

ANNUAL REPORT | 2018



FIRST NATIONAL BANK MODARABA
MANAGED BY:
NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED
(A wholly owned subsidiary of National Bank of Pakistan)

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CORPORATE INFORMATION

Board of Directors	Mr. Muhammad Imran Malik* 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/ Secretary	Mr. Ali Abbass Company	
Audit Committee	Mr Jamal Nasim Khawaja Waheed Raza	Chairman Member
HR & Remuneration Committee	Khawaja Waheed Raza Mr. Muhammad Iqbal Hussain	Chairman 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 First Women Bank Limited Bank Islami Pakistan Limited United Bank 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 E-mail: info@nbmodaraba.com	

*Just before the year end Mr. Aamir Amin has resigned from the Directorship. Mr. Muhammad Imran Malik was nominated by NBP as new Director, subject to the approval of the Registrar. Approval of Registrar in this regard was subsequently received.

NOTICE OF 15TH ANNUAL REVIEW MEETING & BOOK CLOSURE

Notice is hereby given that the 15th Annual Review Meeting of certificate holders of First National Bank Modaraba will be held on Monday, October 29, 2018 at 11:00 a.m. at 4th Floor, NBP RHQs Building, 26 – McLagon Road, Lahore to review the performance of the Modaraba for the year ended June 30, 2018.

The Certificate Transfer Book will remain closed from October 23, 2018 to October 29, 2018 (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 22, 2018 will be eligible to attend the Annual Review Meeting. All transfers received in order, up to the close of business on October 22, 2018 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



Ali Abbass

Company Secretary

National Bank Modaraba Management Company Limited

Managers of First National Bank Modaraba

Lahore: October 02, 2018

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

I have conducted 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, 2018 in accordance with the requirements of the Shari'ah Compliance and Shari'ah Audit Mechanism for Modarabas and report that except the observations as reported hereunder, in my opinion:

- i. The Modaraba has introduced 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 financing agreement(s) entered into by the Modaraba are Shari'ah compliant and the financing agreement(s) have been executed on the formats as approved by the Religious Board 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. The earnings that have been realized from the sources or by means prohibited by Shari'ah have been credited to charity accounts.

Observation(s)

During my review, it has been observed that:

- i. FNBM is maintaining bank accounts with conventional Bank.
- ii. Financing from conventional Bank(s) have been secured.
- iii. No training was conducted for the staff

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 that all credit lines with conventional banks were instructed to be replaced 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.

Signature


Mufti Ehsan Waquar
Shari'ah Advisor
Dated: September 18, 2018

DIRECTORS' REPORT

Board of Directors of National Bank Modaraba Management Company Limited (NBMCL), the management Company of First National Bank Modaraba (FNBM), is pleased to present the directors report on the 15th annual accounts of FNBM for the period ended June 30, 2018. These accounts have been audited by the statutory auditors of the Modaraba and are accompanied by their audit report.

Financial Results:

(Amounts in Rupees)

	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	Year Ended June 30, 2013
Balance Sheet Size	356,066,321	508,478,472	841,306,270	1,248,349,011	1,692,658,474	2,003,442,328
Total Equity	8,154,162	16,333,070	87,692,752	141,525,254	263,701,324	297,913,401
Total Operating & Other Income	85,367,807	179,801,462	314,368,924	451,401,503	558,123,884	567,094,855
Operating & Financial Exp.	86,075,547	163,231,481	302,048,194	460,444,217	592,335,961	583,957,399
Loss for the period	(8,178,908)	(71,359,682)	(53,832,502)	(122,176,070)	(34,212,077)	(16,862,544)
Modaraba Co.'s Management Fee	Nil	Nil	Nil	Nil	Nil	Nil
Net profit after tax	(8,178,908)	(71,359,682)	(53,832,502)	(122,176,070)	(34,212,077)	(16,862,544)
Earning per certificate (Rs.)	(0.33)	(2.85)	(2.15)	(4.89)	(1.37)	(0.67)
Return on Assets (%)	(2.30)	(13.9)	(6.39)	(9.76)	(2.01)	(0.83)
Return on Equity (%)	(101)	(436.9)	(61.52)	(87.14)	(12.92)	(5.65)
Dividend Paid (%)	Nil	Nil	Nil	Nil	Nil	Nil
Breakup value per certificate (Rs.)	.33	0.64	3.52	5.64	10.52	11.88

Sector Outlook:

The economy during 2017-2018 was marked with decreasing exports and increasing current account deficit that has reached its record low levels. Perhaps it was the consequence of heavy imports of capital goods for large infrastructural projects being undertaken particularly under the CPEC. Moreover the business activity in general did not pick up as it was the election year leading up to the general elections of July 2018. The investors, expecting a change of regime, have preferred to sit on the fence and wait for the stability in Govt.'s economic policies to come about. The stock market accordingly remained range bound. The energy shortages were although reduced considerably, however its cost did not appear to have suited many industrial setups. By the end of the year the rising instability in the foreign exchange rates amid the upcoming installments of Country's foreign debt, further aggravated

the uncertainty lurking in the economy. The situation is expected to stabilize once the new Govt. comes up with its definitive economic reform policies.

Financial sector, including the Modaraba sector, remained more or less steady, and under the prevailing economic conditions any notable recoveries from NPLs did not materialize. The sustainable performance of the sector would, however, depend on the growth of overall economy and rehabilitation of those industrial units where most of the sector's investments have been stuck up. Islamic financing is evolving continuously and gaining more and more ground each year. Hence financial Modarabas can also prosper by developing their own niche markets through innovation, technology and product development.

Going Concern Assumption

The Board, as a policy, ensured that the charge of provisioning on non-performing portfolio is in line with existing regulations. The deterioration of the quality of assets, comprising mainly of exposures in the textile sector booked long ago, attracted substantial provisions. In order to keep provisions at the stipulated level the Modaraba has therefore been incurring losses for last six years.

Due to losses, the Board of Directors of the parent bank, National Bank of Pakistan (NBP) on 21 April 2017 authorized the Management Company to explore various appropriate options for the cessation of the operations of the Modaraba and management company. The Board of the company presented an evaluation in this respect and based on which NBP Board in June 22, 2018 revised and reversed its earlier decision, and resolved that FNBM should be recapitalized with Rs.300 million at Rs.10 per certificate to enhance its paid up capital. For this an application is being filed with SECP seeking its approval for issuance of 30 million certificates at par, other than right issue, directly to NBP.

These financial statements have been prepared on going concern basis of accounting. Last year they were prepared on non-going concern basis. This year external auditors have only included an "emphasis of matter paragraph" in their audit report on going concern ability of FNBM on the basis of difference in current assets and liabilities, the mitigating factors are 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. Some cash settlements with defaulter parties were also made. The regular portfolio performed well and generated income consistently.

The balance sheet size shrunk from Rs.508 million in the corresponding year to Rs.356 million this year. The Income from credit portfolio as well as the finance cost declined proportionately. Despite general inflation the operating expenses were kept under control and remained around Rs.15 Million which is almost same as last year. However the operating profit when coupled with a net charge of further provisioning / impairment amounting on account of reduction in the impact of FSVs of collaterals held against some old classified accounts, resulted in a net loss of Rs.8.1 million The loss per certificate accordingly remained at Rs.0.33 as against Rs.2.85 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.0.4 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 October, 02 2018 did not declare any dividends due to the aforementioned reasons.

Future Outlook:

Following the injection of fresh equity and improving on the past experience, 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 in few years.

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.
- Board is of the view that Modaraba will be able to continue as going concern.
- 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, 2018 except those disclosed in the financial statements.
- During the year ended June 30, 2018 six (06), meetings of the Board of Directors were held. Besides (04) four Audit committee and One (01) HR Committee meetings were also held. Attendance by each directors is as follows:

Name	No. of Attendance		
	Board	Audit Committee	HR Committee
i. Rehmat Ali Hasnie	5	N/A	N/A
ii. Syed Jamal Baquar	1	N/A	N/A
iii. Syed Hasan Irtiza Kazmi	1	N/A	N/A
iv. Khawaja Waheed Raza	6	4	1
v. Mr. Jamal Nasim	6	4	N/A
vi. Mr. Muhammad Iqbal Hussain	6	N/A	1
vii. Mr. Aamir Amin	6	4	1
viii. Mr. Abbas Azam	6	N/A	N/A

Mr. Aamir Amin resigned just before the year end. creating casual vacancy in the Audit and HR committee's of the board, which would accordingly be filled.

Mr. Muhammad Imran Malik was appointed as NBP's nominee director just before the year end, while approval of the appointment from SECP came after the year end. Leave of absence was granted to directors who could not attend some of the Board meetings. 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 retiring auditors M/s. Horwath Hussain Chaudhry & Co Chartered Accountants, who replaced M/s Riaz Ahmed & Co Chartered Accountants during the year upon approval of SECP, have given their consent to act as auditors for the year ending June 30, 2019. 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 certificate holders their patronage and support, the Securities and Exchange Commission of Pakistan, Pakistan Stock Exchange, and NBF & Modaraba Association of Pakistan for their continued support and guidance.

For and on Behalf of the Board



Chief Executive Officer

ڈائریکٹرز رپورٹ

بورڈ آف ڈائریکٹرز نیشنل بینک مزارہہ منجمنٹ کمپنی لمیٹیڈ (NBMMCL) ’منتظم‘ فرسٹ نیشنل بینک مزارہہ کی جون 2018ء کو ختمہ سال کے لئے فرسٹ نیشنل بینک مزارہہ کی 15 ویں سالانہ مالیاتی رپورٹ پیش کرتے ہوئے خوشی محسوس کر رہے ہیں، یہ مالیاتی نتائج فرسٹ نیشنل بینک مزارہہ کے قانونی محاسب کی رپورٹ کے ساتھ پیش کئے گئے ہیں۔

مالی نتائج

(Amounts in Rupees)

30 جون 2018ء کو اختتام پذیر سال	30 جون 2017ء کو اختتام پذیر سال	30 جون 2016ء کو اختتام پذیر سال	30 جون 2015ء کو اختتام پذیر سال	30 جون 2014ء کو اختتام پذیر سال	30 جون 2013ء کو اختتام پذیر سال
356,066,321	508,478,472	841,306,270	1,248,349,011	1,692,658,474	2,003,442,328
8,154,162	16,333,070	87,692,752	141,525,254	263,701,324	297,913,401
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(8,178,908)	(71,359,682)	(53,832,502)	(122,176,070)	(34,212,077)	(16,862,544)
Nil	Nil	Nil	Nil	Nil	Nil
(8,178,908)	(71,359,682)	(53,832,502)	(122,176,070)	(34,212,077)	(16,862,544)
(0.33)	(2.85)	(2.15)	(4.89)	(1.37)	(0.67)
(2.30)	(13.9)	(6.39)	(9.76)	(2.01)	(0.83)
(101)	(436.9)	(61.52)	(87.14)	(12.92)	(5.65)
Nil	Nil	Nil	Nil	Nil	Nil
.33	0.64	3.52	5.64	10.52	11.88

سیکٹر کا جائزہ

سال 2017-2018 میں معیشت میں ایکسپورٹ کی کمی ہوئی جبکہ کرنٹ اکاؤنٹ خسارہ ریکارڈ لیول تک پہنچ گیا جس کی وجہ CPEC کے لیے بنائے جانے والے بڑے بنیادی ڈھانچے کے منصوبوں کے لیے کمپنیل گڈز کی بھاری امپورٹ ہو سکتی ہے اس کے علاوہ عمومی کاروباری سرگرمی میں بھی ایکشن کا سال ہونے کی وجہ سے کچھ زیادہ بہتری نہ آسکی سرمایہ کار نے حکومت میں تبدیلی کی توقع رکھتے ہوئے حکومت کی پالیسی استحکام کا انتظار کرنے کو بہتر سمجھا، اور اسٹاک مارکیٹ ایک ریجن میں محدود رہی تو انائی کی کمی اگرچہ بہت کم ہوئی مگر اس کی لاگت صنعت کے لیے بہت مناسب نہ تھی سال کے آخر میں غیر ملکی کرنسی کی شرح کا عدم استحکام اور آنے والی غیر ملکی قرضہ کی قسط نے مجموعی طور پر غیر یقینی اور بچھنی کو فروغ دیا۔ نئی حکومت کی طرف سے مستحکم اقتصادی اصلاحات کے نفاذ کے بعد صورتحال میں بہتری کی توقع ہے مالیاتی شعبے بشمول مزارہہ سیکٹر تقریباً مستحکم رہا۔ سیکٹر میں پائیدار کارکردگی مجموعی طور پر معیشت کی ترقی اور صنعتی بحالی سے منسلک ہے جس میں زیادہ تر سرمایہ کاری پھنسی ہوئی ہے۔ اسلامک فائینانسنگ مشتمل اور مسلسل ترقی کر رہی ہے گونگ کنسرن قابلیت:

بورڈ نے یقینی بنایا کہ غیر فعال پورٹ فولیو پر پرویزن تو انینو و ضوابط کے مطابق رہیں۔ کافی عرصہ پہلے دیے گئے اثاثوں کی معیار میں کمی نے پرویزن اٹریکٹ کی۔ پرویزن کو اس لیول پر رکھنے کی وجہ سے مزارہہ کا نقصان بڑھ رہا ہے۔ نقصانات کو مد نظر رکھتے ہوئے پیرنٹ بینک کے بورڈ آف ڈائریکٹرز نے نیشنل بینک آف پاکستان نے 21 اپریل 2017 کو منجمنٹ کمپنی کو مزارہہ کے اپریسن سے علیحدگی کے لیے مناسب طریقہ ڈھنڈے کا اختیار دیا کہ NBMMCL کے بورڈ نے 22 اس سے متعلق شخصی پیش کی جس کی بنیاد

پرنBP کے بورڈ نے جون 2018 کو اپنے پہلے فیصلے پرنظر ثانی کرتے ہوئے تبدیل کردیا اور FNBM کو 3 کروڑ سے ری کھپلا لائیز کرنے کا فیصلہ کیا۔ اس کے لیے SECP کو 3 کروڑ روپے کے سرٹیفکیٹ جاری کرنے کی منظوری دینے کی درخواست ڈارٹیکلی FNBM کو دی جارہی ہے۔ یہ مالی تفصیلات گونگ کنسرن کی بنیاد پر بنائی گئی ہیں۔ پچھلے سال بینان گونگ کنسرن کی بنیاد پر بنائی گئی تھی۔ اس سال آڈیٹر نے اپنی آڈٹ رپورٹ میں FNBM کے موجودہ اثاثہ جات اور قرضوں کے فرق کی بنیاد پر صرف "ایفٹسٹ آف میٹر پیرا گراف" ڈالا ہے۔

آپریشنز کا جائزہ:

زیر جائزہ مدت کے دوران انتظامیہ کی توجہ زیر فعال پورٹ فولیو پر رہی۔ منع ریکوری مقدمے جو پہلے کئے گئے تھے پرن FNBM کے حق میں فیصلہ آیا جن پر عملدرآمد جاری ہے۔ کچھ نقد وصولیاں بھی کی گئی۔ ریگولر پورٹ فولیو نے اچھی اکم نٹس ریٹ کی۔ پینلس شیٹ پچھلے سال کے 508 ملین روپے کے مقابلے میں 350 ملین روپے رہا۔ اکم اور فنانس خرچہ بھی اسی تناسب سے نیچے آیا عمومی افراط زر کے باوجود آپریٹنگ اخراجات کو قابو میں رکھا گیا کچھ پرانے اکاؤنٹس کی FSV کم ہونے کی وجہ سے پرویزن اور امپز منٹ ڈالنے پر آخر میں 8.1 ملین کانسٹن ہوا۔ نقصان فی سرٹیفکیٹ پچھلے سال کے 2.85 روپے کے مقابلے میں 0.033 روپے رہا۔

FNBM شریعہ کمپلائنس اور مضاربہ کے لیے شریعہ آڈٹ میکانزم کی تعمیل کو یقینی بناتا ہے۔ اس تناظر میں شریعہ آڈیٹرز کی رپورٹ کے ساتھ منسلک ہے۔ صدقہ کے طور پر 0.4 ملین روپے منظر شدہ خیراتی اداروں کو دیے گئے۔

بیرونی آڈیٹرز نے اپنی رپورٹ میں ایفٹسٹ آف میٹر کا ایک پیرا گراف شامل کیا ہے جو FNBM کی جاری کاروباری قابلیت سے متعلق ہے۔ اس حوالے سے، بورڈ کا موقف وہی ہے جو مالی اسٹیٹمنٹس کے نوٹ 1.1 میں دیا گیا ہے۔

FNBM شریعہ کی تعمیل اور مضاربہ کے لیے شریعہ آڈٹ کے طریقہ کار کی یقین دہانی کرتا ہے۔ اس حوالے سے شریعہ مشیر کی رپورٹ لف ہے۔ دوران سال، مبلغ 0.400/- ملین روپے کی رقم صدقہ خیراتی اداروں کو بمطابق پالیسی منظور کردہ بورڈ آف ڈائریکٹرز، بطور خیرات ادا کی گئی۔

منافع کی تقسیم:

بورڈ نے 30 ستمبر 2018 کو ہونے والی میٹنگ میں ڈیویڈنڈ کا اعلان نہیں کیا۔

مستقبل کا جائزہ

ایکویٹی کے آنے اور ماضی کے تجربات سے سیکھ کر کرنی کاروباری سرگرمی کے مطابق بنیادی توجہ گڑیوں کے چھوٹے قرضوں پر مرکز رکھی جائے گی۔ نئے قرضوں پر ریٹرن اور پرانے غیر معیاری قرضوں کے FNBM چند سالوں میں ڈیویڈنڈ دینا شروع کر دے گا۔

تجارتی اور مالی رپورٹنگ کا ڈھانچہ عمل

مضاربہ کی انتظامیہ کی جانب سے تیار کردہ مالی اسٹیٹمنٹس اس کے معاملات کو، عوامل کے نتائج کو، کیش فلوا اور ایکویٹی میں تبدیلیوں کو جائز طور پر پیش کرتے ہیں۔ مضاربہ کے باقاعدہ کھاتے برقرار رکھے گئے ہیں۔

مالی اسٹیٹمنٹس کی تیاری میں اکاؤنٹنگ کی مناسب پالیسیاں مسلسل لاگو کی گئی ہیں اور اکاؤنٹنگ کے تخمینہ جات معقول اور محتاط فیصلوں پر مبنی ہیں۔

مالی اسٹیٹمنٹس کی تیاری میں پاکستان میں مضاربہ پر لاگو بین الاقوامی مالی رپورٹنگ اور اسلامی اکاؤنٹنگ کے معیار کی پیروی کی گئی ہے۔

اندرونی کنٹرول کا نظام اپنے ڈھانچے میں درست اور اس کا اطلاق اور نگرانی موثر طریقے سے کی گئی ہے۔

مضاربہ کے بطور مسلسل کاروبار جاری رہنے کی قابلیت میں کوئی کا خاطر خواہ شبہ نہ ہے۔

لسٹنگ کے قوانین میں تفصیلاً بیان کردہ کاروباری گورننس کے بہترین عمل میں کوئی قابل ذکر تبدیلی نہ ہوئی ہے۔

ٹیکسز، ڈیویڈنڈ، لیویز اور چارج کی مد میں 30 جون 2018 تک کی آئینی ادائیگیوں میں کوئی واجب الادا مطالبات نہ ہیں ماسوائے ان کے جو مالی

اسٹیٹمنٹ میں بیان کیے گئے ہیں۔

30 جون 2018 کو اختتام پذیر ہونے والے سال میں بورڈ آف ڈائریکٹرز کی 6 میٹنگز منعقد ہوئیں۔ اس کے علاوہ آڈٹ کمیٹی کی 4 میٹنگز اور ایچ آر کمیٹی کی ایک میٹنگ منعقد ہوئی۔ ہر ڈائریکٹر کی حاضری درج ذیل ہے:

تعداد حاضری

نام	بورڈ	آڈٹ کمیٹی	ایچ آر کمیٹی
رحمت علی حسنی	5	N/A	N/A
سید جمال باقر	1	N/A	N/A
ارتضیٰ کاظمی	1	N/A	N/A
خواجہ وحید رضا	6	4	1
جمال نسیم	6	4	N/A
محمد اقبال حسین	6	N/A	1
عامر امین	6	4	1
عباس اعظم	6	N/A	N/A

مسٹر عامر امین نے سال کے اختتام سے تھوڑا پہلے استعفیٰ دے دیا تھا۔ مسٹر محمد عمران ملک NBP کی طرف سے نامزد کیے گئے۔ انکی نامزدگی رجسٹرار کی منظوری سے مشروط تھی۔ رجسٹرار کی منظوری جون کے بعد وصول ہو گئی تھی۔

وہ ڈائریکٹرز جو کچھ بورڈ میٹنگز میں شرکت نہیں کر سکے انھیں غیر حاضری کی چھٹی دی گئی۔ 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 ہذا ہے۔

آڈیٹرز

آڈٹ کمیٹی کی سفارش پر، بورڈ نے آپ کے موجودہ آڈیٹر ہاروتھ حسین چودھری چارٹرڈ اکاؤنٹنٹس، جن کو ریاض احمد اینڈ کمپنی چارٹرڈ اکاؤنٹنٹس کی جگہ مقرر کیا گیا تھا، کی تقرری بطور آڈیٹرز برائے سال 30 جون 2019 منظور کی ہے، جو رجسٹرار مضاربہ کمپنیز و مضاربہ جات کی منظوری سے مشروط ہے۔

اعتراف

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

برائے و بجانب بورڈ

Aman

چیف ایگزیکٹو آفیسر

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

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

1. The total number of directors are seven as per the following:
 - a. Male: Seven
 - b. Female: Nil
2. The composition of board is as follows:
 - a) Independent Directors: Three
 - b) Other Non-executive Director: Three
 - c) Executive Directors: One
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.
8. The board of directors have a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations.
9. The Board has not yet arranged Directors' Training program for the directors as some of the directors had already obtained the relevant training or are exempt under the regulations.
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.
12. The board has formed committees comprising of members given below:
 - a) Audit Committee (Mr. Jamal Nasim Chairman and Mr. Khawaja Waheed Raza member)

- b) HR and Remuneration Committee (Mr. Khawaja Waheed Raza Chairman and Mr. Muhammad Iqbal Hussain member)
- c) Nomination Committee (not applicable)
- d) Risk Management Committee (Mr. Khawaja Waheed Raza Chairman, Mr. Muhammad Iqbal Hussain, member, Mr. Jamal Nasim member)

13. The terms of reference of the aforesaid committees have been formed, documented and advised to the committee for compliance.
14. The frequency of meetings (quarterly/half yearly/ yearly) of the committee were as per following:
- a) Audit Committee: quarterly
 - b) HR and Remuneration Committee: yearly
 - c) Nomination Committee (not applicable)
 - d) Risk Management Committee: quarterly
15. The board has set up an effective internal audit function.
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. Chief Financial Officer (CFO) of the Modaraba does not meet the qualification criteria as required by the clause 23. A qualified person, fulfilling CCG criterion shall be deployed by 31/11/18.
19. The positions of Company Secretary and the CFO shall be segregated to meet CCG's requirements by 31/11/18.
20. 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, 2018 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 Regulations as applicable to the Company for the year ended June 30, 2018.

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.	Note Reference	Description
1	18	The CFO of the Modaraba does not hold the minimum qualification criteria as required by the Code of Corporate Governance.
2	19	The Chief Financial Officer and Company Secretary of the Modaraba is the same the person.



Lahore
Dated: October 02, 2018

HORWATH HUSSAIN CHAUDHURY & CO.
Chartered Accountants

AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of **First National Bank Modaraba** ("the Modaraba") as at June 30, 2018 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, 2018 and of the loss, comprehensive loss, its cash flows and changes in equity for the year then ended; and
- d) In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

We draw attention to Note 1.2 in the financial statements, which indicates that the Modaraba incurred a net loss of Rs 8.189 million during the year ended June 30, 2018, and as of that date the Modaraba's current liabilities exceeded its current assets by Rs. 122.871 million. As stated in Note 1.2, a material uncertainty exists that may cast significant doubt on the Modaraba's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

LAHORE


Dated: October 02, 2018


HORWATH HUSSAIN CHAUDHURY & CO.
Chartered Accountants
(Engagement Partner: Amin Ali)

BALANCE SHEET AS AT JUNE 30, 2018

	Note	2018 Rupees	2017 Rupees
ASSETS			
CURRENT ASSETS			
Cash and bank balances	6	51,653,789	49,707,521
Short term murabaha investments - secured	7	16,308,001	19,216,842
Accrued profit	8	595,657	388,493
Short term investments	9	30,895,000	-
Ijarah rentals receivable	10	74,259,701	69,947,032
Advances, prepayments and other receivables	11	3,826,738	3,843,324
Current portion of non current assets	12	42,303,266	103,049,027
		<u>219,842,152</u>	<u>246,152,239</u>
NON-CURRENT ASSETS			
Net investment in ijarah finance	13	1,650,864	1,651,514
Diminishing musharaka financing - secured	14	1,977,113	10,497,347
Long term murabaha investments - secured	15	7,206,979	1,725,105
Long term loans and deposits	16	470,143	1,000,882
Intangible asset	17	-	-
Fixed assets under ijarah arrangements	18	124,871,458	247,443,653
Fixed assets - own use	19	47,612	7,732
Deferred tax asset	34	-	-
		<u>136,224,169</u>	<u>262,326,233</u>
TOTAL ASSETS		<u>356,066,321</u>	<u>508,478,472</u>
LIABILITIES			
CURRENT LIABILITIES			
Accrued profit		2,564,748	2,094,045
Deferred murabaha income	7	-	2,654,776
Short term finances - secured	20	217,063,388	201,634,754
Creditors, accrued and other liabilities	21	19,032,000	27,265,399
Current portion of non-current liabilities	22	104,053,372	195,897,100
		<u>342,713,508</u>	<u>429,546,074</u>
NON-CURRENT LIABILITIES			
Security deposits against ijarah assets	23	2,802,200	21,500,787
Long term finance - secured	24	-	16,666,670
Deferred murabaha income	25	2,406,131	24,431,871
		<u>5,208,331</u>	<u>62,599,328</u>
TOTAL LIABILITIES		<u>347,921,839</u>	<u>492,145,402</u>
NET ASSETS		<u>8,144,482</u>	<u>16,333,070</u>
FINANCED BY:			
Certificate capital	26	250,000,000	250,000,000
Statutory reserves	27	43,955,189	43,955,189
Accumulated loss		(285,810,707)	(277,622,119)
CONTINGENCIES AND COMMITMENTS			
	28	-	-
TOTAL EQUITY AND RESERVES		<u>8,144,482</u>	<u>16,333,070</u>

The annexed notes from 1 to 42 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: October 02, 2018


PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2018

	Note	2018 Rupees	2017 Rupees
INCOME FROM OPERATIONS			
Ijarah rentals earned / income from ijarah finance		61,957,831	169,679,959
Profit on diminishing musharaka financing		1,962,269	4,269,226
Profit on murabaha investments		169,780	255,086
Profit on bank deposits		944,994	974,792
Gain on disposal of ijarah assets		936,127	4,525,381
Profit on short term investment		1,923,820	-
		67,894,821	179,704,444
OTHER INCOME			
Reversal of provision charged for doubtful receivables - net	32	8,055,717	-
Other income	29	79,929	97,018
		8,135,646	97,018
TOTAL INCOME		<u>76,030,467</u>	<u>179,801,462</u>
EXPENSES			
Depreciation on ijarah assets	18	(40,280,305)	(124,356,047)
Operating expenses	30	(15,551,096)	(15,175,035)
Finance cost	31	(15,986,550)	(23,700,399)
TOTAL EXPENSES		<u>(71,817,951)</u>	<u>(163,231,481)</u>
Operating profit before provision and taxation		4,212,516	16,569,981
Provision charged for doubtful receivables - net	32	-	(86,033,497)
Impairment loss on ijarah assets - net	18	(12,401,104)	(1,896,166)
		(8,188,588)	(71,359,682)
Modaraba Company's management fee	33	-	-
Loss before Taxation		(8,188,588)	(71,359,682)
Taxation	34	-	-
Net Loss for the Year		<u>(8,188,588)</u>	<u>(71,359,682)</u>
LOSS PER CERTIFICATE - BASIC AND DILUTED	35	<u>(0.33)</u>	<u>(2.85)</u>

The annexed notes from 1 to 42 form an integral part of these financial statements.


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Lahore: October 02, 2018

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2018

	2018 Rupees	2017 Rupees
Net Loss for the Year	(8,188,588)	(71,359,682)
Other comprehensive income / (loss) for the year	-	-
Total Comprehensive Loss for the Year	<u>(8,188,588)</u>	<u>(71,359,682)</u>

The annexed notes from 1 to 42 form an integral part of these financial statements.



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Lahore: October 02, 2018

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2018

		2018 Rupees	2017 Rupees (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES	36	55,563,832	225,190,278
Finance cost paid		(15,515,847)	(28,044,489)
Income taxes paid		(108,504)	(1,131,327)
Profit received on bank deposits		944,994	974,792
Long term loans and deposits - net		698,384	1,044,436
Net Cash Generated from Operating Activities		41,582,859	198,033,690
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed assets - own use acquired		(60,500)	-
Short term investments acquired		(30,895,000)	-
Proceeds from disposal of net investment in ijarah finance		19,023,150	-
Proceeds from disposal of ijarah assets		6,879,533	11,882,242
Net Cash (Used in) / Generated from Investing Activities		(5,052,817)	11,882,242
CASH FLOWS FROM FINANCING ACTIVITIES			
Short term finances - net		15,428,634	(73,283,832)
Dividend paid to certificate holders		(12,406)	(1,440)
Long term finances - repaid		(50,000,002)	(101,666,667)
Net Cash Used in Financing Activities		(34,583,774)	(174,951,939)
Net Increase in Cash and Cash Equivalents		1,946,268	34,963,993
Cash and cash equivalents at the beginning of the year		49,707,521	14,743,528
Cash and Cash Equivalents at the End of the Year		<u>51,653,789</u>	<u>49,707,521</u>

The annexed notes from 1 to 42 form an integral part of these financial statements.



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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2018

Particulars	Certificate Capital	Statutory Reserve	Accumulated Loss	Total Equity
	Rupees			
Balance as at June 30, 2016	250,000,000	43,955,189	(206,262,437)	87,692,752
Comprehensive loss for the year				
Net loss for the year	-	-	(71,359,682)	(71,359,682)
Other comprehensive loss for the year	-	-	-	-
Total comprehensive loss for the year	-	-	(71,359,682)	(71,359,682)
Transferred to statutory reserve	-	-	-	-
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

The annexed notes from 1 to 42 form an integral part of these financial statements.


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Management Company Limited

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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. 8.179 million (2017: Rs. 71.360). As at the reporting date, its current liabilities exceed its current assets by Rs. 122.862 million (2017: Rs. 183.394 million) and accumulated losses amount to Rs. 285.801 million (2017: Rs. 277.622 million). In purview of consistent losses 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. These factors indicate the existence of material uncertainties that cast 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.

The Modaraba's management has carried out an assessment of the going concern status of the Modaraba and believes that the preparation of these financial statements on going concern assumption is appropriate based on the following factors:

- National Bank of Pakistan has 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 to be issued by the Modaraba as other than 'Right Issue' subject to the approval of concerned regulators (the SECP and PSX). This resolution was made public through corporate announcement on PSX dated July 13, 2018.
- Current liabilities of the Modaraba requiring cash outflow primarily relate to its creditors and other accrued liabilities. As the security deposits obtained against ijarah arrangements are likely to be adjusted against the residual values of the ijarah assets and NBP is likely to extend its continued support in terms of renewing the short term borrowing facilities, the Modaraba is not foreseeing any liquidity pressure. It is pertinent to mention that the Modaraba does not have to pay any other banking company / financial institution except for the NBP.
- The management of the Modaraba is in correspondence with the SECP regarding the issuance of 30 million certificates to NBP against Rs. 300 million as other than right issue and the Board of Directors of the Modaraba Management Company in their meeting held dated October 2, 2017 have resolved to proceed in the same manner and deposit relevant fees with the SECP for enhancing the paid up Certificate Capital.
- The management has sufficiently provided against the doubtful portfolios of ijarah, murabaha and musharakah clients of the Modaraba and the remaining portfolio is adequately covered against collaterals held by the management; the management does not foresee any further heavy provision to be incorporated in the financial statements. Moreover, the management has filed suits and is in process of obtaining decretal orders from courts to dispose off the assets held by the Modaraba as collateral against its lendings.
- The management has prepared its business plan that would cater for modernizing the policies and procedures, revisiting the ijarah business for auto sector, introducing new Islamic financial products, financing SMEs and raising finance from different sources.

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 ("IFRSs") and the Islamic Financial Accounting Standards (IFASs) as are notified under the provisions of the Companies Act, 2017 and made applicable to Modarabas under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980; and
- The requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the Modaraba Companies and Modaraba Rules, 1981; prudential regulations and directives issued by the Securities and Exchange Commission of Pakistan (the Modaraba Regulations).

Wherever, the requirements of the Modaraba Regulations differ from the requirements of these standards, the requirements of the Modaraba Regulations take precedence.

2.2 Accounting convention

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

2.3 Functional and presentation currency

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

Note 3

Use of Estimates and Judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect application of policies and reported amounts of assets, liabilities, income and expenses. 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 the Modarabas issued by the SECP and on subjective evaluation by the management. Bad debts are written off when identified.

Note 4

Changes in Accounting Standards, Interpretations and Pronouncements

4.1 Standards, interpretations and amendments to approved accounting standards which became effective during the year

IAS 7, "Statement of Cash Flows" has introduced an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

4.2 Standards, interpretation and amendments to approved accounting standards that are not yet effective

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

Standard or Interpretation		Effective Date (Period beginning on or after)
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
IFRS 9	Financial Instruments: Classification and Measurement	July 1, 2018
IFRS 15	Revenue from Contracts with Customers	July 1, 2018
IFRS 16	Leases	January 1, 2019
IAS 23	Borrowing costs	January 1, 2019

The Modaraba expects that such improvements to the standards will not have any material impact on the Modaraba's financial statements in the period of initial application; except for IFRS 9.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after January 1, 2019.

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

	Effective Date (Period beginning on or after)
-IFRS 14 'Regulatory Deferral Accounts'	January 1, 2016
-IFRS 17 'Insurance Contracts '	January 1, 2021

The Modaraba expects that such improvements to the standards will not have any material impact on the Modaraba's 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, unless stated otherwise.

5.1 Cash and cash equivalents

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

5.2 Receivables

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

5.3 Murabaha investment

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

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

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

5.4 Financial assets

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

Financial assets are de-recognized when the Modaraba loses control of the contractual rights that comprise the financial asset. The Modaraba loses such control if it realizes the rights to benefits specified in contract, the rights expire or the Modaraba surrenders those rights.

5.4.1 Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'Financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gain or loss on investments held for trading are recognised in the profit and loss account.

5.4.2 Held-to-maturity

Financial assets with fixed or determinable payments and fixed maturity, where the management has the intention and ability to hold till maturity, are classified as held to maturity and are stated at amortized cost.

5.4.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets, except for maturities greater than twelve months after the reporting date, which are classified as non-current assets. Loans and receivables comprise loans, deposits and other receivables in the balance sheet.

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

5.4.4 Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. These are included in non-current assets unless the management intends to dispose off these assets within twelve months from the reporting date.

5.5 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities are secured deposits against ijarah (lease) assets, musharaka payable and other liabilities.

5.6 Recognition and derecognition of financial instruments

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

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

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

5.7 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Modaraba has legally enforceable right to set off the recognized amount and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

5.8 Creditors, accrued and other liabilities

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

5.9 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.

5.10 Lease (ijarah) accounting

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

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

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

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

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.

5.11 Fixed assets

5.11.1 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 transfer during the year, depreciation is charged proportionately to the period of ijarah.

5.11.2 Assets in own use - Tangible

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

Depreciation is charged to profit and loss using the straight line method at the rates as specified in note 15 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.

5.11.3 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.

5.12 Provisions

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

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

5.13 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.

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

5.14 Revenue recognition

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

For lease (ijarah) agreements executed on or after July 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.

5.15 Taxation

5.15.1 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.

5.15.1 Deferred

Deferred tax is provided, using the balance sheet method, on all temporary differences at the balance sheet 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.

5.16 Profit distribution

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

5.17 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.

5.18 Dividend

Dividends are recognized as a liability in the period in which these are declared.

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

5.19 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.

5.20 Related party transactions

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

Note 6

Cash and Bank Balances

	Note	2018 Rupees	2017 Rupees
Cash in hand		19,541	-
Current accounts			
Associated undertaking - National Bank of Pakistan		152,035	270,647
Others		725,066	48,041
		877,101	318,688
Saving accounts	6.1		
Associated undertaking - National Bank of Pakistan		232,725	25,291
Others		50,524,422	49,363,542
		50,757,147	49,388,833
		51,653,789	49,707,521

6.1 These carry mark up at the rate of 2.61% to 3.75% (2017: 2.70% to 3.50%) per annum.

Note 7

Short Term Murabaha Investments - Secured

	Note	2018 Rupees	2017 Rupees
Considered good		-	-
Considered doubtful		243,770,960	244,025,025
		243,770,960	244,025,025
Add: Deferred murabaha income		2,654,776	2,654,776
		246,425,736	246,679,801
Less: Provision for non-performing murabaha investments	7.2	(227,462,959)	(227,462,959)
Less: Suspended income		(2,654,776)	
		16,308,001	19,216,842

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% (2017: 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	177,046,511
Charged during the year	-	50,416,448
Reversed during the year	-	-
Net charged during the year	-	50,416,448
Closing balance	227,462,959	227,462,959

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Note 8

Accrued Profit

	Note	2018 Rupees	2017 Rupees
Profit on diminishing musharaka receivable	8.1	561,471	388,493
Profit on sukuk investments		34,186	-
		<u>595,657</u>	<u>388,493</u>

Note 8, 'Accrued Profit - Continued...

	Note	2018 Rupees	2017 Rupees
8.1 Profit held in suspense			
Profit receivable on musharaka finances		1,404,566	1,094,139
Suspended income	8.1.1	<u>(843,095)</u>	<u>(705,646)</u>
		<u>561,471</u>	<u>388,493</u>
8.1.1 Suspended income account against diminishing musharaka profit receivable is as follows:			
Opening balance		705,646	593,321
Suspended during the year		<u>137,449</u>	<u>112,325</u>
		<u>843,095</u>	<u>705,646</u>

Note 9

Short Term Investments

	2018 Number	2017 Number	2018 Rupees	2017 Rupees
Investments in sukuk of Rs 100,000 each - available for sale				
	200	-	Neelum Jehlum Sukuk	20,895,000
	100	-	Byco Petroleum Pakistan Limited	10,000,000
	<u>300</u>	<u>-</u>	<u>30,895,000</u>	<u>-</u>

Note 10

Ijarah Rentals Receivable

	Note	2018 Rupees	2017 Rupees
Considered good - secured		13,639,189	12,028,297
Considered doubtful		108,642,488	99,593,682
Less: Provision for doubtful ijarah rentals receivable	10.1	<u>(25,303,438)</u>	<u>(20,363,489)</u>
Less: Profit held in suspense account	10.2	<u>(22,718,538)</u>	<u>(21,311,458)</u>
		<u>60,620,512</u>	<u>57,918,735</u>
		<u>74,259,701</u>	<u>69,947,032</u>

10.1 Provision for doubtful ijarah rentals receivable

Opening balance	20,363,489	13,622,056
Charged during the year	<u>3,001,740</u>	<u>7,318,597</u>
Adjustment / reclassified from suspended profit	1,938,209	-
Written off during the year	<u>-</u>	<u>(577,164)</u>
Net charged during the year	<u>4,939,949</u>	<u>6,741,433</u>
Closing balance	<u>25,303,438</u>	<u>20,363,489</u>

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10.2 Profit held in suspense accounts

Opening balance	21,311,458	17,108,267
Income suspended during the year	4,122,976	7,207,092
Adjustment / reclassified to provision	(1,938,209)	-
Suspended income received	(777,687)	(3,003,901)
Net charged during the year	1,407,080	4,203,191
Closing balance	<u>22,718,538</u>	<u>21,311,458</u>

Note 11

Advances, Prepayments and Other Receivables

		2018	2017
	Note	Rupees	Rupees
Advances to employees for expenses (unsecured - considered good)		12,530	12,530
Income tax deducted at source		2,407,630	2,299,126
Prepayments		193,749	27,880
Profit receivable on sukuks		502,340	-
Other receivables	11.1	710,489	1,503,788
		<u>3,826,738</u>	<u>3,843,324</u>

11.1 Other receivables

Considered good		710,489	1,503,788
Considered doubtful		29,680,817	29,244,256
		30,391,306	30,748,044
Provision against doubtful other receivables	11.2	(29,680,817)	(29,244,256)
		<u>710,489</u>	<u>1,503,788</u>

11.2 Provision against doubtful other receivables

Opening balance		29,244,256	28,368,640
Charged during the year		436,561	875,616
Reversed during the year		-	-
Net charged during the year		436,561	875,616
Closing balance		<u>29,680,817</u>	<u>29,244,256</u>

Note 12

Current Portion of Non Current Assets

		2018	2017
	Note	Rupees	Rupees
Net investment in ijarah finance	13	15,579,850	31,270,867
Diminishing musharaka financing	14	20,417,303	26,098,927
Long term murabaha investments	15	5,878,259	45,083,734
Long term loans and deposits	16	427,854	595,499
		<u>42,303,266</u>	<u>103,049,027</u>

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Note 13

Net Investment in Ijarah Finance

Net Investment in Ijarah Finance	2018			2017		
	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	45,655,427	5,185,554	50,840,981	62,161,137	17,185,554	79,346,691
Residual value of ijarah assets	2,221,514	46,700	2,268,214	5,088,181	46,700	5,134,881
Gross investment in ijarah finance	47,876,941	5,232,254	53,109,195	67,249,318	17,232,254	84,481,572
Less: Unearned finance income	(20,583,357)	(3,581,390)	(24,164,747)	(13,071,599)	(15,580,740)	(28,652,339)
Net investment in lease ijarah finance	27,293,584	1,650,864	28,944,448	54,177,719	1,651,514	55,829,233
Less: Provision for doubtful net investment in ijarah finance (Note 13.2)	(11,713,734)	-	(11,713,734)	(22,906,852)	-	(22,906,852)
	<u>15,579,850</u>	<u>1,650,864</u>	<u>17,230,714</u>	<u>31,270,867</u>	<u>1,651,514</u>	<u>32,922,381</u>
Less: Current portion (Note 12)			(15,579,850)			(31,270,867)
		<u><u>1,650,864</u></u>			<u><u>1,651,514</u></u>	

13.1 The Modaraba entered into various ijarah agreements for periods spanning 8 to 14 years (2017: 8 to 14 years). Security deposits ranging from 0.1% to 10% (2017: 0.1% to 10%) are obtained at the time of disbursement. The rate of profit implicit in ijarah ranges from 9.76% to 11.97% (2017: 7.86% to 11.19%) per annum.

13.2 Provision for doubtful net investment in ijarah finance

	2018 Rupees	2017 Rupees
Opening balance	22,906,852	22,906,852
Charged during the year	-	-
Reversed during the year	(11,193,118)	-
Net charged during the year	(11,193,118)	-
Closing balance	<u><u>11,713,734</u></u>	<u><u>22,906,852</u></u>

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Note 14

Diminishing Musharaka Financing - Secured

	Note	2018 Rupees	2017 Rupees
Considered good		18,056,782	32,258,640
Considered doubtful		4,337,634	4,337,634
Provision against doubtful diminishing musharaka	14.2	-	-
		<u>4,337,634</u>	<u>4,337,634</u>
		22,394,416	36,596,274
Less: Current portion	12	<u>(20,417,303)</u>	<u>(26,098,927)</u>
		<u>1,977,113</u>	<u>10,497,347</u>

14.1 This represents diminishing musharaka financing arrangement 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. These carry profit at rates ranging between 9.35% to 14.02% (2017: 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.

Note 15

Long Term Murabaha Investments - Secured

	Note	2018 Rupees	2017 Rupees
Considered good		10,559,988	14,895,252
Considered doubtful		69,301,582	69,602,515
		<u>79,861,570</u>	<u>84,497,767</u>
Add: Deferred murabaha income	25	31,913,554	31,913,554
	15.1	111,775,124	116,411,321
Less: Provision for doubtful murabaha investments	15.2	(69,301,582)	(69,602,482)
Less: Suspension for doubtful murabaha investments		<u>(29,388,304)</u>	<u>-</u>
		13,085,238	46,808,839
Less: Current portion	12 & 15.3	<u>(5,878,259)</u>	<u>(45,083,734)</u>
		<u>7,206,979</u>	<u>1,725,105</u>

15.1 These represent investments under murabaha arrangements on deferred payment basis at a profit margin ranging from 9.38% to 15.50% (2017: 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.

15.2 Provision for doubtful murabaha investments

Opening balance		69,602,482	41,602,482
Charged during the year		-	28,000,000
Reversed during the year		(300,900)	-
Net charged during the year		<u>(300,900)</u>	<u>28,000,000</u>
Closing balance		<u>69,301,582</u>	<u>69,602,482</u>

15.3 Current portion of long term murabaha investments

	Note	2018 Rupees	2017 Rupees
Murabaha investments		5,759,140	37,602,051
Deferred murabaha income	25	119,119	7,481,683
		<u>5,878,259</u>	<u>45,083,734</u>

Note 16

Long Term Loans and Deposits

	Note	2018 Rupees	2017 Rupees
Long term loans to employees	16.1	858,497	1,556,881
Security deposits		39,500	39,500
		<u>897,997</u>	<u>1,596,381</u>
Less: Current portion	12	<u>(427,854)</u>	<u>(595,499)</u>
		<u>470,143</u>	<u>1,000,882</u>

16.1 These loans are given to employees of the Modaraba for purchase of vehicles and carry profit at 5% (2017: 5%) per annum. Maximum aggregate balance due from employees at the end of any month during the year was Rs. 1,556,881 (2017: Rs. 2,513,652). As a security, vehicles are registered in the name of the Modaraba.

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Note 17 Intangible Asset

	2018	2017
	Rupees	Rupees
Cost	1,131,300	1,131,300
Accumulated amortization	(1,131,300)	(1,131,300)
Net book value	-	-

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

Note 18

Fixed Assets under Ijarah Arrangements

Description	Plant and machinery	Vehicles	Total
-----Rupees-----			
<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	345,098,196	261,190,434	606,288,630
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	293,670,374	168,475,439	462,145,813
Accumulated Impairment Loss			
Balance as at July 01, 2017	4,705,513	2,164,742	6,870,255
Impairment charged / (reversed)	12,401,104	-	12,401,104
Balance as at June 30, 2018	17,106,617	2,164,742	19,271,359
Total as at June 30, 2018	34,321,205	90,550,253	124,871,458
<u>Year Ended June 30, 2017</u>			
Cost			
Balance as at July 01, 2016	588,927,510	656,920,439	1,245,847,949
Additions	-	-	-
Disposals	(178,983,837)	(202,495,620)	(381,479,457)
Balance as at June 30, 2017	409,943,673	454,424,819	864,368,492
Accumulated depreciation			
Balance as at July 01, 2016	410,704,101	363,976,083	774,680,184
Charge for the year	53,618,261	70,737,786	124,356,047
Disposals	(137,970,210)	(151,011,437)	(288,981,647)
Balance as at June 30, 2017	326,352,152	283,702,432	610,054,584
Accumulated Impairment Loss			
Balance as at July 01, 2016	1,502,302	3,471,787	4,974,089
Impairment charged / (reversed)	3,203,211	(1,307,045)	1,896,166
Balance as at June 30, 2017	4,705,513	2,164,742	6,870,255
Total as at June 30, 2017	78,886,008	168,557,645	247,443,653

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

The Modaraba has entered into various Ijarah agreements for periods ranging from 3 to 11 years (2017: 3 to 11 years). Security deposits ranging from 0% to 71% (2016: 5% to 73%) are obtained at the time of disbursement. The rate of profit implicit in Ijarah ranges from 9.17% to 14.46% (2017: 9.46% to 14.46%) 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	2018	2017
	Rupees	Rupees
Not later than one year	14,325,771	36,967,708
Later than one year but not later than five years	122,541,459	160,949,631
Later than five years	136,867,230	197,917,339

Note 19

Fixed Assets under Own Use

Description	Vehicle	Computers and accessories	Electrical Equipment	Total
				Rupees
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
Year Ended June 30, 2017				
Cost				
Balance as at July 01, 2016	1,351,182	1,804,058	434,664	3,589,904
Additions	-	-	-	-
Disposals	-	-	-	-
Balance as at June 30, 2017	1,351,182	1,804,058	434,664	3,589,904
Accumulated depreciation				
Balance as at July 01, 2016	1,342,962	1,722,144	432,967	3,498,073
Charge for the year	8,220	74,182	1,697	84,099
Disposals	-	-	-	-
Balance as at June 30, 2017	1,351,182	1,796,326	434,664	3,582,172
Total as at June 30, 2017	-	7,732	-	7,732
Annual rate of depreciation	20 %	33.33 %	20 - 33.33 %	

19.1 These contain fully depreciated assets of Rs. 3,589,904 (2017: Rs. 3,241,823) that are still in use by the Modaraba.

Note 20

Short Term Finance - Secured

From banking companies	Note	2018	2017
		Rupees	Rupees
Running finance	20.1	217,063,388	201,634,754

20.1 The Modaraba has obtained running finance facility of Rs. 250 million (2017: Rs. 250 million) from the National Bank of Pakistan carrying mark-up / profit at 1 month KIBOR plus 1% (2017: 1 month to 6 months KIBOR plus 1%) per annum payable monthly. The effective mark-up / profit rate charged during the year ranged from 6.76% to 6.36% (2017: 6.22% to 6.29) 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 (2017: Rs 277.778 million). This facility expired on March 31, 2018 and has yet not been renewed as at the reporting date.

Note 21

Creditors, Accrued and Other Liabilities

		2018	2017
	Note	Rupees	Rupees
Advances from customers		17,679,335	25,725,887
Accrued expenses		494,700	433,780
Withholding tax payable		5,000	-
Unclaimed profit distribution	21.1	425,218	437,624
Charity and other payable	21.2	427,747	668,108
		<u>19,032,000</u>	<u>27,265,399</u>
21.1 Reconciliation of unclaimed dividends			
Opening balance		437,624	439,064
Dividend accrued / (paid)		(12,406)	(1,440)
Closing balance		<u>425,218</u>	<u>437,624</u>

21.2 It includes charity payable amounting to Rs. 350,714 (2017: Rs. 591,075).

Note 22

Current Portion of Non-Current Liabilities

		2018	2017
	Note	Rupees	Rupees
Security deposits against ijarah assets	23	103,934,253	155,082,085
Long term finances - secured	24	-	33,333,332
Deferred murabaha income	25	119,119	7,481,683
		<u>104,053,372</u>	<u>195,897,100</u>

Note 23

Security Deposits against Ijarah Assets

		2018	2017
	Note	Rupees	Rupees
Security deposits against ijarah assets		106,736,453	176,582,872
Less: Current portion	22	(103,934,253)	(155,082,085)
		<u>2,802,200</u>	<u>21,500,787</u>

Note 24

Long Term Finance - Secured

		2018	2017
	Note	Rupees	Rupees
From banking companies - secured			
National Bank of Pakistan - associated undertaking	24.1	-	50,000,002
Less: Current portion	22	-	(33,333,332)
		<u>-</u>	<u>16,666,670</u>

24.1 This demand finance facility of Rs. 200 million was obtained to finance operations of the Modaraba and was repayable in 12 equal quarterly instalments. This carried mark-up @ 3 months KIBOR plus 2.00% per annum payable quarterly. The effective mark-up rate charged during the year ranged from 7.64% to 8.00% (2017: 7.45% to 7.85%) per annum. The facility was secured by way of first joint pari passu hypothecation charge over all present and future leased assets and related lease receivables of the Modaraba to the extent of Rs 222.222 million. The entire loan has been repaid during the year.

Note 25

Deferred Murabaha Income

		2018	2017
	Note	Rupees	Rupees
Long term deferred murabaha income	15	31,913,554	31,913,554
Suspended income		(29,388,304)	-
Net of suspension		2,525,250	31,913,554
Less: Current portion	22	(119,119)	(7,481,683)
		<u>2,406,131</u>	<u>24,431,871</u>

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Note 26

Certificate Capital

	2018	2017		2018	2017
	Number of certificates			Rupees	
Authorized:					
	60,000,000	60,000,000	Modaraba certificates of Rupees 10 each	600,000,000	600,000,000
Issued, subscribed and paid-up certificate capital					
	25,000,000	25,000,000	Modaraba certificates of Rupees 10 each	250,000,000	250,000,000

26.1 7,500,000 (2017: 7,500,000) certificates of the Modaraba are held by National Bank Modaraba Management Company Limited, the modaraba management company.

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

Note 27

Statutory Reserves

Statutory reserves represent profits set aside in compliance with the requirements of prudential regulations for Modarabas issued by the SECP. These regulations require the Modarabas to transfer at least 20% after tax profit, if any, 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 (2017: Rs. Nil) is transferred in the statutory reserves.

Note 28

Contingencies and Commitments

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

28.2 Commissioner Inland Revenue (Appeals) raised demand of tax payables of Rs. 127.362 million for tax year 2014. Appeal filed before the Commissioner Appeals Inland Revenue. The demand is deleted. The department has filed an appeal against the order of the Commissioner Appeals before the Appellate Tribunal. The notice of hearing is awaited from the Tribunal.

Note 29

Other Income

	2018	2017
	Rupees	
Service charges	71,429	97,018
Documentation charges	8,500	-
	79,929	97,018

Note 30

Operating Expenses

		2018	2017
		Rupees	
Salaries, allowances and other benefits	30.1	11,291,000	10,968,204
Communication		233,515	275,695
Travelling and conveyance		50,577	313,264
Vehicles' running expenses		128,362	129,469
Postage and stamps		34,193	39,928
Advertisement		138,641	104,670
Legal and professional		1,035,736	947,941
Auditors' remuneration	30.2	350,000	546,830
Fees and subscription		987,867	681,903
Repairs and maintenance		400,862	280,552
Insurance		101,186	99,307
Stationery and printing		349,790	348,183
Entertainment		275,456	249,886
Depreciation on fixed assets - own use	19	20,620	84,099
Other sundry expenses		153,291	105,104
		15,551,096	15,175,035

30.1 Salaries, allowances and other benefits

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

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	2018			2017		
	Officers	Employees	Total	Officers	Employees	Total
-----Rupees-----						
Salary	2,816,976	2,466,744	5,283,720	2,380,131	2,557,252	4,937,383
House rent	1,408,500	957,199	2,365,699	1,045,837	1,132,620	2,178,457
Utilities	338,052	229,734	567,786	251,001	271,813	522,814
Bonus	570,675	435,567	1,006,242	482,319	520,389	1,002,708
Others	902,355	1,165,198	2,067,553	770,350	1,556,492	2,326,842
	<u>6,036,558</u>	<u>5,254,442</u>	<u>11,291,000</u>	<u>4,929,638</u>	<u>6,038,566</u>	<u>10,968,204</u>
Number of persons	<u>4</u>	<u>9</u>	<u>13</u>	<u>3</u>	<u>8</u>	<u>11</u>

30.1.1 Average number of employees during the year was 13 (2017: 12). All employees are on contract.

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

30.2 Auditors' remuneration

Audit fee	253,200	302,500
Half yearly review fee	96,800	96,800
Certifications	-	97,600
Out of pocket expenses	-	49,930
	<u>350,000</u>	<u>546,830</u>

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

Note 31

Finance Cost

	2018	2017
	Rupees	Rupees
Short term finances	13,464,322	15,879,672
Long term finances	2,473,735	7,684,799
Bank and other charges	48,493	135,928
	<u>15,986,550</u>	<u>23,700,399</u>

Note 32

Provision for Doubtful Receivables

		2018	2017
	Note	Rupees	Rupees
Opening balance		369,580,038	283,546,541
Add: Charged during the year		3,438,301	86,610,661
Add: Reclassified from suspended profit on ijarah		1,938,209	-
Less: Reversed during the year		(11,494,018)	(577,164)
Net provision charged during the year	32.1	(6,117,508)	86,033,497
Closing balance		<u>363,462,530</u>	<u>369,580,038</u>

32.1 This includes provision of Rupees Nil million (2017: 39.074 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:

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	Note	2018 Rupees	2017 Rupees
32.1.1	Short term murabaha investments	-	18,473,740
	Ijarah rentals receivable	-	3,100,000
	Long term murabaha investments	-	17,500,000
		<u>-</u>	<u>39,073,740</u>
32.2	Break up of closing balance		
	Provision against doubtful murabaha investments	7.3 & 15.2	296,764,541
	Provision for doubtful ijarah rental receivables	10.1	25,303,438
	Provision against doubtful other receivables	11.2	29,680,817
	Provision for doubtful net investment in ijarah finance	13.2	11,713,734
		<u>363,462,530</u>	<u>369,580,038</u>

Note 33

Modaraba Management Company Fee

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

Note 34

Taxation

34.1 No provision for current tax is recognized as the Modaraba has brought forward tax losses of Rs. 177.298 million (2017: Rs 256.973 million). Further, provision of minimum tax is not applicable to the Modaraba as per sub clause (xiii) of clause 11A of part IV of second schedule to the Income Tax Ordinance, 2001.

34.2 Deferred tax asset

Deferred tax asset has originated relating to the following:

	2018 Rupees	2017 Rupees
Accelerated tax depreciation	46,095,831	43,448,578
Carry forward tax losses	44,324,533	64,243,310
	<u>90,420,364</u>	<u>107,691,888</u>
Less: Deferred tax asset not recognized	<u>(90,420,364)</u>	<u>(107,691,888)</u>
	<u>-</u>	<u>-</u>

34.2.1 The deferred tax asset of Rs. 90.420 million (2017: Rs. 107.692 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.

Note 35

Loss Per Certificate - Basic and Diluted

		2018 Rupees	2017 Rupees
Loss attributable to ordinary certificates holders	Rupees	<u>(8,188,588)</u>	<u>(71,359,682)</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>(0.33)</u>	<u>(2.85)</u>

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

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

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Note 36

Cash Generated from Operations

	2018 Rupees	2017 Rupees (Restated)
Net loss for the Year	(8,188,588)	(71,359,682)
Adjustment for:		
- Depreciation on fixed assets under own use	20,620	84,099
- Depreciation on fixed assets under ijarah arrangements	40,280,305	124,356,047
- Impairment on fixed Assets under ijarah arrangements	12,401,104	1,896,166
- Gain on termination of ijarah arrangements	(936,127)	(4,525,381)
- Profit on short term investments	(1,923,820)	-
- Charge of provision against short term murabaha investment - net	-	50,416,448
- Charge of provision against doubtful ijarah rentals receivable - net	4,939,949	6,741,433
- Charge of suspense income against ijarah rentals receivable - net	1,407,080	4,203,191
- Charge of provision against doubtful other receivables - net	436,561	875,616
- Reversal of provision against net investment in ijarah finance - net	(11,193,118)	-
- (Reversal) / charge of provision long term murabaha investments - net	(300,900)	28,000,000
- Finance Cost	15,986,550	23,700,399
- Profit on term deposit receipts and bank deposits	(944,994)	(974,792)
	<u>60,173,210</u>	<u>234,773,226</u>
Operating profit before working capital changes	51,984,622	163,413,544
Decrease / (Increase) in operating assets:		
- Accrued profit	1,716,656	98,690
- Ijarah rentals receivable	(10,659,698)	926,138
- Advances, prepayments and other receivables	(311,471)	(982,823)
- Short term murabaha investments	2,908,841	28,100,003
- Net investment in ijarah finance	1,962,596	601,181
- Diminishing musharaka financing	14,201,858	20,074,614
- Long term murabaha investments	1,981,421	9,389,069
Increase / (Decrease) in operating liabilities:		
- Creditors, accrued and other liabilities	(8,220,993)	3,569,862
Net changes in working capital	3,579,210	61,776,734
Cash Generated from Operations	<u>55,563,832</u>	<u>225,190,278</u>

Note 36, Cash Generated from Operations - Continued...

36.1 Liabilities Arising from Financing Activities

As at June 30, 2017	Non-cash changes	Cash flows (Net)	As at June 30, 2018
----- Rupees -----			
Short term borrowings	-	15,428,634	217,063,388
Long term finance - secured	-	(50,000,002)	-
<u>251,634,756</u>	<u>-</u>	<u>(34,571,368)</u>	<u>217,063,388</u>

Note 37

Financial Risk Management

- Credit risk
- Liquidity risk
- Market risk

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

37.1 Credit risk

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

Financial assets	2018	2017
	Rupees	Rupees
Bank balances	51,634,248	49,707,521
Ijarah rentals receivable	74,259,701	69,947,032
Advances, prepayments and other receivables	1,212,829	1,503,788
Accrued profit	595,657	388,493
Murabaha investments - net of provision	29,393,239	31,457,351
Net investment in ijarah finance	17,230,714	32,922,381
Diminishing musharaka financing	22,394,416	36,596,274
Short term investments	30,895,000	-
Long term loans and deposits	897,997	1,596,381
	<u>228,513,801</u>	<u>224,119,221</u>

37.1.1 Credit quality of banks

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

	Rating			2018	2017
	Short term	Long term	Agency	Rupees	Rupees
National Bank of Pakistan	A1+	AAA	PACRA	384,760	295,939
Al Baraka Bank (Pakistan) Ltd.	A1	A	PACRA	14,914	252,945
Bank Alfalah Ltd.	A1+	AA+	PACRA	709,206	4,964
First Women Bank Ltd.	A2	A-	PACRA	4,725	4,760
Habib Bank Limited	A1+	AAA	JCR-VIS	11,011	-
The Bank of Punjab	A1+	AA	PACRA	-	38,052
Bank Islami Pakistan Ltd.	A1	A+	PACRA	50,509,632	49,110,860
MCB Bank Ltd.	A1+	AAA	PACRA	-	1
				<u>51,634,248</u>	<u>49,707,521</u>

37.1.2 Description of collateral held

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

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37.1.3 Age analysis of profit accrued on murabaha investments

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	-	-	-	-
1 day - 89 days	-	-	-	-
90 days - 179 days	-	-	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	-	-	-	-
2 year - less than 3 year	2,459,641	-	2,459,641	-
3 year or more	12,835,727	-	12,835,727	-
Total	15,295,368	-	15,295,368	-

Past due

June 30, 2017				
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	-	-	-	-
90 days - 179 days	-	-	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	2,068,453	-	2,068,453	-
2 year - less than 3 year	2,732,411	-	2,732,411	-
3 year or more	8,019,086	-	8,019,086	-
Total	12,819,950	-	12,819,950	-

37.1.4 Age analysis of murabaha investments

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	-
3 year or more	276,124,486	-	259,817,058	16,307,428
Total	323,631,957	10,559,988	296,764,541	26,867,416

Past due

June 30, 2017				
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	14,895,252	14,895,252	-	14,895,252
1 day - 179 days	-	-	-	-
180 days - 364 days	-	-	-	-
1 year - less than 2 year	36,947,483	-	36,947,483	-
2 year - less than 3 year	93,500,000	-	88,867,801	4,632,199
3 year and above	183,180,057	-	171,250,157	11,929,900
Total	328,522,792	14,895,252	297,065,441	31,457,351

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37.1.5 Age analysis of ijarah rentals receivable

Past due	June 30, 2018				Carrying amount Amount
	Gross amount	Amount on which no provision / suspension is required	Amount on which provision / suspension is required	Provision/ suspension made under Prudential Regulations	
-----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

Past due	June 30, 2017				Carrying amount Amount
	Gross amount	Amount on which no provision / suspension is required	Amount on which provision / suspension is required	Provision/ suspension made under Prudential Regulations	
-----Rupees-----					
0 days	940,414	940,414	-	-	940,414
1 day -89 days	10,564,673	10,564,673	-	-	10,564,673
90 days -179 days	523,210	523,210	-	-	523,210
180 days - 364 days	27,914	-	27,914	4,746	23,168
1 year - less than 2 year	3,270,553	-	3,270,553	180,386	3,090,167
2 year - less than 3 years	83,296,711	-	83,296,711	28,491,311	54,805,400
3 year or more	12,998,504	-	12,998,504	12,998,504	-
Total	111,621,979	12,028,297	99,593,682	41,674,947	69,947,032

37.1.6 Age analysis of diminishing musharaka financing

Past due	June 30, 2018				Carrying amount Amount
	Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision made under Prudential Regulations	
-----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 or more	-	-	-	-	-
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

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Past due

June 30, 2017				
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	16,364,820	16,364,820	-	16,364,820
1 day-179 days	15,893,820	15,893,820	-	15,893,820
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	4,337,634	-	4,337,634	4,337,634
2 year - less than 3 years	-	-	-	-
3 year or more	-	-	-	-
Total	36,596,274	32,258,640	4,337,634	36,596,274

37.1.7 Age analysis of profit accrued on diminishing musharaka financing

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	-
3 year or more	-	-	-	-
Total	1,404,566	561,471	843,095	561,471

Past due

June 30, 2017				
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	388,493	388,493	-	388,493
180 days - 364 days	-	-	-	-
1 year - less than 2 year	705,646	-	705,646	-
2 year - less than 3 year	-	-	-	-
3 year or more	-	-	-	-
2 year - less than 3 years	-	-	-	-
3 year or more	-	-	-	-
Total	1,094,139	388,493	705,646	388,493

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.

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

June 30, 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	2.05
Education	1,705,455	-	-	-	1,705,455	0.22
Power	1,418,228	-	15,000,000	-	16,418,228	2.10
Textiles	52,426,371	28,944,448	266,713,000	322,974	348,406,793	44.67
Construction	-	-	-	-	-	0.00
Engineering	1,765,419	-	-	4,762,236	6,527,655	0.84
Food	86,907,145	-	18,059,988	-	104,967,133	13.46
Individuals	43,338,248	-	-	3,878,099	47,216,347	6.05
Financial institutions	16,146,997	-	-	-	16,146,997	2.07
Manufacturing industries	3,305,219	-	23,859,542	-	27,164,761	3.48
Miscellaneous	26,092,510	-	-	11,473,918	37,566,428	4.82
Total	247,153,135	28,944,448	323,632,530	22,394,416	622,124,529	79.76

June 30, 2017						
Ijarah receivables and assets	Net Investment in Ijarah finance	Murabaha investments	Diminishing musharaka	Total	% age	
-----Rupees-----						
Transport and communications	19,623,592	-	300,933	6,957,805	26,882,330	3.45
Education	1,723,981	-	-	-	1,723,981	0.23
Power	1,675,769	-	15,000,000	-	16,675,769	2.14
Textiles	63,462,792	55,829,233	266,967,065	2,772,744	389,031,834	49.88
Construction	9,297,000	-	-	-	9,297,000	1.20
Engineering	2,491,992	-	23,859,542	4,337,634	30,689,168	3.94
Food	94,545,613	-	22,395,252	-	116,940,865	15.00
Individuals	93,230,188	-	-	9,788,688	103,018,876	13.21
Financial institutions	19,491,880	-	-	-	19,491,880	2.50
Manufacturing industries	30,625,849	-	-	-	30,625,849	3.93
Miscellaneous	22,896,976	-	-	12,739,403	35,636,379	4.57
Total	359,065,632	55,829,233	328,522,792	36,596,274	780,013,931	100

37.2 Liquidity risk

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

June 30, 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	-	-	-

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June 30, 2017						
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	2,094,045	2,094,045	2,094,045	-	-	-
Short term finances	201,634,754	202,794,126	202,794,126	-	-	-
Creditors, accrued and other liabilities	1,539,512	1,539,512	1,539,512	-	-	-
Long term finances	50,000,002	59,120,516	19,867,762	19,815,570	19,437,184	-
Total	255,268,313	265,548,199	226,295,445	19,815,570	19,437,184	-

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

37.3 Market risk

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

37.3.1 Currency risk

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

37.3.2 Interest / profit rate risk

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

The Modaraba's interest / profit rate risk arises from short term finance, short term finances, bank balances in saving 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 saving 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.

At the reporting date the interest / profit rate profile of the Modaraba's interest bearing financial instruments was:

	2018	2017
	Rupees	Rupees
Fixed rate instruments		
Financial assets		
Loans to employees	858,497	1,556,881
Floating rate instruments		
Financial assets		
Murabaha investments	29,393,239	135,628,163
Ijarah rentals receivable	74,259,701	69,947,032
Cash and bank balances	51,653,789	49,707,521
Diminishing musharaka financing	22,394,416	36,596,274
Net investment in ijarah finance	17,230,714	32,922,381
Short term investments	30,895,000	-
Financial liabilities		
Long term finances	-	50,000,002
Short term finances	217,063,388	201,634,754

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.

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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 2017. Following will be impact on the profit and loss account and the equity of the Modaraba:

	June 30, 2018		June 30, 2017	
	100 bps		100 bps	
	Increase Rupees	Decrease Rupees	Increase Rupees	Decrease Rupees
Floating rate financial assets	2,258,269	(2,258,269)	2,203,119	(2,203,119)
Floating rate financial liabilities	(2,170,634)	2,170,634	(2,516,349)	2,516,349
Net effect	87,635	(87,635)	(313,230)	313,230

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.

37.3.3 Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest / profit rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Modaraba is not exposed to commodity price risk and equity price risk.

37.4 Financial instruments by categories

	2018 Rupees	2017 Rupees
Financial assets as per balance sheet		
Loans and receivables		
Cash and bank balances	51,653,789	49,707,521
Ijarah rentals receivable	74,259,701	69,947,032
Accrued profit	595,657	388,493
Murabaha investments	29,393,239	135,628,163
Net investment in ijarah finance	17,230,714	32,922,381
Diminishing musharaka financing	22,394,416	36,596,274
Advances, prepayments and other receivables	1,212,829	1,503,788
Long term loans and deposits	858,497	1,596,381
	<u>197,598,842</u>	<u>328,290,033</u>
Available for Sale		
Short term investments	<u>30,895,000</u>	-
Financial liabilities as per balance sheet		
Loans and receivables		
Accrued profit payable	2,564,748	2,094,045
Short term finances	217,063,388	201,634,754
Creditors, accrued and other liabilities	922,447	1,539,512
Long term finances	-	50,000,002
	<u>255,268,313</u>	<u>255,268,313</u>

Note 38

Recognized Fair Value Measurements - Financial Instruments

Fair value hierarchy

Certain financial assets and financial liabilities are not measured at fair value if the carrying amounts are a reasonable approximation of fair value. Due to short term nature, carrying amounts of certain financial assets and financial liabilities are considered to be the same as their fair value. For the majority of the non-current receivables, the fair values are also not significantly different from their carrying amounts. 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 trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the modaraba is the current bid price. These instruments are included in level 1.
- Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Note 39

Balances And Transactions With Related Parties

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

		2018	2017
		Rupees	Rupees
39.1	Balances outstanding at the reporting date		
	Bank accounts with National Bank of Pakistan	384,760	295,938
	Finances from National Bank of Pakistan	217,063,388	251,634,756
39.2	Transactions during the year		
	Related party		
	Relationship		
	Nature of Transaction		
	National Bank of Pakistan		
	Modaraba Management	50,000,002	33,333,332
	Company's holding company	15,428,634	48,283,832
	Long term finance repaid	12,587,931	12,586,443
	Short term finance obtained - net	15,515,847	22,348,749
	ljarah rentals received		
	Mark up paid		
	Remuneration to key management personnel	6,036,558	4,929,638

Note 40

Segment Information

- 40.1 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.
- 40.2 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.
- 40.3 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, 2018, there was only one (June 30, 2017: 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 was 30% (June 30, 2017: 30%).

Note 41

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 issue on October 02, 2018

Note 42

General

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



Chief Executive Officer
National Bank Modaraba
Management Company Limited



Director
National Bank Modaraba
Management Company Limited



Director
National Bank Modaraba
Management Company Limited



Chief Financial Officer
National Bank Modaraba
Management Company Limited

Lahore: October 02, 2018

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PATTERN OF CERTIFICATE HOLDING AS ON JUNE 30, 2018

Number of ShareHolders	Shareholdings From	To	Total Number of Share Held	Percentage of Total Capital
76	1 -	100	2,711	0.01
344	101 -	500	165,114	0.66
206	501 -	1000	192,270	0.77
209	1001 -	5000	616,354	2.47
87	5001 -	10000	701,283	2.81
27	10001 -	15000	369,709	1.48
24	15001 -	20000	433,792	1.74
22	20001 -	25000	502,990	2.01
16	25001 -	30000	466,787	1.87
5	30001 -	35000	156,900	0.63
9	35001 -	40000	347,502	1.39
4	40001 -	45000	173,965	0.70
6	45001 -	50000	295,990	1.18
2	50001 -	55000	106,272	0.43
1	55001 -	60000	56,000	0.22
1	60001 -	65000	62,500	0.25
1	65001 -	70000	66,500	0.27
2	75001 -	80000	153,995	0.62
1	85001 -	90000	90,000	0.36
1	90001 -	95000	95,000	0.38
6	95001 -	100000	600,000	2.40
1	115001 -	120000	115,500	0.46
1	130001 -	135000	132,500	0.53
2	150001 -	155000	308,000	1.23
1	155001 -	160000	159,800	0.64
1	165001 -	170000	168,000	0.67
1	180001 -	185000	181,500	0.73
2	195001 -	200000	400,000	1.60
2	205001 -	210000	416,966	1.67
1	215001 -	220000	216,500	0.87
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	819,500	3.28
1	590001 -	595000	590,500	2.36
1	1280001 -	1285000	1,281,500	5.13
1	1495001 -	1500000	1,500,000	6.00
1	1870001 -	1875000	1,874,500	7.50
1	1995001 -	2000000	2,000,000	8.00
1	7495001 -	7500000	7,500,000	30.00
1,076			25,000,000	100.00

**CATEGORIES OF CERTIFICATE HOLDERS
AS ON JUNE 30, 2018**

Ser #	Code	Category	No. of Shareholder	Shares Held	Percentage of Total Capital
1	1	Individuals	1,066	16,674,501	66.6980
2	4	Joint Stock Companies	6	202,601	0.8064
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:			1,076	25,000,000	100.0000

CATEGORIES DETAILS AS ON JUNE 30, 2018

Category		Numbers of Certificates
Individuals		16,674,501
Joint Stock Companies		
1	MAPLE LEAF CAPITAL LIMITED	1
2	MUHAMMAD AHMED NADEEM SECURITIES (SMC-PVT) LIMITED	100
3	DOSSLANI'S SECURITIES (PVT) LIMITED	500
4	FIKREES (PRIVATE) LIMITED	500
5	AMZ SECURITIES (PVT) LIMITED	500
6	SALIM SOZER SECURITIES (PVT.) LTD.	200,000
	Joint Stock Companies	201,601
Modaraba Management Cos		
1	NATIONAL BANK MODARBA MANAGEMENT COMPANY LIMITED	7,500,000
	Modaraba Management Cos	7,500,000
Funds		
1	TRUSTEES D.G.KHAN CEMENT CO.LTD.EMP. P.F	300,000
	Funds	300,000
Others		
1	TRUSTEES ALOO&MINOCHER DINSHAW CHR.TRUST	49,900
2	TEACHERS RESOURCE CENTRE	273,998
	Others	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	1,500,000
DINAZ CASSIM	2,000,000
FIROZUDDIN CASSIM	1,218,500