

HALF YEARLY
REPORT
DECEMBER 31,

2018



FIRST NATIONAL BANK MODARABA

MANAGED BY:

NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED

(A wholly owned subsidiary of National Bank of Pakistan)

First National Bank Modaraba

Half Yearly Report December 31, 2018

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CORPORATE INFORMATION

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

Directors' Quarterly Review Report

On behalf of the Board of Directors of National Bank Modaraba Management Company Limited (NBMMCL), the Management Company of First National Bank Modaraba (FNBM), I am pleased to present the quarterly report, together with un-audited financial statements of FNBM for the quarter and half year ended December 31, 2018.

During the period under review the focus of management remained on recovery, particularly from the classified portfolio, where various means are being employed, including legal suits as well as negotiation for settlement etc. The efforts of recovery from NPLs have started to bear some positive results that are expected to get amplified with the overall revival of the economy in general and textile sector in particular.

On the operations side the total income figured to Rs.10.1 Million in the half year under review as compared to Rs.49.5 Million in the corresponding period last year. However due to increase in market interest rates the Financial cost surged by almost 25% to Rs.9.8 Million as compared to Rs.8.0 Millions in the corresponding period. Although there was a slight spike in operating expenses that stood at Rs.8.1 Million when compared to Rs.7.5 Million in the corresponding period last year, however on annual basis they are not expected to differ materially from the last year level of operating expenses. There has also been a charge of provision amounting to Rs.1.7 Million. The net result was a loss of Rs.(18.9) million as against a profit of Rs.1.0 Million in the corresponding period. The loss per certificate stood at Rs.(0.76) as compared to a profit per certificate of Rs.0.04 in the corresponding period.

In order to restore the capital base, which was lost mainly because of charge provisioning on NPLs, the parent bank NBP intends to recapitalize FNBM by investing an amount of Rs.300 Million in consideration of 30 million Modaraba certificates of FNBM at par value of Rs. 10/- each that would be issued to NBP otherwise than right. In this respect the requisite approvals in the EOGM of certificate holders and of the SECP has already been obtained. NBP meanwhile is in the process of obtaining necessary regulatory approvals of SBP.

However, under the current circumstances, in the absence of fresh equity and execution of the intended business plan, the interim financial statements are prepared on non-going concern basis. The management is confident that with the injection of Rs. 300 Million in equity it would be able to execute its proposed new business plan and become profitable.

The Board would like to take this opportunity to thank its valued certificate holders and clients for their patronage and consistent patience. Besides, the Board extends its sincere gratitude to Registrar Modarabas, SECP and NBF I & Modaraba Association of Pakistan for their continued guidance and support.

For and on behalf of the Board



Chief Executive Officer

Lahore: February 27, 2019

ڈائریکٹرز کی سہ ماہی جائزہ رپورٹ

فرسٹ میٹنل بینک مضماریہ (FNBM) کی انتظامی کمپنی نیشنل بینک مضماریہ منجمنٹ کمپنی لمیٹڈ (NBMMCL) کے بورڈ آف ڈائریکٹرز کی جانب سے 31 دسمبر 2018 کو اختتام پذیر سہ ماہی اور نصف سال کے لئے رپورٹ بمعہ FNBM کے غیر پڑتال شدہ مالیاتی گوشوارے پیش کی جا رہی ہے۔

زیر جائزہ مدت کے دوران انتظامیہ کی توجہ وصولی خصوصاً نادہندگان پر رہی جہاں کئی وسائل بروئے کار لائے گئے۔ جس میں قانونی چارہ جوئی اور تصفیہ کے لئے مذاکرات شامل ہیں۔ نادہندگان سے وصولی کی کوششیں کچھ مثبت نتائج فراہم کر رہی ہیں جس میں عموماً معیشت اور خصوصاً ٹیکسٹائل شعبہ میں بہتری کے ساتھ اضافہ متوقع ہے۔


آپریشن پر نظر دوڑائیں تو، گذشتہ سال کی اسی مدت میں 49.5 ملین روپے کے مقابلہ میں رواں نصف سال کے دوران 10.1 ملین روپے کی آمدنی ریکارڈ ہوئی۔ تاہم، مارکیٹ شرح منافع میں اضافہ کی وجہ سے گذشتہ سال میں 8.0 ملین روپے کی مالیاتی لاگت کے مقابلہ میں رواں سال بحساب 9.8 ملین روپے بحساب 25 فی صد اضافہ ریکارڈ کیا گیا۔ اگرچہ آپریشنل اخراجات میں 7.5 ملین روپے سے 8.1 ملین روپے قلیل اضافہ ریکارڈ ہوا تاہم سالانہ کی بنیاد پر گذشتہ سال کے مقابلہ میں اس میں خاطر خواہ تبدیلی کی توقع نہ ہے۔ پروویژننگ میں بھی 1.7 ملین سے اضافہ ہوا۔ گذشتہ نصف سال میں 1.0 ملین روپے منافع کے مقابلہ میں رواں نصف برس (18.9) ملین روپے خسارہ ریکارڈ ہوا۔ گذشتہ نصف سال میں 0.04 روپے فی سرٹیکلیٹ منافع کے مقابلہ میں رواں نصف برس (0.76) روپے خسارہ فی سرٹیکلیٹ ریکارڈ ہوا۔

کمپیٹل بیس کو بحال کرنے کے لئے، جو کہ NPL پر چارج پروویژننگ کی وجہ سے کم ہوا، لہذا بانی بینک FNBM، NBP کوری کمپیٹل بنانے کا خواہش مند ہے جس میں FNBM کے 30 ملین مضماریہ سرٹیکلیٹ (-/10 روپے فی سرٹیکلیٹ) کے عوض 300 ملین روپے سرمایہ داری شامل ہے۔ جن کو رائٹ اشو کی بجائے NBP کو جاری کیا جائے گا۔ اس تناظر میں، غیر معمولی اجلاس عام میں سرٹیکلیٹ ہولڈرز اور SECP کی منظوری حاصل کر لی گئی ہے۔ دوسری جانب، NBP، SBP کی ضروری منظوری حاصل کرنے کے عمل میں ہے۔

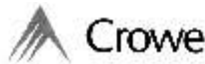
تاہم، موجودہ حالات میں، تازہ ایکویٹی اور مطلوب کاروباری منصوبہ کے نفاذ کی عدم موجودگی میں، عبوری مالیاتی گوشوارے کاروبار جاری نہ رکھنے کے مفروضے کی بنیاد پر تیار کئے گئے ہیں۔ انتظامیہ ایکویٹی میں 300 ملین روپے فراہمی کے ساتھ پر عزم ہے کہ وہ اپنا مجوزہ نیا کاروباری منصوبہ پر عمل درآمد کے قابل ہو جائے گی اور کمپنی منافع بخش ہو جائے گی۔

بورڈ اپنے معزز سرٹیکلیٹ ہولڈرز اور کلائنٹس کے اعتماد اور مسلسل صبر کے شکر گزار ہیں۔ علاوہ ازیں، بورڈ رجسٹرار مضماریہ، SECP اور NBFBI اور مضماریہ ایسوسی ایشن آف پاکستان کی مسلسل رہنمائی اور حمایت کے بھی شکر گزار ہیں۔

برائے/مخانب بورڈ آف ڈائریکٹرز


چیف ایگزیکٹو آفیسر

لاہور: فروری 27، 2019ء



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Lahore-54000, Pakistan
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AUDITORS' REPORT TO CERTIFICATE HOLDERS ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed interim balance sheet of First National Bank Modaraba ("the modaraba") as at 31 December 2018 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement and condensed interim statement of changes in equity together with notes to the financial statements for the six month period then ended (hereinafter referred to as "interim financial information"). Management of Modaraba is responsible for the preparation and presentation of this condensed interim financial information (un-audited) in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information (un-audited) based on our review. The figures of the condensed interim profit and loss account and the condensed interim statement of comprehensive income for the quarters ended 31 December 2017 and 31 December 2018 have not been reviewed as we are required to review only the cumulative figures for the half year ended 31 December 2018.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information (un-audited) is not prepared, in all material respects, in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting.

Emphasis of Matter Paragraph

We draw attention to Note 1.2 in the financial statements, which indicates that the Modaraba incurred a net loss of Rs. 18,954 million during the half year ended December 31, 2018. As of that date the Modaraba's current liabilities exceeded its current assets by Rs. 111,232 million and its accumulated losses amounted to Rs. 304,765 million. Consequently, its net liabilities



have exceeded its net assets by Rs. 10.810 million. This situation indicates that a material uncertainty exists that may cast significant doubt on the Modaraba's ability to continue as a going concern. Therefore, the condensed interim financial information (un-audited) has been prepared on the basis of estimated net realizable / settlement values of assets and liabilities respectively. This estimation involves judgement based on the latest available information, historical experience and possible future events that are believed to be reasonable under the circumstances. As a result of new information, these estimates may need revision. Hence, the ultimate value at which assets will be realized and liabilities will be settled may be different from those carried in the condensed interim financial information (un-audited). Our conclusion is not qualified in respect of this matter.

Other Matter

The interim financial information (un audited) for the six-month period ended December 31, 2017 were reviewed by another firm of Chartered Accountants whose report dated February 23, 2018 has expressed un-qualified opinion.

Lahore
Dated: February 27, 2019

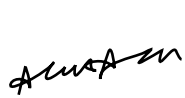



A handwritten signature in black ink, appearing to read "Horwath Hussain Ch & Co." with a stylized flourish at the end.

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

CONDENSED INTERIM BALANCE SHEET (UNAUDITED) AS AT 31 DECEMBER 2018

		2018 Rupees	2018 Rupees
ASSETS	Note		
CURRENT ASSETS			
Cash and bank balances	6	8,200,890	51,653,789
Short term murabaha investments - secured	7	16,138,222	16,308,001
Accrued profit	8	1,121,595	1,097,997
Short term investments	9	74,372,000	30,895,000
Ijarah rentals receivable	10	73,153,155	74,259,701
Advances, prepayments and other receivables	11	3,441,411	3,324,398
Current portion of non current assets	12	35,472,755	42,303,266
		211,900,028	219,842,152
NON-CURRENT ASSETS			
Net investment in ijarah finance	13	-	1,650,864
Diminishing musharaka financing - secured	14	2,930,469	1,977,113
Long term murabaha investments - secured	15	4,046,113	7,206,979
Long term loans and deposits	16	294,226	470,143
Intangible asset	17	-	-
Fixed assets under ijarah arrangements	18	97,297,439	124,871,458
Fixed assets - own use	19	39,747	47,612
Deferred tax asset	34	-	-
		104,607,994	136,224,169
TOTAL ASSETS		316,508,022	356,066,321
LIABILITIES			
CURRENT LIABILITIES			
Accrued profit		1,920,981	2,564,748
Deferred murabaha income	7	-	-
Short term finances - secured	20	217,063,388	217,063,388
Creditors, accrued and other liabilities	21	14,439,266	19,032,000
Current portion of non-current liabilities	22	89,708,323	104,053,372
		323,131,958	342,713,508
NON-CURRENT LIABILITIES			
Security deposits against ijarah assets	23	1,984,500	2,802,200
Long term finance - secured	24	-	-
Deferred murabaha income	25	2,201,497	2,406,131
		4,185,997	5,208,331
TOTAL LIABILITIES		327,317,955	347,921,839
NET ASSETS		(10,809,933)	8,144,482
FINANCED BY:			
Certificate capital	26	250,000,000	250,000,000
Statutory reserves	27	43,955,189	43,955,189
Accumulated loss		(304,765,122)	(285,810,707)
CONTINGENCIES AND COMMITMENTS	28	-	-
TOTAL EQUITY AND RESERVES		(10,809,933)	8,144,482

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

			
Chief Executive Officer National Bank Modaraba Management Company Limited	Director National Bank Modaraba Management Company Limited	Director National Bank Modaraba Management Company Limited	Chief Financial Officer National Bank Modaraba Management Company Limited

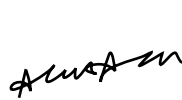
Lahore: February 27, 2019

Half Yearly Report-December 31, 2018

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2018

	Half Year Ended		Quarter Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	Rupees	Rupees	Rupees	Rupees
INCOME FROM OPERATIONS				
Ijarah rentals earned / income from ijarah finance	5,879,784	42,632,437	1,545,952	21,106,337
Profit on diminishing musharaka financing	1,209,767	1,123,216	957,082	434,655
Profit on murabaha investments	67,948	199,100	67,948	199,100
Profit on bank deposits	835,898	631,275	502,924	212,654
Gain on disposal of ijarah and owned assets	407,882	4,193,145	159,601	3,931,154
Profit on short term investment	1,707,481	717,781	1,687,313	717,781
	10,108,760	49,496,954	4,920,820	26,601,681
OTHER INCOME				
Reversal of provision charged for doubtful receivables	170,944	3,234,441	-	-
Other income	28,710	100,767	28,710	47,711
	199,654	3,335,208	28,710	47,711
TOTAL INCOME	10,308,414	52,832,162	4,949,530	26,649,392
EXPENSES				
Depreciation on ijarah assets	(9,541,106)	(27,548,402)	(5,625,984)	(13,387,635)
Operating expenses	(8,107,601)	(7,457,893)	(4,369,714)	(3,342,465)
Finance cost	(9,864,999)	(8,094,052)	(5,665,354)	(3,607,197)
TOTAL EXPENSES	(27,513,706)	(43,100,347)	(15,661,052)	(20,337,297)
Operating (Loss) / Profit before Provision and Taxation	(17,205,292)	9,731,815	(10,711,522)	6,312,095
Provision charged for doubtful receivables - net	(1,749,123)	-	(1,749,123)	(3,158,116)
Impairment loss on ijarah assets - net	-	(8,368,237)	-	(8,368,237)
	(18,954,415)	1,363,578	(12,460,645)	(5,214,258)
Modaraba Company's management fee	-	(136,358)	-	521,426
(Loss) / Profit before Taxation	(18,954,415)	1,227,220	(12,460,645)	(4,692,832)
Taxation	-	(208,630)	-	(208,630)
Net (Loss) / Profit for the Period	(18,954,415)	1,018,590	(12,460,645)	(4,901,462)
LOSS / PROFIT PER CERTIFICATE - BASIC AND DILUTED	(0.76)	0.04	(0.50)	(0.20)

The annexed notes from 1 to 24 form an integral part of these condensed interim financial information (un-audited).



Chief Executive Officer
National Bank Modaraba
Management Company Limited



Director
National Bank Modaraba
Management Company Limited



Director
National Bank Modaraba
Management Company Limited



Chief Financial Officer
National Bank Modaraba
Management Company Limited

Lahore: February 27, 2019

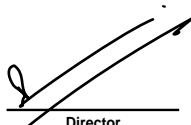
**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2018**

	Half Year Ended		Quarter Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	Rupees	Rupees	Rupees	Rupees
Net (Loss) / Profit for the Period	(18,954,415)	1,018,590	(12,460,645)	(4,901,462)
Other comprehensive income / (loss) for the period	-	-	-	-
Total Comprehensive (Loss) / Income for the Period	<u>(18,954,415)</u>	<u>1,018,590</u>	<u>(12,460,645)</u>	<u>(4,901,462)</u>

The annexed notes from 1 to 24 form an integral part of these condensed interim financial information (un-audited).



Chief Executive Officer
National Bank Modaraba
Management Company Limited



Director
National Bank Modaraba
Management Company Limited



Director
National Bank Modaraba
Management Company Limited



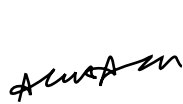
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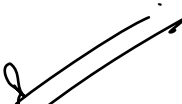
CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2018

	Half Year Ended	
	December 31, 2018	December 31, 2017
	Rupees	Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss / profit for the period	(18,954,415)	1,227,220
Adjustment for:		
- Depreciation on fixed assets under own use	7,865	13,465
- Depreciation on fixed assets under ijarah arrangements	9,541,106	27,548,402
- Impairment on fixed assets under ijarah arrangements	-	8,368,237
- Gain on termination of ijarah arrangements	(382,882)	(4,193,145)
- Gain on sale of fixed assets under owned use	(25,000)	-
- Profit on short term investments	(1,707,481)	-
- Charge of provision against doubtful ijarah rentals receivable - net	236,657	-
- Reversal of provision against doubtful other receivables - net	(170,944)	11,092,365
- Reversal of provision against diminishing musharaka finance - net	-	(2,832,815)
- Charge / (reversal) of provision against net investment in ijarah finance - net	1,512,466	(11,193,091)
- (Reversal) / charge of provision long term murabaha investments - net	-	(300,900)
- Finance cost	9,864,999	8,094,052
- Deferred murabaha income	(237,728)	-
- Profit on term deposit receipts and bank deposits	(835,898)	(631,275)
	<u>17,803,160</u>	<u>35,965,295</u>
Operating (loss) /profit before working capital changes	(1,151,255)	37,192,515
Decrease / (Increase) in operating assets:		
- Accrued profit	1,683,883	(612,357)
- Ijarah rentals receivable	869,889	(6,836,539)
- Advances, prepayments and other receivables	499,966	(158,576)
- Short term murabaha investments	169,779	-
- Net investment in ijarah finance	-	20,985,746
- Diminishing musharaka financing	6,123,077	8,598,989
- Long term murabaha investments	2,984,337	2,433,255
Decrease in operating liabilities:		
- Creditors, accrued and other liabilities	(4,592,734)	(3,490,060)
- Security deposits against ijarah assets - net	-	(42,398,638)
	<u>7,738,197</u>	<u>(21,478,180)</u>
Net changes in working capital	<u>6,586,942</u>	<u>15,714,335</u>
Net Cash Generated from Operating Activities	<u>6,586,942</u>	<u>15,714,335</u>
Finance cost paid	(10,508,766)	(8,586,010)
Income taxes paid	(446,035)	(72,768)
Profit received on bank deposits	835,898	631,275
Long term loans and deposits - net	244,922	203,301
Net Cash (Used in) / Generated from Operating Activities	<u>(3,287,039)</u>	<u>7,890,133</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed assets - own use	-	(55,500)
Short term investments	(43,477,000)	(50,000,000)
Proceeds from disposal of own assets	25,000	-
Proceeds from disposal of ijarah assets	3,286,140	46,613,624
Net Cash Used in Investing Activities	<u>(40,165,860)</u>	<u>(3,441,876)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Short term finances - net	-	(18,529,361)
Long term finances - repaid	-	(16,666,666)
Net Cash Used in Financing Activities	<u>-</u>	<u>(35,196,027)</u>
Net Decrease in Cash and Cash Equivalents	<u>(43,452,899)</u>	<u>(30,747,770)</u>
Cash and cash equivalents at the beginning of the period	51,653,789	49,707,521
Cash and Cash Equivalents at the End of the period	<u>8,200,890</u>	<u>18,959,751</u>

The annexed notes from 1 to 24 form an integral part of these condensed interim financial information (un-audited).



Chief Executive Officer
National Bank Modaraba



Director
National Bank Modaraba



Director
National Bank Modaraba



Chief Financial Officer
National Bank Modaraba

Lahore: February 27, 2019

Management Company Limited

Management Company Limited


Management Company Limited

Management Company Limited

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2018**

Particulars	Certificate Capital	Statutory Reserves	Accumulated Loss	Total Equity
	Rupees			
Balance as at June 30, 2017	250,000,000	43,955,189	(277,622,119)	16,333,070
Total comprehensive income for the six months period ended December 31, 2017				
Net profit for the period	-	-	1,018,590	1,018,590
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	1,018,590	1,018,590
Balance as at December 31, 2017	250,000,000	43,955,189	(276,603,529)	17,351,660
Balance as at June 30, 2018	250,000,000	43,955,189	(285,810,707)	8,144,482
Total comprehensive income for the six months period ended December 31, 2018				
Net loss for the period	-	-	(18,954,415)	(18,954,415)
Other comprehensive income for the period	-	-	-	-
Total comprehensive loss for the period	-	-	(18,954,415)	(18,954,415)
Balance as at December 31, 2018	250,000,000	43,955,189	(304,765,122)	(10,809,933)

The annexed notes from 1 to 24 form an integral part of these condensed interim financial information (un-audited).

			
Chief Executive Officer National Bank Modaraba Management Company Limited	Director National Bank Modaraba Management Company Limited	Director National Bank Modaraba Management Company Limited	Chief Financial Officer National Bank Modaraba Management Company Limited

Lahore: February 27, 2019

**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2018**

Note 1

Legal Status and Nature of Business

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

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

1.2 Going concern assumption

During the six months period ended on December 31, 2018, the Modaraba made loss before 'Modaraba Company's Management Fee' of Rs. 18.954 million. As at the reporting date, its current liabilities exceed its current assets by Rs. 111.232 million (2018: Rs. 122.871 million), its accumulated losses aggregate to Rs. 304.765 million (2018: Rs. 285.811 million) and its net liabilities exceed its net assets by Rs. 10.810 million. Further, its current borrowing facilities are not renewed by the National Bank of Pakistan. Although total security deposits amounting to Rs. 91.607 million are adjustable against ijarah assets, i.e. these are not repayable, and apart from short term borrowings obtained from NBP there are no major payables; the Registrar Modaraba has issued a show cause notice to the Modaraba as to why should the proceedings to wind up the Modaraba not be initiated in terms of Section 23(1)(ii)(b) of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 in purview of consistent operating losses of the Modaraba.

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

The Securities and Exchange Commission of Pakistan (SECP) has given its approval on December 3, 2018 for issuance of further certificates, other than right to National Bank of Pakistan. Consequently, on January 23, 2018 National Bank of Pakistan applied to the State Bank of Pakistan seeking approval of injection of Rs. 300 Million in the equity of the Modaraba. The approval of injection of equity through the aforementioned arrangement is awaited from SBP. The management is confident that with the injection of Rs. 300 million it would be able to execute its proposed business plan and become profitable.

However, in the absence of fresh equity and execution of the business plans as intended by the management, the above factors indicate the existence of material uncertainty that casts significant doubts about the Modaraba's ability to continue as a going concern, and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. Therefore, these financial statements have been prepared on the basis of estimated realizable / settlement values of assets and liabilities respectively.

Note 2

Basis of Preparation

- 2.1** This condensed interim financial information has been prepared in accordance with the directives issued by the Securities & Exchange Commission of Pakistan (SECP) and is in compliance with the International Accounting Standard - 34 (Interim Financial Reporting) and being submitted to certificate holders as required under law.
- 2.2** This financial information should be read in conjunction with annual audited financial statements for the year ended June 30, 2018. Comparative balance sheet is extracted from annual audited financial statements for the year ended June 30, 2018; whereas, comparative profit and loss account, statement of comprehensive income, cash flows statement and statement of changes in equity are extracted from unaudited interim financial information for the half year ended on December 31, 2017.
- 2.3** These financial information have been prepared under the historical cost convention except for the measurement of certain financial instruments at fair value in accordance with the requirements of IFRS-9 (Financial Instruments: Recognition and Measurement) and at the overall contract price in accordance with IFAS-1 (Murabaha).
- 2.4** This condensed interim financial information is un-audited. However, a limited scope review of this interim financial information has been performed by the external auditors of the Modaraba in accordance with the requirements of the Listed Companies (Code of Corporate Governance) Regulations, 2017 and they have issued their review report thereon.
- 2.5** This condensed interim financial information (un-audited) is presented in Pak Rupees, which is the Modaraba's functional and presentational currency. All the figures have been rounded off to the nearest Pak Rupees unless stated otherwise.

FIRST NATIONAL BANK MODARABA

Page 8 of 15

Notes to the Condensed Interim Financial Information (Un-Audited)

Note 3

Accounting Policies

The accounting policies adopted for the preparation of this condensed interim financial information (un-audited) are consistent with those applied in the preparation of annual audited financial statements of Modaraba for the year ended June 30, 2018.

Note 4

Taxation

Under the current tax law, the income of non-trading modarabas is exempt from tax provided that they distribute ninety (90) percent of their profits as cash dividend to the certificate holders out of current period's total profit after appropriating statutory reserves. Where such profits are not distributed, provision for tax is made on taxable income at the current tax rates applicable to Modaraba after taking into account the available tax exemptions and tax credits, if any. No provision for tax liability has been incorporated in this condensed interim financial information (un-audited) due to losses during the period. Moreover, being prudent, the Modaraba has not recognized deferred tax asset as taxable profits in near foreseeable future are not certain.

Half Yearly Report-December 31, 2018

Note 5

Short Term Murabaha Investments - Secured

	December 31, 2018	June 30, 2018
	(Un-audited) Rupees	(Audited) Rupees
Considered good	-	-
Considered doubtful	243,601,181	243,770,960
	243,601,181	243,770,960
Add: Deferred murabaha income	2,654,776	2,654,776
	246,255,957	246,425,736
Less: Provision for non-performing murabaha investments	(227,462,959)	(227,462,959)
Less: Suspended income	(2,654,776)	(2,654,776)
	<u>16,138,222</u>	<u>16,308,001</u>

5.1 These represent investments under murabaha arrangements on deferred payment basis at specified profit margins. These investments carry profit ranging from 10.36% to 15.54% (June 30, 2018: 10.36% to 15.54%) per annum and are secured against charge over fixed and current assets, personal guarantees of directors of customer companies, registered and equitable mortgage of properties, demand promissory notes and post dated cheques varying from case to case.

5.2 Provision for non-performing murabaha investments

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

5.3 Investment in short term murabaha includes investments of Rupees 92.360 million, whose realizable value estimated by the management as on the reporting date is Rupees 107.889 million. Hence, there is an upside of Rupees 15.530 million not recognized in the profit and loss account of the Modaraba.

Note 6

Short Term Investments

	December 31, 2018	June 30, 2018
	(Un-audited) Rupees	(Audited) Rupees
Investments in sukuk of 100,000 each - available for sale		
- Neelum Jehlum 300 (June 30, 2018: 200) of Rs 100,000 each	29,360,000	20,895,000
- Byco Petroleum Pakistan Limited 200 (June 30, 2018: 100) of Rs. 100,000 each	20,012,000	10,000,000
	49,372,000	30,895,000
- First Habib Modaraba Investments in Musharika Certificates (June 30, 2018: Nil)	25,000,000	-
	<u>74,372,000</u>	<u>30,895,000</u>

Note 7

Ijarah Rentals Receivable

		December 31, 2018	June 30, 2018
	Note	(Un-audited) Rupees	(Audited) Rupees
Considered good - secured		2,047,417	13,639,189
Considered doubtful		119,364,371	108,642,488
Less: Provision for doubtful ijarah rentals receivable	7.2	(25,540,095)	(25,303,438)
Less: Profit held in suspense account		(22,718,538)	(22,718,538)
		71,105,738	60,620,512
		<u>73,153,155</u>	<u>74,259,701</u>

7.1 This represents rentals receivable against assets leased out under ijarah arrangements.

First National Bank Modaraba

Note 7, Ijarah Rentals Receivable - Continued...

7.2	Movement in provision against doubtful ijarah rentals receivable are as follows:	December 31, 2018	June 30, 2018
		(Un-audited) Rupees	(Audited) Rupees
	Opening balance	25,303,438	20,363,489
	Charged during the year	236,657	3,001,740
	Adjustment / reclassified from suspended profit	-	1,938,209
	Net charged during the year	236,657	4,939,949
	Closing balance	25,540,095	25,303,438

Note 8

Current Portion of Non Current Assets		December 31, 2018	June 30, 2018
	Note	(Un-audited) Rupees	(Audited) Rupees
Net investment in ijarah finance	9	15,718,248	15,579,850
Diminishing musharaka financing	10	13,340,870	20,417,303
Long term murabaha investments	11	6,054,788	5,878,259
Long term loans and deposits		358,849	427,854
		35,472,755	42,303,266

Note 9

Net Investment in Ijarah Finance

Net Investment in Ijarah Finance	December 31, 2018			June 30, 2018		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	-----Rupees-----					
	------(Un-Audited)-----			------(Audited)-----		
Minimum ijarah rentals receivable	50,840,981	-	50,840,981	45,655,427	5,185,554	50,840,981
Residual value of ijarah assets	2,268,214	-	2,268,214	2,221,514	46,700	2,268,214
Gross investment in ijarah finance	53,109,195	-	53,109,195	47,876,941	5,232,254	53,109,195
Less: Unearned finance income	(24,164,747)	-	(24,164,747)	(20,583,357)	(3,581,390)	(24,164,747)
Net investment in lease ijarah finance	28,944,448	-	28,944,448	27,293,584	1,650,864	28,944,448
Less: Provision for doubtful net investment in ijarah finance (Note 9.2)	(13,226,200)	-	(13,226,200)	(11,713,734)	-	(11,713,734)
	15,718,248	-	15,718,248	15,579,850	1,650,864	17,230,714
Less: Current portion (Note 8)			(15,718,248)			(15,579,850)
			-			1,650,864

9.1 The Modaraba entered into various ijarah agreements for periods spanning 8 to 14 years (June 30, 2018: 8 to 14 years). Security deposits ranging from 0.1% to 10% (June 30, 2018: 0.1% to 10%) were obtained at the time of disbursement. The rate of profit implicit in ijarah ranges from 9.76% to 11.97% (June 30, 2018: 9.76% to 11.97%) per annum.

Half Yearly Report-December 31, 2018

Note 9, Net Investment in Ijarah Finance - Continued...

9.2	Movement in provision against doubtful net investment in ijarah finance is as follows:	December 31, 2018		June 30, 2018	
		(Un-audited) Rupees	(Audited) Rupees	(Un-audited) Rupees	(Audited) Rupees
	Opening balance	11,713,734		22,906,852	
	Charged during the year	1,512,466		-	
	Reversed during the year	-		(11,193,118)	
	Net charged during the year	1,512,466		(11,193,118)	
	Closing balance	13,226,200		11,713,734	

9.3 This includes doubtful ijarah rentals receivable of Rupees 13.266 million whose realizable value estimated by the management as on the reporting date is Rupees 14.963 million. Hence, there is an upside against net investment in ijarah finance estimated to Rupees 1.735, which is not recognized in the profit and loss account of the Modaraba.

Note 10

Diminishing Musharaka Financing - Secured

	Note	December 31, 2018		June 30, 2018	
		(Un-audited) Rupees	(Audited) Rupees	(Un-audited) Rupees	(Audited) Rupees
Considered good		11,933,705		18,056,782	
Considered doubtful		4,337,634		4,337,634	
Provision against doubtful diminishing musharaka		-		-	
		4,337,634		4,337,634	
		16,271,339		22,394,416	
Less: Current portion	8	(13,340,870)		(20,417,303)	
		2,930,469		1,977,113	

- 10.1 This represents diminishing musharaka financing arrangement entered for a term of three to four years. The Modaraba has provided financing to the extent of 23.69% to 90% of the value of musharaka assets. This financing is secured by first charge on all present and future fixed assets of the client, personal guarantee of directors, registered and equitable mortgage on properties, post dated cheques and joint ownership of musharaka assets. These carry profit at rates ranging between 11.04% to 15.04% (June 30, 2018: 9.35% to 14.02%) per annum and are repayable on monthly basis.
- 10.2 The provision against doubtful diminishing musharaka financing has not been incorporated as the forced sale value of collaterally held assets is greater than the amount receivable from the respective parties.
- 10.3 This includes doubtful diminishing musharaka financing of Rupees 4.338 million whose realizable value estimated by the management as on the reporting date is Rupees 5.329 million. Hence, there is an upside of Rupees 0.991 million not recognized in the profit and loss account of the Modaraba.

Note 11

Long Term Murabaha Investments - Secured

	Note	December 31, 2018		June 30, 2018	
		(Un-audited) Rupees	(Audited) Rupees	(Un-audited) Rupees	(Audited) Rupees
Considered good		7,813,382		10,559,988	
Considered doubtful		69,301,579		69,301,582	
		77,114,961		79,861,570	
Add: Deferred murabaha income		31,675,826		31,913,554	
		108,790,787		111,775,124	
Less: Provision for doubtful murabaha investments		(69,301,582)		(69,301,582)	
Less: Suspension for doubtful murabaha investments		(29,388,304)		(29,388,304)	
		10,100,901		13,085,238	
Less: Current portion	8	(6,054,788)		(5,878,259)	
		4,046,113		7,206,979	

Note 11, Long Term Murabaha Investments - Secured - Continued...

11.1 These represent investments under murabaha arrangements on deferred payment basis at a profit margin ranging from 9.38% to 15.50% (June 30, 2018: 9.38% to 15.50%) per annum. These investments are secured against charge over fixed and current assets, registered and equitable mortgage of properties, personal guarantees of the directors of customer companies, demand promissory notes and post-dated cheques varying from case to case.

11.2 Provision for doubtful murabaha investments	December 31, 2018	June 30, 2018
	(Un-audited) Rupees	(Audited) Rupees
Opening balance	69,301,582	69,602,482
Charged during the year	-	(300,900)
Closing balance	<u>69,301,582</u>	<u>69,301,582</u>

11.3 This includes doubtful long term murabaha investments of Rupees 19.302 million whose realizable value estimated by the management as on the reporting date is Rupees 32.219 million. Hence, there is an upside of Rupees 12.918 million not recognized in the profit and loss account of the Modaraba.

Note 12

Fixed Assets under Ijarah Arrangements

	December 31, 2018	June 30, 2018
	(Un-audited) Rupees	(Audited) Rupees
Written down value at the beginning of the period / year	124,871,458	247,443,653
Additions at cost	-	-
Less: Written down value of assets disposed off	(18,032,913)	(69,890,786)
	106,838,545	177,552,867
Less: Depreciation charged during the period / year	(9,541,106)	(40,280,305)
Less: Impairment charged during the period / year	-	(12,401,104)
	<u>97,297,439</u>	<u>124,871,458</u>
12.1 Written down value of assets disposed off		
Plant and Machinery	379,180	8,521,353
Vehicle	16,726,069	61,369,433
	<u>18,032,913</u>	<u>69,890,786</u>
12.2 General description of significant ijarah arrangements (IFAS-2)		

The Modaraba has entered into various ijarah agreements for periods ranging from 3 to 11 years (June 30, 2018: 3 to 11 years). Security deposits ranging from 0% to 71% (June 30, 2018: 5% to 73%) are obtained at the time of disbursement. The rate of profit implicit in ijarah ranges from 11.06% to 14.72% (June 30, 2018: 9.46% to 14.46%) per annum.

Note 13

Fixed Assets under Own Use

	December 31, 2018	June 30, 2018
	(Un-audited) Rupees	(Audited) Rupees
Written down value at the beginning of the period / year	47,612	7,732
Additions at cost	-	60,500
Less: Written down value of assets disposed off	-	-
	47,612	68,232
Less: Depreciation charged during the period / year	(7,865)	(20,620)
	<u>39,747</u>	<u>47,612</u>

Note 14

Deferred Income Tax Asset

The deferred income tax asset amounting to Rs. 123.677 million (June 30, 2018: Rs. 90.420 million) has not been recognized in this condensed interim financial information (un-audited) as the temporary differences are not expected to reverse in foreseeable future because taxable profits may not be available against which the temporary differences can be utilized.

Note 15

Short Term Finance - Secured

	December 31, 2018	June 30, 2018
	(Un-audited) Rupees	(Audited) Rupees
From banking companies		
Running finance from associated undertaking - National Bank of Pakistan	<u>217,063,388</u>	<u>217,063,388</u>

15.1 The Modaraba has obtained running finance facility of Rs. 250 million (June 30, 2018: Rs. 250 million) from the National Bank of Pakistan carrying mark-up / profit at 1 month KIBOR plus 1% (June 30, 2018: 1 month to 6 months KIBOR plus 1%) per annum payable monthly. The effective mark-up / profit rate charged during the year ranged from 8.03% to 10.42% (June 30, 2018: 6.76% to 6.36%) per annum. This facility is secured by way of first joint pari passu hypothecation charge on all present and future receivables, leased assets and related lease receivables and present and future assets of the Modaraba to the extent of Rs 277.778 million (June 30, 2018: Rs 277.778 million). This facility expired on March 31, 2018 and has yet not been renewed as at the reporting date.

Note 16

Current Portion of Non-Current Liabilities

		December 31, 2018	June 30, 2018
	Note	(Un-audited) Rupees	(Audited) Rupees
Security deposits against ijarah assets	17	89,622,298	103,934,253
Deferred murabaha income		<u>86,025</u>	<u>119,119</u>
		<u>89,708,323</u>	<u>104,053,372</u>

Note 17

Security Deposits against Ijarah Assets

		December 31, 2018	June 30, 2018
	Note	(Un-audited) Rupees	(Audited) Rupees
Security deposits against ijarah assets		91,606,798	106,736,453
Less: Current portion	16	<u>(89,622,298)</u>	<u>(103,934,253)</u>
		<u>1,984,500</u>	<u>2,802,200</u>

Note 18

Certificate Capital

	December 31, 2018	June 30, 2018	December 31, 2018	June 30, 2018
	(Un-audited)	(Audited)	(Un-audited)	(Audited)
	Number of certificates	Number of certificates	Rupees	Rupees
Authorized:				
	<u>60,000,000</u>	<u>60,000,000</u>		
			<u>600,000,000</u>	<u>600,000,000</u>
Issued, subscribed and paid-up certificate capital:				
	<u>25,000,000</u>	<u>25,000,000</u>		
			<u>250,000,000</u>	<u>250,000,000</u>

18.1 7,500,000 (June 30, 2018: 7,500,000) certificates of the Modaraba are held by National Bank Modaraba Management Company Limited, the modaraba management company.

18.2 No certificates of the Modaraba have been issued / cancelled during the period / year

Note 19

Contingencies and Commitments

- 19.1** Commissioner Inland Revenue (Appeals) raised demand of tax payables of Rs. 333.26 million for tax year 2011. Appeal was filed before the Commissioner Appeals Inland Revenue and the demand was deleted. The Department filed an appeal against the order of the Commissioner Appeals before the Appellate Tribunal. The notice of hearing is awaited from the Tribunal.
- 19.2** Commissioner Inland Revenue (Appeals) raised demand of tax payables of Rs. 127.362 million for tax year 2014. Appeal was filed before the Commissioner Appeals Inland Revenue and the demand was deleted. The Department filed an appeal against the order of the Commissioner Appeals before the Appellate Tribunal. The notice of hearing is awaited from the Tribunal.

Note 20

Financial Risk Management

The Modaraba's financial risk management objectives and policies are consistent with those disclosed in preceding audited annual financial statements for the year ended June 30, 2018.

Note 21

Balances And Transactions With Related Parties

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

	December 31, 2018		June 30, 2018	
	(Un-audited)	(Audited)	(Un-audited)	(Audited)
	Rupees		Rupees	
21.1 Balances outstanding at the period / year end				
Bank accounts with National Bank of Pakistan	152,758		384,760	
Finances from National Bank of Pakistan	217,063,388		217,063,388	
Markup payable to National Bank of Pakistan	1,920,981		2,564,748	
	December 31, 2018		December 31, 2017	
	(Un-audited)	(Audited)	(Un-audited)	(Audited)
	Rupees		Rupees	
21.2 Transactions during the period				
Related party	Relationship	Nature of Transaction		
National Bank of Pakistan	Modaraba Management	Long term finance repaid	-	16,666,666
	Company's holding company	Short term finance repaid - net	-	18,529,361
		Ijarah rentals received	1,660,350	6,292,268
		Mark up paid	10,508,766	8,556,766
National Bank Modaraba Management Company Limited	Modaraba management company	Modaraba management company fee	-	136,358
Remuneration to key management personnel			2,557,175	2,408,838

Note 22

Segment Information

- 22.1** As per IFRS 8, operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Chief Executive Officer (CEO) of the Modaraba has been identified as the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.
- 22.2** The CEO is responsible for the Modaraba's entire product portfolio and considers the business as a single operating segment. The Modaraba's asset allocation decisions are based on a single integrated investment strategy and the Modaraba's performance is evaluated on an overall basis.
- 22.3** The internal reporting provided to the CEO for the Modaraba's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of approved accounting and reporting standards as applicable in Pakistan. The Modaraba is domiciled in Pakistan. All of the Modaraba's income is from investment in entities incorporated in Pakistan. The Modaraba also has a diversified certificate holder population. As at December 31, 2018, there was only one (June 30, 2018: one) certificate holder (National bank of Pakistan - the holding company of the Modaraba Management Company) who held more than 10% of the Modaraba's certificate capital. Its holding was 30% (June 30, 2018: 30%).

Note 23

Date Of Authorization For Issue

These condensed interim financial information (unaudited) have been approved by the Board of Directors of National Bank Modaraba Management Company Limited and authorized for issue on February 27, 2019.

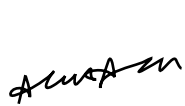



Note 24

General

Comparative figures are re-arranged / re-classified, wherever necessary, to facilitate comparison. The following re-arrangements / re-classifications have been made in these condensed interim financial information (un-audited) for better presentation:

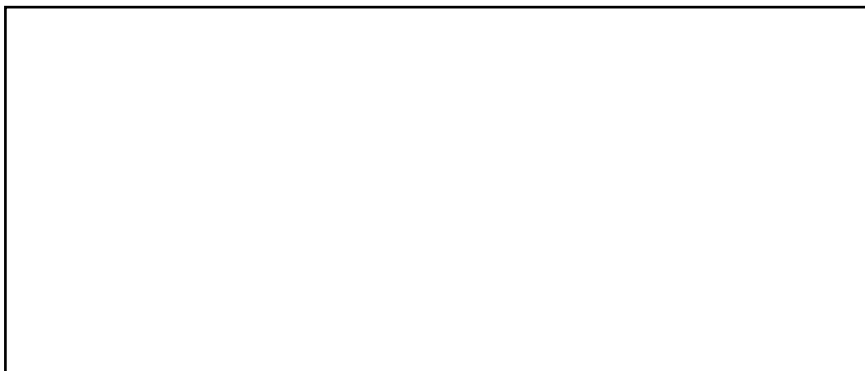
From	To	Amount (Rupees)
Other income	Profit on short term investment	717,781
Advances, prepayments and other receivables	Accrued profit	502,340

Lahore: February 27, 2019

 _____ Chief Executive Officer National Bank Modaraba Management Company Limited	 _____ Director National Bank Modaraba Management Company Limited	 _____ Director National Bank Modaraba Management Company Limited	 _____ Chief Financial Officer National Bank Modaraba Management Company Limited
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