



**KASB Modaraba**  
An Islamic Financial Institution



## Annual Report 2020

صاف اور شفاف آمدنی،  
سچا سکون ہے...

## **Vision Statement**

To contribute towards the development of Islamic Financial Products which are commensurate with modern commercial concepts

## **Mission Statement**

Our mission is to create and maintain a progressive position in the Modaraba sector in Pakistan and endeavor to promote interest-free economy in the country. This will be achieved through quality services using innovative Sharia compliant products, financial discipline and good corporate governance with high levels of professional and ethical standards being maintained at all times.

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Mr. Khalid Aziz Mirza	Chairman	Independent Director
Mr. Shahid Ghaffar		Independent Director
Ms. Ayesha Aziz		Non-Executive Director
Mr. Abdul Jaleel Shaikh		Non-Executive Director
Mr. Ahmed Ateeq		Non-Executive Director
Mr. Karim Hatim		Chief Executive Officer

### **Audit Committee**

Mr. Shahid Ghaffar	Chairman
Mr. Khalid Aziz Mirza	Member
Mr. Abdul Jaleel Shaikh	Member
Mr. Ahmed Ateeq	Member

### **Human Resource and Remuneration Committee**

Mr. Khalid Aziz Mirza	Chairman
Ms. Ayesha Aziz	Member
Mr. Karim Hatim	Member

### **Company Secretary**

Ms. Iqra Sajjad

### **Chief Financial Officer**

Mr. Aftab Afroz Mahmoodi

### **Auditor**

RSM Avas Hyder Liaquat Nauman, Chartered Accountants

### **Bankers**

Habib Bank Limited  
Soneri Bank  
Summit Bank

### **Certificate Registrar**

C&K Management Associates (Pvt.) Limited  
404, Trade Tower, Abdullah Haroon Road,  
Near Metropole Hotel, Karachi – 75530  
Phone: 021-35687839 & 021-35685930

### **Legal Advisor**

Ahmed & Qazi  
S & B Durrani Law Associates

### **Shariah Advisor**

Al-Hilal Shariah Advisors (Private) Limited

### **Registered Office & Head Office**

Office No:- B, 5th Floor, Lakson Square  
Building No: 1, Sarwar Shaheed Road,  
Karachi  
Phone : 021- 35630621,021-35630623

### **Lahore Branch Office**

Office No. 318 3<sup>rd</sup> Floor,  
Lahore Stock Exchange Building,  
19 Khayaban-e-Awan-e-Iqbal, Lahore  
Phone : 042-36311001-02

### **Islamabad Branch Office**

Basement, 90-91,  
Razia Sharif Plaza ,Jinnah Avenue,  
Blue Area, F-7, Islamabad.  
Phone: 051-2344422-24

## **KASB MODARABA**

### **Chairman's Review**

I am pleased to present my review as Chairman of the Board of Directors of Awwal Modaraba Management Limited, the management company of KASB Modaraba.

Country's economy was showing some early signs of stabilization before the outbreak of COVID-19. However, the pandemic significantly affected business activity. Manufacturing and retail sectors took a massive hit; growth of credit to private sector fell from 17% year-on-year in March 2019 to 6% in March 2020 and KSE-100 index plummeted from around 43,000 points at the start of the year to 27,000 points in March 2020.

In response to the crisis, the Government of Pakistan took swift action to halt local spread of the virus, while introducing an economic stimulus packages to support activity in worst affected segments and allocating resources to tackle the health emergency. The State Bank of Pakistan (SBP) has similarly responded with measures including lowering Policy Rate, giving relief to borrowers on loan repayments in view of liquidity constraints, introducing subsidized refinance facilities for specific sectors / purposes to provide growth stimulus and control unemployment. Pakistan also received cumulative financial assistance of \$3.3 billion from bilateral and multilateral sources, out of which roughly \$2.6 billion has been disbursed. Moreover, Paris Club also deferred Pakistan's outstanding liabilities worth \$1.8 billion for up to one year. These measures helped the country bolster its foreign exchange reserves, stabilizing the exchange rate.

Awwal Modaraba Management Limited took over the management rights of KASB Modaraba on February 03, 2020 from the Administrator appointed by Securities & Exchange Commission of Pakistan (SECP) with the intent to revive the modaraba. AMML is working towards finalizing a business model for this purpose which is delayed due to the slowdown in business activity arising from impact of Covid-19. In the meantime, focus is on recoveries and conserving cash and strengthening the operational controls of the modaraba with support from our parent company, Pak Brunei Investment Company Ltd. In order to recognize the infected portfolio, provisions of PKR 74 million were booked during the year leading to loss of PKR 102.92 million in FY2020 (FY2019: loss of PKR 34.24 million) despite reduction in operational expenses. With emphasis on recoveries, the cash position of the modaraba has improved from PKR 51.15 million at end of FY2019 to PKR 71.87 million at end of FY2020 with net portfolio standing at PKR 22.16 million. We will keep the shareholders informed on progress of business plan for the modaraba.

The Board of Directors of the management company comprises of six members, including two Independent Non-Executive Directors and one female Director. The Board performs its statutory duties and fulfils its responsibilities by ensuring that the Modaraba has a capable leadership and an effective executive management team. The board, on quarterly basis, undertakes an overall review of business risks to ensure that Management maintains a sound system of risk identification, risk management and related systemic internal controls to safeguard assets, resources, reputation and interest of the Company and its certificate-holders.

On behalf of the Board, I take this opportunity to thank all our customers, investors, regulators and other stakeholders for placing their trust in the Modaraba.

sd  
Khalid Aziz Mirza  
Chairman

Dated: 24 September 2020

## DIRECTORS' REPORT

The Board of Directors of Awwal Modaraba Management Limited, the management company of KASB Modaraba, is pleased to present the Directors' Report together with Audited Financial Statements of KASB Modaraba for the year ended 30 June 2020.

The country faced multiple challenges during FY2020. During the first half of the fiscal year, inflation remained on a higher side despite a tight monetary policy. This, coupled with a depreciating currency and subdued performance of manufacturing sector, kept economic growth in check. On the other hand, second half of the year was marked by the COVID-19 outbreak, which quickly eroded the small gains achieved through government's stabilization policies and severely impacted the business environment.

State Bank of Pakistan (SBP) has taken several timely measures to support liquidity and credit conditions and safeguard financial stability. These include easing of Policy Rate from 13.25% p.a. in July 2019 to 7% p.a., one year deferment for loan repayments to affected industries, targeted subsidized refinance lines through banks to support industries in revival, avoid default and support salary payments to employees to control rising unemployment as cash flows of businesses contract. The SECP followed with a similar package to provide relief to borrowers facing difficulties caused by the country-wide shut down.

Our government and regulators are jointly making efforts to contain the impact and revive the economy via different measures including easing of monetary policy, industry packages, subsidized financing lines, and health support / aid for the masses. Pakistan has also received support from multilateral agencies and friendly countries for balance of payment support, institutional development as well as for containment of pandemic. At the same time, Pakistan remains committed to the reforms related to fiscal consolidation strategy, energy sector, governance, and remaining AML/CFT deficiencies.

During this period, we focused mainly on the recovery of outstanding /defaulted amounts to generate more cash for new business. Further, we are maintaining close contact with our clients to assess the impact of COVID-19 outbreak on their business operations and have provided deferment for principal repayments where required.

### Operating Results

	30 June, 2020 (Rupees '000')	30 June, 2019 (Rupees '000')
<b>Balance Sheet</b>		
Issued Certificate Capital	480,665	480,665
Total Equity	138,017	240,708
Cash and Bank	71,872	51,147
Investment in Musharika Finance	7,453	45,008
Investment in Murabaha Finance	-	83,796
<b>Profit &amp; Loss</b>		
Revenue	8,739	27,163
Operating expenses	30,883	45,228
Provisions for doubtful receivables	81,157	16,175
Net (Loss) for the year	(102,920)	(34,240)
Loss per Certificate-basic and diluted	(2.14)	(0.71)

## **Financial snapshot**

During the period under review, overall revenues were recorded at PKR 8.73 million inclusive of return on deposit of PKR 4.65 million, compared to PKR 27.16 million in corresponding period last year. Admin and operating expenses for the period amounted to PKR 30.88 million. The Modaraba posted loss of PKR 102.90 million compared to the loss of PKR 34.24 million of last year.

We are pursuing various initiatives for revival of the Modaraba, subject to regulatory approvals and business dynamics, and will keep our certificate holders informed as they materialize.

## **Governance & Shariah Compliance**

The Board of Directors is committed to ensure compliance with various requirements of the Pakistan Stock Exchange and Securities and Exchange Commission of Pakistan (SECP). The Modaraba is in compliance with the requirements of the Listed Companies (Code of Corporate Governance) Regulations 2019, relevant for the year ended 30 June 2020.

Shariah Advisor is involved from the outset to ensure that prospective clients' business and proposed transaction structure are in line with Shariah principles. Strong emphasis is placed on good governance and implementation of all policies in spirit.

## **Corporate and Financial Reporting Framework**

The Board of Directors is pleased to report that:

- The financial statements prepared by the management of the Modaraba, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Modaraba have been maintained.
- Appropriate accounting policies have been consistently in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable to Modarabas in Pakistan, have been followed in preparation of Financial Statements.
- The system of internal controls is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Modaraba's ability to continue as a going concern.
- There has been no significant material departure from the best practices of corporate governance, as detailed in the Corporate Governance Regulations- 2019.
- There are no statutory payments on account of taxes, duties, levies and charges outstanding as on June 30, 2020 except as disclosed in the financial statements.
- During the year, two meetings of the Board of Directors and two meetings were called by the ex-Administrator (appointed by the SECP) were held.

Attendance by each director was as follows:

Name	No. of Meetings Attended
Mr. Khalid Aziz Mirza	2
Mr. Shahid Ghaffar	2
Ms. Ayesha Aziz	2
Mr. Abdul Jaleel Shaikh	2
Mr. Ahmed Ateeq	2
Mr. Karim Hatim (CEO)	2

Attendance by the ex-Administrator (appointed by the SECP) was as follows:

Name	No. of Meetings Attended
Mr. Khawaja Waheed Raza	2

*Leave of absence was granted to the director who could not attend the meeting.*

The Board has formed an Audit Committee in compliance with the requirement of the Code of Corporate Governance Regulations. The Committee comprises of four members. The head of the Audit Committee is an independent Director. The Committee reviews the periodic financial statements and examines the adequacy of financial policies and practices to ensure that an efficient and strong system of internal control is in place. The Committee also reviews the audit reports issued by the internal Audit Department. The Audit Committee is also responsible for recommending to the Board of Directors the appointment of external auditors.

- During the year under review, two meetings of Audit Committee were held. Attendance by each member was as follows:

Name	No. of Meetings Attended
Mr. Shahid Ghaffar	2
Mr. Khalid Aziz Mirza	2
Mr. Abdul Jaleel Shaikh	2
Mr. Ahmed Ateeq	2

- The pattern of holding of Certificates by the Certificate-holders is included in this annual report
- The Directors, CEO, CFO, Company Secretary, their spouses and minor children did not carry out any transaction in the certificates of Modaraba during the year under review.
- The value of unfunded gratuity scheme for its permanent employees as at 30 June 2020 is Rs.3.77 million.

#### **The Board of Directors**

- The total number of directors are 6 including CEO as per the following :-

Male: 5  
Female: 1

The composition of Board is as follows:

Category	Names
i) Independent Directors	Mr. Khalid Aziz Mirza Mr. Shahid Ghaffar
ii) Other Non-Executive Directors	Ms. Ayesha Aziz Mr. Abdul Aziz Shaikh Mr. Ahmed Ateeq
iii) Executive Director	Mr. Karim Hatim (Chief Executive Officer)

### Directors' Remuneration

The remuneration of a Director for attending meetings of the Board or any Committee of the Board is determined under the Director's Compensation Policy adopted by Awwal Modaraba Management Limited. Under the said policy, independent director is entitled to receive the prescribed fee as determined by the Board of Directors only for attending the Board Meeting. Further, the nominee directors/Chief Executive Officer/any other director in whole time remunerated service with the Company are not entitled to any payment for attending meetings of the Board or any Committee of the Board. However, all the directors are entitled to be paid all traveling, hotel & other expenses incurred by them in attending and returning meetings of the Board or any Committee of the Board and General Meetings of the Company in connection with the business of the Company.

### Auditors

On the recommendation of the Audit Committee, the Board has approved the appointment of M/s. Grant Thornton Anjum Rehman, Chartered Accountants, as statutory auditors of the Modaraba for the year ending June 30, 2021, subject to the approval of the Registrar Modaraba Companies and Modarabas.

### Shari'ah Advisor's Report

The Modaraba continues to seek guidance from the Shari'ah Advisor, M/s Al-Hilal Shariah Advisor as and when required to ensure full compliance to Shari'ah Audit mechanism developed in consultation with Registrar Modaraba. The internal audit department has also been trained to handle the day to day affairs of the Modaraba ensuring complete adherence to Shari'ah policies and principles. The Shari'ah Advisor Report issued for the affairs of the Modaraba for the year ended 30 June 2020 is attached in the Annual Financial Statements.

### Acknowledgments

The Board of Directors would like to acknowledge and appreciate SECP and Registrar Modaraba for their continuous guidance and support. Also, we would like to avail this opportunity to thank our customers and investors for placing their trust in the Modaraba.

### On behalf of the Board

\_\_\_\_sd\_\_\_\_\_  
Karim Hatim  
Chief Executive Officer

\_\_\_\_sd\_\_\_\_\_  
Abdul Jaleel Shaikh  
Director

Date: September 24, 2020



**KASB Modaraba**

**KEY FINANCIAL AND OPERATIONAL DATA AT A GLANCE**

	2020	2019	2018	2017	2016	2015
	-----Rupees in Thousand-----					
<b>Total assets</b>	154,407	270,584	375,598	599,707	901,245	982,728
<b>Musharaka Finance</b>	-	3,100	11,300	12,900	14,100	45,490
<b>Murabaha Finance</b>	-	83,796	125,580	150,045	267,365	312,873
<b>Modaraba Finance</b>	-	-	112	50,960	53,746	22,739
<b>Diminishing Musharaka</b>	18,578	41,908	95,184	153,209	316,083	354,488
<b>Ijarah Assets</b>	3,580	9,097	20,265	32,493	52,765	34,525
<b>Equity</b>	138,400	240,708	274,947	391,456	389,033	385,234
<b>Currents Assets</b>	141,820	236,436	277,741	488,336	591,031	680,456
<b>Current Liabilities</b>	12,237	23,005	79,115	137,637	295,207	345,046
<b>Income</b>	9,640	35,248	58,118	110,830	166,063	195,187
<b>Taxation</b>	-	-	-	-	-	-
<b>Profit/ (Loss) after Tax</b>	(102,921)	(34,240)	(114,209)	4,570	8,244	11,115
<b>Dividend (Rs.)</b>	-	-	-	0.07	0.08	0.11
<b>EPS (Rs.)</b>	(2.14)	(0.71)	(2.38)	0.10	0.17	0.23

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

All praise is due to ALLAH, the Cherisher of the World  
Peace and Blessings be upon the Prophet of ALLAH, on his family and all his companions, and  
on those who follow him with Iman till the day of Aakhirah

### SHARIAH ADVISOR'S REPORT 2020

Alhamdulillah, we have conducted the Shariah audit and review of KASB Modaraba managed by Awwal Modaraba Management Company. In accordance with the requirements of the Shariah Compliance and Shariah Audit Mechanism for Modarabas and report that except the observations as reported hereunder, in our opinion;

- I. The systems, procedures and policies adopted by the KASB Modabara during the period were found in line with guidelines issued by SECP.
- II. The agreement(s) entered into by the KASB Modaraba are approved by religious board of SECP and the financing agreements have been executed on these formats and it has been tried to meet all the related conditions.

#### **Any payment received over and above due payments due to delay:**

- I. KASB Modaraba has collected and credited to charity account Rs. 1,214,078/- during the period whereas it has already paid **NIL** in lieu of charity during the period under review. The charity amount still payable is Rs. 1,214,078/-.

#### **Emphasis of Matter:**

The portfolios and transactions of KASB Modaraba were analyzed for the period under consideration and the matters observed by the Shariah Audit team are as follows

- I. KASB Modaraba was holding 42,400 shares of Service Fabric Company Limited. (SERF) as of 30<sup>th</sup> June 2020. The company became non-compliant as of financial statements of June 2017 and thereof three (3) months are provided for divestments of shares. KASB Modaraba is hereby instructed by the Shariah Advisor to immediately divest the said shares.

**Observations:**

- I. The client base of Modaraba has decreased as compared to previous few years.
- II. The transactions are being carried out efficiently with the customers.
- III. The Shariah Non-Compliant income earned from additional rentals and bounced cheques by Modaraba has been properly credited to the charity account, however, the complete amount has not been disbursed to the charitable organizations during the period. The management has assured to disburse the remaining charity amount as soon as possible in the next fiscal year.

**Recommendations:**


- I. The Modaraba should continue its policy of expanding Islamic financing and in this regard continue its focus on employees' training and development relating to Islamic financing products and services offered by Modaraba with specific focus on front staff.
- II. The Modaraba should focus on further increasing its Asset base through direct financing to businesses and individuals through the use of approved Shariah compliant modes and efforts.

**Conclusion:**

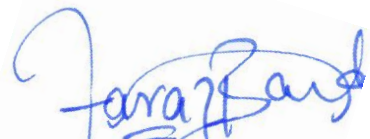
Based on the extensive reviews and tests of sample cases for each class of transaction, related documentation, processes, profit distribution mechanism for the depositors and management's representation made in regard, in our opinion, the affairs, activities and transactions, performed by the Modaraba during the year comply with rules and principles of Islamic Shariah in light of guidelines and directives given by the Shariah Advisor and guidelines issued by office of the Registrar Modaraba, Security Exchange Commission of Pakistan (SECP).

And Allah Ta'ala knows better and perfect.

For on Behalf of Shariah Supervisory Council of Al-Hilal Shariah Advisor (Pvt) Limited.



Mufti Irshad Ahmad Aijaz  
Member Shariah Council



Faraz Younus Bandukda, CFA  
Chief Executive

**Statement of Compliance with Listed Companies  
(Code of Corporate Governance) Regulations, 2019  
Year ending June 30, 2020**

This statement is being presented to comply with Listed Companies (Code of Corporate Governance) Regulations, 2019. Regardless of the fact that Awwal Modaraba Management Limited ('AMML' or 'the company'), the Management Company of KASB Modaraba, is an unlisted public limited company, the Board of Directors of the Management Company is pleased to confirm that the Code is being complied with in all material respects (pertaining to the operations of the Modaraba).

During the year, the Registrar Modarabas, Securities & Exchange Commission of Pakistan (SECP), vide Order No: SC/M/RW/KASB/2020-35 under letter No: SC/M/PROD/KASB/2019/36 dated January 31, 2020, appointed Awwal Modaraba Management Limited (AMML) as the Management Company of KASB Modaraba with effect from February 3, 2020. Accordingly, AMML has taken the management control of KASB Modaraba with the same date. The Modaraba was previously managed by the Administrator, appointed vide order dated April 03, 2019 issued by the Registrar Modarabas.

AMML has complied with the requirements of the Regulations in the following manner:

1. The total number of directors are six (6) as per the following,-

- a) Male 5
- b) Female 1

2. The composition of Board is as follows:

Category	Names
Independent Directors	Mr. Khalid Aziz Mirza Mr. Shahid Ghaffar
Non-Executive Directors	Ms. Ayesha Aziz Mr. Abdul Jaleel Shaikh Mr. Ahmed Ateeq
Executive Directors	Mr. Karim Hatim (Chief Executive Officer)
Female Director	Ms. Ayesha Aziz

3. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this company.

4. The company has prepared a code of conduct and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.

5. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. The Board has ensured that complete record of particulars of the significant policies along with their date of approval or updating is maintained by the company.

6. All the powers of the Board have been duly exercised and decisions on relevant matters have been taken by the Board/ shareholders as empowered by the relevant provisions of the Companies Act, 2017 and Listed Companies (Code of Corporate Governance) Regulations, 2019.

7. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. The Board has complied with the requirements of Act and the Regulations with respect to frequency, recording and circulating minutes of meeting of the Board.

8. The Board have a formal policy and transparent procedures for remuneration of directors in accordance with the Act and these Regulations.

9. The Board meets the criteria of requirement of Directors' Training program.

10. The Board has approved appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment and complied with relevant requirements of the Regulations;

11. Chief Financial Officer and Chief Executive officer duly endorsed the financial statements before approval of the Board;

12. The Board has formed committees comprising of members given below:

Audit Committee	Mr. Shahid Ghaffar (Chairman) Mr. Khalid Aziz Mirza Mr. Abdul Jaleel Shaikh Mr. Ahmed Ateeq
HR and Remuneration Committee	Mr. Khalid Aziz Mirza (Chairman) Ms. Ayesha Aziz Mr. Karim Hatim

13. The terms of reference of the aforesaid committees have been formed, documented and advised to the committee for compliance;

14. The frequency of meetings of the committee were as per following,-

<b><u>S. No.</u></b>	<b><u>Name of the Committee</u></b>	<b><u>Frequency of the meetings held during the year</u></b>
1.	<b>Audit Committee</b>	Quarterly
2.	<b>HR and Remuneration Committee</b>	Yearly

15. The Board has outsourced the internal audit function to the internal audit department of the parent company (Pak Brunei Investment Company Limited) who is considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.

16. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan, that they and all their partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan and that they and the partners of the firm involved in the audit are not a close relative (spouse, parent, dependent and non-dependent children) of the chief executive officer, chief financial officer, head of internal audit, company secretary or director of the company;

17. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Act, these Regulations or any other regulatory requirement and the auditors have confirmed that they have observed IFAC guidelines in this regard;

18. We confirm that all requirements of regulations 3, 7, 8, 27, 32, 33 and 36 of the Regulations have been complied with.

sd

**Khalid Aziz Mirza**

Chairman

**Dated: 24 September 2020**

RSM Avais Hyder Liaquat Nauman  
Chartered Accountants

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Karachi, 75530 - Pakistan

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## Independent Auditor's Review Report to the Certificate Holders of KASB Modaraba

### Review Report on the Statement of Compliance contained in Listed Companies (Code of Corporate Governance) Regulations, 2019


We have reviewed the enclosed Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019 (the Regulations) prepared by the Board of Directors of Awwal Modaraba Management Limited, the Modaraba Management Company of KASB Modaraba (the Modaraba) for the year ended June 30, 2020 in accordance with the requirements of regulation 36 of the Regulations.

The responsibility for compliance with the Regulations is that of the Board of Directors of the Modaraba Management Company. Our responsibility is to review whether the Statement of Compliance reflects the status of the Modaraba's compliance with the provisions of the Regulations and report if it does not and to highlight any non-compliance with the requirements of the Regulations. A review is limited primarily to inquiries of the Modaraba's personnel and review of various documents prepared by the Modaraba Management Company to comply with the Regulations.

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

The Regulations require the Modaraba Management Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval, its related party transactions. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Modaraba Management Company's compliance, in all material respects, with the requirements contained in the Regulations as applicable to the Modaraba for the year ended June 30, 2020.

Chartered Accountants  
Karachi.  
Dated:

THE POWER OF BEING UNDERSTOOD  
AUDIT | TAX | CONSULTING



## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of KASB MODARABA (the Modaraba) as at June 30, 2020 and the related profit and loss account, statement of other comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

These financial statements are the Modaraba Company's [Awwal Modaraba Management Limited] responsibility who is also responsible to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981. Our responsibility is to express an opinion on these statements based on our audit.

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

- a) in our opinion, proper books of accounts have been kept by the Modaraba Company in respect of the Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981;
- b) In our opinion:
  - i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of accounts and are further in agreement with accounting policies consistently applied;



- ii. the expenditure incurred during the year was for the purpose of the Modaraba's business; and
  - iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of other comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at June 30, 2020 and of the loss and comprehensive income, 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 Ushar Ordinance, 1980 (XVIII of 1980)

We draw attention to Note 1 of the financial statements in which it is mentioned that the registrar (Modarabas) with the approval of Securities & Exchange Commission of Pakistan, vide order dated January 31, 2020 appointed Awwal Modaraba Management Limited (AMML) to take over and manage the affairs of the Modaraba which was under the management and administrative control of the administrator till February 03, 2020. AMML has taken over the management and administrative control of KASB Modaraba effective from February 03, 2020. Our opinion is not qualified in respect of this matter.

*Adnan* Chartered Accountants  
Karachi.  
Dated:

Engagement Partner: Adnan Zaman

**KASB MODARABA  
BALANCE SHEET  
AS AT 30 JUNE 2020**

Note                      2020                      2019  
------(Rupees)-----

**ASSETS**

**Current assets**

Cash and bank balances	7	<b>71,872,499</b>	51,147,044
Short term investment	8	<b>5,680,702</b>	6,350,180
Short term modaraba finance	9	-	-
Short term musharaka finance	10	-	3,100,000
Murabaha finance	11	-	83,796,155
Current portion of long term diminishing musharaka finance	12	<b>11,123,671</b>	22,862,832
Receivable against sale of agricultural produce	13	-	7,651,449
Ijarah rentals receivable	14	-	52,003
Advances, prepayments and other receivables	15	<b>6,059,869</b>	14,393,609
Property acquired in satisfaction of financing facility	16	<b>47,082,936</b>	47,082,936
		<b>141,819,677</b>	236,436,209

**Non-current assets**

Long-term diminishing musharaka finance	12	<b>7,453,970</b>	19,045,539
Long term advances	17	<b>8,333</b>	304,682
Ijarah assets	18	<b>3,579,900</b>	9,097,408
Fixed assets	19	<b>1,545,071</b>	5,699,672
		<b>12,587,274</b>	34,147,301
<b>TOTAL ASSETS</b>		<b>154,406,951</b>	270,583,511

**LIABILITIES**

**Current liabilities**

Redeemable capital	20	<b>1,315,000</b>	1,315,000
Term finance	21	-	12,566,727
Current portion of long term security deposits	22	<b>3,579,900</b>	100,000
Creditors, accrued and other liabilities	23	<b>4,508,253</b>	6,189,690
Unclaimed profit distribution		<b>2,834,156</b>	2,834,156
		<b>12,237,309</b>	23,005,572

**Non-current liabilities**

Long term security deposits	22	-	3,479,900
Deferred liabilities - staff gratuity	24	<b>3,770,020</b>	3,389,955
		<b>3,770,020</b>	6,869,855

**TOTAL LIABILITIES**

**NET ASSETS**

**REPRESENTED BY**

**CAPITAL AND RESERVES**

Certificate capital			
Authorized			
50,000,000 (June 30, 2019: 50,000,000) certificates of Rs. 10/- each		<b>500,000,000</b>	500,000,000
Issued, subscribed and paid-up capital	25	<b>480,664,800</b>	480,664,800
Discount on issuance of certificates		<b>(98,960,400)</b>	(98,960,400)
Statutory reserve		<b>83,505,138</b>	83,505,138
Accumulated losses		<b>(326,809,916)</b>	(224,501,455)

**CONTINGENCIES AND COMMITMENTS**

	26	-	-
		<b>138,399,622</b>	240,708,083

The annexed notes 1 to 40 form an integral part of these financial statements.

-sd-

Chief Executive

-sd-

Director

-sd-

Director

-sd-

Chief Financial Officer

**KASB MODARABA**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 30 JUNE 2020**

	Note	2020 ------(Rupees)-----	2019
<b>Income from:</b>			
- Diminishing musharaka finance		<b>3,289,442</b>	9,306,313
- Murabaha finance		<b>90,010</b>	2,536,957
- Ijarah finance	27	-	3,727,571
- Sale of shares		-	1,168,678
- Dividend on shares		<b>111,630</b>	1,449,456
		<b>3,491,082</b>	18,188,976
Financial charges	28	<b>(433,121)</b>	(3,796,177)
<b>Direct Cost:</b>			
- Depreciation on assets under ijarah arrangements	18.1	<b>(1,379,382)</b>	(5,687,264)
		<b>(1,812,503)</b>	(9,483,441)
		<b>1,678,579</b>	8,705,535
Other income	29	<b>5,917,680</b>	2,625,528
Unrealized gain/(loss) on investment - at fair value through profit or loss		<b>(669,479)</b>	6,350,180
Reversal of provision against doubtful receivable		<b>900,000</b>	8,083,944
Provision/Suspension against potential losses -Modaraba-Murabaha & Others		<b>(70,268,617)</b>	(16,384,294)
Impairment of ijarah asset		<b>(4,138,125)</b>	
Impairment of accrued license fee		-	(7,874,930)
Provision for doubtful receivable against sale of agriculture produce		<b>(7,651,449)</b>	-
Administrative and operating expenses	30	<b>(28,689,456)</b>	(35,745,504)
<b>Loss before taxation</b>		<b>(102,920,867)</b>	(34,239,540)
Taxation	33	-	-
<b>Net loss for the year</b>		<b>(102,920,867)</b>	(34,239,540)
Loss per certificate - basic and diluted	34	<b>(2.14)</b>	(0.71)

The annexed notes 1 to 40 form an integral part of these financial statements.

<b>-sd-</b>	<b>-sd-</b>	<b>-sd-</b>	<b>-sd-</b>
_____ Chief Executive	_____ Director	_____ Director	_____ Chief Financial Officer

**KASB MODARABA**  
**STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2020**

	2020	2019
	-----	-----
	(Rupees)	(Rupees)
<b>Net loss for the year</b>	<b>(102,920,867)</b>	<b>(34,239,540)</b>
<b>Other comprehensive income</b>		
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
Actuarial gain on defined benefit plans	25 <b>612,406</b>	<b>464,816</b>
<b>Total comprehensive loss for the year</b>	<b><u>(102,308,461)</u></b>	<b><u>(33,774,724)</u></b>

The annexed notes 1 to 40 form an integral part of these financial statements.

<b>-sd-</b> <hr style="width: 100%;"/> Chief Executive	<b>-sd-</b> <hr style="width: 100%;"/> Director	<b>-sd-</b> <hr style="width: 100%;"/> Director	<b>-sd-</b> <hr style="width: 100%;"/> Chief Financial Officer
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**KASB MODARABA**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2020**

	2020	2019
Note	-----Rupees-----	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss before taxation	<b>(102,920,867)</b>	(34,239,540)
<b>Adjustments for non-cash charges and other items:</b>		
Gain on disposal of Ijarah assets	-	(58,620)
Impairment of accrued license fee	-	7,874,930
Depreciation - owned assets	19.1 <b>869,815</b>	2,884,750
Depreciation - Ijarah assets	18.1 <b>1,379,382</b>	5,687,264
Amortisation - intangible assets	19.2 <b>69,137</b>	277,500
Impairment - Ijarah assets	18.1 <b>4,138,125</b>	
Impairment of unamortized cost of own assets	19.1 <b>3,215,650</b>	6,526,015
Realised gain on disposal of investment at FVTPL	-	(1,168,678)
Unrealised (gain)/loss on changes in fair value of FVTPL investments	<b>669,479</b>	(6,350,180)
Provision/Suspension against potential losses -Modaraba-Murabaha & Others	<b>70,268,617</b>	16,384,294
Provision for doubtful receivable against sale of agriculture produce	13 <b>7,651,449</b>	-
Provision for gratuity	24.6 <b>1,076,197</b>	640,882
	<b>(13,583,017)</b>	(1,541,383)
<b>Decrease / (increase) in assets</b>		
Modaraba finance	-	112,000
Musharaka finance	<b>3,100,000</b>	8,200,000
Murabaha finance	<b>13,527,538</b>	31,784,021
Diminishing musharaka finance	<b>23,330,731</b>	46,891,294
Ijarah rentals receivable	<b>52,003</b>	85,156
Advances, prepayments and other receivables	<b>8,630,090</b>	(1,316,069)
Long-term deposits	-	685,300
	<b>48,640,362</b>	86,441,702
<b>Decrease in liabilities</b>		
Security deposits	-	(2,510,674)
Deferred murabaha income	-	(337,397)
Creditors, accrued and other liabilities	<b>(1,681,437)</b>	(6,909,019)
	<b>(1,681,437)</b>	(9,757,090)
Staff gratuity paid	24.5 <b>(83,726)</b>	(755,684)
	<b>(83,726)</b>	(755,684)
<b>Net cash generated from operating activities</b>	<b>33,292,181</b>	74,387,544
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Sales proceeds from disposal of fixed assets	-	7,209
Sales proceeds from disposal of Ijarah assets	-	5,539,294
Proceeds from sale of investment at FVTPL	-	1,168,678
<b>Net cash generated from investing activities</b>	-	6,715,181
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Term Financing repaid	<b>(12,566,727)</b>	(25,133,451)
Certificate of musharaka repaid	-	(35,770,000)
<b>Net cash used in financing activities</b>	<b>(12,566,727)</b>	(60,903,451)
<b>Net increase in cash and cash equivalents</b>	<b>20,725,455</b>	20,199,275
Cash and cash equivalents at the beginning of the year	<b>51,147,044</b>	30,947,769
<b>Cash and cash equivalents at the end of the year</b>	<b>71,872,499</b>	51,147,044

The annexed notes 1 to 40 form an integral part of these financial statements.

-sd-  
\_\_\_\_\_  
Chief Executive

-sd-  
\_\_\_\_\_  
Director

-sd-  
\_\_\_\_\_  
Director

-sd-  
\_\_\_\_\_  
Chief Financial Officer

**KASB MODARABA**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2020**

	<b>Certificate capital</b>	<b>Discount on Issuance of certificates</b>	<b>Statutory reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	----- <b>(Rupees)</b> -----				
Balance as at 30 June 2018	480,664,800	(98,960,400)	83,505,138	(190,261,914)	274,947,624
Net loss for the year	-	-	-	(34,239,540)	(34,239,540)
Balance as at 30 June 2019	480,664,800	(98,960,400)	83,505,138	(224,501,454)	240,708,084
Net loss for the year	-	-	-	(102,920,867)	(102,920,867)
Other comprehensive income	-	-	-	612,406	612,406
Balance as at 30 June 2020	<b><u>480,664,800</u></b>	<b><u>(98,960,400)</u></b>	<b><u>83,505,138</u></b>	<b><u>(326,809,916)</u></b>	<b><u>138,399,622</u></b>

The annexed notes 1 to 40 form an integral part of these financial statements.

**-sd-**

\_\_\_\_\_  
Chief Executive

**-sd-**

\_\_\_\_\_  
Director

**-sd-**

\_\_\_\_\_  
Director

**-sd-**

\_\_\_\_\_  
Chief Financial Officer

**KASB MODARABA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020**

**1. LEGAL STATUS AND NATURE OF BUSINESS**

KASB Modaraba (the Modaraba) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the rules framed thereunder and was managed by KASB Invest (Private) Limited (the Management Company) - KIPL, a company incorporated in Pakistan.

The Registrar (Modarabas), with the approval of the Securities & Exchange Commission of Pakistan, vide order dated April 03, 2019 appointed Mr. Khawaja Waheed Raza as Administrator of the Modaraba to take over and manage the affair of the Modaraba in place of KIPL (Management Company). As per terms of the order, all the powers and duties of the Modaraba Management Company as well as those of its Board of Directors assumed by the Administrator. The term of the Administrator, for holding the modaraba office, was initially for the period of six months which was gradually enhanced till February 03, 2020 as directed by the SECP.

The Registrar (Modarabas), with the approval of the Securities & Exchange Commission of Pakistan, vide order dated January 31, 2020 appointed Awwal Modaraba Management Limited (AMML) to take over and manage the affair of the Modaraba. AMML has taken over the management and administrative control of KASB Modaraba effective from February 03, 2020.

The registered office of KASB Modaraba is situated at 6th floor, Horizon Vista, Plot No. Commercial 10, Block No. 4, Scheme No.5, Clifton, Karachi. The Modaraba is a multipurpose perpetual modaraba and is primarily engaged in ijarah financing, musharaka financing, murabaha financing, modaraba financing, diminishing musharaka and investing in sukuk bonds, mutual funds and listed securities. The Modaraba is listed on the Pakistan Stock Exchange.

**1.1 Impact of COVID – 19 on the Financial Statements**

The pandemic of COVID-19 that has rapidly spread all across the world has not only endangered human lives but has also impacted the economy. On March 24, 2020, the Government announced a temporary lock down as a measure to reduce the spread of the COVID-19. The lockdown has also caused disruptions in Modaraba's operating activities. The Securities And Exchange Commission Of Pakistan (SECP) issued Circular No.28 dated September 10, 2020 to facilitate the lending Modarabas in rescheduling of financing facilities extended to the customers. As per para 1 of the circular, upon specific request of the customer, modaraba may defer the repayment of principal loan/ facility amount by one year and profit shall continue be paid as per agreed terms and conditions. Due to this, Modaraba has assessed the accounting implications of these developments on these financial statements, however, according to management's assessment, there is no significant accounting impact of the effects of COVID-19 on these financial statements except for the following:

Four customers under (Diminishing Musharaka Finance) have availed the relaxation as per above referred circular of the SECP, implication thereof on the financial statements for the year ended June 30, 2020 is summarized hereunder:

Particulars	Rupees
Decrease in Cash and Bank (Due to deferment of Principal Instalment)	559,603
Increase in Carrying amount of financing (Due to deferment of Principal Instalment)	559,603
Increase in Markup/ Profit (Due to deferment of Principal Instalment)	8,817

**2. BASIS OF PREPARATION**

**2.1 Statement of compliance**

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Boards (IASB) as notified under the Companies Act 2017;
- Provisions and directions issued under the Companies Act 2017;
- Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Prudential Regulation for Modarabas ; and
- Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as notified under the Companies Act 2017.

Wherever provisions and directives issued under the Companies Act, 2017, the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the Modaraba Companies and Modaraba Rules, 1981, Prudential Regulations for Modaraba and IFAS differ from IFRS Standards, the provision and directives issued under the Companies Act, 2017 the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the Modaraba Companies and the Modaraba Rules, 1981, Prudential Regulations for Modaraba and IFAS have been followed.

**3. BASIS OF MEASUREMENT**

These financial statements have been prepared on the historical cost basis, except for investment at FVTPL carried at fair value and certain staff retirement benefits that are carried at present value of defined benefit obligation.

### **3.1 Functional and presentation currency**

These financial statements are presented in Pak Rupees, which is Modaraba's functional and presentation currency.

## **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

In preparing these financial statements management has made judgements, estimates and assumptions that affect the application of the Modaraba's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements and information about assumptions and estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next year are included in the following notes:

- i) Classification of financial instruments (note 6.3).
- ii) Provision for non-performing finances and other impairment (note 6.5)
- iii) Provision for non-performing finance arrangements (note 6.7)
- iv) Provision for taxation (note 6.9 and 32).
- v) Accounting for staff retirement benefits (note 6.12 and 24)
- vi) Determination and measurement of useful life and residual value of fixed assets and ijarah assets (note 6.1, 18 and 19)

## **5. INITIAL APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO THE EXISTING STANDARDS**

### **5.1 New standards, amendments to the existing accounting and reporting standards and interpretations effective during the year**

IFRS 16 'Leases' - IFRS 16 replaces the previous lease standard: IAS 17: Leases. As the distinction between operating and finance lease is eliminated, it has resulted in leases being recognised on the statement of financial position except for short-term and low-value leases. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are

However, the application of IFRS 16 does not have any material impact on the Modaraba's books of account.

There are certain other amendments to accounting and reporting standards and interpretations that became applicable during the year but are considered not to be relevant or did not have any significant effect on the Company's financial reporting and operations and, therefore, have not been disclosed in these financial statements.

### **5.2 New standards, amendments to the accounting and reporting standards and interpretations that are not yet effective and have not been early adopted by the Company**

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 July 2020:

- Amendment to IFRS 3 'Business Combinations' - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgments when preparing their general purpose financial statements in accordance with IFRS Standards.
- On 29 March 2018, the International Accounting Standards Board (the IASB) has issued a revised Conceptual Framework for Financial Reporting which is applicable immediately and it contains changes that will set a new direction for IFRS in the future. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs and any inconsistencies with the revised Framework will be subject to the usual due process - this means that the overall impact on standard setting may take some time to crystallise. The companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs.



- Interest Rate Benchmark Reform which amended IFRS 9, IAS 39 and IFRS 7 is applicable for annual financial periods beginning on or after 1 January 2020. The G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of major interest rate benchmarks. Following the review, the FSB published a report setting out its recommended reforms of some major interest rate benchmarks such as IBORs. Public authorities in many jurisdictions have since taken steps to implement those recommendations. This has in turn led to uncertainty about the long-term viability of some interest rate benchmarks. In these amendments, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark including its replacement with an alternative benchmark rate, such as that resulting from the FSB's recommendations set out in its July 2014 report 'Reforming Major Interest Rate Benchmarks' (the reform). The amendments made provide relief from the potential effects of the uncertainty caused by the reform. A Modaraba shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform. The amendments are not likely to affect the financial statements of the Modaraba.

- IFRS 14 Regulatory Deferral Accounts - (effective for annual periods beginning on or after 1 July 2019) provides interim guidance on accounting for regulatory deferral accounts balances while IASB considers more comprehensive guidance on accounting for the effects of rate regulation. In order to apply the interim standard, an entity has to be rate regulated i.e. the establishment of prices that can be charged to its customers for goods or services is subject to oversight and/or approved by an authorized body. The term regulatory deferral account balance has been chosen as a neutral descriptor for expense (income) or variance account that is included or is expected to be included by the rate regulator in establishing the rate(s) that can be charged to customers and would not otherwise be recognized as an asset or liability under other IFRSs. The standard is not likely to have any effect on Modarabas financial statements.

The following annual improvements to IFRS standards 2018-2020 are effective for annual reporting periods beginning on or after 1 January 2022.

- IFRS 9 – The amendment clarifies that an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf, when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognize a financial liability.

- IFRS 16 – The amendment partially amends Illustrative Example 13 accompanying IFRS 16 by excluding the illustration of reimbursement of leasehold improvements by the lessor. The objective of the amendment is to resolve any potential confusion that might arise in lease incentives.

- IAS 41 – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The above improvements to standards are not likely to have material / significant impact on Modaraba's financial statements.

## **6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **6.1 Fixed Assets - Tangible**

#### **6.1.1 Owned assets**

Assets are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Modaraba and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

Depreciation is charged to income applying the straight-line method whereby the cost of an asset is written-off over its estimated useful life. Depreciation is charged on additions from the month the asset is available for use and on disposals up to the month

Repairs and maintenance are charged to income as and when incurred.

#### **6.1.2 Capital work-in-progress**

Capital work-in-progress, if any, is stated at cost less accumulated impairment losses, if any, and represents expenditure on fixed assets in the course of construction and installation and advances for capital expenditure. Transfers are made to the relevant category of fixed assets / ijarah assets as and when the assets are available for intended use.

#### **6.1.3 Ijarah assets**

Ijarah assets are stated at cost less accumulated depreciation. Depreciation is charged to income applying the straight line method whereby the cost of an asset less salvage value is written off over the lease period, which is considered to be the estimated useful life of the asset. In respect of additions and disposals during the year, depreciation is charged on monthly basis from the date of commencement of lease. While no depreciation is charged in the month of maturity / termination.

#### **6.1.4 Gain or loss on disposal**

Gains / losses on disposal of fixed assets / ijarah assets are charged to the profit and loss account currently.

### **6.1.5 Intangible assets**

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only where it is probable that the future economic benefits associated with the asset will flow to the Modaraba and the cost of item can be measured reliably. Amortisation is charged to income using the straight line method in accordance with the rates specified in note 20.3 to these financial statements after taking into account residual value, if any. The residual values, useful lives and amortisation method are reviewed and adjusted, as appropriate, at each balance sheet date. Amortisation is charged from the month the asset is available for use while in the case of assets disposed of, it is charged till the month preceding the month of disposal.

Intangible assets having an indefinite useful life are stated at cost less accumulated impairment losses, if any. These assets are not amortised as they are expected to have an indefinite life and are marketable.

Gain and loss on disposal of intangible assets, if any, are taken to the profit and loss account.

### **6.2 Cash and cash equivalents**

These comprise cash in hand and balances with banks in current and deposit accounts.

### **6.3 Financial Instruments**

Initial measurement of financial asset

The Modaraba classifies its financial assets into following three categories:

- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL); and
- measured at amortised cost.

A financial asset is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

#### **Subsequent measurement**

The following accounting policies apply to the subsequent measurement of financial assets:

##### **Financial assets at FVTPL**

These assets are subsequently measured at fair value. Net gains and losses, including any interest / markup or dividend income, are recognised in income statement.

##### **Financial assets at amortised cost**

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest / markup income, foreign exchange gains and losses and impairment are recognised in income statement.

##### **Debt investments at FVOCI**

These assets are subsequently measured at fair value. Interest / markup income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in income statement. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to income statement.

##### **Equity investments at FVOCI**

These assets are subsequently measured at fair value. Dividends are recognised as income in income statement unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to income statement.

##### **Derecognition of Financial Assets**

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred.

##### **Non-derivative financial assets**

All non-derivative financial assets are initially recognised on trade date i.e. date on which the Modaraba becomes party to the respective contractual provisions. Non-derivative financial assets comprises investments, loans and receivables that are financial assets with fixed or determinable payments that are not quoted in active markets and includes diminishing musharakah finance, ijarah rentals, morabaha receivable, modaraba finance, long term loans, accruals, prepayments, advances and other receivables and cash and cash equivalent. The Modaraba derecognises the financial assets when the contractual rights to the cash flows from the asset expires or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risk and rewards of ownership of the financial assets are transferred or it neither transfers nor retain substantially all of the risks and rewards of ownership and does not retain control over the transferred asset.

#### **6.4 Regular way contracts**

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention such as 'T+2' purchases and sales are recognised at the trade date. Trade date is the date on which the Modaraba commits to purchase or sell the assets.

#### **6.5 Impairment**

##### **6.5.1 Financial assets**

The Modaraba recognises loss allowances for Expected Credit Losses (ECLs) in respect of financial assets measured at amortised cost, except in the case of calculation of impairment provision on financial assets where the requirements of the Prudential Regulations for Modaraba prevails.

The Modaraba measures loss allowances at an amount equal to lifetime ECLs, except for other securities and bank balances which are measured at 12 months expected credit losses. Since these assets are short term in nature, therefore, no credit loss is expected on these balances.

##### **6.5.2 Non-financial assets**

The carrying amounts of the Modaraba's non-financial 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, being higher of value in use and fair value less costs to sell, is estimated. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss.

##### **Financial assets classified under Islamic Financial Accounting Standards**

In case of assets classified under Islamic Financial Accounting Standards, the assets shall be reviewed and provided for according to the time based criteria mentioned in the Prudential Regulations for Modarabas.

##### **Offsetting of financial assets and financial liabilities**

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when the Modaraba has a legally enforceable right to offset and the Modaraba intends to either settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements only when permitted by the accounting and reporting standards as applicable in Pakistan.

##### **Financial liabilities**

Financial liabilities are initially recognised on trade date i.e. date on which the Modaraba becomes party to the respective contractual provisions. Financial liabilities include mark-up bearing borrowings and trade and other payables. The Modaraba derecognises the financial liabilities when contractual obligations are discharged or cancelled or expire. Financial liability other than at fair value through profit or loss are initially measured at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these liabilities are measured at amortised cost using effective interest rate method.

#### **6.6 Inventories held-for-sale**

Inventories held-for-sale are valued principally at the lower of cost determined on the weighted average basis and net realizable value. Cost comprises invoice value and other cost incurred in bringing the inventories to their present location and condition.

Net realizable value comprises of the estimated selling price in the ordinary course of business less costs which are necessarily incurred in order to make the sale.

#### **6.7 Ijarah rentals , murabaha finance, musharaka finance, diminishing musharaka finance and modaraba finance**

Ijarah rentals receivables, murabaha finance, musharaka finance, diminishing musharaka finance and modaraba finance receivables are stated net of provisions and suspense income. Provision is recognised for non performing receivables in accordance with Prudential Regulations for Modaraba. Receivables that becomes irrecoverable are written off.

#### **6.8 Earnings per certificate**

The Modaraba presents basic and diluted earnings / loss per certificate for its certificate holders. Basic earnings / loss per certificate is calculated by dividing the profit or loss attributable to the certificate holders of the Modaraba by the weighted average number of certificates outstanding during the year.

## **6.9 Taxation**

### **Current**

Provision for current taxation is made on taxable income at the prevailing rates of tax after taking into account tax credits available, if any. Under clause 100 of Part - I of the Second Schedule to the Income Tax Ordinance, 2001, the income of non-trading modarabas is exempt from tax provided that not less than 90 percent of their profits are distributed to the certificate holders.

### **Deferred**

The Modaraba accounts for deferred taxation on all material temporary differences using the liability method arising between the amounts attributed to assets and liabilities for financial reporting purposes and financial statements used for taxation purposes. However, deferred tax liability has not been provided in these financial statements as the management believes that the future income of Modaraba will not be taxable in the foreseeable future due to the fact that the Modaraba intends to continue availing the tax exemption through profit distribution to the extent of 90 percent of distributable profit.

## **6.10 Creditors, accrued and other liabilities**

These are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services.

## **6.11 Provisions**

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

## **6.12 Staff retirement benefits**

### **Unfunded gratuity scheme**

The Modaraba operates an unfunded gratuity scheme for all eligible employees who have completed the minimum qualifying period of service. Annual provision is made on the basis of actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit method. All actuarial gains and losses are recognised in 'other comprehensive income' as they occur and are not reclassified to profit or loss in subsequent periods.

## **6.13 Revenue recognition**

### **6.13.1 Ijarah**

Income on Ijarah is recognised on an accrual basis. In case of ijarah arrangements with staggered rentals, the income is recognised on a straight line basis over the ijarah term.

### **6.13.2 Musharaka Finance**

Profit on Musharaka arrangements is recognised on the basis of the projected rate of profit. The effect of adjustments, if any, between actual rate and projected rate of profit is accounted for at the end of the transaction after determination of the actual rate.

### **6.13.3 Murabaha Finance**

The Modaraba follows the finance method in recognising income on murabaha finance. Under this method the unearned income i.e. the excess of aggregate murabaha installments over the cost of the asset under murabaha facility is deferred and then amortised over the term of the murabaha, so as to produce a constant rate of return on murabaha finance. Documentation charges, front-end fee and other murabaha income are recognised as income on a receipt basis.

### **6.13.4 Modaraba Finance**

Profit on modaraba finance is recognised on the basis of pre-agreed profit / loss sharing ratio where as actual gain / loss on transaction is computed upon termination / completion of transaction.

### **6.13.5 Diminishing Musharaka**

Profit on diminishing musharaka is recognised as and when profits become due on a systematic basis over the term of diminishing musharaka period.

### **6.13.6 Non-performing financing arrangements**

Unrealised income in respect of non-performing financing arrangements is held in suspense account, where necessary, in accordance with the requirements of Prudential Regulations for Modarabas issued by the SECP.

### **6.13.7 Dividend Income**

Dividend income is recognised when the Modaraba's right to receive the dividend is established.

Note	2020	2019
	------(Rupees)-----	

## 7. CASH AND BANK BALANCES

Cash at bank in :

- current accounts
- saving accounts

7.1

	<b>2,844,003</b>	22,377,003
	<b>68,930,313</b>	28,686,987
	<b>71,774,316</b>	51,063,990

Cash in hand

	<b>98,183</b>	83,054
	<b>71,872,491</b>	51,147,044

**7.1** Effective profit rates on these accounts range between 4.00% and 11.00% (2019: 4.0% and 10.25%).

## 8. INVESTMENTS

Fair value through profit or loss (FVTPL) - quoted securities

8.1

	<b>5,680,702</b>	6,350,180
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### 8.1. Quoted securities Number of shares 2020 2019

2020	2019
------(Rupees)-----	

#### Automobile Parts & Accessories

<b>16,468</b>	16,468	Thal Limited	<b>5,351,112</b>	5,995,340
<b>200</b>	200	Indus Motor Company Ltd	<b>198,998</b>	240,784

#### Textile & Weaving

<b>42,400</b>	42,400	Service Fabrics Limited	<b>130,592</b>	114,056
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<b>59,068</b>	<b>59,068</b>
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<b>5,680,702</b>	6,350,180
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## 9. MODARABA FINANCE

Modaraba Finance

Less: provision for non-performing Modaraba arrangements

<b>37,791,201</b>	37,791,201
<b>(37,791,201)</b>	(37,791,201)
<b>-</b>	<b>-</b>

The Modaraba had provided funds under modaraba arrangements on profit and loss sharing basis to various entities outstanding since long. Based on the guidelines of the Prudential Regulations for Modarabas, receivables against these finances have been fully provided.

Note	2020	2019
	------(Rupees)-----	

## 10. MUSHARAKA FINANCE

Musharaka finance - considered good	-	3,100,000
- considered doubtful	<b>14,702,297</b>	15,602,297
	<b>14,702,297</b>	18,702,297
Less: provision for non-performing musharaka arrangement	<b>(14,702,297)</b>	(15,602,297)
	<b>-</b>	<b>3,100,000</b>

**10.1** This represents waiver given to a client under settlement agreement dated December 24, 2016.

### 10.2 Movement of provision

Opening balance	<b>15,602,297</b>	15,602,297
(Reversal)/ Provision during the year	<b>(900,000)</b>	-
	<b>14,702,297</b>	<b>15,602,297</b>

## 11. MURABAHA FINANCE

Murabaha finance - considered good	-	83,796,155
- considered doubtful	<b>158,951,515</b>	88,682,898
	<b>158,951,515</b>	172,479,053
Less: provision for non-performing murabaha arrangements	<b>(158,951,515)</b>	(88,682,898)
	<b>-</b>	<b>83,796,155</b>

### 11.1 Movement of provision

Opening balance	<b>88,682,898</b>	85,126,172
Provision during the year	<b>70,268,617</b>	3,556,726
	<b>158,951,515</b>	<b>88,682,898</b>

The Modaraba had provided funds under morabaha arrangements on profit and loss sharing basis to various entities outstanding since long. Based on the guidelines of the Prudential Regulations for Modarabas, receivables against these finances have been fully provided.

## 12. DIMINISHING MUSHARKA FINANCE

Diminishing musharaka finance - considered good	<b>21,596,527</b>	48,935,462
Diminishing musharaka finance - doubtful	<b>6,384,294</b>	6,384,294
Unearned Income	<b>(3,018,886)</b>	(7,027,091)
	<b>24,961,935</b>	48,292,665
Less: provision for non-performing diminishing musharaka	<b>(6,384,294)</b>	(6,384,294)
	<b>18,577,641</b>	41,908,371
Diminishing musharaka due after one year	<b>(7,453,970)</b>	(19,045,539)
Current portion of diminishing musharaka	<b>11,123,671</b>	<b>22,862,832</b>

**12.1** The profit rates on these diminishing musharaka arrangements range between 10.00% and 19.00% (2019: 9.51% and 19.00%). All diminishing musharaka arrangements are secured against hypothecation of assets, personal guarantees and promissory notes.

### 13. Receivable against sale of agriculture produce

During financial year 2016 KASB Modaraba (KASBM) & First Prudential Modaraba (FPrM) entered into a joint project for crushing of banola seed and sale of oil cake (Khal) in the market. M/s Pakistan Phutti International Limited (PPIL) was engaged as seller & service provider responsible for sale of agriculture produce. Subsequently, natural cyclical shortage in productivity of cotton crop affected the availability of the banola seed and therefore the project was prudently discontinued by the management to safeguard the interest of the Modaraba. As per settlement agreement dated April 27, 2016, with PPIL advance for purchase of banola seed was converted into ijarah finance (secured) leaving a balance of Rs. 18.20 million receivable against sale of agriculture produce. Receivable amount is secured against Registered Mortgage on Property of service provider. After continuous default of payment the management of Modaraba has filed recovery suits in the Banking Courts which is pending adjudication. The management and the legal counsel are optimistic on favourable outcome of the case. The details of receivables are as under:

#### Description

Initial Investment  
Add: Gain on sale of Agriculture Produce  
Less: Receipt against sale of agriculture produce  
Less: converted to Ijarah Financing  
Less Consultancy Charges

Provision for doubtful receivable  
against sale of agriculture produce

KASBM	FPRM	Total
51,000,000	81,000,000	132,000,000
1,060,000	1,590,000	2,650,000
(14,353,590)	(14,473,432)	(28,827,022)
(19,311,320)	(40,000,000)	(59,311,320)
(194,950)	(305,050)	(500,000)
<b>18,200,140</b>	<b>27,811,518</b>	<b>46,011,658</b>
13.1 (18,200,140)	(27,811,518)	(46,011,658)
-	-	-

#### 13.1 Movement of provision

	2020	2019
	------(Rupees)-----	
Opening balance	10,548,691	10,548,691
Provision during the year	7,651,449	-
	<u>18,200,140</u>	<u>10,548,691</u>

### 14. IJARAH RENTALS RECEIVABLE

Considered good	-	52,003
Considered doubtful	<b>23,890,164</b>	23,890,164
	<b>23,890,164</b>	23,942,167
Less: Provision for doubtful receivables	<b>(23,890,164)</b>	(23,890,164)
	<u>-</u>	<u>52,003</u>

### 15. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

Advances to employees & executives			
-Executives - unsecured	15.1	<b>40,000</b>	40,000
-Employees - unsecured	15.1	<b>293,848</b>	669,936
Advances to suppliers		-	535,400
Prepayments		<b>338,964</b>	5,527,653
Short term security deposits		<b>271,300</b>	380,000
Accrued profit	15.2	<b>434,400</b>	185,946
Advance tax		<b>2,782,763</b>	2,210,138
Others		<b>1,898,595</b>	4,844,536
		<u><b>6,059,869</b></u>	<u>14,393,609</u>

**15.1** This represents short term portion of non mark-up bearing advances to executives and employees of the Modaraba, for domestic purposes.

	Note	2020 ------(Rupees)-----	2019
<b>15.2 ACCRUED PROFIT</b>			
Accrued profit on bank deposits		434,400	185,946
Accrued license fee on property acquired in satisfaction of financing facility (Note:16)		7,874,930	7,874,930
Less: Impairment loss on accrued license fee		(7,874,930)	(7,874,930)
		-	-
		<u>434,400</u>	<u>185,946</u>

#### 16. PROPERTY ACQUIRED IN SATISFACTION OF FINANCING FACILITY

This represents real state property at SITE Karachi acquired by the Modaraba in satisfaction of murabaha finance facility. The assessed market value of the said property is Rs. 61.7 million. As per settlement agreement, the borrower has an option to buy back the property within 3 years period. The period (3 years) of buy back option under the settlement agreement with the borrower is expired during the year. The Modaraba has filed recovery suit against the borrower for outstanding balance of morabaha financing and further prayed to the Honorable Court for the peaceful vacant possession of the property already acquired in satisfaction of financing facility.

#### 17 LONG TERM ADVANCES

Unsecured and interest free

to executive - considered good  
to employees - considered good

-	160,000
8,333	854,618
8,333	1,014,618
-	(709,936)
8,333	304,682

Due within one year shown under current assets

#### 18. IJARAH ASSETS

Plant and machinery

18.1

3,579,900	9,097,408
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##### 18.1 The following is a statement of ijarah assets:

2020									Rate of depreciation %
Cost			Accumulated Depreciation		Impairment	Book value			
As at 01 July 2019	Additions/ (Deletions)	As at 30 June 2020	As at 01 July 2019	Charge for the year	As at 30 June 2020	Charge for the year	As at 30 June 2020		
(Rupees)									
Equipment	57,600	-	57,600	57,600	-	57,600	-	-	
		-			-				
Plant and machinery	33,791,219	-	33,791,219	24,693,811	1,379,382	26,073,193	4,138,125	3,579,900	
		-			-				
	33,848,819	-	33,848,819	24,751,411	1,379,382	26,130,793	4,138,125	3,579,900	
2019									
Cost			Accumulated Depreciation		Impairment	Book value		Rate of depreciation %	
As at 01 July 2018	Additions/ (Deletions)	As at 30 June 2019	As at 01 July 2018	Charge for the year	As at 30 June 2019	Charge for the year	As at 30 June 2019		
(Rupees)									
Equipment	57,600	-	57,600	57,600	-	57,600	-		-
		-			-				
Plant and machinery	33,791,219	-	33,791,219	21,935,044	2,758,767	24,693,811	-	9,097,408	
		-			-				
Motor vehicles	12,452,500	-	-	4,043,329	2,928,496	-	-	-	
	(12,452,500)				(6,971,825)				
	46,301,319		33,848,819	26,035,973	5,687,263	24,751,411	-	9,097,408	
	(12,452,500)				(6,971,825)				



### 19.1 Tangible Assets

\* The modaraba has recorded impairment on assets which have nil value in use.

		2020						Rate of amortization %
		Cost		Accumulated Amortization			Book value	
As at 01 July 2019	Additions/ Deletions	As at 30 June 2020	As at 01 July 2019	Charge for the year	As at 30 June 2020	As at 30 June 2020		
----- (Rupees) -----								
Computer software	2,795,000	-	2,795,000	2,725,863	69,137	2,795,000	-	30 - 33

		2019						Rate of amortization %
		Cost		Accumulated Amortization			Book value	
As at 01 July 2018	Additions/ Deletions	As at 30 June 2019	As at 01 July 2018	Charge for the year	As at 30 June 2019	As at 30 June 2019		
----- (Rupees) -----								
Computer software	2,795,000	-	2,795,000	2,448,363	277,500	2,725,863	69,137	30 - 33

	Note	2020	2019
		------(Rupees)-----	
<b>20. REDEEMABLE CAPITAL- PARTICIPATORY AND UNSECURED</b>			
Certificates of Musharaka	20.1	<u><b>1,315,000</b></u>	<u>1,315,000</u>
<b>20.1</b>	This represents matured and unclaimed amount against certificate of musharaka.		
<b>21. TERM FINANCE</b>			
Due within one year	21.1	<u>-</u>	<u>12,566,727</u>
<b>21.1</b>	The Modaraba had availed finance facility under Risk Participation Agreement from JS Bank Limited (Bank). As per terms of the agreement, bank participates in the facilities extended by the modaraba to various customers under musharaka and ijarah arrangement to the aggregate amount of Rs. 100 million. The facility was repayable in thirty six monthly instalments with markup at one month KIBOR plus 3.65% per annum. As per interim arrangement facility was secured by way of hypothecation ranking charge on all present and future assets of the modaraba and lien on the bank account maintained with JS Bank Ltd. Subsequently, charge was upgraded to a first exclusive charge over the specific leased/ musharaka assets. With the repayment of last monthly installment in December 2019, the facility stands fully settled.		
<b>22. SECURITY DEPOSITS</b>			
Ijarah deposits		<b>3,579,900</b>	3,579,900
Less: adjustable after one year		-	(3,479,900)
Current portion of security deposits		<u><b>3,579,900</b></u>	<u>100,000</u>
<b>22.1</b>	This represent sums received under ijarah lease arrangements, adjustable at the expiry of the lease period.		
<b>23. CREDITORS, ACCRUED AND OTHER LIABILITIES</b>			
WWF Payable		<b>919,240</b>	919,240
Sundry creditors		<b>850,311</b>	1,789,311
Accrued expenses		<b>700,954</b>	1,546,426
Accrued financial charges		-	235,910
Charity payable		<b>1,214,078</b>	743,907
Insurance premium received in advance		<b>281,005</b>	525,818
Advance rentals		-	5,931
Other liabilities		<b>542,665</b>	423,147
		<u><b>4,508,253</b></u>	<u>6,189,690</u>

## 24 STAFF RETIREMENT BENEFIT SCHEME

### 24.1 Staff Gratuity Scheme

As disclosed in note 6.12, the Modaraba operates an unapproved, unfunded gratuity scheme for its permanent employees. The latest actuarial valuation was carried out by actuaries as at 30 June 2020, using the Projected Unit Credit Method. The benefits under the gratuity scheme are payable on cessation of service as under:

#### Number of years of eligible service completed Amount of gratuity payable

Less than 3 years	Nil
Equal to 3 years	0.6 times of last drawn basic salary for each year of service
Equal to 4 years	0.8 times of last drawn basic salary for each year of service
Greater than or equal to 5 years	1 times last drawn basic salary for each year of service

### 24.2 Principal actuarial assumptions used:

The following significant assumptions have been used for the valuation of this scheme:

### 24.3 Significant Actuarial Assumptions

#### Financial Assumptions

- Valuation discount rate	9.25%	14.25%
- Expected rate of increase in salaries	5.00%	9.25%

#### Demographic Assumptions

Mortality rates (for death in service)	SLIC(2001-05) Low	SLIC(2001-05) High
Rates of employee turnover	2020	2019
	-----	-----
	(Rupees)	

### 24.4 Statement of Financial Position

Present value of defined benefit obligation	3,770,020	3,389,955
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### 24.5 Movement in the defined benefit liability

Balance accrued as at the beginning of the year	3,389,955	3,509,176
Periodic benefit cost for the year ended	1,076,197	1,101,279
Benefits paid during the year	(83,726)	(755,684)
Amount of remeasurements losses recognised in Other Comprehensive Income during the year	(612,406)	(464,816)
Balance accrued as at the end of the year	<u>3,770,020</u>	<u>3,389,955</u>

24.6	Defined Benefit Cost for the Year	2020	2019
		------(Rupees)-----	
	<b>Cost recognised in Profit and Loss Account for the year</b>		
	Current service cost	605,059	819,459
	Interest Cost on defined benefit obligation	471,138	281,820
		<u>1,076,197</u>	<u>1,101,279</u>
	<b>Re-measurements recognised in Other Comprehensive Income during the year</b>		
	Actuarial gain on obligation	(612,406)	(464,816)
	<b>Total defined benefit cost recognised in Profit &amp; Loss Account and Other Comprehensive Income</b>	<u>463,791</u>	<u>636,463</u>
24.7	<b>Remeasurements recognised in Other Comprehensive Income / (expense) during the year</b>		
	Actuarial gain on obligation		
	Gain due to change in financial assumptions	241,354	283,937
	Gain due to change in experience adjustments	-	180,879
	- Due to actual salary increase	348,727	-
	- Due to other reasons	22,325	-
		<u>371,052</u>	-
	Total actuarial gain on obligation	<u>612,406</u>	<u>464,816</u>
24.8	<b>Maturity profile of the defined benefit obligation</b>		
	Distribution of timing of benefit payments	885,011	1,189,088
	within the next 12 months (next annual reporting period)	697,876	324,970
	between 2 and 5 years	63,041	1,278,987
	between 5 and 10 years	<u>13,028,823</u>	<u>11,248,493</u>
	Beyond 10 years	<u>14,674,751</u>	<u>14,041,538</u>
24.9	<b>Sensitivity Analysis on significant actuarial assumptions: Actuarial Liability</b>		
	Discount Rate +1%	3,407,579	3,228,435
	Discount Rate -1%	4,207,632	3,574,796
	Long Term Salary Increases +1%	4,224,017	3,589,709
	Long Term Salary Increases -1%	3,387,649	3,212,049
	Withdrawals Rates +10%	3,770,020	3,389,955
	Withdrawals Rates -10%	3,770,020	3,389,955
	1 Year Mortality age set back	3,770,020	3,389,955
	1 Year Mortality age set forward	3,770,020	3,389,955
		<u>30,306,957</u>	<u>27,164,809</u>
24.10	Based on actuarial advice, the Modaraba estimates a gratuity expense of Rs. 1,076,197/- during the year ending 30 June 2020.		

			2020	2019
25. Authorised certificate capital			------(Rupees)-----	

	2020	2019		
	Number of certificates			
	<b>50,000,000</b>	50,000,000	Modaraba Certificates of Rs. 10/- each	<b>500,000,000</b> 500,000,000

**Issued, subscribed and paid-up capital**

<b>24,958,400</b>	24,958,400	Modaraba Certificates of Rs. 10/- each fully paid in cash	<b>249,584,000</b>	249,584,000
<b>3,316,000</b>	3,316,000	Modaraba Certificates of Rs. 10/- each issued as fully paid bonus certificates	<b>33,160,000</b>	33,160,000
<b>19,792,080</b>	19,792,080	Modaraba Certificates of Rs. 10/- each issued at 50% discount as right certificates	<b>197,920,800</b>	197,920,800
<b>48,066,480</b>	48,066,480		<b>480,664,800</b>	480,664,800

**25.1** As at 30 June 2020, the Ex-Management Company held 23,930,973 (2019: 23,930,973) certificates .

**26 CONTINGENCIES AND COMMITMENTS**

**26.1** Some of the modarabas in the sector have received letter from Assistant Commissioner, Sindh Revenue Board (SRB), whereby it came to their notice that these Modarabas are engaged in providing / rendering taxable services which falls under the Second Schedule of Sindh Sales Tax on Services Act, 2011 (the Act), and the sales tax on such services, i.e. on lease rentals / lease financing transactions remains outstanding. The modarabas who have received the said letter, collectively decided that under the supervision of NBFi & Modaraba Association Pakistan, a petition against the same be filed through a common legal counsel in the Honorable High Court of Sindh (HCS) challenging levy of Services Sales Tax on lease rental/ lease financing transactions including the vires of various headings of the Second Schedule of the Act. Being similar in nature of business it was expected that the same type of letter shall be received by KASB Modaraba. Therefore, management has taken cautious approach and become a party in collective effort undertaken by the other modarabas.

**27. INCOME FROM IJARAH FINANCE**

Ijarah Rentals		
Plant and machinery	-	209,295
Motor vehicle	-	3,459,656
Gain on disposal of ijarah assets	-	58,620
	-	3,727,571

**28. FINANCIAL CHARGES**

Profit on Certificates of Musharaka	-	472,463
Bank charges	<b>22,591</b>	43,947
Profit on Term Finance Facility	<b>410,531</b>	3,279,767
	<b>433,121</b>	3,796,177

**29. OTHER INCOME**

Documentation income	-	43,000
Insurance income	<b>731,326</b>	1,415,869
Bank deposits	<b>4,648,576</b>	1,163,842
Others	<b>537,778</b>	2,817
	<b>5,917,680</b>	2,625,528

<b>30. ADMINISTRATIVE AND OPERATING EXPENSES</b>	<b>Note</b>	<b>2020</b>	<b>2019</b>
		----- (Rupees) -----	
Salaries and benefits	30.1	<b>10,098,448</b>	9,236,933
Utilities		<b>731,527</b>	655,865
Insurance		<b>4,468,615</b>	2,665,686
Postage		<b>93,537</b>	47,199
Repairs and maintenance		<b>845,722</b>	301,616
Entertainment		<b>162,250</b>	207,669
Printing and stationery		<b>140,719</b>	144,060
Travelling and conveyance		<b>220,782</b>	251,390
Fee and subscriptions		<b>1,397,547</b>	4,494,290
Auditors' remuneration	30.2	<b>429,000</b>	429,000
Legal and professional charges		<b>2,902,658</b>	3,202,310
Depreciation - owned assets		<b>869,815</b>	2,884,750
Impairment loss on own assets		<b>3,215,650</b>	6,526,015
Amortization		<b>69,137</b>	277,500
Advertisements		-	20,908
Rent, rate and taxes		<b>1,722,607</b>	2,738,867
Generator expenses		-	85,721
Newspapers and periodicals		<b>69,448</b>	206,790
CIB charges		<b>9,245</b>	6,000
Verysis charges		<b>45,499</b>	178,096
Security services		<b>751,393</b>	882,094
Training and seminar		<b>10,000</b>	15,000
Others		<b>435,858</b>	287,744
		<b>28,689,456</b>	35,745,504

### **30.1 REMUNERATION TO OFFICERS AND OTHER EMPLOYEES**

	<b>2020</b>		<b>2019</b>	
	<b>Officers</b>	<b>Other Employees</b>	<b>Officers</b>	<b>Other Employees</b>
	----- (Rupees) -----			
Managerial remuneration	<b>2,971,654</b>	<b>1,463,012</b>	1,670,138	2,730,393
Medical allowance	<b>400,744</b>	<b>465,462</b>	299,240	500,411
House rent allowance	<b>1,202,239</b>	<b>1,396,375</b>	717,890	1,501,250
Utility allowance	<b>400,751</b>	<b>465,452</b>	299,240	500,411
Employee benefits	<b>581,147</b>	<b>523,587</b>	358,000	295,000
EOBI contribution	<b>9,360</b>	<b>68,665</b>	1,950	23,010
Bonus	<b>20,000</b>	<b>130,000</b>	50,000	290,000
	<b>5,585,895</b>	<b>4,512,553</b>	3,396,458	5,840,475
Number of persons	<b>5</b>	<b>13</b>	<b>5</b>	<b>13</b>

**30.1.1** The total number of employees as at June 30 2020 are 18. (2019: 17) and the average number of employees during the year equates to 18 (2019: 18).

	<b>2020</b>	<b>2019</b>
	----- (Rupees) -----	
<b>30.2 Auditors' Remuneration</b>		
Annual audit fee	<b>325,000</b>	325,000
Review of interim financial statements	<b>95,000</b>	95,000
Out of pocket expenses	<b>9,000</b>	9,000
	<b>429,000</b>	429,000

**31. MODARABA MANAGEMENT COMPANY FEE**

In accordance with the Modaraba Companies and Modaraba Rules, 1981, management remuneration at the rate of 10% of annual profits is payable to the Management Company. However no management fee is charged due to loss for the year.

**32. PROVISION FOR WORKERS' WELFARE FUND**

The Sindh Assembly passed a bill on May 4, 2015 and notified Sindh Worker's Welfare Act 2014 on June 4, 2015. As per the said Act the applicability of Sindh Worker's Welfare Fund is effective from the financial year of the entities ended on or after December 31, 2013. Accordingly provision has been made at the rate of 2% of profit before taxation or taxable income, whichever is higher, effective after June 30, 2014.

**33. TAXATION**

The income of the Modaraba is exempt from tax subject to the condition that not less than ninety per cent of its total profits in the year as reduced by the amount transferred to a mandatory reserve, required under the provisions of Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) are

No provision for current and deferred taxation has been made in these financial statements in accordance with the accounting policy of the Modaraba as disclosed in note 6.9 to the financial statements.

**34. LOSS PER CERTIFICATE - BASIC AND DILUTED**

Loss for the year (Rupees)	<u><u>(102,920,867)</u></u>	<u><u>(34,239,540)</u></u>
Weighted average number of certificates (Number)	<u><u>48,066,480</u></u>	<u><u>48,066,480</u></u>
Loss per certificate -basic and diluted	<u><u>(2.14)</u></u>	<u><u>-0.71</u></u>

### 35. FINANCIAL INSTRUMENTS BY CATEGORY

----- As at June 30, 2020 -----				
----- (Rupees) -----				
	At Amortised Cost	FVTPL	FVTOCI	Other financial liabilities
<b>FINANCIAL ASSETS</b>				
Cash and bank balances	71,872,499	-	-	-
Short term investments	-	5,680,702	-	-
Short term modaraba finance	-	-	-	-
Short term musharaka finance	-	-	-	-
Receivable against sale of agricultural produce	-	-	-	-
Ijarah rentals receivable	-	-	-	-
Advances, prepayments and other receivables	2,938,143	-	-	-
Murabaha finance	-	-	-	-
Diminishing musharaka finance	18,577,641	-	-	-
Long term advances	8,333	-	-	-
Long-term deposits	-	-	-	-
	<u>93,396,616</u>	<u>5,680,702</u>	<u>-</u>	<u>-</u>
<b>FINANCIAL LIABILITIES</b>				
Redeemable capital	-	-	-	1,315,000
Long term finance	-	-	-	-
Creditors, accrued and other liabilities	-	-	-	3,294,175
	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,609,175</u>
----- As at June 30, 2019 -----				
----- (Rupees) -----				
	At Amortised Cost	FVTPL	FVTOCI	Other financial liabilities
Cash and bank balances	51,147,044	-	-	-
Short term investments	-	6,350,180	-	-
Short term modaraba finance	-	-	-	-
Short term musharaka finance	3,100,000	-	-	-
Receivable against sale of agricultural produce	7,651,449	-	-	-
Ijarah rentals receivable	52,003	-	-	-
Advances, prepayments and other receivables	6,120,418	-	-	-
Murabaha finance	83,796,155	-	-	-
Diminishing musharaka finance	41,908,371	-	-	-
Long term advances	304,682	-	-	-
Long-term deposits	-	-	-	-
	<u>194,080,123</u>	<u>6,350,180</u>	<u>-</u>	<u>-</u>
<b>FINANCIAL LIABILITIES</b>				
Redeemable capital	-	-	-	1,315,000
Long term finance	-	-	-	12,566,727
Creditors, accrued and other liabilities	-	-	-	5,439,852
	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,321,579</u>



### **35.1 FINANCIAL RISK MANAGEMENT**

The Modaraba finances its operations mainly through equity, borrowing and deposits. The Modaraba utilises funds in ijarah financing, modaraba financing, musharaka financing, diminishing musharaka and murabaha financing. These activities are exposed to a variety of financial risks that are market risk, credit risk and liquidity risk.

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

### **35.2 Market risk**

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market interest rates or the market prices of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

Market risk comprises of three types of risk namely currency risk, profit rate risk and price risk.

#### **35.2.1 Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Modaraba, at present is not exposed to currency risk as all transactions are carried out in Pak

#### **35.2.2 Profit rate risk**

Profit rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the market profit rates. The Modaraba has adopted appropriate policies to minimise its exposure to this risk.

### 35.2.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Modaraba, at present is not exposed to currency risk as all transactions are carried out in Pak Rupees.

### 35.2.2 Profit rate risk

Profit rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in the market profit rates. The Modaraba has adopted appropriate policies to minimise its exposure to this risk.

Yield / profit rate sensitivity position for, on balance sheet financial instruments is based on the earlier of contractual repricing or maturity date.

		2020					
	Effective yield / profit rate %	Total	Upto one month	Over one month to 3 months	Over 3 months to one year	Over one year to 5 years	Not exposed to yield / profit risk
----- (Rupees) -----							
<b>Assets</b>							
Cash and bank balances	4.00%-11.00%	71,872,499	68,930,313	-	-	-	2,942,186
Investments		5,680,702	-	-	-	-	5,680,702
Murabaha finance	-	-	-	-	-	-	-
Modaraba Finance	-	-	-	-	-	-	-
Musharaka finance	-	-	-	-	-	-	-
Diminishing musharaka finance	9.51%-19%	18,577,641	3,246,230	1,631,676	6,245,765	7,453,970	-
Receivable against sale of agricultural	-	-	-	-	-	-	-
Ijarah rentals receivable	-	-	-	-	-	-	-
Advances, prepayments and other reci	-	2,503,743	-	-	-	-	2,503,743
Accrued profit	-	434,400	-	-	-	-	434,400
<b>Total</b>		<b>99,068,985</b>	<b>72,176,543</b>	<b>1,631,676</b>	<b>6,245,765</b>	<b>7,453,970</b>	<b>11,561,031</b>
<b>Liabilities</b>							
Certificate of musharaka	-	1,315,000	-	-	-	-	1,315,000
Creditors, accrued and other liabilities	-	4,508,253	-	-	-	-	4,508,253
Long term finance	-	-	-	-	-	-	-
<b>Total</b>		<b>5,823,253</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,823,253</b>
<b>Total yield / profit risk sensitivity gap</b>			<b>72,176,543</b>	<b>1,631,676</b>	<b>6,245,765</b>	<b>7,453,970</b>	
<b>Cumulative yield / profit risk sensitivity gap</b>			<b>72,176,543</b>	<b>73,808,219</b>	<b>80,053,984</b>	<b>87,507,954</b>	<b>87,507,954</b>

		2019					
	Effective yield / profit rate %	Total	Upto one month	Over one month to 3 months	Over 3 months to one year	Over one year to 5 years	Not exposed to yield / profit risk
----- (Rupees) -----							
<b>Assets</b>							
Cash and bank balances	4.00% - 10.25%	51,147,044	28,686,987	-	-	-	22,460,057
Investments		6,350,180	-	-	-	-	6,350,180
Murabaha finance	0.37%-20%	83,796,155	80,595,784	-	3,200,371	-	-
Modaraba Finance	-	-	-	-	-	-	-
Musharaka finance	-	3,100,000	-	-	-	-	3,100,000
Diminishing musharaka finance	9.51%-21%	41,908,371	3,543,404	4,956,418	14,363,010	19,045,539	-
Receivable against sale of agricultural	-	7,651,449	-	-	-	-	7,651,449
Ijarah rentals receivable	-	52,003	-	-	-	-	52,003
Advances, prepayments and other reci	-	6,239,154	-	-	-	-	6,239,154
Accrued profit	-	185,946	-	-	-	-	185,946
Long-term Deposit	-	-	-	-	-	-	-
<b>Total</b>		<b>200,430,302</b>	<b>112,826,175</b>	<b>4,956,418</b>	<b>17,563,381</b>	<b>19,045,539</b>	<b>46,038,789</b>
<b>Liabilities</b>							
Certificate of musharaka	-	1,315,000	1,315,000	-	-	-	-
Creditors, accrued and other liabilities	-	10,879,704	5,439,852	-	-	-	5,439,852
Long term finance	15.37%	12,566,727	2,094,454	6,283,362	4,188,911	-	-
<b>Total</b>		<b>24,761,431</b>	<b>8,849,306</b>	<b>6,283,362</b>	<b>4,188,911</b>	<b>-</b>	<b>5,439,852</b>
<b>Total yield / profit risk sensitivity gap</b>			<b>103,976,869</b>	<b>(1,326,944)</b>	<b>13,374,470</b>	<b>19,045,539</b>	
<b>Cumulative yield / profit risk sensitivity gap</b>			<b>103,976,869</b>	<b>102,649,925</b>	<b>116,024,395</b>	<b>135,069,934</b>	<b>135,069,934</b>

## Sensitivity analysis for financial instruments

The sensitivity of the net income for the year is the effect of the assumed changes in profit rates on the floating rate financial instruments held at the year end. The following table demonstrates the sensitivity of the Modaraba's income for the year to a reasonably possible change in profit rates, with all other variables held constant.

	<b>Impact on profit or loss</b>	
	<b>2020</b>	<b>2019</b>
	<b>----- (Rupees) -----</b>	
Changes in basis point		
+100	<b>875,080</b>	1,350,699
-100	<b>(875,080)</b>	(1,350,699)

In practice, the actual results may differ from the sensitivity analysis shown above.

### 35.2.3 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The carrying amount of investments in equity securities carried at fair value as shown in note 8 is as follows:

+5%	<b>284,035</b>	317,509
-5%	<b>(284,035)</b>	(317,509)

### 35.3 Credit risk

**35.3.1** Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Modaraba is exposed to credit risk in respect of net investment in finance lease, musharaka, murabaha, modaraba, diminishing musharaka and ijarah rental receivables.

Concentrations of credit risk arise 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 an entity's performance to developments affecting a particular industry.

The Modaraba attempts to control credit risk by diversification of financing activities to avoid undue concentration of credit risk with individuals or groups of customers in specific locations or businesses, monitoring credit exposures, limiting transactions to specific counterparties and continually assessing the credit worthiness of counterparties. It also obtains securities when appropriate.

The Modaraba follows two sets of guidelines. It has its own operating policy and the management of the Modaraba also adheres to the regulations issued by the SECP. The operating policy defines the extent of fund and non-fund based exposures with reference to a particular sector or group.

The Modaraba's maximum exposure to credit risk related to financial instruments at June 30, 2020 and June 30, 2019 is the carrying amounts of following financial assets

Diminishing Musharakah	<b>18,577,641</b>	41,908,371
Advances, deposits, prepayments and other receivables	<b>2,938,143</b>	6,120,418
Balances with banks and financial institutions	<b>71,774,316</b>	51,063,990
Short term modaraba finance	-	-
Short term musharaka finance	-	3,100,000
Murabaha finance	-	83,796,155
	<b><u>93,290,100</u></b>	<b><u>185,988,935</u></b>

**35.3.2** The analysis below summarises the credit quality of the Modaraba's financial assets:

			2020	2019
			------(Rupees)-----	
Bank balances	Short Term	Long Term		
MEEZAN BANK LIMITED	A-1+	AA+	2,131	2,131
HBL ISLAMIC BANK	A-1+	AAA	2,085,717	1,784,427
ALBARAKA BANK (PAKISTAN) LTD	A1	A	1,095,919	1,106,293
SUMMIT BANK	-	-	2,713,527	2,554,778
SONERI BANK LIMITED	A1+	AA-	65,087,332	25,304,045
DUBAI ISLAMIC BANK	A-1	AA	1,185	938
BANK ISLAMI PAKISTAN	A-1	A+	692,850	692,850
BANK ALFALAH LIMITED	A-1+	AA+	87	87
JS BANK LIMITED	A-1+	AA-	85,420	19,618,440
			<b>71,764,168</b>	<b>51,063,989</b>

**35.3.3** An analysis of the age of significant financial assets that are past due but not required to be impaired by applicable laws are as under:

	2020		2019	
	Total outstandi ng	Payment overdue (in days)	Total outstanding amount	Payment overdue (in days)
Ijarah rentals receivable	-	1 - 90 Days	52,003	1 - 90 Days
Murabaha Finance	-	1 -90 Days	1,400,000	1 -90 Days
Diminishing Musharaka Finance	-	1 - 90 Days	-	1 - 90 Days
Modaraba Finance	-	1 - 90 Days	-	1 - 90 Days

**35.3.4** An analysis of the financial assets that are individually impaired as per the requirements of the Prudential Regulations for Modarabas are as under:

	OAEM	Substandard	2020 Doubtful	Loss	Total
			-----Rupees-----		
Ijarah rentals receivable	-	-	-	-	-
Murabaha Finance	-	-	-	-	-
Musharaka Finance	-	-	-	-	-
Modaraba	-	-	-	-	-
Diminishing Musharaka Financ	-	-	-	-	-
Receivable against sale of agriculture produce	-	-	-	18,200,140	18,200,140
	OAEM	Substandard	2019 Doubtful	Loss	Total
			-----Rupees-----		
Ijarah rentals receivable	-	-	-	23,890,164	23,890,164
Murabaha Finance	-	-	53,284,030	44,327,865	97,611,895
Musharaka Finance	-	-	4,000,000	11,602,297	15,602,297
Modaraba	-	-	-	37,791,201	37,791,201
Diminishing Musharaka Financ	576,493	219,605	150,420	5,653,245	6,599,763
Receivable against sale of agriculture produce	-	-	18,200,140	-	18,200,140

### 35.3.5 Ijarah Assets

	2020		2019	
	(Rupees)	%	(Rupees)	%
Fuel and energy	100,000	2.79	100,000	1.10%
Others	3,479,900	97.21	8,997,408	98.90%
	<u>3,579,900</u>	<u>100.00</u>	<u>9,097,408</u>	<u>100.00%</u>

### 35.3.6 Finance arrangements

	2020	2019
	------(Rupees)-----	
Murabaha finance	-	83,796,155
Musharaka finance	-	3,100,000
Diminishing Musharaka finance	18,577,641	41,908,371
Modaraba finance	-	-
	<u>18,577,641</u>	<u>128,804,526</u>

### 35.4 Liquidity risk

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

The table below analyses the Modaraba's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	2020			
	Total	Upto three months	More than three months and upto one year	More than one year
	----- Rupees -----			
<b>Liabilities</b>				
Redeemable capital	1,315,000	1,315,000	-	-
Security deposits	3,579,900	3,579,900	-	-
Creditors, accrued and other liabilities	4,508,253	4,508,253	-	-
Unclaimed profit distribution	2,834,156	2,834,156	-	-
Deferred liabilities - staff gratuity	3,770,020	-	-	3,770,020
<b>Total liabilities</b>	<u>16,007,329</u>	<u>12,237,309</u>	<u>-</u>	<u>3,770,020</u>
	2019			
	Total	Upto three months	More than three months and upto one year	More than one year
	----- Rupees -----			
<b>Liabilities</b>				
Redeemable capital	1,315,000	1,315,000	-	-
Security deposits	3,579,900	100,000	-	3,479,900
Creditors, accrued and other liabilities	6,189,690	6,189,690	-	-
Unclaimed profit distribution	2,834,156	2,834,156	-	-
Long-term finance	12,566,724	6,283,362	6,283,362	-
Deferred liabilities - staff gratuity	3,389,955	-	-	3,389,955
<b>Total liabilities</b>	<u>29,875,425</u>	<u>16,722,208</u>	<u>6,283,362</u>	<u>6,869,855</u>

### 35.5 Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Modaraba is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The estimated fair value of financial assets and liabilities is considered not significantly different from book values as the items are either short - term in nature or periodically repriced.

### 36. CAPITAL RISK MANAGEMENT

The Modaraba's prime objective when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for certificate-holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Modaraba monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total Certificate of Musharaka and borrowings less cash and bank balances. Total capital is calculated as equity as shown in the balance sheet plus net debt.

	2020	2019
	------(Rupees)-----	
Total borrowings and deposits	1,315,000	13,881,727
Cash and bank balances	(71,872,499)	(51,147,044)
Net debt	(70,557,499)	(37,265,317)
Total equity	138,399,622	240,708,083
Total capital	67,842,124	203,442,766
<b>Gearing ratio</b>	<b>-104.0%</b>	<b>-18.3%</b>

### 37. TRANSACTIONS WITH RELATED PARTIES

The related parties of the Modaraba comprise of the Management Company (Awwal Modaraba Management Limited) and its Holding Company, Ex-modaraba Management Company [KASB Invest (Pvt.) Ltd.] to the extent of their control, Ex-Administrator to the extent of his control, modaraba under common management (First Prudential Modaraba, First Pak Modaraba and Awwal Modaraba), directors of Management Company, key management personnel and associated undertakings.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Modaraba considers its Chief Financial Officer and business heads to be its key management personnel. There are no transactions with key management personnel other than their term of employment/entitlement. Details of certificate holding, if any, of Holding Company, Management Company, Directors, Key Management Personnel and their family members are disclosed in pattern of certificate holding included in the annual report of the Modaraba.

Modaraba, in the normal course of business carries out transactions with these related parties at arm's length prices. Transactions and balances with related parties during the year other than those disclosed elsewhere in the financial statements are as follows:-

**37.1 Balances and Transactions with related parties**

Relationship with Modaraba	Nature of Transactions	June 30, 2020	June 30, 2019
		----- (Rupees) -----	
<b>Balances with related parties</b>			
Ex-Modaraba management Company [KASB Invest (Pvt.) Ltd.]	Issue of certificates at discount	<b>98,946,390</b>	98,946,390
Modaraba under common management			
First Prudential Modaraba	Receivable against reimbursement of expenses	<b>1,170,594</b>	1,959,999
First Pak Modaraba	Receivable against reimbursement of expenses	<b>285,989</b>	647,314
<b>Other related parties</b>			
Ex-Administrator (Ref: Note # 1)	Salaries & Other benefits	-	240,000
Silk Bank Limited (Associated Undertaking)	Bank Account	<b>896</b>	896
<b>Expense/(Income) for the period</b>			
Modaraba under common management			
First Prudential Modaraba	Reimbursement of expenses	<b>(5,865,591)</b>	(5,524,475)
First Pak Modaraba	Reimbursement of expenses	<b>(623,984)</b>	(1,657,869)
Ex-Administrator (Ref: Note # 1)	Salaries & Other benefits	<b>639,310</b>	240,000
Jubilee Life Insurance Company Ltd (Associated Undertaking)	Takaful premium	<b>614,884</b>	393,457
<b>Payments/(Receipts) made during the period</b>			
Modaraba under common management			
First Prudential Modaraba	Reimbursement of expenses	<b>(6,654,996)</b>	(3,557,524)
First Pak Modaraba	Reimbursement of expenses	<b>(985,309)</b>	(1,134,279)
Jubilee Life Insurance Company Ltd (Associated Undertaking)	Takaful premium	<b>614,884</b>	393,457
Ex-Administrator (Ref: Note # 1)	Salaries & Other benefits	<b>879,310</b>	-

**38. CORRESPONDING FIGURES**

Corresponding figures have been rearranged and reclassified, wherever necessary for the purposes of comparison and better presentation. However, no significant rearrangements or reclassification have been made in these financial statements during the current year.

**39. GENERAL**

Figures in these financial statements have been rounded off to the nearest Rupee.

**40. DATE OF AUTHORISATION**

These financial statements has been authorized for issue on September 24, 2020 by the Board of Directors of Awwal Modaraba Management Limited.

<u>sd</u>	<u>sd</u>	<u>sd</u>	<u>sd</u>
Chief Executive	Director	Director	Chief Financial Officer

**PATTERN OF CERTIFICATE HOLDING-FORM-34**

**SHAREHOLDERS STATISTICS- AS AT JUNE 30, 2020**

NO. OF	CERTIFICATES HOLDING		TOTAL CERTIFICATES
C-HOLD	FROM	TO	HOLD
415	1	- 100	15,996
278	101	- 500	77,164
159	501	- 1000	130,962
188	1001	- 5000	439,848
45	5001	- 10000	337,721
14	10001	- 15000	177,469
17	15001	- 20000	289,275
10	20001	- 25000	228,561
7	25001	- 30000	202,345
2	30001	- 35000	62,200
7	35001	- 40000	255,500
2	40001	- 45000	81,800
2	60001	- 65000	123,877
1	70001	- 75000	72,000
3	85001	- 90000	263,500
2	95001	- 100000	200,000
1	100001	- 105000	101,000
1	105001	- 110000	110,000
1	110001	- 115000	113,100
2	115001	- 120000	236,963
1	120001	- 125000	122,823
1	125001	- 130000	127,500
6	140001	- 145000	864,378
1	165001	- 170000	166,320
1	175001	- 180000	176,000
1	220001	- 225000	225,000
2	245001	- 250000	494,500
9	285001	- 290000	2,596,122
1	300001	- 305000	304,389
1	315001	- 320000	319,702
1	390001	- 395000	392,245
1	490001	- 495000	493,500
1	495001	- 500000	500,000
1	795001	- 800000	795,980
1	855001	- 860000	858,500
1	995001	- 1000000	1,000,000
1	1375001	- 1380000	1,375,733
1	1590001	- 1595000	1,591,000
1	10445001	- 10450000	10,446,767
1	21695001	- 21700000	21,696,740
<b>1191</b>	<b>Total</b>		<b>48,066,480</b>



**PATTERN OF CERTIFICATE HOLDING  
FORM "34"**

**CERTIFICATEHOLDERS STATISTICS  
AS AT JUNE 30, 2020**

S/R NO.	CATAGORIES OF CERTIFICATE HOLDERS	NUMBER OF CERTIFICATE HOLDERS	TOTAL	PERCENTAGE %
1	INDIVIDUALS	1146	11,674,758	24.29
2	INVESTMENT COMPANIES	2	1,200	0.00
3	INSURANCE COMPANIES	3	796,380	1.66
4	JOINT STOCK COMPANIES	16	1,182,786	2.46
5	FINANCIAL INSTITUTIONS	11	10,472,584	21.79
6	LEASING COMPANIES	1	1,246	0.00
7	MODARABA COMPANIES	3	36	0.00
8	OTHERS	2	101,300	0.21
9	MODARABA MANAGEMENT COMPANIES	2	23,072,473	48.00
10	MUTUAL FUND	1	392,245	0.82
11	INVESTMENT ADVISORY	1	2,000	0.00
12	HOLDING COMPANY	1	304,389	0.63
13	EMPLOYEES PENSION FUND	1	62,877	0.13
14	EMPLOYEES BENEVOLENT FUND	1	2,206	0.00
		<b>1191</b>	<b>48,066,480</b>	<b>100.00</b>

**ASSOCITED COMPANIES**

KASB INVEST ( PRIVATE) LIMITED	23,930,973	49.79
KASB CORPORATION	304,389	0.63
	<b>24,235,362</b>	<b>50.42</b>

Banks,Development Financial Institutions, Non-Banking Finance Institutions  
Insurance Companies, Modaraba and Mutual Funds

**11,870,428                      24.69**

## KASB Modaraba

### NOTICE OF ANNUAL REVIEW MEETING

Notice is hereby given that the 29<sup>th</sup> Annual Review Meeting of the certificate holders of KASB Modaraba will be held on Tuesday, 27 October, 2020 at 3:45 pm at the Registered Office of Awwal Modaraba Management Limited situated at Horizon Vista, Commercial 10, Block No. 4, Scheme No. 5, Clifton, Karachi, to review the performance of the Modaraba for the year ended 30 June 2020.

#### **Special Business:**

To obtain consent of certificate holders for transmission of the annual audited accounts of Modaraba through CD/DVD/USB instead of transmitting the said accounts in hard copies, in light of provisions of SRO 470(I)/2016 issued by the Securities and Exchange Commission of Pakistan (SECP).

On behalf of the Board

Iqra Sajjad  
Company Secretary  
Awwal Modaraba Management Limited  
Managers of KASB Modaraba

06 October 2020  
Karachi

#### **Notes:**

1. The certificate transfer books shall remain closed from Tuesday, 13 October 2020 to Tuesday, 27 October 2020 (both days inclusive). Transfers received in order at the office of the Share Registrars of KASB Modaraba i.e. C & K Management Associates (Private) Limited, 404, Trade Tower, Abdullah Haroon Road, near Metropole Hotel, Karachi (Phone: 35687839-35685930) before the close of business hours on Monday, 12 October 2020 will be treated as in time to attend the Annual Review Meeting.
2. The certificate holders are advised to notify change in their address, if any, to C & K Management Associates (Private) Limited.
3. **For Attending the Meeting:**
  - i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate identity by showing original CNIC or original passport at the time of attending the Meeting.
  - ii) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced at the time of the Meeting.
4. In terms of SRO 634(I)/2014 issued by the SECP, the Annual Report for the year ended 30 June 2020 will also be placed on Modaraba's website simultaneously with the dispatch of the same to the certificate holders.

As per the directives issued by the SECP vide SRO 787(I)/2014 dated 08 September 2014, companies are allowed to circulate Audited Financial Statements along with Notice of Annual Review Meeting to their

certificate holders through email. Certificate holders who wish to receive Modaraba's Annual Report via email in future are requested to fill the consent form (available at the website of Modaraba ) and return it to C & K Management Associates (Private) Limited.

5. **Unclaimed Dividends and Physical Modaraba Certificates:**

Certificate holders, who for any reason, could not claim their dividends or did not collect their physical Modaraba certificates, are advised to contact C & K Management Associates (Private) Limited to enquire about their unclaimed dividend and / or pending Modaraba certificates.



Book Post

Under  
Certificate  
of  
Posting

If undelivered please return to  
**KASB Modaraba**

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Registered Office: Office # B, 5th Floor Lakson Square Building # 1,  
Sarwar Shaheed Road, Karachi.