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**NATIONAL BANK MODARBA MANAGEMENT
COMPANY LIMITED**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2017**

EY Ford Rhodes
Chartered Accountants
96-B-I, 4th Floor, Pace Mall Building
M. M. Alam Road, Gulberg-II
P.O. Box 104, Lahore-54660

Tel: +9242 3577 8402-11
Fax: +9242 3577 8412-13
ey.lhr@pk.ey.com
ey.com/pk

LA/4768/18
25 April 2018

The Board of Directors
National Bank Modaraba Management Company Limited
Ground Floor, NBP Building
26 McLagon Road
Lahore

Dear Sirs

DRAFT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

We are pleased to enclose five copies of the **draft financial statements** of the Company for the above year, together with our **draft audit report** thereon to the members, initialled by us only for identification. We shall be pleased to issue and sign our report after:

- (a) the Board has approved these financial statements;
- (b) these financial statements have been signed by the Chief Executive and a Director authorized in this behalf and we have:
 - i) seen the Board's resolution approving these financial statements and the following:
 - Available for sale investment stands impaired by Rs. 58,875,000;
 - ii) received reply from the following related party:
 - National Bank of Pakistan (Parent Company);
 - iii) received letter of support from National Bank of Pakistan in favor of the Company; and
 - iv) received representation letter duly signed by the Chief Executive and Chief Financial Officer of the Company.

2. RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND AUDITORS IN RELATION TO THE FINANCIAL STATEMENTS

2.1 The responsibilities of the independent auditors in a usual examination of financial statements are stipulated in Section 249 of the Companies Act, 2017 and International Standards on Auditing.

2.2 While the auditors are responsible for forming and expressing their opinion on the financial statements, the responsibility for preparation and presentation of such financial statements is primarily that of the Management. The Board's responsibilities include causing the maintenance of adequate accounting records and internal control, the selection and application of accounting policies, safeguarding of the assets of the Company and prevention and detection of frauds and irregularities. The audit of the financial statements does not relieve the Management of its responsibilities. Accordingly, our examination of books of account and records should not be relied upon to disclose all errors or irregularities.

3. INDEPENDENCE

Listed in annexure "A" are EY's key firm-wide policies and processes to maintain independence and objectivity.



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We confirm that in our professional judgment, the Firm is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff has not been compromised.

4. TRANSACTIONS WITH RELATED PARTIES

We have been informed by the management that there were no transactions with related parties other than those disclosed in the financial statements.

5. SIGNIFICANT MATTERS

We would like to draw your attention to the following significant matters noted by us during the course of the audit:

5.1 Fixed Asset Register

We have noted that the Company is not maintaining Fixed Asset Register as per TR-6 issued by Institute of Chartered Accountants of Pakistan. We suggest that the Company should maintain and update the Fixed Asset Register to ensure the compliance with the applicable rules and regulations.

6. CONTINGENCIES AND COMMITMENTS

We have been informed by the management that there were no contingencies, commitments and transactions with associated companies/related parties other than those disclosed in the financial statements.

7. SUBSEQUENT EVENTS

We have been informed by the management that there were no subsequent events other than those disclosed in the financial statements.

8. FRAUD

We have been informed by the management that there were no instances of fraud which they are aware of.

9. PENDING INFORMATION

Following information is pending from the Company;

i) reply from the following banks:

- Al-Baraka Islamic Bank,
- Bank Alfalah Islamic Bank ;

ii) reply from the following tax advisor:

- Asad Rasul & Co. ;

iii) Reply from the Central Depository Company (CDC) ; and

iv) List of bank accounts closed during the year signed and stamped by the management.



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We would like to inform the Board that unless we have signed the auditors' report on these financial statements, the same shall remain and be deemed un-audited.

This letter has been prepared for the sole use of the Board of Directors, management and others within the organization. It must not be disclosed to a third party or quoted to or referred to without our written consent. No responsibility is assumed by Ernst & Young to any other person.

Finally we would like to take this opportunity to thank your staff for the co-operation we have received throughout our audit. If there are any further matters which you wish to discuss concerning our audit, please do not hesitate to call us.

Yours faithfully

EY Ford Rhodes



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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **National Bank Modaraba Management Company Limited** (the Company) as at **31 December 2017** and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in Note 2.1, with which we concur;
 - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of the loss, total comprehensive loss, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Chartered Accountants
Engagement Partner: Sajjad Hussain Gill
Lahore: 07 August 2018


NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	2017 Rupees	2016 Rupees
ASSETS			
Non-current assets			
Property and equipment	7	65,991	166,676
Long term investment	8	16,125,000	35,100,000
Long term deposits		25,000	25,000
Long term loans and advances		-	4,926
		16,215,991	35,296,602
Current assets			
Investments - held to maturity	9	93,000,000	98,000,000
Advances	10	69,768	39,925
Due from related party	11	136,358	-
Accrued Interest		1,867,075	3,273,482
Tax receivable from Government	12	10,952,744	10,186,541
Other receivables		65,000	25,000
Bank balances	13	3,405,272	2,379,380
		109,496,217	113,904,328
TOTAL ASSETS		125,712,208	149,200,930
SHARE CAPITAL AND RESERVES			
Share capital	14	105,000,000	105,000,000
Accumulated losses		(72,419,908)	(58,599,803)
Fair value reserves		-	11,625,000
		32,580,092	58,025,197
LIABILITIES			
Current liabilities			
Trade and other payables	15	259,475	251,875
Payable to the Holding Company	16	92,872,641	90,923,858
		93,132,116	91,175,733
Contingencies and commitments	17	-	-
TOTAL EQUITY AND LIABILITIES		125,712,208	149,200,930

The annexed notes from 1 to 29 form an integral part of these financial statements.

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 CHIEF EXECUTIVE


 DIRECTOR

NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 Rupees	2016 Rupees
Revenue	18	136,358	-
Administrative expenses	19	(10,837,653)	(17,103,129)
Bank charges		(1,877)	(2,743)
Other income	20	4,234,771	6,990,781
Fair value loss on long term investment	21	(7,350,000)	-
Loss before tax		(13,818,401)	(10,115,091)
Taxation	22	(1,704)	-
Loss for the year		(13,820,105)	(10,115,091)
Loss per share - basic and diluted	23	(1.32)	(0.96)

The annexed notes from 1 to 29 form an integral part of these financial statements.

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CHIEF EXECUTIVE



DIRECTOR

NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED
STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u> Rupees	<u>2016</u> Rupees
Loss for the year		(13,820,105)	(10,115,091)
Other comprehensive income for the year			
Item to be reclassified to profit and loss in subsequent periods:			
(Loss) /gain arising on available for sale investment	8.1	-	11,625,000
Total comprehensive (loss) / income for the year		<u><u>(13,820,105)</u></u>	<u><u>1,509,909</u></u>

The annexed notes from 1 to 29 form an integral part of these financial statements.

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CHIEF EXECUTIVE

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DIRECTOR

NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	<u>2017</u> Rupees	<u>2016</u> Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(13,818,401)	(10,115,091)
Adjustment for non-cash and other items:		
Depreciation	100,685	173,035
Fair value loss on long term investment	7,350,000	-
Profit on bank deposits	(65,069)	(6,988,289)
	<u>7,385,616</u>	<u>(6,815,254)</u>
Working capital adjustment:	(6,432,785)	(16,930,345)
(Increase) / decrease in current assets		
Advances	(24,917)	(44,851)
Due from related party	(136,358)	-
Prepayments	-	6,342
Other receivables	(40,000)	(15,000)
	<u>(201,275)</u>	<u>(53,509)</u>
Increase in current liabilities		
Trade and other payables	7,600	86,875
Payable to the Holding Company	1,948,783	6,796,036
	<u>1,956,383</u>	<u>6,882,911</u>
Cash used in operations	<u>(4,677,677)</u>	<u>(10,100,943)</u>
Income tax withheld	(767,907)	(373,287)
Net cash used in operating activities	<u>(5,445,584)</u>	<u>(10,474,230)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Long term deposits	-	(25,000)
Profit on bank deposits and short term investments received	1,471,476	3,754,447
Decrease in investments-net	5,000,000	2,000,000
Net cash generated from investing activities	<u>6,471,476</u>	<u>5,729,447</u>
Net increase / (decrease) in cash and cash equivalents	<u>1,025,892</u>	<u>(4,744,783)</u>
Cash and cash equivalents at the beginning of the year	2,379,380	7,124,163
Cash and cash equivalents at the end of the year	<u>3,405,272</u>	<u>2,379,380</u>

The annexed notes from 1 to 29 form an integral part of these financial statements.

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 CHIEF EXECUTIVE


 DIRECTOR

NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Paid-up capital	Accumulated losses	Available for sale reserve	Total equity
	(Rupees)			
Balance as at 1 January 2016	105,000,000	(48,484,712)	-	56,515,288
Loss for the year	-	(10,115,091)	-	(10,115,091)
Other comprehensive income for the year	-	-	11,625,000	11,625,000
Total comprehensive loss for the year	-	(10,115,091)	11,625,000	1,509,909
Balance as at 31 December 2016	105,000,000	(58,599,803)	11,625,000	58,025,197
Loss for the year	-	(13,820,105)	-	(13,820,105)
Reclassified to profit and loss account during the year	-	-	(11,625,000)	(11,625,000)
Other comprehensive loss for the year	-	-	-	-
Total comprehensive loss for the year	-	(13,820,105)	(11,625,000)	(25,445,105)
Balance as at 31 December 2017	105,000,000	(72,419,908)	-	32,580,092

The annexed notes from 1 to 29 form an integral part of these financial statements.

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CHIEF EXECUTIVE



DIRECTOR

NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1 CORPORATE INFORMATION

National Bank Modaraba Management Company Limited (the Company) was incorporated on August 06, 1992 in Pakistan as a public limited company under the Companies Ordinance, 1984. The Company is a wholly-owned subsidiary of National Bank of Pakistan (the Holding Company). The purpose of the Company is to float and manage Modaraba funds. The Company obtained license to float modarba in 2003. The Company floated the First National Bank Modaraba in December 2003. The registered office of the Company is situated at Ground Floor, NBP Regional Head Quarter Building, 26 - Mclagon Road, Lahore.

2 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984, shall prevail.

2.1 Standards, interpretations and amendments to published approved accounting standards effective in 2017

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as described below:

New and amended standards and interpretations

The Company has adopted the following accounting standard and the amendments and interpretation of IFRSs which became effective for the current year:

Standard or Interpretation

IAS 7	- Financial Instruments: Disclosures - Disclosure Initiative - (Amendment)
IAS 12	- Income Taxes – Recognition of Deferred Tax Assets for Unrealized losses (Amendments)

Improvements to Accounting Standards Issued by the IASB in September 2014

IFRS 12	- Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12
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The adoption of the above amendments, improvements to accounting standards and interpretations did not have any effect on the financial statements.

3 BASIS OF PREPARATION

3.1 Basis of measurement

These financial statements have been prepared under historical cost convention.

3.2 Functional and presentation currency

These financial statements are presented in Pak Rupee, which is the Company's functional currency. Figures have been rounded off to the nearest Rupee unless otherwise stated.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

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a) **Impairment**

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated in order to determine the extent of impairment loss, if any. Impairment losses are charged to profit and loss.

5 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those of previous financial year. These policies have been consistently applied to all the years presented, unless otherwise stated.

5.1 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment losses. Cost of property and equipment consists of historical cost and directly attributable cost of bringing the assets to their present location and condition.

Subsequent costs are included in the asset's carrying amount or recognized as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

Depreciation is calculated on a straight line basis over the useful life of the asset on the rates as disclosed in Note 7. Full month's depreciation is charged in the month of addition while no depreciation is charged in the month of disposal.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial period end.

5.2 Investments

Investment in the First National Bank Modaraba

Investment in managed Modaraba is stated at fair value. Any gain or loss due to re-measurement is charged to other comprehensive income and accumulated in statement of changes in equity.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the effective interest rate (EIR), less impairment.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance income in the statement of profit or loss. The losses arising from impairment are recognized in the statement of profit or loss as finance costs.

5.3 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cheques in hand, cash at bank in current, saving and deposit accounts and other short term highly liquid instruments that are readily convertible into known amount of cash and which are subject to an insignificant risk of changes in value.

5.4 Financial instruments

All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instruments. The Company derecognizes a financial asset or a portion of financial asset when, and only when, the enterprise loses control of the contractual rights that comprise the financial asset or portion of financial asset. While a financial liability or part of financial liability is derecognized from the balance sheet when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

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Financial assets are investments, deposits, other receivables, cash and bank balances. These are stated at their nominal values as reduced by the appropriate allowances for estimated irrecoverable amount.

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities are balances due to the Holding Company and accrued and other liabilities. These liabilities are stated at their nominal value.

Impairment

The carrying amount of the Company's asset is reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of such assets is estimated. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit and loss account.

5.5 Offsetting of financial assets and financial liabilities

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

5.6 Taxation

Current

Provision for current taxation is based on taxable income at the current rate of tax after taking into account applicable tax credits, rebates and exemptions available, if any. The charge for the current tax includes adjustments to charge for prior years, if any.

Deferred

Deferred tax is provided in full using the balance sheet liability method on all temporary differences arising at the balance sheet date, between the tax bases of the assets and liabilities and their carrying values. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

The carrying amounts of all deferred tax assets are reviewed at each balance sheet date and reduced to the extent, if it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

The tax rates enacted at the balance sheet date are used to determine deferred tax.

5.7 Loan and advances

These are recognized and carried at cost less provision for any un-collectable amount. The management expects that time value of money is insignificant and no discounting of loans and advances is made by the Company.

5.8 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. The expense relating to any provision is presented in profit or loss net of any reversals.

5.9 Revenue recognition

Interest on bank accounts/ deposits is recognized using effective interest rate method.

Management fee is recognized when the right to receive has been established based on the profit before tax of managed modaraba.

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5.10 Related party transactions

Transactions with related parties are made at arm's length price determined in accordance with the comparable uncontrolled price method except for the allocation of expenses relating to combined offices shared with the Holding Company, which are allocated on the actual basis.

6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

Standard or Interpretation		Effective date (annual periods beginning on or after)
IFRS 2	- Share-based Payments – Classification and Measurement of Share-based Payments Transactions (Amendments)	01 January 2018
IFRS 4	- Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – (Amendments)	01 January 2018
IFRS 9	- Financial Instruments: Classification and Measurement	01 July 2018
IFRS 9	- Prepayment Features with Negative Compensation – (Amendments)	01 January 2019
IFRIC 22	- Foreign Currency Transactions and Advance Consideration	01 January 2018
IFRIC 23	- Uncertainty over Income Tax Treatments	01 January 2019
IFRS 15	- Revenue from Contracts with Customers	01 January 2018
IFRS 10	- Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IFRS 16	- Leases	01 January 2019

The Company expects that the adoption of the above amendments and interpretation of the standards will not affect the Company's financial statements in the period of initial application.

In addition to the above amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2016. The Company expects that such improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

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

Standard	IASB Effective date (annual periods beginning on or after)
IFRS 14 - Regulatory Deferral Accounts	01 January 2016
IFRS 17 - Insurance Contracts	01 January 2021

The Company expects that the adoption of the above standards will have no material effect on the Company's financial information, in the period of initial application.

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	Note	2017	2016
		Rupees	Rupees
8 LONG TERM INVESTMENT			
<i>In associated company: Available for sale</i>			
Managed Modaraba - First National Bank Modaraba (FNBM)			
7,500,000 (2016: 7,500,000) certificates of Rs.10 each - Cost			
		75,000,000	75,000,000
Accumulated impairment loss	8.1	(58,875,000)	(39,900,000)
		16,125,000	35,100,000
8.1 Accumulated impairment loss:			
Opening as at 01 January		(39,900,000)	(51,525,000)
(Loss) / gain arising during the year		(18,975,000)	11,625,000
Closing as at 31 December		(58,875,000)	(39,900,000)
8.2 The Company holds 30% (2016: 30%) certificates in the First National Bank Modaraba.			
8.3 Investment in the First National Bank Modaraba is stated at fair value based on public quotation of Pakistan Stock Exchange.			
8.4 Break-up value of investments in the First National Bank Modaraba, based on its condensed interim financial information for the period ended 31 December 2017 reviewed by the statutory auditors, amounted to Rs. 0.69 per certificate (2016: Rs. 2.31 per certificate).			
8.5 Summarized interim financial information for the period ended 31 December 2017 of the First National Bank Modaraba is as follows:			
		2017	2016
		Rupees	Rupees
Total assets		428,129,009	681,539,434
Total liabilities		410,777,349	623,875,850
Profit / (loss) after taxation		1,018,590	(30,029,168)
9 INVESTMENTS - HELD TO MATURITY		93,000,000	98,000,000
These represent investment in musharika and term deposit certificates having maturity of 365 days maintained with the First Habib Modaraba and Bank Islami Pakistan Limited and bear interest rate ranging from 5.4 % to 6.2% (2016: musharika investment in Dubai Islamic Bank bearing interest rate ranging from 6.5 % to 7.2%) per annum.			
		2017	2016
		Rupees	Rupees
10 ADVANCES			
Considered good - unsecured		69,768	39,925
These represent the loans given to employees and deducted from salary on monthly basis.			
11 DUE FROM RELATED PARTY		136,358	-
This represents the management fee charged during the year on profits of the First National Bank Modaraba.			
12 TAX RECEIVABLE FROM GOVERNMENT		10,952,744	10,186,541
This represents the withholding tax deducted at source on profit on deposits with banks and on services received.			
	Note	2017	2016
		Rupees	Rupees
13 BANK BALANCES			
Current account		105,295	1,847,305
Saving and deposit accounts	13.1 & 13.2	3,299,977	532,075
		3,405,272	2,379,380
13.1 This includes the amount of Rs. 427,703 (2016: Rs. 495,467) maintained with the Holding Company and carries markup at the rate of 3.90% to 3.95% (2016: 3% to 4.5%) per annum.			
13.2 Rate of profit on remaining saving and deposit accounts ranges from 3.5% to 3.75% (2016: 3.0% to 4.0%) per annum.			
		2017	2016
		Rupees	Rupees
14 SHARE CAPITAL			
Authorized			
15,000,000 (2016: 15,000,000) ordinary shares of Rs. 10 (2016: Rs. 10) each			
		150,000,000	150,000,000
Issued, subscribed and paid-up			
10,500,000 (2016: 10,500,000) ordinary shares of Rs. 10 (2016: Rs. 10) each fully paid in cash			
		105,000,000	105,000,000
All shares are held by the Holding Company.			

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NATIONAL BANK MODARABA MANAGEMENT COMPANY LIMITED

	Note	2017	2016
		Rupees	Rupees
15 TRADE AND OTHER PAYABLES			
Accrued expenses		259,475	251,875
16 PAYABLE TO THE HOLDING COMPANY			
Opening balance		90,923,858	84,127,822
Add:			
Salaries and benefits		250,337	-
Utilities		2,085,220	2,631,535
Rent		960,000	2,907,000
Communication		10,616	10,932
Repair and maintenance		386,065	544,706
Miscellaneous expenses		266,169	495,474
Director's meeting expenses		-	206,389
		<u>3,958,407</u>	<u>6,796,036</u>
Less: Payments made by the Company during the year		94,882,265	90,923,858
Closing balance	16.1	<u>(2,009,624)</u>	<u>-</u>
		<u>92,872,641</u>	<u>90,923,858</u>

16.1 This balance has arisen due to payments made by the Holding Company on behalf of the Company in respect of the above mentioned items.

17 CONTINGENCIES AND COMMITMENTS

The Company's income tax return filed on 25 September 2010 was selected for audit by Federal Revenue Board through random computer ballot U/S 214C of the Ordinance, accordingly Commissioner Inland Revenue, Audit Unit-01, Zone-II, RTO, Lahore passed the Amended Assessment Order U/S 122(1)/122(5) of the Income Tax Ordinance, 2001 dated 07 June, 2016 by raising Tax Demand of Rs. 8,050,424 for tax year 2010 which was further rectified U/S 221 of the Ordinance on 21 December, 2016 reducing the Tax Demand amounting to Rs. 7,325,345. The Company filed an appeal before the office of the Commissioner Inland Revenue (Appeals-II), Lahore. Subsequent to year ended 31 December 2017, an order dated 22 March 2018 is passed by Commissioner Inland Revenue and the case is settled in favor of the Company.

	2017	2016
	Rupees	Rupees
18 REVENUE		
Gross revenue	162,331	-
Less: Sales tax	25,973	-
Net revenue	<u>136,358</u>	<u>-</u>

The Company has recognized management fee of Rs. 136,358 (2016: Nil) based on 10% of profit before taxation earned by the First National Bank Modaraba during the year.

	Note	2017	2016
		Rupees	Rupees
19 ADMINISTRATIVE EXPENSES			
Salaries and benefits		3,578,370	8,777,586
Directors' meeting fee		1,896,000	729,000
Travelling and conveyance		749,203	473,174
Utilities		2,085,221	2,631,535
Communication		10,616	10,932
Rent expenses		960,000	2,907,000
Legal and professional charges		158,350	53,600
Auditors' remuneration		267,950	190,575
Fee and subscription		125,050	57,000
Entertainment		-	5,155
Insurance		-	6,342
Depreciation	7	100,685	173,035
Repairs and maintenance		613,608	544,706
Miscellaneous		292,600	543,489
		<u>10,837,653</u>	<u>17,103,129</u>

20 OTHER INCOME

Income from financial assets			
Profit on bank deposits and saving accounts		65,069	205,556
Profit on musharika investment		4,167,534	6,782,733
Other income		2,168	2,492
		<u>4,234,771</u>	<u>6,990,781</u>

21 FAIR VALUE LOSS ON LONG TERM INVESTMENT

Fair value loss arising during the year		(18,975,000)	-
Fair value reserve reclassified to profit and loss account during the year		11,625,000	-
		<u>(7,350,000)</u>	<u>-</u>

22 TAXATION

Current tax		1,704	-
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23 LOSS PER SHARE - BASIC AND DILUTED	2017	2016
Loss after taxation attributable to ordinary shareholders	Rupees <u>(13,820,105)</u>	<u>(10,115,091)</u>
Weighted average number of ordinary shares	Numbers <u>10,500,000</u>	<u>10,500,000</u>
Loss per share	Rupees <u>(1.32)</u>	<u>(0.96)</u>

23.1 There is no dilutive effect on the basic earnings per share of the Company.

24 REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND OTHER EXECUTIVES

Particulars	2017		2016	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees)			
Managerial remuneration	1,491,976	-	1,626,374	1,967,434
House rent allowance	745,988	-	811,612	983,718
Conveyance	261,716	-	501,290	-
Utilities	179,041	-	194,787	236,088
Others	348,699	-	763,338	846,173
	<u>3,027,420</u>	<u>-</u>	<u>3,897,401</u>	<u>4,033,413</u>
No. of persons	<u>1</u>	<u>-</u>	<u>1</u>	<u>1</u>

24.1 In addition to the above, Chief Executive Officer is also provided with a Company maintained vehicle.

24.2 Non-executive directors of the Company are not drawing any salary.

24.3 The directors received Rs. 30,000 as fee for attending each Board meeting.

25 RELATED PARTY TRANSACTIONS

The related parties comprise the Holding Company, other subsidiaries and associates of Holding Company and the associate - the First National Bank Modaraba, directors and key management personnel. Aggregate transactions during the year with the related parties, except for remuneration of key management personnel as disclosed in Note 24, are as follows:

Relationship	Nature and description of related party transactions	2017	2016
		Rupees	Rupees
Holding Company	Expenses incurred by the Holding Company on behalf of the Company during the year	3,958,407	6,796,036
Holding Company	Payment made to the Holding Company during the year against reimbursable expenses	2,009,624	-
Associate	Expenses incurred by the First National Bank Modaraba on behalf of the Company during the year	-	247,625
Associate	Paid to the First National Bank Modaraba for payment made to Chief Executive	-	250,000
Associate	Management fee charged to the First National Bank Modaraba on profit before taxation	136,358	-

26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial liabilities comprise of payable to the Holding Company. The main purpose of these financial liabilities is to raise finance for the Company's operations. The Company has various financial assets such as advances, cash and short-term deposits and accrued expenses, which arise directly from its operations. The main risks arising from the Company's financial instruments are credit risk, liquidity risk, equity price risk and interest rate risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below:

26.1 Credit Risk

Credit risk is the risk which arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

The Company is exposed to credit risk on security deposits, profit receivables, short term investment and bank balances. The carrying amounts of the financial assets represent the maximum credit exposure before any credit enhancements. The Company has placed funds with financial institutions with high credit rating. The Company assesses the credit quality of counterparties as satisfactory. The maximum exposure to credit risk at the reporting date is:

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	Carrying Values	
	2017 (Rupees)	2016 (Rupees)
Security deposits	25,000	25,000
Advances	69,768	39,925
Accrued Interest	1,867,075	3,273,482
Due from related party	136,358	-
Other receivables	65,000	25,000
Short term investment	93,000,000	98,000,000
Bank balances	3,405,272	2,379,380
	<u>98,568,473</u>	<u>103,742,787</u>

Quality of Financial Assets

The credit quality of balances with banks can be assessed by reference to external credit ratings as shown below:

Investment	Rating Short	Rating Agency	2017	2016
	term		(Rupees)	(Rupees)
Dubai Islamic Bank Pakistan Limited	A-1	JCR-VIS	-	98,000,000
First Habib Modaraba	A1+	PACRA	43,000,000	-
Bank Islami Pakistan Limited	A1	PACRA	50,000,000	-
			<u>93,000,000</u>	<u>98,000,000</u>
Bank Balances				
Bank Alfalah Limited	A1+	PACRA	18,005	17,516
Al Baraka Bank (Pakistan) Limited	A1	PACRA	1,093	(10,670)
National Bank of Pakistan	A1+	PACRA	427,703	495,467
Faysal Bank Limited	A1+	PACRA	26	26
The Bank of Punjab	A1+	PACRA	15,146	15,146
Meezan Bank Limited	A-1+	JCR-VIS	19,454	19,066
Bank Islami Pakistan Limited	A1	PACRA	2,923,845	1,842,829
			<u>3,405,272</u>	<u>2,379,380</u>

26.2 Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company uses different methods which assists it in monitoring cash flow requirements. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a reasonable period, including the servicing of financial obligations, if any. When required, the Holding Company can also make payments on behalf of the Company (refer Note 16). The table below summarizes the maturity profile of the Company's financial liabilities at the following reporting dates:

2017	On demand	Less than 3 months	3 months to 12 months	Total
	(Rupees)			
Trade and other payable	259,475	-	-	259,475
Payable to the Holding Company	92,872,641	-	-	92,872,641
	<u>93,132,116</u>	<u>-</u>	<u>-</u>	<u>93,132,116</u>
2016	On demand	Less than 3 months	3 months to 12 months	Total
	(Rupees)			
Trade and other payable	251,875	-	-	251,875
Payable to the Holding Company	90,923,858	-	-	90,923,858
	<u>91,175,733</u>	<u>-</u>	<u>-</u>	<u>91,175,733</u>

26.3 Interest Rate Risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rate. The Company has no borrowing however, term deposit receipt and saving accounts with commercial banks are on interest rate renegotiable after 1 to 6 month.

Sensitivity Analysis:

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's loss / profit before tax (through the impact on floating rate) and the Company's equity. The sensitivity analysis is based on the assumption that deposit remains constant in the period.

Increase/decrease in basis points	Effect on loss before tax	
	2017 (Rupees)	2016 (Rupees)
+10	6,507	495,792
-10	(6,507)	(495,792)

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26.4 Equity Price Risk

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock, a defined basket of stocks, or a stock index. The Company is exposed to equity price risk as a result of its investments in marketable equity securities in First National Bank Modaraba. Equity price risk changes as the volatility of equity prices changes or the values of corresponding equity indices change. The sensitivity analysis is given as follows:

Increase/decrease in equity price	Effect on loss	
	(Rupees)	(Rupees)
+10%	1,612,500	3,510,000
-10%	(1,612,500)	(3,510,000)

26.5 Capital Risk Management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payments to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2017 and 31 December 2016. Capital includes ordinary shares and reserves.

26.6 Fair Value of Financial Instruments

The carrying values of the financial assets and financial liabilities approximate their fair values. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

27 NUMBER OF EMPLOYEES

	2017	2016
Average number of employees	3	2
Closing number of employees	3	1

28 GENERAL

Figures have been rearranged/reclassified where deemed necessary, for better presentation.


29 DATE OF AUTHORIZATION

These financial statements were authorized for issue on _____ by the Board of Directors of the Company.

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 CHIEF EXECUTIVE



 DIRECTOR

7 PROPERTY AND EQUIPMENT

DESCRIPTION	COST		2017				NET BOOK VALUE	Depreciation Rate
	As at 01 January	Additions/Deductions	As at 31 December	As at 01 January	For the year	As at 31 December		
	(Rupees)							
Office equipment	743,071	-	743,071	714,304	25,017	739,321	3,750	10 - 20
Vehicles	2,295,700	-	2,295,700	2,246,182	49,518	2,295,700	-	20
Computer and accessories	810,350	-	810,350	810,350	-	810,350	-	33
Furniture	1,102,333	-	1,102,333	1,013,942	26,150	1,040,092	62,241	10
	<u>4,951,454</u>	<u>-</u>	<u>4,951,454</u>	<u>4,784,778</u>	<u>100,685</u>	<u>4,885,463</u>	<u>65,991</u>	

DESCRIPTION	COST		2016				NET BOOK VALUE	Depreciation Rate
	As at 01 January	Additions	As at 31 December	As at 01 January	For the year	As at 31 December		
	(Rupees)							
Office equipment	743,071	-	743,071	682,240	32,064	714,304	28,767	10 - 20
Vehicles	2,295,700	-	2,295,700	2,136,039	110,143	2,246,182	49,518	20
Computer and accessories	810,350	-	810,350	810,350	-	810,350	-	33
Furniture	1,102,333	-	1,102,333	983,114	30,828	1,013,942	88,391	10
	<u>4,951,454</u>	<u>-</u>	<u>4,951,454</u>	<u>4,611,743</u>	<u>173,035</u>	<u>4,784,778</u>	<u>166,676</u>	

7.1 Assets having cost of Rs. 4,674,954 (2016: Rs.4,353,002) appearing in books of account are fully depreciated.

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