



# FIRST NATIONAL BANK MODARABA

Managed By:

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

HALF YEARLY  
REPORT  
DECEMBER 31, | **2019**

# First National Bank Modaraba

## *Half Yearly Report* *December 31, 2019*

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

## 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 presenting the quarterly report, together with un-audited financial statements of FNBM for the quarter and half year ended December 31, 2019.

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. As a result an amount of Rs. 16.4 million was recovered from defaulter parties during the half year. On the operations side the total income figured to Rs. 7.056 Million in the half year under review as compared to Rs. 10.108 Million in the corresponding period last year. Operating expenses stayed almost same as compared to the corresponding period last year, however despite general inflation on annual basis they are not expected to differ materially from the last year. There has also been an additional charge of provision amounting to Rs. 2.5 Million and a reversal of Rs1.9 Million on account of cash recoveries from defaulter parties. The net result was a loss of Rs. (14.344) million as against a Rs. (19.306) Million in the corresponding period. The loss per certificate stood at Rs. (0.57) as compared to a Rs. (0.77) in the corresponding period.

The only liability against financing, amounting to Rs. 217 Million, is of RF line from the parent bank NBP which has expired on October 31, 2019. The renewal of the line and deferral in mark-up till NBP implements its decision of June 22, 2018 of recapitalization of FNBM by Rs.300 Million has been requested. In anticipation of NBP's approval the mark-up therefore has only been accrued up to the expiry date of the facility.

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 NBFI & Modaraba Association of Pakistan for their continued guidance and support.

**For and on behalf of the Board**



**Chief Executive Officer**

Lahore: February 26, 2020

## ڈائریکٹرز کی سہ ماہی جائزہ رپورٹ

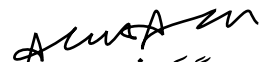
فرسٹ نیشنل بینک مضاربہ (FNBM) کی انتظامی کمپنی نیشنل بینک مضاربہ مینجمنٹ کمپنی لمیٹڈ (NBMMCL) کے بورڈ آف ڈائریکٹرز کی جانب سے سہ ماہی 31 دسمبر 2019 کی اختتام پذیر پر ششماہی رپورٹ بمعہ FNBM فرسٹ نیشنل بینک مضاربہ کے غیر پڑتال شدہ مالیاتی گوشوارے پیش کیے جا رہے ہیں۔

زیر جائزہ مدت میں انتظامیہ کی توجہ وصولی خصوصاً نادہندگان پر رہی۔ جہاں مختلف ذرائع استعمال کیے جا رہے ہیں بشمول قانونی چارہ جوئی کے ساتھ ساتھ تصفیہ کے لیے گفت و شنید وغیرہ، نتیجتاً 6 ماہ میں نادہندگان سے 16.4 ملین کی وصولی کی گئی۔ آپریشن پر نظر دوڑائیں تو گزشتہ سال اسی مدت میں 10.108 ملین روپے کے مقابلے میں رواں ششماہی میں 7.056 ملین روپے کل آمدنی ریکارڈ ہوئی۔ آپریشن اخراجات گزشتہ سال اسی مدت کے اخراجات کے تقریباً برابر رہے۔ افراط زر کے باوجود سالانہ بنیاد پر آپریشن اخراجات گزشتہ سال کی سطح سے خاطر خواہ بڑھنے کی توقع نہیں کی جا رہی۔

اس عرصہ کے دوران 2.5 ملین روپے کی رقم کی اضافی پروزیٹنگ کی گئی ہے جبکہ نادہندگان سے نقد رقم کی وصولی کی وجہ سے 1.9 ملین روپے سے پروزیٹنگ میں کمی کی گئی ہے۔ نتیجتاً اس مدت میں (18.454) ملین روپے کے مقابلے میں (14.344) ملین روپے کا خسارہ ہوا۔ گزشتہ مدت کے مقابلے میں رواں مدت میں فی ٹھوٹکیٹ خسارہ 0.77 روپیہ کے مقابلے میں 0.57 پر رہا۔ فنانسنگ کی 277 ملین کی رقم NBP کی RF لائین کی مدد میں واجب الادا ہے۔ اس لائین کی معیاد 31 اکتوبر 2019 کو ختم ہو گئی تھی۔ اس کی توسیع اور جب تک NBP اپنے 21 جولائی 2018 کے FNBM میں 300 ملین کی سرمایہ کاری کے فیصلے پر عمل درآمد نہیں کرتا NBP سے مارک اپ میں چھوٹ کی درخواست کی گئی ہے۔ NBP سے منظوری کی توقع کے پیش نظر مارک اپ صرف اس لائین کے معیاد کے اختتام تک لاگو کیا گیا ہے۔

بورڈ اپنے ٹھوٹکیٹ ہولڈرز کے اعتماد اور مسلسل صبر کا شکر گزار ہے۔ علاوہ ازیں، بورڈ رجسٹر ارمضاربہ، SECP اور NBFI مضاربہ ایسوسی ایشن آف پاکستان کی مسلسل حمایت اور رہنمائی کے شکر گزار ہیں۔

برائے/مخائب بورڈ آف ڈائریکٹرز

  
چیف ایگزیکٹو آفیسر

لاہور: فروری 2020ء



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## INDEPENDENT AUDITOR'S REVIEW REPORT TO THE CERTIFICATE HOLDERS OF FIRST NATIONAL BANK MODARABA ON REVIEW OF INTERIM FINANCIAL STATEMENTS

### **Introduction**

We have reviewed the accompanying condensed interim balance sheet of **First National Bank Modaraba** ("the Modaraba") as at December 31, 2019 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 the notes to the financial statements for the six months period then ended (hereinafter referred to as "interim financial information"). Management of the Modaraba is responsible for preparation and presentation of 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 December 31, 2018 and December 31, 2019 have not been reviewed as we are required to review only the cumulative figures for the half year ended December 31, 2019.

### **Scope of Review**

We conducted our review in accordance with International Standards 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 accounting and reporting standards as applicable in Pakistan for interim financial reporting.

### **Emphasis of Matter**

We draw attention to note 1.2, of the accompanied financial statements, which indicates that the Modaraba incurred a net loss of Rs. 14.345 million during the period ended December 31, 2019. As of that date the Modaraba's current liabilities exceeded its current assets by Rs. 102.982 million, its net liabilities amounted to Rs. 43.061 million and its accumulated losses amounted to Rs. 337.017 million. Its short-term financing facility obtained from National Bank of Pakistan has not been renewed and the Modaraba has not provided for estimated finance cost of Rs. 5.108 million as disclosed in Note 15 to the financial statements.



National Bank of Pakistan's plan to recapitalize the Modaraba by injecting further Rs. 300 million is still awaiting approval from the State Bank of Pakistan. Furthermore, the Registrar Modaraba has passed an order to the Modaraba for filing an application for winding up before the Modaraba Tribunal Lahore in continuation of its earlier show cause notice consequent to the erosion of Modaraba's Certificate-holders' funds and continued losses. This situation indicates that a material uncertainty exists that may cast significant doubt on the Modaraba's ability to continue as going concern. Therefore, these financial statements have been prepared on the basis of estimated realizable / settlement values of assets and liabilities respectively. Estimated realizable / settlement values are based on the management's best estimate. Estimation involves judgment based on the latest available, reliable information, historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. In future, these estimates may need revision if changes occur in the circumstances on which the estimates are based or as a result of new information. Hence, the ultimate values at which assets will be realized and liabilities will be settled may be different from those carried in these financial statements. Our opinion is not qualified in respect of this matter.

A handwritten signature in black ink, appearing to read "Crowe Hussain Chaudhury", with a stylized flourish at the end.

LAHORE

Dated: February 26, 2020

**CROWE HUSSAIN CHAUDHURY & CO.**

*Chartered Accountants*

(Engagement Partner: Amin Ali)

## CONDENSED INTERIM BALANCE SHEET (UNAUDITED) AS AT 31 DECEMBER 2019

	Note	December 31, 2019 (Un-audited) Rupees	June 30, 2019 (Audited) Rupees (Restated)	June 30, 2018 (Audited) Rupees (Restated)
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and bank balances		1,654,417	11,329,223	51,653,789
Short term murabaha investments - secured	5	5,638,222	16,138,222	16,308,001
Accrued profit		1,579,948	2,192,041	595,657
Short term investments	6	90,516,249	68,070,000	30,000,000
Ijarah rentals receivable	7	66,757,235	69,521,441	74,259,701
Advances, prepayments and other receivables		6,354,250	4,421,491	3,826,738
Current portion of non current assets	8	30,171,726	34,922,373	42,303,266
		202,672,047	206,594,791	218,947,152
<b>NON-CURRENT ASSETS</b>				
Net investment in ijarah finance	9	-	-	1,650,864
Diminishing musharaka financing - secured	10	-	-	1,977,113
Long term murabaha investments - secured	11	2,533,823	5,893,939	7,206,979
Long term loans and deposits		2,523	190,780	470,143
Intangible asset		-	-	-
Fixed assets under ijarah arrangements	12	59,529,094	83,900,189	124,871,458
Fixed assets - own use	13	81,080	39,747	47,612
Deferred tax asset	14	-	-	-
		62,146,520	90,024,655	136,224,169
<b>TOTAL ASSETS</b>		264,818,567	296,619,446	355,171,321
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accrued profit		10,292,253	4,505,879	2,564,748
Short term finances - secured	15	217,063,388	217,063,388	217,063,388
Creditors, accrued and other liabilities		19,024,842	17,928,939	19,032,000
Current portion of non-current liabilities	16	59,273,646	82,555,415	104,053,372
		305,654,129	322,053,621	342,713,508
<b>NON-CURRENT LIABILITIES</b>				
Security deposits against ijarah assets	17	-	890,000	2,802,200
Deferred murabaha income		2,225,905	2,234,603	2,406,131
		2,225,905	3,124,603	5,208,331
<b>TOTAL LIABILITIES</b>		307,880,034	325,178,224	347,921,839
<b>NET ASSETS</b>		<u>(43,061,467)</u>	<u>(28,558,778)</u>	<u>7,249,482</u>
<b>FINANCED BY:</b>				
Certificate capital	18	250,000,000	250,000,000	250,000,000
Statutory reserves		43,955,189	43,955,189	43,955,189
Accumulated loss		(337,016,656)	(322,513,967)	(286,705,707)
<b>CONTINGENCIES AND COMMITMENTS</b>	20	-	-	-
<b>TOTAL EQUITY AND RESERVES</b>		<u>(43,061,467)</u>	<u>(28,558,778)</u>	<u>7,249,482</u>

The annexed notes from 1 to 25 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 26, 2020



# Half Yearly Report-December 31, 2019

## CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2019

	Half Year Ended		Quarter Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	Rupees	Rupees (Restated)	Rupees	Rupees (Restated)
<b>INCOME FROM OPERATIONS</b>				
Ijarah rentals earned / income from ijarah finance	1,441,725	5,879,784	(284,532)	1,545,952
Profit on diminishing musharaka financing	81,532	1,209,767	27,812	957,082
Profit on murabaha investments	34,855	67,948	34,855	67,948
Profit on bank deposits	195,269	835,898	169,413	502,924
Gain on disposal of ijarah and owned assets	227,219	407,882	356,517	159,601
Profit on short term investment	5,075,852	1,707,481	3,333,362	1,687,313
	7,056,452	10,108,760	3,637,427	4,920,820
<b>OTHER INCOME</b>				
Reversal of provision charged for doubtful receivables	1,902,510	170,944	1,902,510	-
Other income	37,749	28,710	32,971	28,710
	1,940,259	199,654	1,935,481	28,710
<b>TOTAL INCOME</b>	<b>8,996,711</b>	<b>10,308,414</b>	<b>5,572,908</b>	<b>4,949,530</b>
<b>EXPENSES</b>				
Depreciation on ijarah assets	(2,114,150)	(9,541,106)	(1,042,797)	(5,625,984)
Operating expenses	(8,311,048)	(8,459,601)	(4,381,860)	(4,721,714)
Finance cost	(10,317,666)	(9,864,999)	(2,641,983)	(5,665,354)
<b>TOTAL EXPENSES</b>	<b>(20,742,864)</b>	<b>(27,865,706)</b>	<b>(8,066,640)</b>	<b>(16,013,052)</b>
<b>Operating Loss before Provisions and Taxation</b>	<b>(11,746,153)</b>	<b>(17,557,292)</b>	<b>(2,493,732)</b>	<b>(11,063,522)</b>
Provision charged for doubtful receivables - net	(2,598,619)	(1,749,123)	(2,598,619)	(1,749,123)
	(14,344,772)	(19,306,415)	(5,092,351)	(12,812,645)
Modaraba Company's management fee	-	-	-	-
<b>Loss before Taxation</b>	<b>(14,344,772)</b>	<b>(19,306,415)</b>	<b>(5,092,351)</b>	<b>(12,812,645)</b>
Taxation	-	-	-	-
<b>Loss for the Period</b>	<b>(14,344,772)</b>	<b>(19,306,415)</b>	<b>(5,092,351)</b>	<b>(12,812,645)</b>
<b>LOSS PER CERTIFICATE - BASIC AND DILUTED</b>	<b>(0.57)</b>	<b>(0.77)</b>	<b>(0.20)</b>	<b>(0.51)</b>

The annexed notes from 1 to 25 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 26, 2020

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)  
FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2019**

	Half Year Ended		Quarter Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	Rupees	Rupees (Restated)	Rupees	Rupees (Restated)
<b>Net Loss for the Period</b>	(14,344,772)	(19,306,415)	(5,092,351)	(12,812,645)
<b>Other Comprehensive Income:</b>				
<i>Items that will not be reclassified to profit and loss</i>	-	-	-	-
<i>Items that may be reclassified subsequently to profit and loss</i>				
Deficit on revaluation of sukuks	(157,917)	-	-	-
Other comprehensive loss for the period	(157,917)	-	-	-
<b>Total Comprehensive Loss for the Period</b>	<u>(14,502,689)</u>	<u>(19,306,415)</u>	<u>(5,092,351)</u>	<u>(12,812,645)</u>

The annexed notes from 1 to 25 form an integral part of these condensed interim financial information (un-audited).

 <b>Chief Executive Officer</b> National Bank Modaraba Management Company Limited	 <b>Director</b> National Bank Modaraba Management Company Limited	 <b>Director</b> National Bank Modaraba Management Company Limited	 <b>Chief Financial Officer</b> National Bank Modaraba Management Company Limited
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Lahore: February 26, 2020

## CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2019

	Half Year Ended	
	December 31, 2019	December 31, 2018
	Rupees	Rupees (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net Loss for the Period</b>	(14,344,772)	(19,306,415)
Adjustment for:		
- Depreciation on fixed assets under own use	6,667	7,865
- Depreciation on fixed assets under ijarah arrangements	2,114,150	9,541,106
- Gain on termination of ijarah arrangements	(227,219)	(382,882)
- Gain on sale of fixed assets under owned use	-	(25,000)
- Profit on short term investments	(5,075,852)	(1,707,481)
- Charge of provision against doubtful ijarah rentals receivable - net	2,598,619	236,657
- Reversal of provision against doubtful other receivables - net	-	(170,944)
- Charge / (reversal) of provision against net investment in ijarah finance - net	-	1,512,466
- (Reversal) / charge of provision long term murabaha investments	(1,902,510)	-
- Finance cost	10,317,666	9,864,999
- Deferred murabaha income	-	(237,728)
- Profit on term deposit receipts and bank deposits	(195,269)	(835,898)
	<u>7,636,252</u>	<u>17,803,160</u>
<b>Operating loss before working capital changes</b>	(6,708,520)	(1,503,255)
Decrease / (Increase) in operating assets:		
- Accrued profit	5,687,945	1,683,883
- Ijarah rentals receivable	165,587	869,889
- Advances, prepayments and other receivables	(1,396,794)	499,966
- Short term murabaha investments	10,500,000	169,779
- Diminishing musharaka financing	750,013	6,123,077
- Long term murabaha investments	7,006,891	2,984,337
Decrease in operating liabilities:		
- Creditors, accrued and other liabilities	1,095,903	(4,592,734)
<b>Net changes in working capital</b>	<u>23,809,545</u>	<u>7,738,197</u>
<b>Net Cash Generated from Operating Activities</b>	<u>17,101,025</u>	<u>6,234,942</u>
Finance cost paid	(4,531,292)	(10,508,766)
Income taxes paid	(535,965)	(446,035)
Profit received on bank deposits	195,269	835,898
Long term loans and deposits - net	<u>188,257</u>	<u>244,922</u>
<b>Net Cash Generated from / (Used in) Operating Activities</b>	<u>12,417,294</u>	<u>(3,639,039)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Fixed assets - own use	(48,000)	-
Short term investments -net	(22,604,166)	(43,125,000)
Proceeds from disposal of own assets	-	25,000
Proceeds from disposal of ijarah assets	<u>560,066</u>	<u>3,286,140</u>
<b>Net Cash Used in Investing Activities</b>	<u>(22,092,100)</u>	<u>(39,813,860)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>Net Decrease in Cash and Cash Equivalents</b>	<u>(9,674,806)</u>	<u>(43,452,899)</u>
Cash and cash equivalents at the beginning of the period	<u>11,329,223</u>	<u>51,653,789</u>
<b>Cash and Cash Equivalents at the End of the period</b>	<u><u>1,654,417</u></u>	<u><u>8,200,890</u></u>

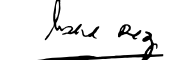
The annexed notes from 1 to 25 form an integral part of these condensed interim financial information (un-audited).



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 26, 2020

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)  
FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2019**

Particulars	Certificate Capital	Statutory Reserves	Accumulated Loss	Total Equity
	Rupees			
Balance as at June 30, 2018 - as previously reported	250,000,000	43,955,189	(285,810,707)	8,144,482
Correction of error	-	-	(895,000)	(895,000)
<b>Balance as at June 30, 2018 - Restated</b>	<b>250,000,000</b>	<b>43,955,189</b>	<b>(286,705,707)</b>	<b>7,249,482</b>
<b>Total comprehensive income for the six months period ended December 31, 2018</b>				
Net loss for the period	-	-	(19,306,415)	(19,306,415)
Other comprehensive income for the period	-	-	-	-
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>(19,306,415)</b>	<b>(19,306,415)</b>
<b>Balance as at December 31, 2018 - as Restated</b>	<b>250,000,000</b>	<b>43,955,189</b>	<b>(306,012,122)</b>	<b>(11,161,933)</b>
<b>Balance as at June 30, 2019 - as previously reported</b>	<b>250,000,000</b>	<b>43,955,189</b>	<b>(316,065,303)</b>	<b>(22,110,114)</b>
Correction of error	-	-	(6,448,664)	(6,448,664)
<b>Balance as at June 30, 2019 - Restated</b>	<b>250,000,000</b>	<b>43,955,189</b>	<b>(322,513,967)</b>	<b>(28,558,778)</b>
<b>Total comprehensive income for the six months period ended December 31, 2019</b>				
Net loss for the period	-	-	(14,344,772)	(14,344,772)
Other comprehensive income for the period	-	-	(157,917)	(157,917)
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>(14,502,689)</b>	<b>(14,502,689)</b>
<b>Balance as at December 31, 2019</b>	<b>250,000,000</b>	<b>43,955,189</b>	<b>(337,016,656)</b>	<b>(43,061,467)</b>

The annexed notes from 1 to 25 form an integral part of these condensed interim financial information (un-audited).

 <b>Chief Executive Officer</b> National Bank Modaraba Management Company Limited	 <b>Director</b> National Bank Modaraba Management Company Limited	 <b>Director</b> National Bank Modaraba Management Company Limited	 <b>Chief Financial Officer</b> National Bank Modaraba Management Company Limited
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Lahore: February 26, 2020

### NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2019

#### Note 1

#### Legal Status and Nature of Business

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

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

**1.2** **Going concern assumption**

During the six months period ended on December 31, 2019, the Modaraba made loss before 'Modaraba Company's Management Fee' of Rs. 14.34 million. As at the reporting date, its current liabilities exceed its current assets by Rs. 102.98 million (2019 - *Restated*: Rs. 115.458 million) and its accumulated losses amounted to Rs. 337.01 million (2019 - *Restated*: Rs. 322.513 million). Resultantly its net liabilities have exceeded its net assets by Rs. 43.06 millions as of the reporting date. Further as referred in Note 15, the short term running finance facility has expired on October 31, 2019 and the modaraba has not provided for finance cost on outstanding facility for the month of November and December amounting Rs. 5,108,066.

In purview of consistent losses the Registrar Modaraba has issued a show cause notice to the Modaraba as to why should the proceedings to wind up the Modaraba not be initiated in terms of Section 23(1)(ii)(b) of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980.

National Bank of Pakistan (NBP) resolved in its meeting of Board of Directors dated June 22, 2018 to review and reverse its earlier decision of the cessation of the business of the Modaraba and recapitalize the Modaraba by injecting Rs. 300 million against the issuance of 30 million certificates of Rs. 10 each to be issued by the Modaraba as other than 'Right Issue'. In its extraordinary general meeting of certificate holders dated November 30, 2018, it was resolved to issue 30 million certificates of Rs. 10 each, valuing Rs. 300 million in aggregate, to NBP, as otherwise than right issue.

The Securities and Exchange Commission of Pakistan (SECP) has accorded its approval on December 3, 2018 for issuance of further certificates, other than right to NBP. Consequently, on January 23, 2019 NBP applied to SBP seeking approval of injection of Rs. 300 Million in the equity of the Modaraba. The approval of injection of equity through the aforementioned arrangement is awaited from SBP.

Furthermore, the Registrar Modaraba in exercise of powers conferred under Section 23(1)(ii)(b) of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and show cause notice referred in previous paragraph, has passed an order dated October 31, 2019, for filing an application for winding up before the Modaraba Tribunal Lahore.

The accumulated losses are due to the provisioning of non-performing portfolios. These provisions amount to Rs. **333.04** million and have been recognized as per the requirements of the Prudential Regulations applicable to the Modaraba. The management is confident that these provisions would get reversed on recoveries from **classified** clients. Recoveries of Rs. 16.4 million were made during the half-year ended December 31, 2019.

However, in the absence of fresh equity, uncertainty of timing and extent of recoveries from non-performing portfolios as of the reporting date 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

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- 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, 2019. Comparative balance sheet is extracted from audited financial statements for the year ended June 30, 2019; 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 period ended on December 31, 2019.
- 2.3 This information has been prepared on the basis other than going concern using estimated realizable / settlement values of the assets and liabilities respectively. In realizable / settlement value basis assets are carried at amount of cash and cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Liabilities are carried at their settlement values, that is the undiscounted amounts of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business.
- 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, 2019 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.

## Note 3

### Accounting Policies

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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, 2019.

Half Yearly Report-December 31, 2019

## Restatement of Condensed Interim Financial Statements

**4.1.1** The Modaraba had incorrectly capitalized the transaction price in investments classified as fair value through other comprehensive income (previously investments available for sale). The transaction price should have been charged to profit and loss in accordance with the requirements of IFRS 9 (previously IAS 39).

**Effect on condensed interim balance sheet (un-audited)****Effect on condensed statement of changes in equity (un-audited)**

As at December 31, 2018		
As previously reported on December 31, 2018	Adjustment	As restated on December 31, 2018
-----Rupees-----		

Operating expenses	(8,107,601)	(352,000)	(8,459,601)
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## Note 5

### Short Term Murabaha Investments - Secured

	December 31, 2019	June 30, 2019
	(Un-audited) Rupees	(Audited) Rupees
Considered good	-	-
Considered doubtful	233,101,181	243,601,181
	233,101,181	243,601,181
Add: Deferred murabaha income	2,654,776	2,654,776
	235,755,957	246,255,957
Less: Provision for non-performing murabaha investments	(227,462,959)	(227,462,959)
Less: Suspended income	(2,654,776)	(2,654,776)
	<u>5,638,222</u>	<u>16,138,222</u>

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, 2019: 10.36% to 15.54%) per annum and are secured against charge over fixed and current assets, personal guarantees of directors of customer companies, registered and equitable mortgage of properties, demand promissory notes and post dated cheques varying from case to case.

### 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>

## Note 6

### Short Term Investments

	2019	2019	Expected yield	December 31, 2019	June 30, 2019
	Number	Number		(Un-audited) Rupees	(Audited) Rupees Restated
<b>Investments in sukuk of Rs 100,000 each - fair value through OCI</b>					
550	550	Neelum Jehlum Sukuk		45,760,000	49,920,000
200	200	Byco Petroleum Pakistan Limited		14,756,249	18,150,000
<u>750</u>	<u>750</u>			<u>60,516,249</u>	<u>68,070,000</u>
Bank Islami limited - Term deposits receipts			12.75%	30,000,000	-
				<u>90,516,249</u>	<u>68,070,000</u>

## Note 7

### Ijarah Rentals Receivable

	Note	December 31, 2019	June 30, 2019
		(Un-audited) Rupees	(Audited) Rupees
Considered good - secured		1,717,666	1,883,253
Considered doubtful		111,547,879	119,364,371
Less: Provision for doubtful ijarah rentals receivable	7.2	(23,789,772)	(29,007,645)
Less: Profit held in suspense account		(22,718,538)	(22,718,538)
		<u>65,039,569</u>	<u>67,638,188</u>
		<u>66,757,235</u>	<u>69,521,441</u>

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



# Half Yearly Report-December 31, 2019

Note 7, Ijarah Rentals Receivable - Continued...

	Note	December 31, 2019 (Un-audited) Rupees	June 30, 2019 (Audited) Rupees
7.2 Movement in provision against doubtful ijarah rentals receivable are as follows:			
Opening balance		29,007,645	25,303,438
Charged during the period / year		2,598,619	3,704,207
Provision reversed during the period	6.3	(7,816,492)	-
Adjustment / reclassified from suspended profit		-	-
Net (reversal) / charged during the period / year		(5,217,873)	3,704,207
Closing balance		23,789,772	29,007,645

7.3 The management has reviewed the ijarah receivable portfolio and adjusted excess provisioning and excess receivable.

7.4 The collaterally held assets have forced sale valued Rs. 170,291,000 as of June 30, 2019. The management estimates that the fair value has not changed significantly any further as of December 31, 2019.

Note 8

## Current Portion of Non Current Assets

	Note	December 31, 2019 (Un-audited) Rupees	June 30, 2019 (Audited) Rupees
Net investment in ijarah finance	9	13,496,734	15,718,248
Diminishing musharaka financing	10	12,980,845	13,730,858
Long term murabaha investments	11	3,414,804	5,193,924
Long term loans and deposits		279,343	279,343
		30,171,726	34,922,373

Note 9

## Net Investment in Ijarah Finance

Net Investment in Ijarah Finance	December 31, 2019			June 30, 2019		
	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-----			-----Rupees-----		
	----- (Un-Audited) -----			----- (Audited) -----		
Minimum ijarah rentals receivable	50,785,554	-	50,785,554	50,840,981	-	50,840,981
Residual value of ijarah assets	46,700	-	46,700	2,268,214	-	2,268,214
Gross investment in ijarah finance	50,832,254	-	50,832,254	53,109,195	-	53,109,195
Less: Unearned finance income	(24,109,320)	-	(24,109,320)	(24,164,747)	-	(24,164,747)
Net investment in lease ijarah finance	26,722,934	-	26,722,934	28,944,448	-	28,944,448
Less: Provision for doubtful net investment in ijarah finance (Note 9.2)	(13,226,200)	-	(13,226,200)	(13,226,200)	-	(13,226,200)
	13,496,734	-	13,496,734	15,718,248	-	15,718,248
Less: Current portion (Note 8)			(13,496,734)			(15,718,248)
			-			-

9.1 The Modaraba entered into various ijarah agreements for periods spanning 8 to 14 years (June 30, 2019: 8 to 14 years). Security deposits ranging from 0.1% to 10% (June 30, 2019: 0.1% to 10%) were obtained at the time of disbursement. The rate of profit implicit in ijarah ranges from 9.87% to 16.55% (June 30, 2019: 9.87% to 16.55%) per annum.

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

9.2 Provision for doubtful net investment in ijarah finance	December 31, 2019		June 30, 2019	
	(Un-audited)		(Audited)	
	Rupees		Rupees	
Opening balance	13,226,200		11,713,734	
Charged during the period / year	-		1,512,466	
Reversed during the period / year	-		-	
Net charged during the year	-		1,512,466	
Closing balance	13,226,200		13,226,200	

9.3 The collaterally held assets have forced sale valued Rs. 26,900,000 as of June 30, 2019. The management estimates that the fair value has not changed significantly any further as of December 31, 2019.

Note 10

## Diminishing Musharaka Financing - Secured

	Note	December 31, 2019		June 30, 2019	
		(Un-audited)		(Audited)	
		Rupees		Rupees	
Considered good		8,643,211		9,393,224	
Considered doubtful		4,337,634		4,337,634	
Provision against doubtful diminishing musharaka		-		-	
		4,337,634		4,337,634	
		12,980,845		13,730,858	
Less: Current portion	8	(12,980,845)		(13,730,858)	
		-		-	

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, 2019: 11.04% to 15.04%) 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. The collaterally held asset is valued at Rs. 5.329 million by the management as of June 30, 2019. The management estimates that the fair value has not changed significantly any further as of December 31, 2019.

Note 11

## Long Term Murabaha Investments - Secured

	Note	December 31, 2019		June 30, 2019	
		(Un-audited)		(Audited)	
		Rupees		Rupees	
Considered good		3,695,960		8,800,341	
Considered doubtful		63,399,069		65,301,579	
		67,095,029		74,101,920	
Add: Deferred murabaha income		31,640,971		31,675,826	
		98,736,000		105,777,746	
Less: Provision for doubtful murabaha investments		(63,399,069)		(65,301,579)	
Less: Suspension for doubtful murabaha investments		(29,388,304)		(29,388,304)	
		5,948,627		11,087,863	
Less: Current portion	8	(3,414,804)		(5,193,924)	
		2,533,823		5,893,939	

# Half Yearly Report-December 31, 2019

## 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, 2019: 9.38% to 15.50%) per annum. These investments are secured against charge over fixed and current assets, registered and equitable mortgage of properties, personal guarantees of the directors of customer companies, demand promissory notes and post-dated cheques varying from case to case.

<b>11.2 Provision for doubtful murabaha investments</b>	<b>December 31, 2019</b>	<b>June 30, 2019</b>
	(Un-audited)	(Audited)
	Rupees	Rupees
Opening balance	65,301,579	69,301,582
Charged during the period / year	-	-
Reversed during the period / year	(1,902,510)	(4,000,003)
Closing balance	<u>63,399,069</u>	<u>65,301,579</u>

## Note 12

### Fixed Assets under Ijarah Arrangements

	<b>December 31, 2019</b>	<b>June 30, 2019</b>
	(Un-audited)	(Audited)
	Rupees	Rupees
Written down value at the beginning of the period / year	83,900,189	124,871,458
Less: Written down value of assets disposed off / adjusted	<u>(22,256,945)</u>	<u>(26,176,015)</u>
	61,643,244	98,695,443
Less: Depreciation charged during the period / year	<u>(2,114,150)</u>	<u>(14,795,254)</u>
	<u>59,529,094</u>	<u>83,900,189</u>
<b>12.1 Written down value of assets disposed off / adjusted</b>		
Plant and machinery	7,562,483	379,172
Vehicle	<u>14,694,462</u>	<u>25,796,843</u>
	<u>22,256,945</u>	<u>26,176,015</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 14 years (June 30, 2019: 3 to 14 years). Security deposits ranging from 0% to 60% (June 30, 2019: 0% to 60%) are obtained at the time of disbursement. The rate of profit implicit in ijarah ranges from 9.87% to 16.55% (June 30, 2019: 9.87% to 16.55%) per annum.

## Note 13

### Fixed Assets under Own Use

	<b>December 31, 2019</b>	<b>June 30, 2019</b>
	(Un-audited)	(Audited)
	Rupees	Rupees
Written down value at the beginning of the period / year	39,747	47,612
Additions at cost	<u>48,000</u>	<u>-</u>
	87,747	-
Less: Depreciation charged during the period / year	<u>(6,667)</u>	<u>(7,865)</u>
	<u>81,080</u>	<u>39,747</u>

## Note 14

### Deferred Tax Asset

The deferred income tax asset amounting to Rs. 130.804 million (June 30, 2019: Rs. 124.187 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 and taxable profits may not be available against which the temporary differences can be utilized.

# First National Bank Modaraba

Note 15

## Short Term Finance - Secured

	December 31, 2019	June 30, 2019
	(Un-audited) Rupees	(Audited) Rupees
<b>From banking companies</b>		
Running finance from associated undertaking - National Bank of Pakistan	217,063,388	217,063,388

**15.1** The Modaraba has obtained running finance facility of Rs. 250 million (2019: Rs. 250 million) from the National Bank of Pakistan carrying mark-up / profit at 1 month KIBOR plus 0.50% (2019: 1 month KIBOR plus 1%) per annum payable monthly. The effective mark-up / profit rate charged during the period ranged from 13.37% to 14.31% (2019: 8.03% to 13.79%) per annum. This facility is secured by way of first joint pari passu hypothecation charge on all present and future receivables, leased assets and related lease receivables and present and future assets of the Modaraba to the extent of Rs 277.778 million (2019: Rs 277.778 million). This facility expired on October 31, 2019 and has not been renewed subsequently. Further, the Modaraba has not provided for the finance cost on outstanding amount, which would amount to Rs. 5,108,066 if calculated at facility's previous mark-up rate.

Note 16

## Current Portion of Non-Current Liabilities

		December 31, 2019	June 30, 2019
	Note	(Un-audited) Rupees	(Audited) Rupees
Security deposits against ijarah assets	17	59,246,884	82,502,496
Deferred murabaha income		26,762	52,919
		<u>59,273,646</u>	<u>82,555,415</u>

Note 17

## Security Deposits against Ijarah Assets

		December 31, 2019	June 30, 2019
	Note	(Un-audited) Rupees	(Audited) Rupees
Security deposits against ijarah assets		59,246,884	83,392,496
Less: Current portion	16	<u>(59,246,884)</u>	<u>(82,502,496)</u>
		<u>-</u>	<u>890,000</u>

Note 18

## Certificate Capital

	December 31, 2019	June 30, 2019	December 31, 2019	June 30, 2019
	(Un-audited) Number of certificates	(Audited) Number of certificates	(Un-audited) Rupees	(Audited) Rupees
<b>Authorized:</b>				
	<u>60,000,000</u>	<u>60,000,000</u>		
		Modaraba certificates of Rupees 10 each	<u>600,000,000</u>	<u>600,000,000</u>
<b>Issued, subscribed and paid-up certificate capital:</b>				
	<u>25,000,000</u>	<u>25,000,000</u>		
		Modaraba certificates of Rupees 10 each	<u>250,000,000</u>	<u>250,000,000</u>

**18.1** 7,500,000 (June 30, 2019: 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

## 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.

Note 20

## Contingencies and Commitments

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

# Half Yearly Report-December 31, 2019

Note 21

## 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, 2019.

Note 22

## 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, 2019	June 30, 2019
			(Un-audited) Rupees	(Audited) Rupees
<b>22.1</b>	<b>Balances outstanding at the period / year end</b>			
	Bank accounts with National Bank of Pakistan		260,727	341,188
	Finances from National Bank of Pakistan		217,063,388	217,063,388
	Markup payable to National Bank of Pakistan		10,292,253	4,505,879
<b>22.2</b>	<b>Transactions during the period</b>			
	<b>Related party</b>	<b>Relationship</b>	<b>Nature of Transaction</b>	
	National Bank of Pakistan	Modaraba Management Company's holding company	Mark up expense Mark up paid	10,317,666 4,505,879
	National Bank Modaraba Management Company Limited	Modaraba management company	Modaraba management company fee	-
	Remuneration to key Management personnel			2,672,182
				5,922,959

Note 23

## Segment Information

- 23.1** 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.
- 23.2** 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.
- 23.3** 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, 2019, there was only one (June 30, 2019: one) certificate holder (National bank of Pakistan - the holding company of the Modaraba Management Company) who held more than 10% of the Modaraba's certificate capital. Its holding was 30% (June 30, 2019: 30%).

Note 24

## 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 issuance on February 26, 2020.

Note 25

## General

Comparative figures are re-arranged / re-classified, wherever necessary, to facilitate comparison. No such re-arrangements / re-classifications have been made in these condensed interim financial information (un-audited) except for those disclosed in Note 4.

			
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 26, 2020

*If undelivered please return to :*  
**FIRST NATIONAL BANK MODARABA**  
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26 McLagon Road,  
Lahore.  
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