

# ANNUAL REPORT 2016



**FIRST NATIONAL BANK MODARABA**

**Managed By:**

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

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## CORPORATE INFORMATION

<b>Board of Directors*</b>	<b>Mr. Wajahat Baqai</b> <b>Mr. Khawaja Muhammad Amin-ul-Azam</b> <b>Mr. Khawaja Waheed Raza</b> <b>Syed Mustafa Kamal</b> <b>Mr. Jamal Nasim</b> <b>Mr. Muhammad Iqbal Hussain</b> <b>Mr. Khaqan Hasnain Ibrahim</b>	Chairman Director Director Director Director Director Chief Executive Officer
<b>Shari'ah Advisor</b>	<b>Mufti Ehsan Waquar Ahmed</b>	
<b>Chief Financial Officer/ Company Secretary</b>	<b>Mr. Abbas Azam</b>	
<b>Audit Committee</b>	<b>Mr Jamal Nasim</b> <b>Mr. Khawaja Muhammad Amin-ul-Azam</b> <b>Mr. Khawaja Waheed Raza</b>	Chairman Member Member
<b>HR &amp; Remuneration Committee</b>	<b>Mr. Khawaja Waheed Raza</b> <b>Mr. Wajahat A. Baqai</b> <b>Syed Mustafa Kamal</b> <b>Mr. Muhammad Iqbal Hussain</b>	Chairman Member Member Member
<b>Auditors</b>	<b>Riaz Ahmad &amp; Company</b> Chartered Accountants	
<b>Bankers</b>	<b>National Bank of Pakistan</b> <b>Bank Alfalah Limited</b> <b>Al Baraka Islamic Bank</b> <b>Habib Bank Limited</b> <b>Allied Bank Limited</b> <b>MCB Bank Limited</b> <b>First Women Bank Limited</b> <b>Bank Islami Pakistan Limited</b> <b>United Bank Limited</b>	
<b>Legal Advisor</b>	<b>Cornelius Lane &amp; Mufti</b> <b>Advocates and Solicitors</b> <b>Nawa-i-Waqt House</b> <b>4 – Shahrah-e-Fatima Jinnah, Lahore</b> <b>Tel.: 36360824, Fax: 36303301</b>	
<b>Shares Registrar</b>	<b>Hameed Majeed Associates (Pvt.) Limited</b> <b>H. M. House, 7 – Bank Square, Lahore</b> <b>Tel: 37235081-2, Fax: 37358817</b>	
<b>Registered Office</b>	<b>5<sup>th</sup> Floor, NBP RHQs Building,</b> <b>26 – McLagon Road, Lahore</b> <b>Tel: 042-99211200, Fax: 042-99213247</b> <b>URL: <a href="http://www.nbmodaraba.com">http://www.nbmodaraba.com</a></b> <b>E-mail: <a href="mailto:info@nbmodaraba.com">info@nbmodaraba.com</a></b>	

\*- Subsequently Syed Hasan Irtiza Kazmi has been appointed, with the approval of SECP, as NBP's nominee director in place of Mr. Wajahat Baqai, and Mr. Khawaja Muhammad Amin ul Azam has been appointed as chairman of the Board.

## **NOTICE OF 13TH ANNUAL REVIEW MEETING & BOOK CLOSURE**

Notice is hereby given that the 13<sup>th</sup> Annual Review Meeting of certificate holders of First National Bank Modaraba will be held on Monday, October 31, 2016 at 11:00 a.m. at 4<sup>th</sup> Floor, NBP RHQs Building, 26 – McLagon Road, Lahore to review the performance of the Modaraba for the year ended June 30, 2016.

The Certificate Transfer Book will remain closed from October 22, 2016 to October 31, 2016 (both days inclusive) for the purpose of eligibility to attend the Annual Review Meeting.

The certificate holders whose names appear on the Register of Certificate Holders of First National Bank Modaraba at the close of business as on October 21, 2016 will be eligible to attend the Annual Review Meeting. All transfers received in order, up to the close of business on October 21, 2016 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**

**Abbas Azam**

Company Secretary

National Bank Modaraba Management Company Limited

Managers of First National Bank Modaraba

Lahore: September 30, 2016

### 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.

## **SHARIAH ADVISOR'S REPORT**

بسم الله الرحمن الرحيم

الحمد لله رب العالمين والصلاة والسلام على سيد الانبياء والمرسلين وعلى آله وصحبه اجمعين اما بعد

The Board of Directors of First National Bank Modaraba (FNBM) managed by National Bank Modaraba Management Company Limited (NBMMCL) have entrusted the Shariah Advisor with the task to assess the overall Sharia Compliance level and environment within FNBM.

Truth is that Islam encourages the obligations of daily life along with Deen and Shariah. Sharia does not undermine human nature but shows the correct direction for the guidance and creates a balance between worldly and religious life. Because the economic affairs are directly related with our daily life that's why Islam gives complete importance as equal to basic fundamentals of Islam. In the light of Quran and Sunnah, we as Muslims have to comply with teachings of Islam. FNBM as Islamic Financing Company has the obligations to comply and maintain a Sharia Compliance environment.

The objective of report is to present a view about the overall Shariah compliance and environment within the bank. In the capacity of Sharia Advisor, I have reviewed the overall Shariah compliance and environment within the company as of June 30, 2016.

During the year, the Shariah Advisor of FNBM reviewed various products, concepts, transactions, processes and their Shariah-compliance, referred to them by the FNBM. Based on the above, the Shariah Advisor has opined the following:

**Review of the Products** - (FNBM) has primarily used Murabaha, Ijarah and Diminishing Musharakah for the products. The Shariah Advisor has reviewed all the documents pertaining to these products and recommended improvements accordingly.

**Certificate of Musharakah (COMs)** - Shariah Advisor provided guidance to develop an effective Profit & loss computation mechanism and policy. Upon reviewing Deposit Scheme Sheet of COM as provided by FNBM Management, it is recommended that it shall not offer profit rates to the customers instead use historical profit rates in compliance of Profit and Loss Mechanism. However, for cases that are already matured, no further COMs were issued.

**Staff Financing:** During the year Shariah Advisor reviewed the staff financing agreements and advised FNBM to take corrective measures for existing staff financing



based on Ijarah/ Diminishing Musharakah. In this regard, Shariah Advisor has advised FNBM to ensure zero tolerance for Shariah compliance.

**Content and Structure of DM and Ijarah Agreements** – After reviewing the contents and processes of different modes of finance, improvements were advised by the Shariah Advisor to reinforce the compliance with Shariah guidelines and principles.

**Conclusion-** The management of FNBM is ultimately responsible to ensure implementation of Shariah principles and guidelines as provided by the Shariah Advisor and regulatory guidelines issued by SECP to ensure Shariah Compliance in all activities of the Modaraba.

FNBM has streamlined its processes and agreements in line with the Shariah Advisor's recommendations considerably. Therefore, I am of the opinion that the business operations of FNBM are Shariah Compliant up to the best of my knowledge.

والله سبحانه وتعالى اعلم

ربنا لا تؤاخذنا ان نسينا او اخطانا<sup>١</sup> ربنا ولا تحمل علينا اصرا كما حملته على الذين من قبلنا<sup>٢</sup> ربنا ولا تجعلنا مالا لطاقنا<sup>٣</sup> واعرنا<sup>٤</sup> وقرنا<sup>٥</sup> وقرنا<sup>٦</sup> وقرنا<sup>٧</sup> وقرنا<sup>٨</sup> وقرنا<sup>٩</sup> وقرنا<sup>١٠</sup> وقرنا<sup>١١</sup> وقرنا<sup>١٢</sup> وقرنا<sup>١٣</sup> وقرنا<sup>١٤</sup> وقرنا<sup>١٥</sup> وقرنا<sup>١٦</sup> وقرنا<sup>١٧</sup> وقرنا<sup>١٨</sup> وقرنا<sup>١٩</sup> وقرنا<sup>٢٠</sup> وقرنا<sup>٢١</sup> وقرنا<sup>٢٢</sup> وقرنا<sup>٢٣</sup> وقرنا<sup>٢٤</sup> وقرنا<sup>٢٥</sup> وقرنا<sup>٢٦</sup> وقرنا<sup>٢٧</sup> وقرنا<sup>٢٨</sup> وقرنا<sup>٢٩</sup> وقرنا<sup>٣٠</sup> وقرنا<sup>٣١</sup> وقرنا<sup>٣٢</sup> وقرنا<sup>٣٣</sup> وقرنا<sup>٣٤</sup> وقرنا<sup>٣٥</sup> وقرنا<sup>٣٦</sup> وقرنا<sup>٣٧</sup> وقرنا<sup>٣٨</sup> وقرنا<sup>٣٩</sup> وقرنا<sup>٤٠</sup> وقرنا<sup>٤١</sup> وقرنا<sup>٤٢</sup> وقرنا<sup>٤٣</sup> وقرنا<sup>٤٤</sup> وقرنا<sup>٤٥</sup> وقرنا<sup>٤٦</sup> وقرنا<sup>٤٧</sup> وقرنا<sup>٤٨</sup> وقرنا<sup>٤٩</sup> وقرنا<sup>٥٠</sup> وقرنا<sup>٥١</sup> وقرنا<sup>٥٢</sup> وقرنا<sup>٥٣</sup> وقرنا<sup>٥٤</sup> وقرنا<sup>٥٥</sup> وقرنا<sup>٥٦</sup> وقرنا<sup>٥٧</sup> وقرنا<sup>٥٨</sup> وقرنا<sup>٥٩</sup> وقرنا<sup>٦٠</sup> وقرنا<sup>٦١</sup> وقرنا<sup>٦٢</sup> وقرنا<sup>٦٣</sup> وقرنا<sup>٦٤</sup> وقرنا<sup>٦٥</sup> وقرنا<sup>٦٦</sup> وقرنا<sup>٦٧</sup> وقرنا<sup>٦٨</sup> وقرنا<sup>٦٩</sup> وقرنا<sup>٧٠</sup> وقرنا<sup>٧١</sup> وقرنا<sup>٧٢</sup> وقرنا<sup>٧٣</sup> وقرنا<sup>٧٤</sup> وقرنا<sup>٧٥</sup> وقرنا<sup>٧٦</sup> وقرنا<sup>٧٧</sup> وقرنا<sup>٧٨</sup> وقرنا<sup>٧٩</sup> وقرنا<sup>٨٠</sup> وقرنا<sup>٨١</sup> وقرنا<sup>٨٢</sup> وقرنا<sup>٨٣</sup> وقرنا<sup>٨٤</sup> وقرنا<sup>٨٥</sup> وقرنا<sup>٨٦</sup> وقرنا<sup>٨٧</sup> وقرنا<sup>٨٨</sup> وقرنا<sup>٨٩</sup> وقرنا<sup>٩٠</sup> وقرنا<sup>٩١</sup> وقرنا<sup>٩٢</sup> وقرنا<sup>٩٣</sup> وقرنا<sup>٩٤</sup> وقرنا<sup>٩٥</sup> وقرنا<sup>٩٦</sup> وقرنا<sup>٩٧</sup> وقرنا<sup>٩٨</sup> وقرنا<sup>٩٩</sup> وقرنا<sup>١٠٠</sup>

We pray to almighty ALLAH to provide us guidance to adhere to the Shari'ah principles in day-to-day operations, to absolve our mistakes and for the success of Islamic Financing Industry in Pakistan.

Mufti Ehsan Waquar Ahmed

ع.و. 

Shariah Advisor of FNBM

## DIRECTORS' REPORT

1. Board of Directors of National Bank Modaraba Management Company Limited (NBMMCL), the management Company of First National Bank Modaraba (FNBM), is pleased to present the directors report on the 13<sup>th</sup> annual financial statements of FNBM for the year ended June 30, 2016. These financial statements have been audited by the statutory auditors of the Modaraba and are accompanied by their audit report.
2. **Financial Results:**

	Year Ended June 30, 2016	Year Ended June 30, 2015	Year Ended June 30, 2014	Year Ended June 30, 2013	Year Ended June 30, 2012	Year Ended June 30, 2011
<b>Balance Sheet Size</b>	841,306,270	1,248,349,011	1,692,658,474	2,003,442,328	1,962,968,244	2,167,648,461
<b>Total Equity</b>	87,692,752	141,525,254	263,701,324	297,913,401	339,775,945	337,207,620
<b>Total Operating &amp; Other Income</b>	314,368,924	451,401,503	558,123,884	567,094,855	605,820,667	473,557,528
<b>Operating &amp; Financial Exp.</b>	302,048,194	460,444,217	592,335,961	583,957,399	575,113,425	439,482,193
<b>Profit/(loss) for the period</b>	(53,832,502)	(122,176,070)	(34,212,077)	(16,862,544)	30,707,724	34,075,335
<b>Modaraba Co.'s Management Fee</b>	Nil	Nil	Nil	Nil	3,070,724	3,407,534
<b>Net profit/(loss) after tax</b>	(53,832,502)	(122,176,070)	(34,212,077)	(16,862,544)	27,636,518	30,667,801
<b>Earning/(loss) per certificate (Rs.)</b>	(2.15)	(4.89)	(1.37)	(0.67)	1.11	1.23
<b>Return on Assets (%)</b>	(6.39)	(9.76)	(2.01)	(0.83)	1.38	1.42
<b>Return on Equity (%)</b>	(21.52)	(87.14)	(12.92)	(5.65)	8	9.02
<b>Dividend Paid (%)</b>	Nil	Nil	Nil	Nil	10	10
<b>Breakup value per certificate (Rs.)</b>	3.50	5.64	10.52	11.88	13.56	13.48

### 3. **Sector Outlook:**

The economy during 2015-2016 witnessed stability and low levels of inflation and stable exchange rates supported to a major extent by reduced oil prices. The investor sentiments looked positive, though, to the extent of portfolio investment only, which was reflected in the upward trends of stock market indices. However, the real industrial investment by the private sector remained insignificant probably due to energy shortage. On the other hand, substantial public sector investment in infrastructure and energy projects was observed which, when successfully completed, carry an immense potential for inducing private and foreign investment in the real sector of the country.

Financial sector in Pakistan has remained more or less steady. The sustainable performance of financial sector would, however, depend on the growth of real sector. The Islamic banking/finance is growing at a good pace and is capturing a sizable chunk of the market. The NBFIs and modaraba sectors have also shown returns during the year. There is a good potential for Islamic financing in the market and hence, Modaraba can also prosper by developing their own niche markets through innovation and product development.

## **Review of Operations:**

During the year under review, the management's focus remained on recovery from non-performing portfolio. All possible tools are being exercised for recovery including legal suits, negotiations for settlement/restructuring, repossession of assets, execution of collaterals, etc. Consequently, there were some significant successes in this respect during the year, and in the last month of the financial year a major cash recovery amounting to Rs.32.5 million from a 100% classified account was realized. Overall reversal of provisioning during the year is amounting to Rs.36.5 million. Further provisioning of Rs.97.6 million was charged on classified credit portfolio, resultantly a net provisioning amounting to Rs.61.1 million, mainly on old accounts, plus an impairment of Rs.4.9 million on classified Ijarah portfolio was charged during the year as against net provision of Rs113.1 million charged in the last financial year.

During the year, FNBM has changed its business strategy and focused on small ticket financing. This strategy was adopted in order to avoid credit concentration, achieve larger diversification and hence reducing risk to the minimum. As a result of reduction of equity the business volume was also proportionately reduced in order to maintain a stable financial health, which resulted in reduction of balance sheet size from Rs.1.2 billion last year to Rs.0.841 billion this year. The new financing under Ijarah and diminishing mode during the year amounted to Rs.105 million. The Income from Ijarah and the finance cost was also proportionately reduced. Primarily due to management of operating expenses that reduced by 31% from Rs.23.2 million last year to Rs.16.1 million this year, we were able to make operating profit of Rs.12.3 million during the year as against a loss of Rs.9.0 million in the last year. However, due to inevitable provisioning on account of old NPLs the net loss after tax booked for the year figured Rs.53.8 million as against loss of Rs.122.17 million last year. The loss per certificate accordingly remained at Rs.2.15 as against Rs.4.89 in the corresponding year.

Despite losses we were able to manage our liquidity such that we did not default on any of the financial obligation to any of the financial institutions or COM holders.

The external auditors have included an emphasis of matter paragraph in their audit report regarding going concern ability of FNBM. In this respect, the Boards' position is the same as given in the note 1.1 to the financial statements.

FNBM ensures conformity with the Shariah compliance and Shariah audit mechanism for Modaraba. In this respect, Sharia'h Advisor's report is attached. During the year, an amount of Rs.1,103,720/- was paid as charity to approved charitable institutions as per policy approved by the board of directors.

We believe in steady and sustainable growth backed by the policy of low risk. Presently, however we are passing through a consolidation phase and we expect to resume profitability in the coming years.

## **Profit Distribution**

Board in its meeting held on September 30, 2016 did not declare any dividends due to the aforementioned reasons.

### **1. Entity Rating:**

JCR-VIS Credit Rating Company in their report issued in June 2016 has assigned long term entity rating at 'BBB+' and short term entity rating to 'A-3' (A three).

## **Future Outlook:**

Some major industrial sectors like textile sector have been badly hit by the energy crises and volatile input costs, consequently affecting their ability to honor obligations towards financial institutions. Since FNBM's morabaha portfolio is substantially exposed to textile sector, the challenge before FNBM remains to restructure and regularize this exposure. Going forward, FNBM plans to do small-ticket, low risk business. This would help diversify concentration of risk and also improve its risk and reward equation. FNBM plans to meet its challenges by improving its risk management practices internally and, at the same time, exploring niche businesses that have the capacity and financial strength to pay good returns at an acceptable risk. The overall economic growth in the country would likely act as a catalyst for FNBM's growth and profitability.

## **5. 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 account of the Modaraba have been maintained.
- Appropriate accounting policies have been applied consistently in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, and Islamic Financial Accounting Standards as applicable to Modarabas in Pakistan, have been followed in preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Modaraba's ability to continue as going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- There are no statutory payments on account of taxes, duties, levies and charges, which are outstanding as on June 30, 2016 except those disclosed in the financial statements.
- During the year ended June 30, 2016 eight (08), meetings of the Board of Directors were held. Besides (04) four Audit committee and (01) one HR Committee meetings were also held. Attendance by each directors is as follows:

Name	No. of Attendance		
	Board	Audit Committee	HR Committee
i. Mr. Wajahat Baqai	7	N/A	1
ii. Mr. Khawaja Amin-ul-Azam	7	3	N/A
iii. Mr. Khawaja Waheed Raza	8	4	1
iv. Syed Mustafa Kamal	6	N/A	1
v. Mr. Jamal Nasim	7	4	N/A
vi. Mr. Muhammad Iqbal Hussain	8	N/A	1
vii. Mr. Khaqan Hasnain Ibrahim	8	N/A	N/A

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:**

On the recommendation of the Audit Committee, the board has approved the appointment of the present auditors Riaz Ahmad & Company Chartered Accountants as auditors for the year ending 30 June 2017, subject to approval by the Registrar, Modaraba Companies and Modarabas.

**2. Acknowledgement:**

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

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

For and on Behalf of the Board



Khaqan Hasnain Ibrahim  
Chief Executive Officer

## ڈائریکٹرز رپورٹ

بورڈ آف ڈائریکٹرز نیشنل بینک مضاربہ منجمنٹ کمپنی لمیٹڈ (NBMMCL)، ”منتظم“ فرسٹ نیشنل بینک مضاربہ کی جون 2016ء کو ختمہ سال کے لئے فرسٹ نیشنل بینک مضاربہ کی 13 ویں سالانہ مالیاتی رپورٹ پیش کرتے ہوئے خوشی محسوس کر رہے ہیں، یہ مالیاتی نتائج فرسٹ نیشنل بینک مضاربہ کے قانونی محاسب کی رپورٹ کے ساتھ پیش کئے گئے ہیں۔

### 1- مالی نتائج

سال ختم شد 30 جون 2011	سال ختم شد 30 جون 2012	سال ختم شد 30 جون 2013	سال ختم شد 30 جون 2014	سال ختم شد 30 جون 2015	سال ختم شد 30 جون 2016	
2,167,648,461	1,962,968,244	2,003,442,328	1,692,658,474	1,248,349,011	841,306,270	تجم بیلنس شیٹ
337,207,620	339,775,945	297,913,401	263,701,324	141,525,254	87,692,752	کل ایکویٹی
473,557,528	605,820,667	567,094,855	558,123,884	451,401,503	314,368,924	کل عملی و دیگر آمدن
439,482,193	575,113,425	583,957,399	592,335,961	460,444,217	302,048,194	عملی و مالی اخراجات
34,075,335	30,707,724	(16,862,544)	(34,212,077)	(122,176,070)	(53,832,502)	نفع / (نقصان) برائے دورانیہ
3,407,534	3,070,724	Nil	Nil	Nil	Nil	مضاربہ کمپنی کی انتظامی فیس
30,667,801	27,636,518	(16,862,544)	(34,212,077)	(122,176,070)	(53,832,502)	کل منافع / (نقصان) بعد از ٹیکس
1.23	1.11	(0.67)	(1.37)	(4.89)	(2.15)	کمائی / نقصان فی سرٹیفکیٹ (روپے)
1.42	1.38	(0.83)	(2.01)	(9.76)	(6.39)	اثاثہ جات پر ریٹرن
9.02	8	(5.65)	(12.92)	(87.14)	(21.52)	ایکویٹی پر ریٹرن
10	10	Nil	Nil	Nil	Nil	اداشدہ ڈیویڈنڈ
13.48	13.56	11.88	10.52	5.64	3.50	بریک اپ ویلیو سرٹیفکیٹ

### 2 - سیکٹر کا جائزہ

2015-2016 کے دوران معیشت میں استحکام، مہنگائی کی کم سطوحات اور زرمبادلہ کی شرح میں استحکام واقع ہوا جس کی مرکزی وجہ تیل کی گرتی ہوئی قیمتیں تھی۔ سرمایہ کاروں کا رجحان مثبت دکھائی دیا، اگرچہ صرف پورٹ فولیو سرمایہ کاری تک ہی، جس کی عکاسی اسٹاک مارکیٹ انڈیکس کے اوپر جاتے رجحانات سے ہوئی۔ تاہم، نجی شعبہ میں حقیقی صنعتی سرمایہ کاری ممکنہ طور پر توانائی بحران کی وجہ سے معمولی رہی۔ دوسری طرف انفراسٹرکچر اور انرجی کے منصوبوں میں عوامی شعبے کی جانب سے معقول سرمایہ کاری دیکھی گئی، جو اپنی کامیاب تکمیل پر ملک کے حقیقی پیداواری شعبے میں نجی اور غیر ملکی سرمایہ کاری کی بے پناہ قابلیت رکھتے ہیں۔

پاکستان میں مالی شعبہ کم و بیش مستحکم رہا۔ تاہم مالی شعبے کی معقول کارکردگی حقیقی پیداواری شعبے کی ترقی پر منحصر ہے۔ اسلامک بینکنگ / فنانس اچھی رفتار پر ترقی کر رہا ہے اور مارکیٹ کا کثیر حصہ حاصل کیے ہوئے ہے۔ NBFIs اور شعبہ مضاربہ نے دوران سال ریٹرنز ظاہر کیے ہیں۔ مارکیٹ میں اسلامک فنانسنگ کے لیے اچھے امکانات ہیں لہذا مضاربہ تنوع اور مصنوعات کی بہتری کے ذریعے اپنی مارکیٹ بنا کر ترقی کر سکتا ہے۔

## عوام کا جائزہ

زیر جائزہ سال کے دوران، انتظامیہ کی توجہ غیر کارکردگی والے پورٹ فولیو سے وصولی پر مرکوز رہی۔ وصولی کے لیے تمام ممکنہ تدابیر اپنائی گئی بشمول قانونی مقدمے، سمجھوتے / تشکیل نو کے لیے مذاکرات، اثاثہ جات کا دوبارہ قبضہ، کو لیٹرز کی تعمیل وغیرہ۔ نتیجتاً، اس حوالے سے دوران سال کچھ قابل قدر کامیابی ملی اور مالی سال کے آخری مہینے میں ایک 100 فیصد کلاسیفائڈ اکاؤنٹ سے 32.5 ملین نقد کی بڑی وصولی واقع ہوئی۔ مجموعی طور پر دوران سال پرویزنگ کی تینخ 36.5 ملین روپے ہے۔ 97.6 ملین روپے کی مزید پرویزنگ کلاسیفائڈ کریڈٹ پورٹ فولیو پر چارج کی گئی، جس کے نتیجے میں 61.1 ملین روپے کی کل پرویزنگ، مرکزی طور پر پرانے اکاؤنٹس پر بمعہ کلاسیفائڈ اجرا پورٹ فولیو پر 4.9 ملین روپے کی ایمپیر میٹ دوران سال چارج کی گئی، گزشتہ مالی سال کی چارج کردہ 113.1 ملین کی کل پرویزنگ کے برعکس۔

دوران سال، FNBM نے اپنی کاروباری حکمت عملی تبدیل کی ہے اور چھوٹی ٹکٹ کی فنانسنگ پر توجہ دی ہے۔ یہ حکمت عملی کریڈٹ کے ارتکاز سے بچنے کے لیے، وسیع تنوع حاصل کرنے کے لیے اور خطرات کو کم از کم سطح پر لانے کے لیے اپنائی گئی تھی۔ ایکویٹی میں کمی کے نتیجے میں کاروبار کا حجم بھی متناسب طور پر کم کیا گیا تاکہ مستحکم مالی صورتحال برقرار رکھی جاسکے جس سے بیلنس شیٹ کا حجم پچھلے سال کے 1.2 بلین کی جگہ اس سال 0.841 بلین ہوا۔ اجارہ اور ڈیہیشنگ مشارکہ کے طریقہ سے نئی فنانسنگ دوران سال 105 ملین روپے تھی۔ اجرا کی آمدن اور فنانس اخراجات بھی متناسب طور پر کم کیے گئے۔ مرکزی طور پر عملی اخراجات کے انصرام کی وجہ سے جو 31 فیصد کم ہو کر پچھلے سال کے 23.2 ملین روپے کے مقابلے اس سال 16.1 ملین رہ گئے، پچھلے سال کے 9.0 ملین روپے کے نقصان کے برعکس ہم دوران سال 12.3 ملین روپے کا آپریٹنگ منافع کمانے میں کامیاب ہوئے۔ تاہم پرانے NPLs کی ناقابل گزیر پرویزنگ کی وجہ سے بعد از ٹیکس کل نقصان پچھلے سال کے 122.17 ملین روپے کے برعکس 53.8 ملین روپے ہوا۔ اسی طرح نقصان فی شیڈ کیٹ پچھلے سال کے 4.89 روپے کی نسبت 2.15 روپے ہوا۔

نقصانات کے باوجود ہم لیکویڈٹی اس حد تک برقرار رکھنے میں کامیاب رہے کہ ہم کسی مالی ذمہ داری پر کسی بھی مالی ادارے یا COM ہولڈرز کے نادر ہندہ نہیں ہوئے۔ بیرونی آڈیٹرز نے اپنی رپورٹ میں ایمفیٹیز 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 شریعی کی تعمیل اور مضاربہ کے لیے شریعی کے آڈٹ کے طریقہ کار کی یقین دہانی کرتا ہے۔ اس حوالے سے شریعی مشیر کی رپورٹ لف ہے۔ دوران سال، مبلغ / 1,103,720 روپے کی رقم مصدقہ خیراتی اداروں کو بمطابق پالیسی منظور کردہ بورڈ آف ڈائریکٹرز، بطور خیرات ادا کی گئی۔

ہم مستقل اور مستحکم ترقی اور کم خدشے کی پالیسی پر یقین رکھتے ہیں۔ تاہم فی الوقت ہم مستحکم ہونے کے دور سے گزر رہے ہیں اور ہم آنے والے سالوں میں منافع حاصل کرنے کی توقع رکھتے ہیں۔

## منافع کی تقسیم:

بورڈ نے 30 ستمبر 2016 کو ہونے والی میٹنگ میں مندرجہ بالا وجوہات کی بنا پر کسی ڈویڈنڈ کا اعلان نہیں کیا۔

## 3- اینٹری ریٹنگ

جون 2016 میں جاری کردہ اپنی رپورٹ میں JCR-VIS کریڈٹ ریٹنگ کمپنی نے لمبے دورانیے کی انٹری ریٹنگ BBB+ اور مختصر دورانیے کی کریڈٹ ریٹنگ A-3 (اے تھری) مختص کی ہے۔

## مستقبل کا جائزہ

توانائی، بحران اور غیر مستحکم قیمتوں کی وجہ سے کچھ اہم صنعتی شعبے مثلاً ٹیکسٹائل کا شعبہ بری طرح متاثر ہوئے ہیں جس کے نتیجے میں ان کی مالی اداروں کے واجبات کی ذمہ داری پوری کرنے کی قابلیت متاثر ہوئی ہے۔ چونکہ FNBM کا مورابہ پورٹ فولیو شعبہ ٹیکسٹائل سے وابستہ ہے، FNBM کا چیلنج ہے اس کی تشکیل نو اور

باقاعدگی۔ آگے بڑھتے ہوئے FNBM کا ارادہ ہے چھوٹی ٹکٹ کے، کم خطرے والے کاروبار کرنا۔ اس سے خطرات کو کم کرنے میں مدد ملے گی اور خطرے اور منافع کے تناسب میں بھی بہتری آئے گی۔ FNBM اپنے چیلنج کو پورا کرنے کے لیے اندرونی طور پر خطرات کے انصرام کے نظام کو بہتر بنانے اور اسی اثنا میں ایسے متعلقہ کاروبار تلاش کرنے کا ارادہ رکھتی ہے جو قابل قبول خطرات کی سطح پر اچھی وصولی دینے کی قابلیت اور مالی استطاعت رکھتے ہیں۔ ملک کی مجموعی معاشی ترقی FNBM کی ترقی اور منافع میں عمل انگیز کاروبار ادا کرے گی۔

#### 4- 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، ڈیوٹیز، لیویز اور چارج کی مد میں 30 جون 2016 تک کی آئینی ادائیگیوں میں کوئی واجب الادا مطالبات نہ ہیں ماسوائے ان کے جو مالی اسٹیٹمنٹ میں بیان کیے گئے ہیں۔

30 جون 2016 کو اختتام پذیر ہونے والے سال میں بورڈ آف ڈائریکٹرز کی آٹھ 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:

نام	تعداد حاضری		
	بورڈ	آڈٹ کمیٹی	ایچ آر کمیٹی
جناب وجاہت بقائی	7	N/A	1
جناب خواجہ محمد امین الاعظم	7	3	N/A
جناب خواجہ وحید رضا	8	4	1
سید مصطفیٰ کمال	6	N/A	1
جناب جمال نسیم	7	4	N/A
جناب محمد اقبال حسین	8	N/A	1
جناب خاقان حسین ابراہیم	8	N/A	N/A

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 کمیٹی NBMMCL کی جانب سے ادا کی گئی۔  
سرٹیفکیٹ ہولڈرز کی ترتیب لف ہدا ہے۔

5- آڈیٹرز

آڈٹ کمیٹی کی سفارش پر، بورڈ نے آپ کے موجودہ آڈیٹرز ریاض احمد اینڈ کمپنی چارٹرڈ اکاؤنٹنٹس کی تقرری بطور آڈیٹرز برائے سال 30 جون 2017 منظور کی ہے، جو رجسٹرڈ مضماری کمپنیز و مضاربہ جات کی منظوری سے مشروط ہے۔

6- اعتراف

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

ہمارے سرٹیفکیٹ ہولڈرز کا ان کے اعتماد اور بھروسے کے لیے اور مضاربہ عملے کا ان کی پر عزم اور دلجوئی سے کی جانے والی خدمات کے لیے خصوصی شکریہ۔

برائے و بجا نب بورڈ



خاقان حسنین ابراہیم

چیف ایگزیکٹو آفیسر

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in the Regulation 5.19 of Pakistan Stock Exchange Limited for the purpose of establishing a framework of good governance, whereby a listed modaraba is managed in compliance with the best practices of corporate governance.

Regardless of the fact that National Bank Modaraba Management Company Limited, the Management Company of First National Bank Modaraba ("the Modaraba"), is a public unlisted company, the Board of Directors of the management company are pleased to confirm that the CCG is being complied with in all material respects (pertaining to the operations of the Modaraba).

The Modaraba Management Company ("the Company") has applied the principles contained in the CCG in the following manner:

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

Category	Name
Executive Director	Mr. Khaqan Hasnain Ibrahim
Non-Executive Directors	Mr. Wajahat Ahmad Baqai Mr. Khawaja Muhammad Amin-ul-Azam
Independent Directors	Mr. Syed Mustafa Kamal Mr. Khawaja Waheed Raza Mr. Jamal Nasim Mr. Muhammad Iqbal Hussain

The independent directors meet the criteria under clause 5.19.1 (b) of the CCG

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a broker of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy had occurred on the Board of directors during the year.
5. 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.
6. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the Modaraba. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO of the Company, other executive and non-executive directors, have been taken by the board.
8. 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 and the board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. No directors' training programme was arranged during the year. However, the management is committed to arrange directors' training programme of at least half of its directors by 30 June 2018.

10. No new appointment of Chief Financial Officer, Head of Internal Audit and Company Secretary was made during the year.
11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Modaraba were duly endorsed by CEO and CFO before approval of the board.
13. The Directors, CEO and Executives do not hold any interest in the certificates of the Modaraba other than that disclosed in the pattern of certificate holding.
14. The Modaraba has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an audit committee. It comprises of three members all of whom are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Modaraba and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has formed an Human Resource and Remuneration committee comprises of four members. All of them are non-executive directors including the Chairman of the committee.
18. The board has set up an effective internal audit function which is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Modaraba.
19. The statutory auditors of the Modaraba have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold certificates of the Modaraba and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on the Code of Ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of the Modaraba's securities, was determined and intimated to directors, employees and stock exchanges.
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchanges.
23. The Company has complied with the requirements relating to maintenance of register of persons having access to inside information by designated senior management officer in a timely manner and maintained proper record including basis for inclusion or exclusion of names of persons from the said list.
24. We confirm that all other material principles enshrined in the CCG have been complied with.



**Khaqan Hasnain Ibrahim**

**Chief Executive Officer**

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

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance ("the Code") prepared by the Board of Directors of National Bank Modaraba Management Company Limited ("the Management Company") in respect of First National Bank Modaraba ("the Modaraba") for the year ended 30 June 2016 to comply the Code contained in the Regulations of Pakistan Stock Exchange Limited, where the Modaraba is listed.

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

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

The Code requires the Management Company to place before the audit committee, and upon recommendation of the audit committee, place before the Board of Directors for their review and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors upon the recommendation of the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Management Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Management Company for the year ended 30 June 2016.



RIAZ AHMAD & COMPANY  
Chartered Accountants

Name of engagement partner:  
Syed Mustafa Ali

Date: September 30, 2016

LAHORE

## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of FIRST NATIONAL BANK MODARABA ("the Modaraba") as at 30 June 2016 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 agreement with 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 30 June 2016 and of the loss, its comprehensive loss, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

We draw attention to note 1.1 to the financial statements which indicates that the Modaraba has incurred a loss after taxation of Rupees 53.833 million during the year ended 30 June 2016, while the accumulated loss as at 30 June 2016 amounts to Rupees 206.262 million which exceeds fifty percent of the total amount subscribed by the holders of the modaraba certificates and as of that date the Modaraba's current liabilities exceeded its current assets by Rupees 311.647 million. These conditions, along with other matters as explained in Note 1.1, indicate the existence of material uncertainty which may cast significant doubts about the Modaraba's ability to continue as going concern. Our opinion is not qualified in respect of this matter.



RIAZ AHMAD & COMPANY  
Chartered Accountants

Name of engagement partner:  
Syed Mustafa Ali

Date: September 30, 2016  
LAHORE

# First National Bank Modaraba

## BALANCE SHEET AS AT JUNE 30, 2016

ASSETS	NOTE	2016 Rupees	2015 Rupees
<b>CURRENT ASSETS</b>			
Bank balances	3	14,743,528	89,487,848
Short term murabaha investments - secured	4	98,334,293	142,205,887
Accrued profit	5	487,183	3,621,217
Ijarah rentals receivable	6	81,817,794	58,284,350
Advances, prepayments and other receivables	7	2,604,790	27,418,946
Current portion of non-current assets	8	<u>94,413,807</u>	<u>82,289,108</u>
		292,401,395	403,307,356
<b>NON-CURRENT ASSETS</b>			
Net investment in ijarah finance	9	9,442,934	20,895,185
Diminishing musharaka financing - secured	10	35,303,315	17,340,724
Long term murabaha investments - secured	11	36,149,675	92,676,970
Long term loans and deposits	12	1,723,444	4,585,119
Intangible asset	13	-	146,016
Ijarah assets	14	466,193,676	709,030,283
Fixed assets - own use	15	91,831	367,358
Deferred income tax asset	31	-	-
		<u>548,904,875</u>	<u>845,041,655</u>
<b>TOTAL ASSETS</b>		<b>841,306,270</b>	<b>1,248,349,011</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accrued profit		6,438,136	17,385,139
Deferred murabaha income	4	3,255,776	2,419,020
Short term finances - secured	16	274,918,586	134,685,179
Short term certificates of musharaka - unsecured	17	-	295,597,365
Creditors, accrued and other liabilities	18	23,696,977	20,799,768
Current portion of non-current liabilities	19	<u>295,738,705</u>	<u>384,235,624</u>
		604,048,180	855,122,095
<b>NON-CURRENT LIABILITIES</b>			
Security deposits against ijarah assets	20	71,620,702	152,958,007
Long term finances - secured	21	50,000,000	68,333,333
Deferred murabaha income	22	<u>27,944,636</u>	<u>30,410,322</u>
		149,565,338	251,701,662
<b>TOTAL LIABILITIES</b>		<b>753,613,518</b>	<b>1,106,823,757</b>
<b>NET ASSETS</b>		<b>87,692,752</b>	<b>141,525,254</b>
<b>FINANCED BY</b>			
Certificate capital	23	250,000,000	250,000,000
Reserves	24	(162,307,248)	(108,474,746)
<b>TOTAL EQUITY AND RESERVES</b>		<b>87,692,752</b>	<b>141,525,254</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	25		

The annexed notes 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

Lahore: September 30, 2016

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2016

	NOTE	2016 Rupees	2015 Rupees
<b>INCOME</b>			
Ijarah rentals earned / income from ijarah finance		305,749,520	424,495,289
Profit on diminishing musharaka		3,804,355	3,777,317
Profit on murabaha investments		1,979,454	13,355,865
Profit on bank deposits		1,002,006	359,763
Gain on disposal of ijarah assets		-	6,883,319
Other income	26	1,833,589	2,529,950
		<u>314,368,924</u>	<u>451,401,503</u>
<b>EXPENSES</b>			
Depreciation on ijarah assets	14	(237,061,840)	(347,127,204)
Loss on disposal of ijarah assets		(3,939,655)	-
Operating expenses	27	(16,130,081)	(23,210,586)
Finance cost	28	(44,916,618)	(90,106,427)
		<u>(302,048,194)</u>	<u>(460,444,217)</u>
Operating profit / (loss) before provision and taxation		12,320,730	(9,042,714)
Provision charged for doubtful receivables - net	29	(61,179,143)	(113,133,356)
Impairment loss on ijarah assets	14	(4,974,089)	-
		<u>(53,832,502)</u>	<u>(122,176,070)</u>
Modaraba management company fee	30	-	-
<b>LOSS BEFORE TAXATION</b>		<u>(53,832,502)</u>	<u>(122,176,070)</u>
Taxation	31	-	-
<b>LOSS AFTER TAXATION</b>		<u>(53,832,502)</u>	<u>(122,176,070)</u>
<b>LOSS PER CERTIFICATE - BASIC AND DILUTED</b>	32	<u>(2.15)</u>	<u>(4.89)</u>

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

Lahore: September 30, 2016

  
**Chief Executive Officer**  
 National Bank Modaraba  
 Management Company Limited

  
**Director**  
 National Bank Modaraba  
 Management Company Limited

  
**Director**  
 National Bank Modaraba  
 Management Company Limited

**STATEMENT OF COMPREHENSIVE INCOME**  
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
	Rupees	Rupees
LOSS AFTER TAXATION	(53,832,502)	(122,176,070)
OTHER COMPREHENSIVE INCOME	-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(53,832,502)</u>	<u>(122,176,070)</u>

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

Lahore: September 30, 2016

  
Chief Executive Officer  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited

  
Director  
National Bank Modaraba  
Management Company Limited

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2016

	NOTE	2016 Rupees	2015 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before taxation		(53,832,502)	(122,176,070)
Adjustments for non cash charges and other items:			
Depreciation and amortization		237,446,781	347,760,499
Provision charged for doubtful receivables - net		61,179,143	113,133,356
Gain on disposal of fixed assets - own use		(1,503,510)	-
Impairment loss on ijarah assets		4,974,089	-
Loss / (gain) on disposal of ijarah assets		3,939,655	(6,883,319)
Finance cost		44,916,618	90,106,427
Profit on bank deposits		(1,002,006)	(359,763)
Working capital changes		349,950,770	543,757,200
(Increase) / decrease in assets			
Accrued profit		2,897,880	7,052,141
Ijarah rentals receivable		(24,522,278)	(15,620,154)
Advances, prepayments and other receivables		21,891,975	(5,902,177)
Short term murabaha investments		37,789,339	193,891,110
Net investment in ijarah finance		4,140,000	5,518,468
Diminishing musharaka financing		(29,524,167)	2,253,279
Long term murabaha investments		12,613,331	(57,753,968)
(Decrease) / increase in liabilities			
Short term certificates of musharaka - net		(295,597,365)	40,678,556
Long term certificates of musharaka		-	(3,658,017)
Creditors, accrued and other liabilities		3,143,629	(22,481,279)
Security deposits against ijarah assets received		4,083,500	58,981,215
		(263,084,156)	202,959,174
Cash generated from operations		33,034,112	624,540,304
Finance cost paid		(55,863,620)	(89,592,095)
Income taxes paid		(458,203)	(66,466)
Profit received on bank deposits		1,238,160	385,456
Long term loans and deposits - net		3,633,852	(248,411)
Net cash (used in) / generated from operating activities		(18,415,699)	535,018,788
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Ijarah assets acquired		(76,361,058)	(179,201,494)
Fixed assets - own use acquired		(10,200)	(53,950)
Proceeds from disposal of fixed assets - own use		1,550,312	-
Proceeds from disposal of ijarah assets		28,830,312	34,208,838
Net cash used in investing activities		(45,990,634)	(145,046,606)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Short term finances - net		140,233,407	(52,276,509)
Profit paid to certificate holders		(246,420)	-
Long term finances - obtained		100,000,000	-
Long term finances - repaid		(250,324,974)	(291,008,358)
Net cash used in financing activities		(10,337,987)	(343,284,867)
Net (decrease) / increase in cash and cash equivalents		(74,744,320)	46,687,315
Cash and cash equivalents at the beginning of the year		89,487,848	42,800,533
Cash and cash equivalents at the end of the year	3	14,743,528	89,487,848

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



**Chief Executive Officer**  
National Bank Modaraba  
Management Company Limited

Lahore: September 30, 2016



**Director**  
National Bank Modaraba  
Management Company Limited



**Director**  
National Bank Modaraba  
Management Company Limited

**STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED JUNE 30, 2016

	CERTIFICATE CAPITAL	RESERVES			TOTAL EQUITY
		CAPITAL	REVENUE	TOTAL	
		STATUTORY RESERVE	ACCUMULATED LOSS		
.....Rupees.....					
Balance as at 30 June 2014	250,000,000	43,955,189	(30,253,865)	13,701,324	263,701,324
Loss for the year ended 30 June 2015	-	-	(122,176,070)	(122,176,070)	(122,176,070)
Other comprehensive income for the year ended 30 June 2015	-	-	-	-	-
Total comprehensive loss for the year ended 30 June 2015	-	-	(122,176,070)	(122,176,070)	(122,176,070)
Balance as at 30 June 2015	250,000,000	43,955,189	(152,429,935)	(108,474,746)	141,525,254
Loss for the year ended 30 June 2016	-	-	(53,832,502)	(53,832,502)	(53,832,502)
Other comprehensive income for the year ended 30 June 2016	-	-	-	-	-
Total comprehensive loss for the year ended 30 June 2016	-	-	(53,832,502)	(53,832,502)	(53,832,502)
Balance as at 30 June 2016	250,000,000	43,955,189	(206,262,437)	(162,307,248)	87,692,752

The annexed notes 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

Lahore: September 30, 2016

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### 1 LEGAL STATUS AND NATURE OF BUSINESS

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

The Modaraba is listed on Pakistan Stock Exchange Limited. It commenced its operations on 04 December 2003 and is currently engaged in various Islamic modes of financing and operations including ijarah, musharaka and murabaha arrangements.

JCR-VIS has assigned long term rating of BBB+ and short term rating of A-3 to the Modaraba.

#### 1.1 Going concern assumption

During the year, the Modaraba made an operating profit of Rupees 12.321 million, however, due to provision and impairment charged against classified assets, the Modaraba incurred loss after taxation of Rupees 53.833 million taking the accumulated loss to Rupees 206.262 million which exceeds 50% of the total amount subscribed by the holders of modaraba certificates. As on the reporting date, the Modaraba's accumulated loss net of Statutory Reserve is amounting to Rupees 162.307 million and its current liabilities exceeded its current assets by Rupees 311.647 million.

In order to address the going concern issue in terms of Section 23 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, National Bank of Pakistan (NBP), being the parent company of the modaraba management company remains committed to support the Modaraba and has sanctioned a long term finance of Rupees 100 million, which is repayable in three years. NBP has also renewed the short term borrowing facility of Rupees 250 million. Further, besides fresh funding, the Modaraba is also engaged with NBP to secure its help in recoveries from non-performing parties which are common with NBP and the Modaraba, as this would optimize synergies for the consolidated entity at group level both in form of saving management costs and accelerating recoveries. During the year, the Modaraba has recovered around Rupees 36 million from those classified parties against which full or partial provision was made in the books of account. Moreover approximate amount of the Ijarah rentals due from the unclassified parties within next twelve months is Rupees 137.322 million. National Bank of Pakistan in its letter dated 29 April 2016 to the State Bank of Pakistan has discussed in detail the steps taken to improve the performance of the Modaraba and its commitment to continue the efforts and support in reviving the profitability of the Modaraba to safeguard the interest of all stakeholders.

The management of the Modaraba is confident that these steps will bring the Modaraba out of financial losses and the Modaraba would have adequate surplus resources to continue its business in foreseeable future. These financial statements therefore, does not include any adjustment relating to realization of its assets and liquidation of any liabilities that might be necessary should the Modaraba be unable to continue as a going concern.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated:

### 2.1 BASIS OF PREPARATION

#### a) Statement of compliance

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

#### b) Accounting convention

These financial statements have been prepared under the historical cost convention except for certain financial instruments carried at fair value.

#### c) Use of Estimate and Judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Modaraba's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and measurement estimates are significant to the Modaraba's financial statements or where judgments were exercised in application of accounting policies are as follows:

#### Ijarah Assets and Fixed Assets in Own Use

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

#### Ijarah rentals, diminishing musharaka financing and murabaha investments

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

#### d) Standard that is effective in current year and is relevant to the Modaraba

The following standard is mandatory for the Modaraba's accounting periods beginning on or after 01 July 2015:

IFRS 13 'Fair value Measurement' (effective for annual periods beginning on or after 01 January 2015). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. This standard does not have significant impact on these financial statements, except for certain additional disclosures.

e) Standards and amendments to published standards that are effective in current year but not relevant to the Modaraba

There are other standards and amendments to published standards that are mandatory for accounting periods beginning on or after 01 July 2015 but are considered not to be relevant or do not have any significant impact on the Modaraba's financial statements and are therefore not detailed in these financial statements.

f) Standards and amendments to published approved accounting standards that are not yet effective but relevant to the Modaraba

The following standards and amendments to existing standards have been published and are mandatory for the Modaraba's accounting periods beginning on or after 01 July 2016 or later periods:

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 01 January 2018). A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 'Financial Instruments: Recognition and Measurement'. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized. It introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39. The management of the Modaraba is in the process of evaluating the impacts of the aforesaid standard on the Modaraba's financial statements.

IFRS 15 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after 01 January 2018). IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are: identify the contract with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contracts; and recognise revenue when (or as) the entity satisfies a performance obligation. Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. The management of the Modaraba is in the process of evaluating the impacts of the aforesaid standard on the Modaraba's financial statements.

IFRS 16 'Lease' (effective for annual periods beginning on or after 01 January 2019). IFRS 16 specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16 approach to lessor accounting substantially unchanged from its predecessor, IAS 17 'Leases'. IFRS 16 replaces IAS 17, IFRIC 4 'Determining Whether an Arrangement Contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The management of the Modaraba is in the process of evaluating the impacts of the aforesaid standard on the Modaraba's financial statements.

IFRS 15 (Amendments), 'Revenue from Contracts with Customers' (effective for annual periods beginning on or after 01 January 2018). Amendments clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts. The aforesaid amendments are not expected to have a material impact on the Modaraba's financial statements.

IAS 7 (Amendments), 'Statement of Cash Flows' (effective for annual periods beginning on or after 01 January 2017). Amendments have been made to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The aforesaid amendments will result in certain additional disclosures in the Modaraba's financial statements.

On 25 September 2014, IASB issued Annual Improvements to IFRSs: 2012 – 2014 Cycle, incorporating amendments to four IFRSs more specifically in IAS 34 'Interim Financial Reporting', which is considered relevant to the Modaraba's financial statements. These amendments are effective for annual periods beginning on or after 01 January 2016. The amendment is unlikely to have a significant impact on the Modaraba's financial statements and has therefore not been analysed in detail.

g) Standards and amendments to published standards that are not yet and not considered relevant to the Modaraba

There are other standards and amendments to published standards that are mandatory for accounting periods beginning on or after 01 July 2016 but are considered not to be relevant or do not have any significant impact on the Modaraba's financial statements and are therefore not detailed in these financial statements.

## 2.2 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.

## 2.3 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.

## 2.4 Murabaha investments

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.

## 2.5 Financial instruments

Financial instruments carried on the balance sheet include long term loans and deposits, ijarah rentals receivable, net investment in ijarah finance, murabaha investments, diminishing musharaka financing, advances and other receivables, bank balances, certificates of musharaka, short term finances, long term finances, accrued profit and creditors accrued and other liabilities. Financial assets and liabilities are recognized when the Modaraba becomes a party to the contractual provisions of instrument. Initial recognition is made at fair value plus transaction costs directly attributable to acquisition, except for "financial instrument at fair value through profit or loss" which is measured initially at fair value.

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. Financial liabilities are de-recognized when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on subsequent measurement (except available for sale investments) and de-recognition is charged to the profit or loss currently. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

## 2.6 Payables

Liabilities for other amounts payable are initially recognized at fair value, which is normally the transaction cost.

## 2.7 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.

## 2.8 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.

## 2.9 Lease (ijarah) accounting

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

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

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

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

## 2.10 Fixed assets

### Assets given to customers 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.

### Assets in own use - Tangible

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

Depreciation is charged to income using the straight line method at the rates as specified in note 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.

### 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.

## 2.11 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.

## 2.12 Revenue recognition

For lease (ijarah) agreements executed on or before 30 June 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 01 July 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.

## 2.13 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.

## 2.14 Taxation

### 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.

### 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.

## 2.15 Profit distribution

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

## 2.16 Segment reporting

As per IFRS 8, operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Managing Director has been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

The Managing Director is responsible for the Modaraba's entire product portfolio and considers the business to have a single operating segment. The Modaraba's asset allocation decisions are based on a single integrated investment and the Modaraba's performance is evaluated on overall basis.

# First National Bank Modaraba

	2016 Rupees	2015 Rupees
<b>3 BANK BALANCES</b>		
Current accounts		
Associated undertaking - National Bank of Pakistan	750,329	665,331
Others	1,506,724	18,246,402
	<u>2,257,053</u>	<u>18,911,733</u>
Saving accounts (Note 3.1)		
Associated undertaking - National Bank of Pakistan	1,762,619	2,917,229
Others	10,723,856	67,658,886
	<u>12,486,475</u>	<u>70,576,115</u>
	<u>14,743,528</u>	<u>89,487,848</u>
3.1 These carry mark-up at the rate of 3.50% to 6.50% (2015: 3.50% to 7.41%) per annum.		
<b>4 SHORT TERM MURABAHA INVESTMENTS - SECURED</b>		
Considered good	25,000,000	76,400,769
Considered doubtful	247,125,028	233,513,598
	<u>272,125,028</u>	<u>309,914,367</u>
Add: Deferred murabaha income	3,255,776	2,419,020
	<u>275,380,804</u>	<u>312,333,387</u>
Less: Provision for non-performing murabaha investments	(177,046,511)	(170,127,500)
	<u>98,334,293</u>	<u>142,205,887</u>
4.1 Provision for non-performing murabaha investments		
Opening balance	170,127,500	97,987,664
Charged during the year	43,027,951	72,139,836
Reversed during the year	(36,108,940)	-
Net charged during the year	6,919,011	72,139,836
Closing balance	<u>177,046,511</u>	<u>170,127,500</u>
4.2 These represent investments under murabaha arrangements on deferred payment basis at specified profit margins. These investments carry profit at the rate of 9.61% to 15.54% (2015: 10.2% to 15.89%) 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.		
<b>5 ACCRUED PROFIT</b>		
Bank deposits	-	236,154
Murabaha investments	345,915	2,912,563
Diminishing musharaka	141,268	472,500
	<u>487,183</u>	<u>3,621,217</u>
<b>6 IJARAH RENTALS RECEIVABLE</b>		
Considered good - secured	24,220,234	49,269,262
Considered doubtful	88,327,883	30,072,445
Less: Provision for doubtful ijarah rentals receivable (Note 6.1)	(13,622,056)	(12,633,222)
Less: Profit held in suspense (Note 6.2)	(17,108,267)	(8,424,135)
	<u>57,597,560</u>	<u>9,015,088</u>
	<u>81,817,794</u>	<u>58,284,350</u>
6.1 Provision for doubtful ijarah rentals receivable		
Opening balance	12,633,222	-
Charged during the year	1,239,496	12,633,222
Reversed during the year	(250,662)	-
Closing balance	<u>13,622,056</u>	<u>12,633,222</u>

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	2016 Rupees	2015 Rupees				
6.2 Profit held in suspense						
Opening balance	8,424,135	-				
Income suspended during the year	8,684,132	8,424,135				
Closing balance	<u>17,108,267</u>	<u>8,424,135</u>				
7 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES						
Advances for ijarah assets - considered good	-	24,096,048				
Advances to employees for expenses (unsecured - considered good)	21,491	61,090				
Income tax deducted at source	1,167,799	709,596				
Prepayments	249,157	411,049				
Other receivables (Note 7.1)	1,166,343	2,141,163				
	<u>2,604,790</u>	<u>27,418,946</u>				
7.1 Other receivables						
Considered good	1,166,343	2,141,163				
Considered doubtful	28,368,640	24,988,256				
Provision against doubtful other receivables (Note 7.1.1)	(28,368,640)	(24,988,256)				
	-	-				
	<u>1,166,343</u>	<u>2,141,163</u>				
7.1.1 Provision against doubtful other receivables						
Opening balance	24,988,256	-				
Charged during the year	3,380,384	24,988,256				
Closing balance	<u>28,368,640</u>	<u>24,988,256</u>				
8 CURRENT PORTION OF NON-CURRENT ASSETS						
Net investment in ijarah finance (Note 9)	24,080,628	34,017,229				
Diminishing musharaka financing (Note 10)	21,367,573	9,805,997				
Long term murabaha investments (Note 11.3)	48,048,233	36,776,332				
Long term loans and deposits (Note 12)	917,373	1,689,550				
	<u>94,413,807</u>	<u>82,289,108</u>				
9 NET INVESTMENT IN IJARAH FINANCE	2016		2015			
	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	54,929,071	29,185,554	84,114,625	47,549,062	42,109,457	89,658,519
Residual value of ijarah assets	5,088,181	46,700	5,134,881	4,154,607	980,274	5,134,881
Gross investment in ijarah finance	60,017,252	29,232,254	89,249,506	51,703,669	43,089,731	94,793,400
Less: Unearned finance income	(13,029,772)	(19,789,320)	(32,819,092)	(12,028,440)	(22,194,546)	(34,222,986)
Net investment in lease ijarah finance	46,987,480	9,442,934	56,430,414	39,675,229	20,895,185	60,570,414
Less: Provision for doubtful net investment in ijarah finance (Note 9.1)	(22,906,852)	-	(22,906,852)	(5,658,000)	-	(5,658,000)
	<u>24,080,628</u>	<u>9,442,934</u>	<u>33,523,562</u>	<u>34,017,229</u>	<u>20,895,185</u>	<u>54,912,414</u>
Less: Current portion (Note 8)			(24,080,628)			(34,017,229)
			<u>9,442,934</u>			<u>20,895,185</u>

# First National Bank Modaraba

The Modaraba has entered into various Ijarah agreement for periods ranging from 8 to 14 years (2015: 8 to 14 years). Security deposits ranging from 0.1% to 10% (2015: 0.1% to 10%) are obtained at the time of disbursement. The rate of profit implicit in Ijarah ranges from 7.86% to 11.19% (2015: 7.86% to 11.19%) per annum.

	2016 Rupees	2015 Rupees
9.1 Provision for doubtful net investment in Ijarah finance		
Opening balance	5,658,000	5,658,000
Charged during the year	17,248,852	-
Closing balance	<u>22,906,852</u>	<u>5,658,000</u>
10 DIMINISHING MUSHARAKA FINANCING - SECURED		
Considered good	52,007,931	23,050,000
Considered doubtful	4,662,957	4,096,721
Provision against doubtful diminishing musharaka (Note 10.2)	-	-
	4,662,957	4,096,721
Less: Current portion (Note 8)	<u>(21,367,573)</u>	<u>(9,805,997)</u>
	<u>35,303,315</u>	<u>17,340,724</u>

10.1 This represents diminishing musharaka financing arrangement entered for a term of two to five years. The Modaraba has provided financing to the extent of 23.69% to 90% of the value of the 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 13.65% (2015: 10.61% to 14.02%) per annum and are repayable on monthly basis.

10.2 The provision against doubtful diminishing musharaka financing is not required under Prudential Regulations for Modarabas due to forced sale value of collaterally held assets.

	2016 Rupees	2015 Rupees
11 LONG TERM MURABAHA INVESTMENTS - SECURED		
Considered good	24,284,321	86,803,065
Considered doubtful	69,602,515	19,697,102
	93,886,836	106,500,167
Add: Deferred murabaha income (Note 22)	31,913,554	31,913,555
	125,800,390	138,413,722
Less: Provision for doubtful murabaha investments (Note 11.2)	(41,602,482)	(8,960,420)
Less: Current portion (Note 11.3)	<u>(48,048,233)</u>	<u>(36,776,332)</u>
	<u>36,149,675</u>	<u>92,676,970</u>

11.1 These represent investments under murabaha arrangements on deferred payment basis at a profit margin ranging from 9.38% to 15.50% (2015: 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.

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	2016 Rupees	2015 Rupees
11.2 Provision for doubtful murabaha investments		
Opening balance	8,960,420	12,375,236
Charged during the year	32,736,682	4,704,600
Reversed during the year	(94,620)	(8,119,416)
Net charged / (reversed) during the year	32,642,062	(3,414,816)
Closing balance	41,602,482	8,960,420
11.3 Current portion of long term murabaha investments		
Murabaha investments	44,079,315	35,273,100
Deferred murabaha income (Note 22)	3,968,918	1,503,232
	48,048,233	36,776,332
12 LONG TERM LOANS AND DEPOSITS		
Long term loans to employees (Note 12.1)	2,601,317	6,235,169
Security deposits	39,500	39,500
	2,640,817	6,274,669
Less: Current portion (Note 8)	(917,373)	(1,689,550)
	1,723,444	4,585,119
12.1 These loans are given to employees of the Modaraba for purchase of vehicles and carry profit at the rate of 5% (2015: 5%) per annum. Maximum aggregate balance due from employees at the end of any month during the year was Rupees 6,098,247 (2015: Rupees 6,599,175). As a security, vehicles are registered in the name of the Modaraba.		
	2016 Rupees	2015 Rupees
13 INTANGIBLE ASSET		
Cost	1,131,300	1,131,300
Accumulated amortization	(1,131,300)	(985,284)
Net book value	-	146,016
13.1 Net book value		
Opening net book value	146,016	289,333
Amortization during the year	(146,016)	(143,317)
Closing net book value	-	146,016
Amortization rate	33.33%	33.33%
13.2 As at reporting date, the intangible asset is fully amortized but still in use of the Modaraba.		

## 14 IJARAH ASSETS

	Plant and machinery	Vehicles	Total
	-----Rupees-----		
At 30 June 2014			
Cost	856,074,776	875,827,437	1,731,902,213
Accumulated depreciation	(428,495,262)	(324,809,139)	(753,304,401)
Net book value	<u>427,579,514</u>	<u>551,018,298</u>	<u>978,597,812</u>
Year ended 30 June 2015			
Opening net book value	427,579,514	551,018,298	978,597,812
Additions	45,980,194	133,221,300	179,201,494
Disposals:			
Cost	(255,903,760)	(166,807,956)	(422,711,716)
Accumulated depreciation	216,933,784	104,136,113	321,069,897
	(38,969,976)	(62,671,843)	(101,641,819)
Depreciation charge	(161,963,314)	(185,163,890)	(347,127,204)
Closing net book value	<u>272,626,418</u>	<u>436,403,865</u>	<u>709,030,283</u>
At 30 June 2015			
Cost	646,151,210	842,240,781	1,488,391,991
Accumulated depreciation	(373,524,792)	(405,836,916)	(779,361,708)
Net book value	<u>272,626,418</u>	<u>436,403,865</u>	<u>709,030,283</u>
Year ended 30 June 2016			
Opening net book value	272,626,418	436,403,865	709,030,283
Additions	-	76,361,058	76,361,058
Disposals:			
Cost	(130,723,700)	(188,181,400)	(318,905,100)
Accumulated depreciation	116,303,933	125,439,431	241,743,364
	(14,419,767)	(62,741,969)	(77,161,736)
Reclassification adjustment:			
Cost	73,500,000	(73,500,000)	-
Accumulated depreciation	(49,739,417)	49,739,417	-
	23,760,583	(23,760,583)	
Impairment loss	(1,502,302)	(3,471,787)	(4,974,089)
Depreciation charge	(103,743,825)	(133,318,015)	(237,061,840)
Closing net book value	<u>176,721,107</u>	<u>289,472,569</u>	<u>466,193,676</u>
At 30 June 2016			
Cost	588,927,510	656,920,439	1,245,847,949
Accumulated depreciation	(410,704,101)	(363,976,083)	(774,680,184)
Accumulated impairment loss	(1,502,302)	(3,471,787)	(4,974,089)
Net book value	<u>176,721,107</u>	<u>289,472,569</u>	<u>466,193,676</u>
Annual rate of depreciation (%)	<u>17 - 33</u>	<u>14 - 100</u>	

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## 15 FIXED ASSETS - OWN USE

	Vehicles	Computers and accessories	Electric equipment	Total
----- Rupees -----				
At 30 June 2014				
Cost	3,287,905	1,762,808	411,764	5,462,477
Accumulated depreciation	(2,989,948)	(1,312,782)	(356,361)	(4,659,091)
Net book value	<u>297,957</u>	<u>450,026</u>	<u>55,403</u>	<u>803,386</u>
Year ended 30 June 2015				
Opening net book value	297,957	450,026	55,403	803,386
Additions	-	31,050	22,900	53,950
Depreciation charge	(202,283)	(225,669)	(62,026)	(489,978)
Closing net book value	<u>95,674</u>	<u>255,407</u>	<u>16,277</u>	<u>367,358</u>
At 30 June 2015				
Cost	3,287,905	1,793,858	434,664	5,516,427
Accumulated depreciation	(3,192,231)	(1,538,451)	(418,387)	(5,149,069)
Net book value	<u>95,674</u>	<u>255,407</u>	<u>16,277</u>	<u>367,358</u>
Year ended 30 June 2016				
Opening net book value	95,674	255,407	16,277	367,358
Additions	-	10,200	-	10,200
Disposals:				
Cost	(1,936,723)	-	-	(1,936,723)
Accumulated depreciation	1,889,921	-	-	1,889,921
	(46,802)	-	-	(46,802)
Depreciation charge	(40,652)	(183,693)	(14,580)	(238,925)
Closing net book value	<u>8,220</u>	<u>81,914</u>	<u>1,697</u>	<u>91,831</u>
At 30 June 2016				
Cost	1,351,182	1,804,058	434,664	3,589,904
Accumulated depreciation	(1,342,962)	(1,722,144)	(432,967)	(3,498,073)
Net book value	<u>8,220</u>	<u>81,914</u>	<u>1,697</u>	<u>91,831</u>
Annual rate of depreciation (%)	<u>20</u>	<u>33.33</u>	<u>20-33.33</u>	

15.1 The cost of fixed assets includes fully depreciated assets of Rupees 2,668,758 (2015: Rupees 3,650,121) which are still in use of the Modaraba.

15.2 The detail of fixed assets - own used disposed off during the year is as follows:

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain	Particulars of purchasers
	Rupees	Rupees	Rupees	Rupees	Rupees	
Suzuki Cultus - LEJ 1304	945,160	898,358	46,802	663,948	617,146	Muhammad Asad Khan, Lahore
Toyota Corolla Xli - LED 8331	991,563	991,563	-	886,364	886,364	Khuram Imtiaz, Lahore
	<u>1,936,723</u>	<u>1,889,921</u>	<u>46,802</u>	<u>1,550,312</u>	<u>1,503,510</u>	

15.2.1 The fixed assets - own used were sold through auction.

	2016 Rupees	2015 Rupees
<b>16 SHORT TERM FINANCES - SECURED</b>		
From banking companies		
Running finances:		
Associated undertaking - National Bank of Pakistan	249,918,586	115,575,700
Other	-	187,731
	<u>249,918,586</u>	<u>115,763,431</u>
Murabaha finances	25,000,000	18,921,748
	<u>274,918,586</u>	<u>134,685,179</u>

16.1 The Modaraba has total working capital finance facilities of Rupees 350 million (2015: Rupees 600 million) available from commercial banks out of which Rupees 75 million (2015: Rupees 465 million) remained unutilized at year end. These carry mark-up / profit at rate for 1 month to 6 months KIBOR plus 0.5% to 2% (2015: 1 month to 6 months KIBOR plus 0.5% to 1.25%) per annum payable monthly and semi annually. The effective mark-up / profit rate charged during the year range from 7.26% to 9.83% (2015: 7.31% to 11.44%) per annum. These facilities are secured by way of first pari passu 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 Rupees 611.778 million (2015: Rupees 890.78 million).

17 SHORT TERM CERTIFICATES OF MUSHARAKA - UNSECURED

These Certificates of Musharaka (through private placements) have been fully repaid during the year. These certificates had different denominations and were repayable within twelve months. These certificates carried profit on profit or loss sharing basis ranging from 6.10% to 9.85% (2015: 6.50% to 9.90%) per annum.

18 CREDITORS, ACCRUED AND OTHER LIABILITIES

Advances from customers	22,503,209	19,115,826
Accrued expenses	559,000	481,848
Withholding tax payable	12,414	6,730
Unclaimed profit distribution	439,064	685,484
Charity and other payable	183,290	509,880
	<u>23,696,977</u>	<u>20,799,768</u>

19 CURRENT PORTION OF NON-CURRENT LIABILITIES

Security deposits against ijarah assets (Note 20)	190,103,119	149,074,083
Long term finances - secured (Note 21)	101,666,668	233,658,309
Deferred murabaha income (Note 22)	3,968,918	1,503,232
	<u>295,738,705</u>	<u>384,235,624</u>

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	2016 Rupees	2015 Rupees
20 SECURITY DEPOSITS AGAINST IJARAH ASSETS		
Security deposits against ijarah assets	261,723,821	302,032,090
Less: Current portion (Note 19)	<u>(190,103,119)</u>	<u>(149,074,083)</u>
	<u>71,620,702</u>	<u>152,958,007</u>
21 LONG TERM FINANCES - SECURED		
From banking companies and financial institution - secured		
National Bank of Pakistan - associated undertaking (Note 21.1)	83,333,334	30,324,975
United Bank Limited (Note 21.2)	-	66,666,667
Pak China Investment Company Limited (Note 21.3)	35,000,000	100,000,000
First Women Bank Limited (Note 21.4)	<u>33,333,334</u>	<u>105,000,000</u>
	151,666,668	301,991,642
Less: Current portion (Note 19)	<u>(101,666,668)</u>	<u>(233,658,309)</u>
	<u>50,000,000</u>	<u>68,333,333</u>
21.1 This demand finance facility of Rupees 200 million has been obtained to finance operations of the Modaraba. This is repayable in 12 equal quarterly instalments. This carries mark-up at the rate of 3 months KIBOR plus 2.00% per annum payable quarterly. The effective mark-up rate charged during the year ranged from 7.85% to 8.51% (2015: 9.49% to 11.77%) per annum. This is secured by way of first joint pari passu hypothecation charge on all present and future leased assets and related lease receivables of the Modaraba to the extent of Rupees 222.222 million.		
21.2 This term finance facility of Rupees 200 million obtained to finance Ijarah operations of the Modaraba has been fully repaid during the year. This was repaid in 6 equal semi-annual instalments of Rupees 33.334 million each. This carried mark-up at the rate of 6 months KIBOR plus 1.75% per annum payable semi annually. The effective mark-up rate charged during the year ranged from 8.28% to 8.62% (2015: 8.62% to 11.91%) per annum. This was secured by way of joint pari passu charge on Ijarah assets and related receivables of the Modaraba to the extent of Rupees 285.714 million.		
21.3 This term finance facility of Rupees 200 million has been obtained to finance operations of the Modaraba. This is repayable in 6 equal semi-annual instalments. This carries mark-up at the rate of 6 months KIBOR plus 1.85% per annum payable semi annually. The effective mark-up rate charged during the year ranged from 8.38% to 8.63% (2015: 8.63% to 12.02%) per annum. This is secured by way of hypothecation charge on all present and future leased assets and other Islamic products' receivable of the Modaraba with 25% margin.		
21.4 This demand finance facility of Rupees 200 million has been obtained to finance operations of the Modaraba. This is repayable in 6 equal semi-annual instalments. This carries mark-up at the rate of 6 months KIBOR plus 1.75% per annum payable semi annually. The effective mark-up rate charged during the year from ranged 8.26% to 8.79% (2015: 11.38% to 11.92%) per annum. This is secured by way of joint pari passu charge on leased assets and other Islamic products' receivable of the Modaraba to the extent of Rupees 367 million.		
22 DEFERRED MURABAHA INCOME		
Long term deferred murabaha income (Note 11)	31,913,554	31,913,554
Less: Current portion (Note 19)	<u>(3,968,918)</u>	<u>(1,503,232)</u>
	<u>27,944,636</u>	<u>30,410,322</u>
23 CERTIFICATE CAPITAL		
Authorised certificate capital		
60,000,000 (2015: 60,000,000) modaraba certificates of Rupees 10 each	<u>600,000,000</u>	<u>600,000,000</u>
Issued, subscribed and paid-up certificate capital		
25,000,000 (2015: 25,000,000) modaraba certificates of Rupees 10 each	<u>250,000,000</u>	<u>250,000,000</u>
23.1 7,500,000 (2015: 7,500,000) certificates of the Modaraba are held by National Bank Modaraba Management Company Limited, the management company.		

# First National Bank Modaraba

	2016 Rupees	2015 Rupees
24 RESERVES		
Capital reserves		
Statutory reserve (Note 24.1)	43,955,189	43,955,189
Revenue reserve		
Accumulated loss	<u>(206,262,437)</u>	<u>(152,429,935)</u>
	<u>(162,307,248)</u>	<u>(108,474,746)</u>
24.1 This represents special reserve created in compliance with the Prudential Regulations for Modarabas issued by SECP.		
25 CONTINGENCIES AND COMMITMENTS		
Contingencies	<u>NIL</u>	<u>NIL</u>
Commitments - facilities approved but not disbursed	<u>NIL</u>	<u>NIL</u>
26 OTHER INCOME		
Documentation charges	203,251	2,262,509
Service charges	126,828	267,441
Gain on disposal of fixed assets - own use (Note 15.2)	<u>1,503,510</u>	<u>-</u>
	<u>1,833,589</u>	<u>2,529,950</u>
27 OPERATING EXPENSES		
Salaries, allowances and other benefits (Note 27.3)	10,974,978	18,188,891
Communication	282,535	283,297
Travelling and conveyance	176,620	181,608
Vehicles' running	181,754	175,347
Postage and stamps	64,672	52,262
Advertisement	135,191	63,145
Legal and professional	1,231,190	896,012
Auditors' remuneration (Note 27.1)	539,480	536,780
Fees and subscription	943,115	810,338
Repairs and maintenance	266,607	371,808
Insurance	186,186	222,021
Stationery and printing	393,708	480,719
Entertainment	285,673	259,121
Depreciation on fixed assets - own use (Note 15)	238,925	489,978
Amortization (Note 13)	146,016	143,317
Other sundry expenses	<u>83,431</u>	<u>55,942</u>
	<u>16,130,081</u>	<u>23,210,586</u>
27.1 Auditors' remuneration		
Audit fee	302,500	302,500
Half yearly review fee	96,800	96,800
Certifications	97,600	97,600
Out of pocket expenses	<u>42,580</u>	<u>39,880</u>
	<u>539,480</u>	<u>536,780</u>

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

27.3 Salaries, allowances and other benefits

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

	2016			2015		
	Officers	Employees	Total	Officers	Employees	Total
	-----Rupees-----					
Salary	2,044,792	2,678,888	4,723,680	3,791,700	4,770,636	8,562,336
House rent allowance	1,022,400	1,290,835	2,313,235	1,895,868	1,738,300	3,634,168
Utilities	245,376	310,158	555,534	455,004	417,196	872,200
Bonus	434,518	548,330	982,848	861,621	1,395,611	2,257,232
Others	669,485	1,730,196	2,399,681	1,235,358	1,627,597	2,862,955
	<u>4,416,571</u>	<u>6,558,407</u>	<u>10,974,978</u>	<u>8,239,551</u>	<u>9,949,340</u>	<u>18,188,891</u>
Number of persons	<u>3</u>	<u>9</u>	<u>12</u>	<u>4</u>	<u>12</u>	<u>16</u>

27.3.1 Average number of employees during the year was 14 (2015: 16).

	2016 Rupees	2015 Rupees
28 FINANCE COST		
Short term finances	7,426,922	12,392,944
Short term certificates of musharaka	16,089,320	25,352,784
Long term finances	21,246,751	51,982,422
Bank and other charges	153,625	378,277
	<u>44,916,618</u>	<u>90,106,427</u>

28.1 This includes finance cost of Rupees 8,651,373 (2015: Rupees 11,557,642) on various facilities obtained from National Bank of Pakistan - associated undertaking.

29 PROVISION FOR DOUBTFUL RECEIVABLES

Opening balance	229,154,256	116,020,900
Add: Charged during the year	97,633,365	121,252,772
Less: Reversed during the year	(36,454,222)	(8,119,416)
Net provision charged during the year	61,179,143	113,133,356
Closing balance (Note 29.1)	<u>290,333,399</u>	<u>229,154,256</u>

29.1 Break up of closing balance

Provision against doubtful murabaha investments (Note 4.1 and Note 11.2)	218,648,993	179,087,920
Provision against accrued profit	6,786,858	6,786,858
Provision for doubtful ijarah rentals receivable (Note 6.1)	13,622,056	12,633,222
Provision against doubtful other receivables (Note 7.1)	28,368,640	24,988,256
Provision for doubtful net investment in ijarah finance (Note 9.1)	22,906,852	5,658,000
	<u>290,333,399</u>	<u>229,154,256</u>

## 30 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.

31 TAXATION	2016 Rupees	2015 Rupees
Current:		
For the year (Note 31.1)	-	-
Deferred income tax (Note 31.2)	-	-
	<u>-</u>	<u>-</u>

31.1 No provision for current tax is recognized as the Modaraba has estimated carry forwardable tax losses of Rupees 195.890 million (2015: Rupees 100.587 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.

## 31.2 Deferred income tax

The asset for deferred income tax originated due to temporary differences relating to:

Accelerated tax depreciation	67,217,396	36,566,493
Carry forward tax losses	48,972,569	25,146,932
	<u>116,189,964</u>	<u>61,713,425</u>
Less: Deferred income tax asset not recognized	<u>(116,189,964)</u>	<u>(61,713,425)</u>
	<u>-</u>	<u>-</u>

31.2.1 The deferred income tax asset of Rupees 116.190 million (2015: Rupees 61.713 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.

## 32 LOSS PER CERTIFICATE - BASIC AND DILUTED

Loss attributable to ordinary certificates holders	Rupees	<u>(53,832,502)</u>	<u>(122,176,070)</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>(2.15)</u>	<u>(4.89)</u>

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.

## 33 FUTURE IJARAH RENTALS RECEIVABLE

Aggregate amount of future ijarah rentals receivable on the basis of agreements executed upto 30 June 2016 approximate to Rupees 316,254,111 (2015: Rupees 659,983,662). The amount of future ijarah rentals receivable and period during which they fall due are:

Not later than one year	193,619,780	332,736,046
Later than one year but not later than five years	122,634,331	327,247,616
Later than five years	-	-
	<u>316,254,111</u>	<u>659,983,662</u>

The Modaraba has entered into various Ijarah agreement for periods ranging from 3 to 11 years (2015: 2 to 11 years). Security deposits ranging from 5% to 73% (2015: 0.1% to 74%) are obtained at the time of disbursement. The rate of profit implicit in Ijarah ranges from 9.15% to 10.98% (2015: 9.76% to 17.16%) per annum.

## 34 FINANCIAL RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

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

### 34.1 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 amount of the following financial assets represents the maximum credit exposure at the reporting date:

	2016	2015
	Rupees	Rupees
Bank balances	14,743,528	89,487,848
Ijarah rentals receivable	81,817,794	58,284,350
Other receivables	1,166,343	2,141,163
Accrued profit	487,183	3,621,217
Murabaha investments	147,362,871	237,326,614
Net investment in ijarah finance	33,523,562	54,912,414
Diminishing musharaka financing	56,670,888	27,146,721
Long term loans and deposits	2,640,817	6,274,669
	<u>338,412,986</u>	<u>479,194,996</u>

#### 34.1.1 Credit quality of banks

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

	Rating			2016	2015
	Short term	Long term	Agency	Rupees	
National Bank of Pakistan	A1+	AAA	PACRA	2,512,948	3,582,560
Al Baraka Bank (Pakistan) Limited	A1	A	PACRA	10,723,856	67,658,887
Bank Alfalah Limited	A1+	AA	PACRA	140,696	561,891
First Women Bank Limited	A2	A-	PACRA	4,810	5,490
Allied Bank Limited	A1+	AA+	PACRA	4,733	2,089,906
Habib Bank Limited	A-1+	AAA	JCR-VIS	18,829	14,581,931
The Bank of Punjab	A1+	AA-	PACRA	38,226	38,226
BankIslami Pakistan Limited	A1	A+	PACRA	73,377	98,061
NIB Bank Limited	A1+	AA-	PACRA	54,591	170,955
United Bank Limited	A-1+	AAA	JCR-VIS	2,828	301,521
Bank Al-Habib Limited	A1+	AA+	PACRA	22	71,034
MCB Bank Limited	A1+	AAA	PACRA	1,168,612	327,386
				<u>14,743,528</u>	<u>89,487,848</u>

#### 34.1.2 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 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.

## 34.1.3 Age analysis of profit accrued on murabaha investments

Past due	30 June 2016				Carrying amount
	Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	
	Rupees-----				
0 days	345,915	345,915	-	-	345,915
1 day - 89 days	-	-	-	-	-
90 days - 179 days	770,916	-	770,916	770,916	-
180 days - 364 days	1,297,537	-	1,297,537	1,297,537	-
1 year - less than 2 year	1,891,603	-	1,891,603	1,891,603	-
2 year - less than 3 year	2,667,547	-	2,667,547	2,667,547	-
3 year or more	5,520,853	-	5,520,853	5,520,853	-
<b>Total</b>	<b>12,494,371</b>	<b>345,915</b>	<b>12,148,456</b>	<b>12,148,456</b>	<b>345,915</b>

Past due	30 June 2015				Carrying amount
	Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	
	Rupees-----				
0 days	1,338,705	1,338,705	-	-	1,338,705
1 day -89 days	1,086,740	1,086,740	-	-	1,086,740
90 days - 179 days	487,118	487,118	-	-	487,118
180 days - 364 days	849,150	-	849,150	849,150	-
1 year - less than 2 year	2,168,369	-	2,168,369	2,168,369	-
2 year - less than 3 year	3,769,339	-	3,769,339	3,769,339	-
3 year or more	-	-	-	-	-
<b>Total</b>	<b>9,699,421</b>	<b>2,912,563</b>	<b>6,786,858</b>	<b>6,786,858</b>	<b>2,912,563</b>

## 34.1.4 Age analysis of murabaha investments

Past due	30 June 2016				Carrying amount
	Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision recognized under Prudential Regulations	
	Rupees-----				
0 days	49,284,321	49,284,321	-	-	49,284,321
1 day -179 days	14,872,637	-	14,872,637	-	14,872,637
180 days- 364 days	22,074,849	-	22,074,849	4,414,970	17,659,879
1 year - less than 2 year	76,600,000	-	76,600,000	27,800,000	48,800,000
2 year - less than 3 year	90,018,933	-	90,018,933	73,272,899	16,746,034
3 year or more	113,161,124	-	113,161,124	113,161,124	-
<b>Total</b>	<b>366,011,864</b>	<b>49,284,321</b>	<b>316,727,543</b>	<b>218,648,993</b>	<b>147,362,871</b>

Past due	30 June 2015				Carrying amount
	Gross amount	Amount on which no provision is required	Amount on which provision is required	Provision recognized under Prudential Regulations	
	Rupees-----				
0 days	69,716,838	69,716,838	-	-	69,716,838
1 day-179 days	93,486,996	93,486,996	-	-	93,486,996
180 days - 364 days	37,300,000	-	37,300,000	6,479,100	30,820,900
1 year - less than 2 year	66,233,030	-	66,233,030	33,573,820	32,659,210
2 year - less than 3 year	149,677,670	-	149,677,670	139,035,000	10,642,670
3 year and above	-	-	-	-	-
<b>Total</b>	<b>416,414,534</b>	<b>163,203,834</b>	<b>253,210,700</b>	<b>179,087,920</b>	<b>237,326,614</b>

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

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## 34.1.5 Age analysis of ijarah rentals receivable

30 June 2016					
Past due	Gross amount	Amount on which no provision / suspension is required	Amount on which provision / suspension is required	Provision / suspension made under Prudential Regulations	Carrying amount
-----Rupees-----					
0 days	760,046	760,046	-	-	760,046
1 day -89 days	14,615,824	14,615,824	-	-	14,615,824
90 days -179 days	15,019,546	8,844,364	6,175,182	211,755	14,807,791
180 days - 364 days	244,628	-	244,628	6,173	238,455
1 year - less than 2 year	68,973,556	-	68,973,556	19,123,336	49,850,220
2 year - less than 3 years	2,732,141	-	2,732,141	1,186,683	1,545,458
3 year or more	10,202,376	-	10,202,376	10,202,376	-
<b>Total</b>	<b>112,548,117</b>	<b>24,220,234</b>	<b>88,327,883</b>	<b>30,730,323</b>	<b>81,817,794</b>

30 June 2015					
Past due	Gross amount	Amount on which no provision / suspension is required	Amount on which provision / suspension is required	Provision / suspension made under Prudential Regulations	Carrying amount
-----Rupees-----					
0 days	135,941	135,941	-	-	135,941
1 day -89 days	15,168,948	15,168,948	-	-	15,168,948
90 days -179 days	33,964,373	33,964,373	-	-	33,964,373
180 days - 364 days	6,263,534	-	6,263,534	3,483,495	2,780,039
1 year - less than 2 year	13,606,535	-	13,606,535	7,371,486	6,235,049
2 year - less than 3 years	-	-	-	-	-
3 year or more	10,202,376	-	10,202,376	10,202,376	-
<b>Total</b>	<b>79,341,707</b>	<b>49,269,262</b>	<b>30,072,445</b>	<b>21,057,357</b>	<b>58,284,350</b>

## 34.1.6 Age analysis of diminishing musharaka financing

30 June 2016					
Past due	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	31,831,521	31,831,521	-	-	31,831,521
1 day -179 days	20,176,410	20,176,410	-	-	20,176,410
180 days- 364 days	-	-	-	-	-
1 year - less than 2 year	4,662,957	-	4,662,957	(Note 10.2)	4,662,957
2 year - less than 3 years	-	-	-	-	-
3 year or more	-	-	-	-	-
<b>Total</b>	<b>56,670,888</b>	<b>52,007,931</b>	<b>4,662,957</b>	<b>-</b>	<b>56,670,888</b>

30 June 2015					
Past due	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	22,044,000	22,044,000	-	-	22,044,000
1 day-179 days	5,096,721	5,096,721	-	-	5,096,721
180 days - 364 days	-	-	-	-	-
1 year - less than 2 year	-	-	-	-	-
2 year - less than 3 years	-	-	-	-	-
3 year or more	-	-	-	-	-
<b>Total</b>	<b>27,140,721</b>	<b>27,140,721</b>	<b>-</b>	<b>-</b>	<b>27,140,721</b>

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

Past due	30 June 2016				Carrying amount
	Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	
	-----Rupees-----				
0 days	12,411	12,411	-	-	12,411
90 days - 179 days	128,857	128,857	-	-	128,857
180 days - 364 days	-	-	-	-	-
1 year - less than 2 year	593,321	-	593,321	593,321	-
2 year - less than 3 years	-	-	-	-	-
3 year or more	-	-	-	-	-
<b>Total</b>	<b>734,589</b>	<b>141,268</b>	<b>593,321</b>	<b>593,321</b>	<b>141,268</b>

Past due	30 June 2015				Carrying amount
	Gross amount	Amount on which no suspension is required	Amount on which suspension is required	Suspension made under Prudential Regulations	
	-----Rupees-----				
0 days	-	-	-	-	-
90 days - 179 days	472,500	472,500	-	-	472,500
180 days - 364 days	-	-	-	-	-
1 year - less than 2 year	-	-	-	-	-
2 year - less than 3 years	-	-	-	-	-
3 year or more	-	-	-	-	-
<b>Total</b>	<b>472,500</b>	<b>472,500</b>	<b>-</b>	<b>-</b>	<b>472,500</b>

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

## 34.1.8 Concentration of credit risk

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:

	30 June 2016					% age
	Ijarah receivables and assets	Net Investment in Ijarah finance	Murabaha investments	Diminishing musharaka	Total	
	-----Rupees-----					
Transport and communications	44,763,637	-	300,933	-	45,064,570	4.26
Education	5,608,198	-	-	-	5,608,198	0.54
Power	6,041,857	-	40,000,000	-	46,041,857	4.36
Textiles	97,511,998	56,430,414	275,648,420	-	429,590,832	40.61
Construction	14,181,566	-	-	-	14,181,566	1.35
Engineering	8,632,542	-	23,859,542	-	32,492,084	3.08
Food	133,031,148	-	26,202,969	-	159,234,117	15.06
Individuals	140,838,938	-	-	29,524,167	170,363,105	16.11
Financial institutions	30,420,554	-	-	-	30,420,554	2.88
Manufacturing industries	45,689,223	-	-	27,146,721	72,835,944	6.89
Miscellaneous	52,022,132	-	-	-	52,022,132	4.92
<b>Total</b>	<b>578,741,793</b>	<b>56,430,414</b>	<b>366,011,864</b>	<b>56,670,888</b>	<b>1,057,854,959</b>	<b>100</b>

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30 June 2015						
Ijarah receivables and assets	Net Investment in Ijarah finance	Murabaha investments	Diminishing musharaka	Total	% age	
-----Rupees-----						
Transport and communications	94,806,417	-	395,520	-	95,201,937	7.37
Education	9,652,449	-	-	-	9,652,449	0.75
Power	9,389,809	-	45,000,000	-	54,389,809	4.21
Textiles	143,203,246	60,570,414	283,379,547	-	487,153,207	37.69
Construction	16,183,007	-	-	-	16,183,007	1.25
Engineering	12,581,458	-	56,359,542	-	68,941,000	5.33
Food	134,427,692	-	31,279,925	-	165,707,617	12.82
Individuals	188,006,886	-	-	-	188,006,886	14.55
Financial institutions	33,727,100	-	-	-	33,727,100	2.61
Manufacturing industries	81,134,317	-	-	27,146,721	108,281,038	8.38
Miscellaneous	65,259,609	-	-	-	65,259,609	5.05
<b>Total</b>	<b>788,371,990</b>	<b>60,570,414</b>	<b>416,414,534</b>	<b>27,146,721</b>	<b>1,292,503,659</b>	<b>100</b>

## 34.2 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:

30 June 2016						
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	6,438,136	6,438,136	6,438,136	-	-	-
Short term finances	274,918,586	275,143,202	275,143,202	-	-	-
Creditors, accrued and other liabilities	1,181,354	1,181,354	1,181,354	-	-	-
Long term finances	151,666,668	168,990,166	90,166,793	19,786,644	59,036,729	-
<b>Total</b>	<b>434,204,744</b>	<b>451,752,858</b>	<b>372,929,485</b>	<b>19,786,644</b>	<b>59,036,729</b>	<b>-</b>

30 June 2015						
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	17,385,139	17,385,139	17,385,139	-	-	-
Short term finances	134,685,179	139,909,787	19,357,524	120,552,263	-	-
Short term certificates of musharaka	295,597,365	298,926,903	284,615,096	14,311,807	-	-
Creditors, accrued and other liabilities	1,677,212	1,677,212	1,677,212	-	-	-
Long term finances	301,991,642	325,631,113	145,383,275	109,216,579	71,031,259	-
<b>Total</b>	<b>751,336,537</b>	<b>783,530,154</b>	<b>468,418,246</b>	<b>244,080,649</b>	<b>71,031,259</b>	<b>-</b>

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

### 34.3 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.

#### 34.3.1 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 exist due to transactions in foreign currencies. Currently, the Modaraba do not have any receivables or payables that exist due to transactions in foreign currencies which expose it to currency risk.

#### 34.3.2 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 long term finances, short term finances, bank balances in saving accounts, net investment in ijarah finance, diminishing musharaka, murabaha investments and loans to employees. Long term finances and short term finances obtained, murabaha investments, diminishing musharaka and balances in saving accounts at variable rates expose the Modaraba to cash flow interest / profit rate risk. Long term loans to employees made at fixed rate expose the Modaraba to fair value interest / profit rate risk.

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

	2016 Rupees	2015 Rupees
Fixed rate instruments		
Financial assets		
Loans to employees	2,601,317	6,235,169
Financial liabilities		
Certificates of musharaka	-	(210,242,365)
Floating rate instruments		
Financial assets		
Murabaha investments	147,362,871	237,326,614
Bank balances	12,486,475	70,576,115
Diminishing musharaka financing	56,670,888	27,146,721
Net investment in ijarah finance	33,523,562	54,912,414
Financial liabilities		
Long term finances	(151,666,668)	(301,991,642)
Short term finances	(274,918,586)	(134,685,179)
Certificates of musharaka	-	(85,355,000)

## 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 balance sheet date would not affect profit or loss of the Modaraba.

## Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest / profit rates at the reporting date would have increased / (decreased) the loss for the year by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the year 2015. Following will be impact on the profit and loss account and the equity of the Modaraba:

	30 June 2016		30 June 2015	
	100 bps		100 bps	
	Increase Rupees	Decrease Rupees	Increase Rupees	Decrease Rupees
Floating rate financial assets	2,500,438	(2,500,438)	3,899,619	(3,899,619)
Floating rate financial liabilities	4,265,854	(4,265,854)	5,220,318	(5,220,318)
Net effect	<u>1,765,416</u>	<u>(1,765,416)</u>	<u>1,320,700</u>	<u>(1,320,700)</u>

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

### 34.3.3 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.

### 34.4 Financial instruments by categories

	Loans and receivables	
	2016 Rupees	2015 Rupees
Financial assets as per balance sheet		
Bank balances	14,743,528	89,487,848
Ijarah rentals receivable	81,817,794	58,284,350
Other receivables	1,166,343	2,141,163
Accrued profit	487,183	3,621,217
Murabaha investments	147,362,871	237,326,614
Net investment in ijarah finance	33,523,562	54,912,414
Diminishing musharaka financing	56,670,888	27,146,721
Long term loans and deposits	2,640,817	6,274,669
	<u>338,412,986</u>	<u>479,194,996</u>

	Liabilities at amortized cost	
	2016 Rupees	2015 Rupees
Accrued profit payable	6,438,136	17,385,139
Short term finances	274,918,586	134,685,179
Short term certificates of musharaka	-	295,597,365
Creditors, accrued and other liabilities	1,181,354	1,677,212
Long term finances	151,666,668	301,991,642
	<u>434,204,744</u>	<u>751,336,537</u>

## 35 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 to their carrying amounts. Judgements and estimates are made in determining the fair values of the financial instruments that are recognised 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 classify its financial instruments into the following three levels. However, as at the reporting date, the Modaraba has no such type of financial instruments which are required to be grouped into these levels. 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 maximise 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.

## 36 INFORMATION FOR ALL SHARES ISLAMIC INDEX SCREENING

Description	Note	2016		2015	
		Carried under		Carried under	
		Non-Shariah arrangements	Shariah arrangements	Non-Shariah arrangements	Shariah arrangements

----- (Rupees) -----

### 36.1 Assets

#### Loans and advances

Short term murabaha investments - secured	4	-	98,334,293	-	142,205,887
Ijarah rentals receivable	6	-	81,817,794	-	58,284,350
Net investment in ijarah finance	9	-	33,523,562	-	54,912,414
Diminishing musharaka financing - secured	10	-	56,670,888	-	27,146,721
Long term murabaha investments - secured	11	-	84,197,908	-	129,453,302
Loans to employees	12	2,601,317	-	6,235,169	-

### 36.2 Deposits

Long term deposits	12	-	39,500	-	39,500
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### 36.3 Bank balances

	3	1,751,658	12,991,870	2,906,267	86,581,581
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The bank accounts maintained with conventional banks are for operational needs only and any profit on them is paid as charity.

### 36.4 Liabilities

#### Loan and advances

Security deposits against ijarah assets	20	-	261,723,821	-	302,032,090
Long term financing	21	151,666,668	-	301,991,642	-
Short term borrowings	16	249,918,586	25,000,000	115,763,431	18,921,748

2016	2015
Rupees	Rupees

### 36.5 Sources of other income

Documentation charges	203,251	2,262,509
Service charges	126,828	267,441
Gain on disposal of fixed assets - own use	1,503,510	-
	1,833,589	2,529,950

### 36.6 The whole revenue of the Modaraba is earned from dealing Islamic mode of financing.

## 36.7 Relationship with banks

Name	Relationship	
	Non Islamic window operations	With Islamic windows operations
Al-Baraka Bank (Pakistan) Limited	-	✓
Allied Bank Limited	✓	-
Bank Al Habib Limited	✓	-
Bank Alfalah Limited	✓	-
Bank Islami Pakistan Limited	-	✓
First Women Bank Limited	✓	-
Habib Bank Limited	✓	-
MCB Bank Limited	✓	-
National Bank of Pakistan	✓	✓
NIB Bank Limited	✓	-
The Bank of Punjab	✓	-
United Bank Limited	✓	-

## 37 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of 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 year end are as follows:

	2016 Rupees	2015 Rupees		
<b>37.1 Balances outstanding at the year end</b>				
Accounts with National Bank of Pakistan	2,512,948	3,582,560		
Finances from National Bank of Pakistan	333,251,920	145,900,675		
Ijarah rental receivables from National Bank of Pakistan	-	3,244,575		
<b>37.2 Transactions during the year</b>				
Related party	Relationship	Nature of Transaction		
National Bank of Pakistan	Modaraba	Long term finance obtained	100,000,000	-
	Management	Long term finance repaid	46,991,637	66,841,693
	Company's holding	Short term finance - net Ijarah disbursed	134,342,887	23,303,266
	company	Ijarah rentals received	18,450,000	21,800,000
		Mark up paid	20,639,112	9,745,477
			7,386,467	14,303,967
Khawaja-Amin-ul-Azam	Director	Ijarah rentals received	-	337,450
Remuneration to key management personnel			4,416,571	8,239,551

## 38 SEGMENT INFORMATION

As per IFRS 8, operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Managing director 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.

The Managing director is responsible for the Modaraba's entire product portfolio and considers the business to have 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.

The internal reporting provided to the Managing director for the Modaraba's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of approved accounting standards as applicable in Pakistan.

The Modaraba is domiciled in Pakistan. All of the Modaraba's income is from investment in entities incorporated in

The Modaraba also has a diversified certificate holder population. As at 30 June 2016, there was only one (30 June 2015: one) certificate holder who held more than 10% of the Modaraba's certificate capital. Its holding was 30% (30 June 2015: 30%).

## 39 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 September 30, 2016.

## 40 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. However, no significant reclassification has been made in these financial statements.

## 41 GENERAL

Figures have been rounded off to the nearest rupee.



Chief Executive Officer  
National Bank Modaraba  
Management Company Limited



Director  
National Bank Modaraba  
Management Company Limited



Director  
National Bank Modaraba  
Management Company Limited

Lahore: September 30, 2016

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## PATTERN OF CERTIFICATE HOLDING AS ON JUNE 30, 2016

Number of ShareHolder	Shareholdings From	To	Total Number of Share Held	Percentage of Total
79	1 -	100	2,944	0.01
348	101 -	500	166,260	0.67
208	501 -	1000	193,917	0.78
196	1001 -	5000	583,664	2.33
87	5001 -	10000	702,801	2.81
20	10001 -	15000	265,000	1.06
18	15001 -	20000	328,469	1.31
25	20001 -	25000	564,990	2.26
10	25001 -	30000	281,201	1.12
5	30001 -	35000	162,780	0.65
6	35001 -	40000	238,000	0.95
3	40001 -	45000	129,500	0.52
5	45001 -	50000	244,900	0.98
6	50001 -	55000	320,777	1.28
2	55001 -	60000	118,590	0.47
1	70001 -	75000	75,000	0.30
1	75001 -	80000	75,995	0.30
1	85001 -	90000	86,500	0.35
2	90001 -	95000	187,000	0.75
8	95001 -	100000	799,000	3.20
1	115001 -	120000	115,500	0.46
1	130001 -	135000	132,500	0.53
3	145001 -	150000	447,100	1.79
1	155001 -	160000	159,800	0.64
1	160001 -	165000	162,500	0.65
1	165001 -	170000	168,000	0.67
1	170001 -	175000	172,002	0.69
3	195001 -	200000	600,000	2.40
1	205001 -	210000	209,000	0.84
1	235001 -	240000	238,002	0.95
2	245001 -	250000	499,000	2.00
1	265001 -	270000	266,600	1.07
1	270001 -	275000	273,998	1.10
1	280001 -	285000	283,966	1.14
2	295001 -	300000	600,000	2.40
1	320001 -	325000	323,000	1.29
1	505001 -	510000	509,244	2.04
1	590001 -	595000	590,500	2.36
1	995001 -	1000000	1,000,000	4.00
1	1070001 -	1075000	1,074,500	4.30
1	1995001 -	2000000	2,000,000	8.00
1	2145001 -	2150000	2,147,500	8.59
1	7495001 -	7500000	7,500,000	30.00
<b>1,060</b>			<b>25,000,000</b>	<b>100.00</b>

**CATEGORIES OF CERTIFICATE HOLDERS  
AS ON JUNE 30, 2015**

**First National Bank Modaraba**

Page #:1 of 1

**Categories of Share Holders**

P Date:16-Aug-2016

As on: June 30, 2016

S Type:Complete

Ser #	Code	Category	No. of Shareholder	Shares Held	Percentage of Total Capital
1	1	Individuals	1,045	16,352,901	65.4116
2	4	Joint Stock Companies	10	493,201	1.9728
3	9	Modaraba Management Cos	1	7,500,000	30.0000
4	10	Funds	2	330,000	1.3200
5	24	Others	2	323,898	1.2956
<b>TOTAL:</b>			<b>1,060</b>	<b>25,000,000</b>	<b>100.0000</b>

## CATEGORIES DETAILS AS ON JUNE 30, 2016

Category	Numbers of Certificates
<b>Individuals</b>	16,352,901
<b>Joint Stock Companies</b>	
MAPLE LEAF CAPITAL LIMITED	1
MUHAMMAD AHMED NADEEM SECURITIES (SMC-PVT) LIMITED	100
AMZ SECURITIES (PVT) LIMITED	500
DOSSLANI'S SECURITIES (PVT) LIMITED	500
AL-HAQ SECURITIES (PVT) LTD.	500
FIKREE'S (SMC-PVT) LTD.	500
CENTRAL DEPOSITORY COMPANY OF PAKISTAN LIMITED	500
MUHAMMAD SALIM KASMANI SECURITIES	93,500
HAJI ABDUL SATTAR SECURITIES (PVT.) LIMITED	147,100
SALIM SOZER SECURITIES (PVT.) LTD.	250,000
<b>Modarabas Management Cos</b>	
NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED	7,500,000
<b>Funds</b>	
TRUSTEES-TREET CORPORATION LIMITED G.E. GRATUITY	30,000
TRUSTEES D.G. KHAN CEMENT CO. LTD. EMP. P.F	300,000
<b>Others</b>	
TRUSTEES, ALOO & MINOCHER DINSHAW CHARITABLE TRUST	49,900
TRUSTEES OF TEACHERS RESOURCE CENTRE	273,998
<b>Individual Certificate Holding of 5% or above</b>	
Shakeel Arshad	2,147,500
Dinaz F. Cassim	2,000,000