

Management Company Limited

Management Company Limited

Management Company Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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. 35.716 million (2018: Rs. 8.188). As at the reporting date, its current liabilities exceed its current assets by Rs. 109.010 million (2018: Rs. 122.871 million) and its accumulated losses amount to Rs. 316.065 million (2018: Rs. 285.811 million). Although total security deposits amounting to Rs. 83.392 million are adjustable against ijarah assets, and apart from short term borrowings obtained from NBP there are no major payables; the Registrar Modaraba has issued a show cause notice to the Modaraba 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 in purview of consistent operating losses of the Modaraba.

In the view of above, NBP resolved in its meeting of Board of Directors dated June 22, 2018 to review and reverse its earlier decision of the cessation of the business of the Modaraba and recapitalize the Modaraba by injecting Rs. 300 million against the issuance of 30 million certificates of Rs. 10 each. This resolution was made public through corporate announcement on PSX dated July 13, 2018. To this affect, in its extraordinary general meeting of the certificate holders of the Modaraba dated November 30, 2018, a special resolution was passed for issuance of 30 million Modaraba certificates of Rs. 10 each, valuing Rs. 300 million in aggregate, to National Bank of Pakistan, as otherwise than right.

The Securities and Exchange Commission of Pakistan (SECP) has accorded its approval on December 3, 2018 for issuance of further certificates, other than right to NBP. Consequently, on January 23, 2018 NBP applied to the SBP seeking approval of injection of Rs. 300 Million in the equity of the Modaraba. The approval of injection of equity through the aforementioned arrangement is awaited from SBP. The management is confident that with the injection of Rs. 300 million it would be able to execute its proposed business plan and become profitable. The matter is under consideration in NBP in accordance with the advices of the SBP made in its correspondences with the NBP so as to ensure compliance with the relevant prudential regulations. Meanwhile, NBP is also processing approval for granting deferral in payments of accrued markup in order to ease out the Modaraba's cash flows.

However, in the absence of fresh equity and execution of the business plans as intended by the management, the above factors indicate 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

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), International Accounting Standards (IAS) and Islamic Financial Accounting Standards as are 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 the approved accounting standards differ with the requirement of the Companies Act, 2017, 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), the requirements of latter take precedence.

2.2 Accounting convention

These financial statements have been prepared on the basis other than going concern using estimated realizable / settlement values of the 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 amounts of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business. Previously, these financial statements were prepared under the historical convention, except for certain financial instruments which were carried at fair value.

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 has been rounded off to the nearest rupee unless otherwise stated.

Note 3

Use of Estimates and Judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect 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.

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.

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

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 murhaba investments, provision for ijarah rentals receivables and provision for long term murhaba 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 14.3 in these financial statements. Cumulative effect of upside not recognized in the profit and loss of the Modaraba for the year ended June 30, 2019 amounts to Rs. 0.991 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, 2018 and are considered to be relevant to the Modaraba's financial statements:

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after July 01, 2018). IASB has published the complete version of IFRS 9 which replaces the guidance in IAS 39. This final version includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the incurred loss impairment model used previously.

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. The Modaraba intends to adopt these standards, if applicable, when they become effective.

	Effective Date (Period beginning on or after)
Annual improvements to IFRSs (2015-2017 Cycle)	January 01, 2019
IAS 19 Employee Benefits [Amendments]	January 01, 2019
Conceptual Framework in IFRS Standards [Amendments]	January 01, 2020
IAS 1 and IAS 8 [Amendments]	January 01, 2020
'IFRIC 23 Uncertainty over Income Tax Treatments	January 01, 2019
IAS 28 Investments in Associates and Joint Ventures	January 01, 2019

Note 4, Basis of Preparation - Continued...

Annual improvements to IFRSs (2015-2017 Cycle) relate to IFRS 3 and IFRS 11, as well as IAS 12 and IAS 23.

Amendments to IAS 19 specify the basis for determining the current service cost and the net interest expense / income for the period between a defined benefit retirement plan amendment, curtailment or settlement and the end of the reporting period.

The IASB has published a revised Conceptual Framework for Financial Reporting that will be used to develop new Standards and Interpretations in future. In particular, the definitions of assets and liabilities as well as the guidance on measurement and derecognition, presentation and disclosures are amended. This has not resulted in any technical amendments to current Standards to date. The amendments merely update the references to the Conceptual Framework in existing Standards. The Conceptual Framework itself is not subject of the endorsement procedure.

Amendments to IAS 1 and IAS 8 clarify the definition of "material". Besides additional explanations, the definition of "material" in the Conceptual Framework as well as all Standards was aligned with the central definition as stated in IAS 1.

IFRIC 23 clarifies the requirements for measuring and recognizing uncertain income tax items. The interpretation must be applied to the determination of taxable profit / loss, tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty over income tax treatments under IAS 12.

Amendment to IAS 28 clarifies that IFRS 9 must be applied to long-term interests that, in substance, form part of the net investment in an associate or joint venture to which the equity method is applied.

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, 2018, 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

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, except IFRS 9.

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.

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

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.

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.

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

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.

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.

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.

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

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
 - 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

Impairment of financial assets is calculated as per prudential regulations for Modarabas as notified by SECP. As per the opinion obtained from SECP regarding provision criteria for the Modaraba, provision of section 225 and 505 of Companies Act, 2017, which described that provision criteria will remain same as framed under Modaraba Ordinance, 1980 and rules and regulations framed therein.

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

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.

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.

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

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

5.6 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.

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

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

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

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 instalments 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.

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

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.

5.11.1 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.

First National Bank Modaraba

Note 6

Cash and Bank Balances

		2019	2018
	Note	Rupees	Rupees
Cash in hand		-	19,541
Current accounts			
Associated undertaking - National Bank of Pakistan		223,869	152,035
Others		370,055	725,066
		593,924	877,101
Saving accounts	6.1		
Associated undertaking - National Bank of Pakistan		117,319	232,725
Others		10,617,980	50,524,422
		10,735,299	50,757,147
		<u>11,329,223</u>	<u>51,653,789</u>

6.1 These carry mark up at the rate of 3.50% to 9.50% (2018: 2.61% to 3.75%) per annum.

Note 7

Short Term Murabaha Investments - Secured

		2019	2018
	Note	Rupees	Rupees
Considered good		-	-
Considered doubtful		243,601,181	243,770,960
		<u>243,601,181</u>	<u>243,770,960</u>
Add: Deferred murabaha income		2,654,776	2,654,776
		246,255,957	246,425,736
Less: Provision for non-performing murabaha investments	7.2	(227,462,959)	(227,462,959)
Less: Suspended income		(2,654,776)	(2,654,776)
		<u>16,138,222</u>	<u>16,308,001</u>

7.1 These represent investments under murabaha arrangements on deferred payment basis at specified profit margins. These investments carry profit ranging from 10.36% to 15.54% (2018: 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.

7.2 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>

Note 8

Accrued Profit

		2019	2018
	Note	Rupees	Rupees
Profit on diminishing musharaka receivable	8.1	558,385	561,471
Profit receivable on sukuks		1,633,656	536,526
		<u>2,192,041</u>	<u>1,097,997</u>
8.1 Profit held in suspense			
Profit receivable on musharaka finances		1,401,480	1,404,566
Suspended income	8.1.1	(843,095)	(843,095)
		<u>558,385</u>	<u>561,471</u>
8.1.1 Suspended income account against diminishing musharaka profit receivable is as follows:			
Opening balance		843,095	705,646
Suspended during the year		-	137,449
		<u>843,095</u>	<u>843,095</u>

Annual Report 2019

Note 9

Short Term Investments

2019		2018		2019		2018	
Number		Number		Rupees		Rupees	
Investments in sukuk of Rs 100,000 each - fair value through OCI							
550	200	Neelum Jehlum Sukuk		54,718,664		20,895,000	
200	100	Byco Petroleum Pakistan Limited		19,800,000		10,000,000	
<u>750</u>	<u>300</u>			<u>74,518,664</u>		<u>30,895,000</u>	

Note 10

Ijarah Rentals Receivable

		2019	2018
		Rupees	Rupees
	Note		
Considered good - secured		1,883,253	13,639,189
Considered doubtful		119,364,371	108,642,488
Less: Provision for doubtful ijarah rentals receivable	10.1	(29,007,645)	(25,303,438)
Less: Profit held in suspense account	10.2	(22,718,538)	(22,718,538)
		<u>67,638,188</u>	<u>60,620,512</u>
		<u>69,521,441</u>	<u>74,259,701</u>
10.1 Provision for doubtful ijarah rentals receivable			
Opening balance		25,303,438	20,363,489
Charged during the year		3,704,207	3,001,740
Adjustment / reclassified from suspended profit		-	1,938,209
Net charged during the year		<u>3,704,207</u>	<u>4,939,949</u>
Closing balance		<u>29,007,645</u>	<u>25,303,438</u>
10.2 Profit held in suspense accounts			
Opening balance		22,718,538	21,311,458
Income suspended during the year		-	4,122,976
Adjustment / reclassified to provision		-	(1,938,209)
Suspended income received		-	(777,687)
Net charged during the year		<u>-</u>	<u>1,407,080</u>
Closing balance		<u>22,718,538</u>	<u>22,718,538</u>

Note 11

Advances, Prepayments and Other Receivables

		2019	2018
		Rupees	Rupees
	Note		
Advances to employees for expenses		-	12,530
Income tax deducted at source		3,341,677	2,407,630
Prepayments		440,136	193,749
Other receivables	11.1	639,678	710,489
		<u>4,421,491</u>	<u>3,324,398</u>
11.1 Other receivables			
Considered good		639,678	710,489
Considered doubtful		30,083,188	29,680,817
		30,722,866	30,391,306
Provision against doubtful other receivables	11.2	(30,083,188)	(29,680,817)
		<u>639,678</u>	<u>710,489</u>

First National Bank Modaraba

Note 11, Advances, prepayments and other receivables - Continued...

11.2 Provision against doubtful other receivables	2019	2018
	Rupees	Rupees
Opening balance	29,680,817	29,244,256
Charged during the year - net	402,371	436,561
Closing balance	<u>30,083,188</u>	<u>29,680,817</u>

Note 12

Current Portion of Non Current Assets

	Note	2019	2018
		Rupees	Rupees
Net investment in ijarah finance	13	15,718,248	15,579,850
Diminishing musharaka financing	14	13,730,858	20,417,303
Long term murabaha investments	15	5,193,924	5,878,259
Long term loans and deposits	16	279,343	427,854
		<u>34,922,373</u>	<u>42,303,266</u>

Note 13

Net Investment in Ijarah Finance

Net Investment in Ijarah Finance	2019			2018		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	-----Rupees-----					
Minimum ijarah rentals receivable	50,840,981	-	50,840,981	45,655,427	5,185,554	50,840,981
Residual value of ijarah assets	2,268,214	-	2,268,214	2,221,514	46,700	2,268,214
Gross investment in ijarah finance	53,109,195	-	53,109,195	47,876,941	5,232,254	53,109,195
Less: Unearned finance income	(24,164,747)	-	(24,164,747)	(20,583,357)	(3,581,390)	(24,164,747)
Net investment in lease ijarah finance	28,944,448	-	28,944,448	27,293,584	1,650,864	28,944,448
Less: Provision for doubtful net investment in ijarah finance (Note 13.2)	(13,226,200)	-	(13,226,200)	(11,713,734)	-	(11,713,734)
	<u>15,718,248</u>	<u>-</u>	<u>15,718,248</u>	<u>15,579,850</u>	<u>1,650,864</u>	<u>17,230,714</u>
Less: Current portion (Note 12)			(15,718,248)			(15,579,850)
			<u>-</u>			<u>1,650,864</u>

13.1 The Modaraba entered into various ijarah agreements for periods spanning 8 to 14 years (2018: 8 to 14 years). Security deposits ranging from 0.1% to 10% (2018: 0.1% to 10%) are obtained at the time of disbursement. The rate of profit implicit in ijarah ranges from 9.87% to 16.55% (2018: 9.76% to 11.97%) per annum.

Annual Report 2019

Note 13, Net investment in ijarah finance - Continued...

13.2 Provision for doubtful net investment in ijarah finance

	2019	2018
	Rupees	Rupees
Opening balance	11,713,734	22,906,852
Charged during the year	1,512,466	-
Reversed during the year	-	(11,193,118)
Net charged during the year	1,512,466	(11,193,118)
Closing balance	13,226,200	11,713,734

Note 14

Diminishing Musharaka Financing - Secured

		2019	2018
	Note	Rupees	Rupees
Considered good		9,393,224	18,056,782
Considered doubtful		4,337,634	4,337,634
Provision against doubtful diminishing musharaka	14.2	-	-
		4,337,634	4,337,634
		13,730,858	22,394,416
Less: Current portion	12	(13,730,858)	(20,417,303)
		-	1,977,113

14.1 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 11.02% to 17.61% (2018: 9.35% to 14.02%) per annum and are repayable on monthly basis.

14.2 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.

14.3 The collaterally held asset is valued at Rs. 5.329 million by the management as of the reporting date, that has shown an upside of Rupees 0.991 million which is not recognized in the profit and loss account of the Modaraba.

Note 15

Long Term Murabaha Investments - Secured

		2019	2018
	Note	Rupees	Rupees
Considered good		8,800,341	10,559,988
Considered doubtful		65,301,579	69,301,582
		74,101,920	79,861,570
Add: Deferred murabaha income	24	31,675,826	31,913,554
	15.1	105,777,746	111,775,124
Less: Provision for doubtful murabaha investments	15.2	(65,301,579)	(69,301,582)
Less: Suspension for doubtful murabaha investments		(29,388,304)	(29,388,304)
		11,087,863	13,085,238
Less: Current portion	12 & 15.3	(5,193,924)	(5,878,259)
		5,893,939	7,206,979

15.1 These represent investments under murabaha arrangements on deferred payment basis at a profit margin ranging from 9.38% to 15.50% (2018: 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.

First National Bank Modaraba

Note 15, 'Long Term Murabaha Investments - Secured- Continued...

		2019	2018
		Rupees	Rupees
15.2	Provision for doubtful murabaha investments		
	Opening balance	69,301,582	69,602,482
	Charged during the year	-	-
	Reversed during the year	(4,000,003)	(300,900)
	Net charged during the year	(4,000,003)	(300,900)
	Closing balance	<u>65,301,579</u>	<u>69,301,582</u>
15.3	Current portion of long term murabaha investments		
	Murabaha investments	5,141,005	5,759,140
	Deferred murabaha income	52,919	119,119
		<u>5,193,924</u>	<u>5,878,259</u>

Note 16

Long Term Loans

		2019	2018
		Rupees	Rupees
	Note		
Long term loans to employees	16.1	430,623	858,497
Security deposits		39,500	39,500
		<u>470,123</u>	<u>897,997</u>
Less: Current portion	12	(279,343)	(427,854)
		<u>190,780</u>	<u>470,143</u>

16.1 These loans are given to employees of the Modaraba for purchase of vehicles and carry profit at 5% (2018: 5%) per annum. Maximum aggregate balance due from employees at the end of any month during the year was Rs. 431,143 (2018: Rs. 759,043). As a security, vehicles are registered in the name of the Modaraba.

Note 17

Intangible Asset

		2019	2018
		Rupees	Rupees
Cost		1,131,300	1,131,300
Accumulated amortization		(1,131,300)	(1,131,300)
Net book value		<u>-</u>	<u>-</u>

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

Annual Report 2019

Note 18

Fixed Assets under Ijarah Arrangements

Description	Plant and Machinery	Vehicles	Total
-----Rupees-----			
<u>Year Ended June 30, 2019</u>			
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	<u>341,306,396</u>	<u>157,862,184</u>	<u>499,168,580</u>
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	<u>306,449,350</u>	<u>89,547,682</u>	<u>395,997,032</u>
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	<u>17,106,617</u>	<u>2,164,742</u>	<u>19,271,359</u>
Total as at June 30, 2019	<u><u>17,750,429</u></u>	<u><u>66,149,760</u></u>	<u><u>83,900,189</u></u>
<u>Year Ended June 30, 2018</u>			
Cost			
Balance as at July 01, 2017	409,943,673	454,424,819	864,368,492
Additions	-	-	-
Disposals	(64,845,477)	(193,234,385)	(258,079,862)
Balance as at June 30, 2018	<u>345,098,196</u>	<u>261,190,434</u>	<u>606,288,630</u>
Accumulated depreciation			
Balance as at July 01, 2017	326,352,152	283,702,432	610,054,584
Charge for the year	23,642,346	16,637,959	40,280,305
Disposals	(56,324,124)	(131,864,952)	(188,189,076)
Balance as at June 30, 2018	<u>293,670,374</u>	<u>168,475,439</u>	<u>462,145,813</u>
Accumulated Impairment Loss			
Balance as at July 01, 2017	4,705,513	2,164,742	6,870,255
Impairment charged	12,401,104	-	12,401,104
Balance as at June 30, 2018	<u>17,106,617</u>	<u>2,164,742</u>	<u>19,271,359</u>
Total as at June 30, 2018	<u><u>34,321,205</u></u>	<u><u>90,550,253</u></u>	<u><u>124,871,458</u></u>

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

The Modaraba has entered into various Ijarah agreements for periods ranging from 3 to 14 years (2018: 3 to 14 years). Security deposits ranging from 0% to 71% (2018: 0% to 71%) are obtained at the time of disbursement. The rate of profit implicit in ijarah ranges from 9.87% to 16.55% (2018: 9.76% to 11.97%) per annum.

18.2 Aggregate amount of future ijarah rentals receivable on the basis of ijarah arrangements executed upto the reporting date are as follows:

Future Ijarah Rental Receivables	2019	2018
	Rupees	Rupees
Not later than one year	18,327,543	14,325,771
Later than one year but not later than five years	5,351,332	122,541,459
Later than five years	-	-
	23,678,875	136,867,230

Note 19

Fixed Assets under Own Use

Description	Vehicle	Computers and accessories	Electrical Equipment	Total
-----Rupees-----				
Period 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	1,390,182	1,820,558	309,664	3,520,404
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	1,362,882	1,808,111	309,664	3,480,657
Total as at June 30, 2019	27,300	12,447	-	39,747
Year Ended June 30, 2018				
Cost				
Balance as at July 01, 2017	1,351,182	1,804,058	434,664	3,589,904
Additions	39,000	21,500	-	60,500
Disposals	-	-	-	-
Balance as at June 30, 2018	1,390,182	1,825,558	434,664	3,650,404
Accumulated depreciation				
Balance as at July 01, 2017	1,351,182	1,796,326	434,664	3,582,172
Charge for the year	7,800	12,820	-	20,620
Disposals	-	-	-	-
Balance as at June 30, 2018	1,358,982	1,809,146	434,664	3,602,792
Total as at June 30, 2018	31,200	16,412	-	47,612
Annual rate of depreciation	20 %	33.33 %	20 - 33.33 %	

19.1 These contain fully depreciated assets of Rs. 3,459,904 (2018: Rs. 3,589,904) that are still in use by the Modaraba.

Annual Report 2019

Note 20

Short Term Finance - Secured

	Note	2019 Rupees	2018 Rupees
From banking companies			
Running finance	20.1	<u>217,063,388</u>	<u>217,063,388</u>

20.1 The Modaraba has obtained running finance facility of Rs. 250 million (2018: Rs. 250 million) from the National Bank of Pakistan carrying mark-up / profit at 1 month KIBOR plus 0.50% (2018: 1 month KIBOR plus 1%) per annum payable monthly. The effective mark-up / profit rate charged during the year ranged from 8.03% to 13.79% (2018: 6.76% to 6.36%) 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 (2018: Rs 277.778 million).

Note 21

Creditors, Accrued and Other Liabilities

	2019 Rupees	2018 Rupees
Advances from customers	16,515,548	17,679,335
Accrued expenses	624,280	494,700
Withholding tax payable	-	5,000
Unclaimed profit distribution	425,218	425,218
Charity payable	363,893	427,747
	<u>17,928,939</u>	<u>19,032,000</u>

Note 22

Current Portion of Non-Current Liabilities

	Note	2019 Rupees	2018 Rupees
Security deposits against ijarah assets	23	82,502,496	103,934,253
Deferred murabaha income	24	52,919	119,119
		<u>82,555,415</u>	<u>104,053,372</u>

Note 23

Security Deposits against Ijarah Assets

	Note	2019 Rupees	2018 Rupees
Security deposits against ijarah assets		83,392,496	106,736,453
Less: Current portion	22	(82,502,496)	(103,934,253)
		<u>890,000</u>	<u>2,802,200</u>

Note 24

Deferred Murabaha Income

	Note	2019 Rupees	2018 Rupees
Long term deferred murabaha income	15	31,675,826	31,913,554
Suspended income		(29,388,304)	(29,388,304)
Net of suspension		2,287,522	2,525,250
Less: Current portion	22	(52,919)	(119,119)
		<u>2,234,603</u>	<u>2,406,131</u>

First National Bank Modaraba

Note 25

Certificate Capital

	2019	2018	2019	2018
	Number of certificates		Rupees	
Authorized:				
	<u>60,000,000</u>	<u>60,000,000</u>	<u>600,000,000</u>	<u>600,000,000</u>
	Modaraba certificates of Rupees 10 each			
Issued, subscribed and paid-up certificate capital				
	<u>25,000,000</u>	<u>25,000,000</u>	<u>250,000,000</u>	<u>250,000,000</u>
	Modaraba certificates of Rupees 10 each			

25.1 7,500,000 (2018: 7,500,000) certificates of the Modaraba are held by National Bank Modaraba Management Company Limited, the modaraba management company.

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

Note 26

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, upto 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 (2018: Rs. Nil) is transferred in the statutory reserves.

Note 27

Contingencies and Commitments

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

27.2 Assistant Commissioner Inland Revenue (Appeals) raised demand of tax payables of Rs. 127.362 million for tax year 2014. Appeal was filed before the Commissioner Appeals Inland Revenue and the demand was deleted and case is referred back to Assistant Commissioner.

Note 28

Other Income

	2019	2018
	Rupees	
Service charges	32,034	71,429
Documentation charges	7,000	8,500
	<u>39,034</u>	<u>79,929</u>

Note 29

Operating Expenses

		2019	2018
	Note	Rupees	
Salaries, allowances and other benefits	29.1	10,863,803	11,291,000
Legal and professional		1,700,019	1,035,736
Fees and subscription		486,500	987,867
Stationery and printing		456,002	349,790
Auditors' remuneration	29.2	375,000	350,000
Communication		253,376	233,515
Repairs and maintenance		279,992	400,862
Entertainment		158,644	275,456
Vehicles' running expenses		186,741	128,362
Advertisement		126,400	138,641
Postage and stamps		43,463	34,193
Insurance		99,409	101,186
Travelling and conveyance		2,510	50,577
Depreciation on fixed assets - own use	19	7,865	20,620
Other sundry expenses		97,470	153,291
		<u>15,137,194</u>	<u>15,551,096</u>

Annual Report 2019

Note 29, 'Operating Expenses - Continued...

29.1 Salaries, allowances and other benefits

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

	2019			2018		
	Officers	Employees	Total	Officers	Employees	Total
-----Rupees-----						
Salary	2,722,800	2,244,460	4,967,260	2,816,976	2,466,744	5,283,720
House rent	1,361,400	832,694	2,194,094	1,408,500	957,199	2,365,699
Utilities	326,736	200,457	527,193	338,052	229,734	567,786
Bonus	578,595	369,415	948,010	570,675	435,567	1,006,242
Others	933,428	1,293,818	2,227,246	902,355	1,165,198	2,067,553
	<u>5,922,959</u>	<u>4,940,844</u>	<u>10,863,803</u>	<u>6,036,558</u>	<u>5,254,442</u>	<u>11,291,000</u>
Number of persons	<u>4</u>	<u>8</u>	<u>12</u>	<u>4</u>	<u>9</u>	<u>13</u>

29.1.1 Average number of employees during the year was 12 (2018: 13). All employees are on contract.

29.1.2 All employees are entitled for reimbursement of fuel expenses upto certain limits

29.2 Auditors' remuneration	2019	2018
	Rupees	Rupees
Audit fee	253,200	253,200
Half yearly review fee	96,800	96,800
Certifications	25,000	-
	<u>375,000</u>	<u>350,000</u>

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

Note 30

Finance Cost

	2019	2018
	Rupees	Rupees
Short term finances	22,397,957	13,464,322
Long term finances	-	2,473,735
Bank and other charges	27,060	48,493
	<u>22,425,017</u>	<u>15,986,550</u>

Note 31

Provision for Doubtful Receivables

	Note	2019	2018
		Rupees	Rupees
Opening balance		363,462,530	369,580,038
Add: Charged during the year	31.1	5,619,044	3,438,301
Add: Reclassified from suspended profit on ijarah		-	1,938,209
Less: Reversed during the year		(4,000,003)	(11,494,018)
Net provision charged during the year		1,619,041	(6,117,508)
Closing balance	31.2	<u>365,081,571</u>	<u>363,462,530</u>

Note 31, Provision for Doubtful Receivables - Continued...

31.1 This includes provision of Rs. Nil (2018: Rs. 5.376 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:

	Note	2019	2018
		Rupees	Rupees
31.1.1 Provision for doubtful ijarah rentals receivable	10.1	3,704,207	-
Provision charged on other receivables	11.2	402,371	5,376,510
Provision for doubtful net investment in ijarah finance	13.2	1,512,466	-
		<u>5,619,044</u>	<u>5,376,510</u>
31.2 Break up of closing balance			
Provision against doubtful murabaha investments	7.2 & 15.2	292,764,538	296,764,541
Provision for doubtful ijarah rental receivables	10.1	29,007,645	25,303,438
Provision against doubtful other receivables	11.2	30,083,188	29,680,817
Provision for doubtful net investment in ijarah finance	13.2	13,226,200	11,713,734
		<u>365,081,571</u>	<u>363,462,530</u>

Note 32

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 33

Taxation

33.1 No provision for current tax is recognized as the Modaraba has brought forward tax losses of Rs. 320.094 million (2018: Rs 250.987 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.

33.2 Deferred tax Liability / (Asset)	Note	2019	2018
		Rupees	Rupees
Taxable / (Deductible) temporary differences on:			
Deferred tax asset has originated relating to the following:			
Accelerated tax depreciation		(45,760,527)	(46,095,831)
Carry forward tax losses		(79,792,104)	(44,324,533)
Revaluation surplus on sukuks		1,365,442	-
		<u>(124,187,189)</u>	<u>(90,420,364)</u>
Less: Deferred tax asset not recognized	33.2.1	124,187,189	90,420,364
		<u>-</u>	<u>-</u>

33.2.1 The deferred tax asset of Rs. 124.187 million (2018: Rs. 90.420 million) has not been recognized in these financial statements as the temporary differences are not expected to reverse in foreseeable future because taxable profits may not be available against which the temporary differences can be utilized.

Annual Report 2019

Note 34

Loss Per Certificate - Basic and Diluted

		2019	2018
		Rupees	Rupees
Loss attributable to ordinary certificates holders	Rupees	<u>(35,716,364)</u>	<u>(8,188,588)</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>(1.43)</u>	<u>(0.33)</u>

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

34.2 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 35

Cash Generated from Operations

	2019	2018
	Rupees	Rupees (Restated)
Net loss for the Year	(35,716,364)	(8,188,588)
Adjustment for:		
- Depreciation on fixed assets under own use	7,865	20,620
- Depreciation on fixed assets under ijarah arrangements	14,795,254	40,280,305
- Impairment on fixed assets under ijarah arrangements	-	12,401,104
- Profit on termination of ijarah arrangements	(679,410)	(936,127)
- Gain on sale of fixed assets under owned use	(30,000)	-
- Profit on short term investments	(6,369,850)	(1,923,820)
- Charge of provision against doubtful ijarah rentals receivable - net	3,704,207	4,939,949
- Charge of suspense income against ijarah rentals receivable - net	-	1,407,080
- Provision against doubtful other receivables - net	402,371	436,561
- Charge of provision against net investment in ijarah finance - net	1,512,466	(11,193,118)
- (Reversal) / charge of provision long term murabaha investments - net	(4,000,003)	(300,900)
- Finance cost	22,425,017	15,986,550
- Profit on term deposit receipts and bank deposits	(920,506)	(944,994)
	<u>30,847,411</u>	<u>60,173,210</u>
Operating (loss) / profit before working capital changes	(4,868,953)	51,984,622
Decrease / (Increase) in operating assets:		
- Accrued profit	5,275,806	1,716,656
- Ijarah rentals receivable	1,034,053	(10,659,698)
- Advances, prepayments and other receivables	(565,417)	(311,471)
- Short term murabaha investments	169,779	2,908,841
- Net investment in ijarah finance	-	1,962,596
- Diminishing musharaka financing	8,663,558	14,201,858
- Long term murabaha investments	5,759,650	1,981,421
Increase / (Decrease) in operating liabilities:		
- Creditors, accrued and other liabilities	(1,103,061)	(8,220,993)
Net changes in working capital	<u>19,234,368</u>	<u>3,579,210</u>
Cash Generated from Operations	<u>14,365,415</u>	<u>55,563,832</u>

35.1 Liabilities Arising from Financing Activities

	As at June 30, 2018	Non-cash changes	Cash flows (Net)	As at June 30, 2019
			Rupees	
Short term borrowings	217,063,388	-	-	217,063,388

Note 36

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.

36.1 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	2019	2018
	Rupees	Rupees
Bank balances	11,329,223	51,634,248
Ijarah rentals receivable	69,521,441	74,259,701
Advances, prepayments and other receivables	639,678	1,212,829
Accrued profit	2,192,041	595,657
Murabaha investments - net of provision	27,226,085	29,393,239
Net investment in ijarah finance	15,718,248	17,230,714
Diminishing musharaka financing	13,730,858	22,394,416
Short term investments	74,518,664	30,895,000
Long term loans and deposits	470,123	897,997
	<u>215,346,361</u>	<u>228,513,801</u>

36.1.1 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			2019	2018
	Short term	Long term	Agency	Rupees	Rupees
National Bank of Pakistan	A1+	AAA	PACRA	343,256	384,760
Al Baraka Bank (Pakistan)	A1	A	PACRA	20,034	14,914
Bank Alfalah	A1+	AA+	PACRA	354,300	709,206
First Women Bank	A2	A-	PACRA	4,725	4,725
Habib Bank Limited	A1+	AAA	JCR-VIS	10,941	11,011
Bank Islami Pakistan	A1	A+	PACRA	10,595,967	50,509,632
				<u>11,329,223</u>	<u>51,634,248</u>

36.1.2 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.

Annual Report 2019

Note 36, Financial Risk Management - Continued...

36.1.3 Age analysis of profit accrued on murabaha investments

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	-
Total	17,948,374	-	17,948,374	17,948,374	-

Past due	June 30, 2018				
	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	2,400,000	-	2,400,000	2,400,000	-
1 day - 89 days	2,476,929	-	2,476,929	2,476,929	-
90 days - 179 days	425,818	-	425,818	425,818	-
180 days - 364 days	3,549,131	-	3,549,131	3,549,131	-
1 year - less than 2 year	985,773	-	985,773	985,773	-
2 year - less than 3 year	1,112,980	-	1,112,980	1,112,980	-
3 year or more	6,997,743	-	6,997,743	6,997,743	-
Total	17,948,374	-	17,948,374	17,948,374	-

36.1.4 Age analysis of murabaha investments

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 or more	310,615,234	-	310,615,234	296,764,538	13,850,696
Total	317,703,101	7,087,867	310,615,234	296,764,538	20,938,563

Past due	June 30, 2018				
	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	10,559,988	10,559,988	-	-	10,559,988
1 day - 179 days	-	-	-	-	-
180 days - 364 days	-	-	-	-	-
1 year - less than 2 year	-	-	-	-	-
2 year - less than 3 year	36,947,483	-	36,947,483	36,947,483	-
3 year and above	276,124,486	-	276,124,486	259,817,058	16,307,428
Total	323,631,957	10,559,988	313,071,969	296,764,541	26,867,416

First National Bank Modaraba

Note 36, Financial Risk Management - Continued...

36.1.5 Age analysis of ijarah rentals receivable

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	-	-	-	-	-
1 day -89 days	8,942,043	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	60,579,398
Total	121,247,624	8,942,043	112,305,581	51,726,183	69,521,441

Past due	June 30, 2018				
	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	421,702	421,702	-	-	421,702
1 day -89 days	12,892,197	12,892,197	-	-	12,892,197
90 days -179 days	325,290	325,290	-	-	325,290
180 days - 364 days	-	-	-	-	-
1 year - less than 2 year	-	-	-	-	-
2 year - less than 3 years	102,401	-	102,401	3,463	98,938
3 year or more	108,540,087	-	108,540,087	48,018,513	60,521,574
Total	122,281,677	13,639,189	108,642,488	48,021,976	74,259,701

36.1.6 Age analysis of diminishing musharaka financing

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 or more	-	-	-	-	-
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
Total	13,730,858	9,393,224	4,337,634	-	13,730,858

Annual Report 2019

Note 36, Financial Risk Management - Continued...

Past due	June 30, 2018				
	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	7,660,288	7,660,288	-	-	7,660,288
1 day-179 days	10,396,494	10,396,494	-	-	10,396,494
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	4,337,634	-	4,337,634	-	4,337,634
3 year or more	-	-	-	-	-
Total	22,394,416	18,056,782	4,337,634	-	22,394,416

36.1.7 Age analysis of profit accrued on diminishing musharaka financing

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	843,095	-
Total	1,401,480	558,385	843,095	843,095	558,385

Past due	June 30, 2018				
	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	561,471	561,471	-	-	561,471
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	843,095	-	843,095	843,095	-
3 year or more	-	-	-	-	-
Total	1,404,566	561,471	843,095	843,095	561,471

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.

First National Bank Modaraba

Note 36, Financial Risk Management - Continued...

36.1.8 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, 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	12.90%
Less: Portfolio provided	(51,726,183)	(13,226,200)	(292,764,538)	-	(357,716,921)	-172.14%
Total	153,423,020	15,718,248	24,938,563	13,730,858	207,810,689	100%

June 30, 2018						
Ijarah receivables and assets	Net Investment in Ijarah finance	Murabaha investments	Diminishing musharaka	Total	% age	
-----Rupees-----						
Transport and communications	14,047,543	-	-	1,957,189	16,004,732	6.0%
Education	1,705,455	-	-	-	1,705,455	0.6%
Power	1,418,228	-	15,000,000	-	16,418,228	6.2%
Textiles	52,426,371	28,944,448	266,713,000	322,974	348,406,793	131.2%
Engineering	1,765,419	-	-	4,762,236	6,527,655	2.5%
Food	86,907,145	-	18,059,988	-	104,967,133	39.5%
Individuals	43,338,248	-	-	3,878,099	47,216,347	17.8%
Financial institutions	16,146,997	-	-	-	16,146,997	6.1%
Manufacturing industries	3,305,219	-	23,859,542	-	27,164,761	10.2%
Miscellaneous	26,092,510	-	-	11,473,918	37,566,428	14.1%
Less: Portfolio provided	(48,021,976)	(11,713,734)	(296,764,541)	-	(356,500,251)	-134.2%
Total	199,131,159	17,230,714	26,867,989	22,394,416	265,624,278	100%

36.2 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:

Annual Report 2019

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-----						
Non-derivative financial liabilities						
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	988,173	988,173	988,173	-	-	-
Total	222,557,440	222,557,440	222,557,440	-	-	-

June 30, 2018						
Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years	
-----Rupees-----						
Non-derivative financial liabilities						
Accrued profit	2,564,748	2,564,748	2,564,748	-	-	-
Short term finances	217,063,388	217,063,388	217,063,388	-	-	-
Creditors, accrued and other liabilities	922,447	922,447	922,447	-	-	-
Total	220,550,583	220,550,583	220,550,583	-	-	-

Note 36, Financial Risk Management - Continued...

36.3.3 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.

36.4 Financial instruments by categories

	At fair value through profit or loss	At amortized cost	At fair value through other comprehensive income	Total
	Rupees	Rupees	Rupees	Rupees
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 assets as at June 30, 2018				
Cash and bank balances	-	51,653,789	-	51,653,789
Ijarah rentals receivable	-	74,259,701	-	74,259,701
Accrued profit	-	595,657	-	595,657
Short term investments	-	-	30,895,000	30,895,000
Murabaha investments	-	29,393,239	-	29,393,239
Net investment in ijarah finance	-	17,230,714	-	17,230,714
Diminishing musharaka financing	-	22,394,416	-	22,394,416
Advances, prepayments and other receivables	-	1,212,829	-	1,212,829
Long term loans and deposits	-	858,497	-	858,497
	-	197,598,842	30,895,000	228,493,842
Financial liabilities at amortized cost				
		2019	2018	
		Rupees	Rupees	
Accrued profit payable		4,505,879	2,564,748	
Short term finances		217,063,388	217,063,388	
Creditors, accrued and other liabilities		988,173	922,447	
		222,557,440	220,550,583	

Annual Report 2019

	2019	2018
	Rupees	Rupees
Fixed rate instruments		
Financial assets		
Loans to employees	430,623	858,497
Floating rate instruments		
Financial assets		
Murabaha investments	27,226,085	29,393,239
Ijarah rentals receivable	69,521,441	74,259,701
Bank balances	11,329,223	51,653,789
Diminishing musharaka financing	13,730,858	22,394,416
Net investment in ijarah finance	15,718,248	17,230,714
Short term investments	74,518,664	30,895,000
Financial liabilities		
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 2018. Following will be impact on the profit and loss account and the equity of the Modaraba:

	June 30, 2019		June 30, 2018	
	100 bps		100 bps	
	Increase	Decrease	Increase	Decrease
	Rupees	Rupees	Rupees	Rupees
Floating rate financial assets	2,120,445	(2,120,445)	2,258,269	(2,258,269)
Floating rate financial liabilities	(2,170,634)	2,170,634	(2,170,634)	2,170,634
Net effect	<u>(50,189)</u>	<u>50,189</u>	<u>87,635</u>	<u>(87,635)</u>

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.

First National Bank Modaraba

Note 36, Financial Risk Management - Continued...

36.2.1 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).

36.3 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.

36.3.1 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.

36.3.2 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:

Note 36, Financial Risk Management - Continued...

36.3.3 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.

36.4 Financial instruments by categories

	At fair value through profit or loss	At amortized cost	At fair value through other comprehensive income	Total
	Rupees	Rupees	Rupees	Rupees
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

Annual Report 2019

	At fair value through profit or loss	At amortized cost	At fair value through other comprehensive income	Total
	Rupees	Rupees	Rupees	Rupees
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 assets as at June 30, 2018

Cash and bank balances	-	51,653,789	-	51,653,789
Ijarah rentals receivable	-	74,259,701	-	74,259,701
Accrued profit	-	595,657	-	595,657
Short term investments	-	-	30,895,000	30,895,000
Murabaha investments	-	29,393,239	-	29,393,239
Net investment in ijarah finance	-	17,230,714	-	17,230,714
Diminishing musharaka financing	-	22,394,416	-	22,394,416
Advances, prepayments and other receivables	-	1,212,829	-	1,212,829
Long term loans and deposits	-	858,497	-	858,497
	-	197,598,842	30,895,000	228,493,842

Financial liabilities at amortized cost

	2019	2018
	Rupees	Rupees
Accrued profit payable	4,505,879	2,564,748
Short term finances	217,063,388	217,063,388
Creditors, accrued and other liabilities	988,173	922,447
	222,557,440	220,550,583

Note 37

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. Judgements 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 38

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:

		2019 Rupees	2018 Rupees
38.1	Balances outstanding at the reporting date		
	Bank accounts with National Bank of Pakistan	341,188	384,760
	Finances from National Bank of Pakistan	217,063,388	217,063,388
	Mark up payable	4,505,879	2,564,748
38.2	Transactions during the year		
	Related party	Relationship	Nature of Transaction
	National Bank of Pakistan	Modaraba	Long term finance repaid
		Management	Short term finance obtained - net
		Company's	Ijarah rentals received
		holding company	Mark up expense
			Mark up paid
		-	50,000,002
		-	15,428,634
		-	12,587,931
		22,397,957	15,938,057
		20,483,886	15,515,847

Note 39

Segment Information

39.1 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 has been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

39.2 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.

39.3 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, 2019, there was only one (June 30, 2018: 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, 2018: 30%).

Note 40

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 26, 2019.

Note 41

General

Comparative figures are re-arranged, wherever necessary, to facilitate comparison. The following re-arrangements have been made in these financial statements for better presentation:

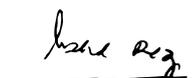
Nature	From	To	Amount (Rupees)
Accrued profit	Advances, prepayments and other receivables	Profit receivable on sukus	502,340
Profit and loss account	Reversal of provision charged for doubtful receivables - net	Provision charged for doubtful receivables - net	3,438,301



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 26, 2019

PATTERN OF CERTIFICATE HOLDING
AS ON JUNE 30, 2019

Number of ShareHolders	Shareholdings From	To	Total Number of Share Held	Percentage of Total Capital
77	1 -	100	2,719	0.01
344	101 -	500	165,514	0.66
204	501 -	1000	190,285	0.76
199	1001 -	5000	564,358	2.26
88	5001 -	10000	708,591	2.83
28	10001 -	15000	373,209	1.49
22	15001 -	20000	406,292	1.63
23	20001 -	25000	529,492	2.12
17	25001 -	30000	489,877	1.96
5	30001 -	35000	156,575	0.63
9	35001 -	40000	351,500	1.41
4	40001 -	45000	173,965	0.70
4	45001 -	50000	195,990	0.78
2	50001 -	55000	108,772	0.44
2	60001 -	65000	123,000	0.49
1	65001 -	70000	66,500	0.27
3	75001 -	80000	233,495	0.93
8	95001 -	100000	797,000	3.19
1	115001 -	120000	115,500	0.46
1	130001 -	135000	132,500	0.53
1	150001 -	155000	153,000	0.61
2	155001 -	160000	315,300	1.26
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
3	295001 -	300000	896,600	3.59
2	405001 -	410000	818,500	3.27
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
1,065			25,000,000	100.00

**CATEGORIES OF CERTIFICATE HOLDERS
AS ON JUNE 30, 2019**

Ser #	Code	Category	No. of Shareholder	Shares Held	Percentage of Total Capital
1	1	Individuals	1,053	16,620,001	66.4800
2	4	Joint Stock Companies	8	256,101	1.0244
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
TOTAL:			1,065	25,000,000	100.0000

CATEGORIES DETAILS AS ON JUNE 30, 2019

Category	Numbers of Certificates
Individuals	16,620,001
Joint Stock Companies	
1 MAPLE LEAF CAPITAL LIMITED	1
2 MUHAMMAD AHMED NADEEM SECURITIES (SMC-PVT) LIMITED	100
3 FIKREES (PRIVATE) LIMITED	500
4 AMZ SECURITIES (PVT) 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
8 SALIM SOZER SECURITIES (PVT.) LTD.	200,000
	256,101
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

www.jamapunji.pk



**Be aware, Be alert,
Be safe**
Learn about investing at
www.jamapunji.pk

Key features:

- 📄 Licensed Entities Verification
- 🔍 Scam meter*
- 🎮 Jamapunji games*
- 📊 Tax credit calculator*
- 🏢 Company Verification
- 📋 Insurance & Investment Checklist
- 🗣️ FAQs Answered
- 📈 Stock trading simulator (based on live feed from KSE)
- 📖 Knowledge center
- 📊 Risk profiler*
- 📊 Financial calculator
- 📧 Subscription to Alerts (event notifications, corporate and regulatory actions)
- 📱 Jamapunji application for mobile device
- 📝 Online Quizzes



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

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

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