

Growth + Prosperity



**First Punjab Modaraba**  
*(An Islamic Financial Institution)*

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## Corporate Profile

### Board of Directors

Punjab Modaraba Services (Pvt.) Ltd.

Nadeem Amir	Chairman
Aamir Malik	Chief Executive
Ijaz ur Rehman Qureshi	Director
Umar Iqbal Sheikh	Director
Imran Bashir	Director
Samina Afsar	Director

### Chief Financial Officer & Company Secretary

Mudassar Kaiser Pal

### Audit Committee

Imran Bashir	Chairman
Nadeem Amir	Member
Ijaz ur Rehman Qureshi	Member

### Human Resource Committee

Ijaz ur Rehman Qureshi	Chairman
Nadeem Amir	Member
Aamir Malik	Member

### Auditors of the Modaraba

EY Ford Rhodes  
Chartered Accountants

### Auditors of the Management Company

Shinewing Hameed Chaudhry & Co.  
Chartered Accountants

### Bankers

The Bank of Punjab  
Bank Alfalah Limited

### Registrar

Hameed Majeed Associates (Pvt) Ltd.  
H.M. House, 7-Bank Square,  
The Mall, Lahore  
Tel: (+92-42) 37235081-2

### Registered Office

Office No. 100, 3<sup>rd</sup> floor, National Tower,  
28-Egerton Road, Lahore  
Tel: (+92-42) 36365191-93  
Fax: (+92-42) 36365195  
E-mail: info@punjabmodaraba.com.pk



First Punjab Modaraba

## Our Vision

Connect the Community to  
Islamic Mode of Financing.



## Our Mission

We have committed  
to progressively  
enhance fully  
researched Islamic  
Financing Products  
and shall continue to  
meet our customers'  
needs.










## Product of First Punjab Modaraba







- Fast Processing
- No Pre-payment Penalty
- Option to choose Tenure
- Hassel Free
- Diminishing Musharakah
- Ijarah
- Murabaha



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(based on live feed from KSE)
-  Knowledge center
-  Risk profiler\*
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notifications, corporate and  
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mobile device





## Six Years at a Glance

	(Amounts in '000)					
	June-15	June-16	June-17	June-18	June-19	June-20
<b>BANALNCE SHEET</b>						
Authorized Capital	500,000	500,000	500,000	500,000	500,000	500,000
<b>Equity:</b>						
Issued, Subscribed & Paid Up Capital	340,200	340,200	340,200	340,200	340,200	340,200
Reserves	198,613	204,119	209,697	215,477	216,693	216,693
Loss on re-valuation of Investment	-	-	-	-	-	-
Un-appropriated Profit	(368,096)	(362,587)	(358,247)	(352,254)	(364,283)	(419,594)
<b>Total</b>	<b>170,717</b>	<b>181,732</b>	<b>191,650</b>	<b>203,423</b>	<b>192,609</b>	<b>137,298</b>
<b>Liabilities:</b>						
Redeemable Capital	100,000	100,000	400,000	400,000	445,518	1,013,549
Musharikhah Arrangements	734,133	955,925	1,101,205	1,193,495	1,223,622	648,739
Morabaha Arrangements	-	-	-	-	-	-
Diminishing Musharikhah	-	-	-	-	-	-
Accrued, Deferred & Other Liabilities	200,890	189,704	180,964	195,971	267,847	284,388
<b>Total</b>	<b>1,035,024</b>	<b>1,245,629</b>	<b>1,682,169</b>	<b>1,789,466</b>	<b>1,936,987</b>	<b>1,946,675</b>
<b>Total Equity &amp; Liabilities</b>	<b>1,205,741</b>	<b>1,427,361</b>	<b>1,873,819</b>	<b>1,992,889</b>	<b>2,129,596</b>	<b>2,083,974</b>
<b>Operating Assets:</b>						
Ijarah Assets	203,641	208,430	178,858	225,738	363,711	509,909
Deferred tax	38,175	48,144	56,069	61,834	64,399	64,399
Musharikhah Investment	127,510	458,781	889,074	896,722	857,740	650,888
Morabaha Investment	364,378	309,143	276,995	275,416	308,264	305,443
<b>Sub Total</b>	<b>733,704</b>	<b>1,024,498</b>	<b>1,400,996</b>	<b>1,459,710</b>	<b>1,594,114</b>	<b>1,530,639</b>
<b>Other Assets:</b>						
Assets in own use	9,914	9,914	2,561	3,390	3,338	3,108
Investment in Subsidiary	-	-	50,000	76,500	76,500	76,500
Shares-Available for sale	9,816	10,309	-	-	-	-
" Deposits, Prepayments & other receivables "	340,397	352,570	378,509	406,090	412,619	448,624
Cash & Bank Balances	111,910	30,065	41,753	47,169	43,025	25,103
<b>Sub Total</b>	<b>472,037</b>	<b>402,858</b>	<b>472,823</b>	<b>533,149</b>	<b>535,482</b>	<b>553,335</b>
<b>Total Assets</b>	<b>1,205,745</b>	<b>1,427,356</b>	<b>1,873,819</b>	<b>1,992,859</b>	<b>2,129,596</b>	<b>2,083,974</b>
<b>PROFIT &amp; LOSS ACCOUNT</b>						
Operating Income	339,520	135,358	125,081	128,663	169,527	187,385
Other Income	13,685	4,124	6,114	10,749	17,903	10,700
<b>Total Income</b>	<b>353,205</b>	<b>139,482</b>	<b>131,195</b>	<b>139,413</b>	<b>187,430</b>	<b>198,084</b>
Operating Expenses	187,461	58,813	29,374	15,117	30,319	31,028
Financial Charges	63,171	57,792	79,970	93,504	150,423	207,676
Management Fee	4,103	1,716	2,672	3,079	-	-
<b>Total Expenses</b>	<b>254,735</b>	<b>118,321</b>	<b>112,016</b>	<b>111,700</b>	<b>180,742</b>	<b>238,704</b>
Profit before Taxation	98,470	21,161	24,048	27,713	6,688	(55,311)
Taxation	(3,938)	6,371	3,836	1,041	(463)	-
<b>Profit for the year</b>	<b>94,532</b>	<b>27,532</b>	<b>27,884</b>	<b>28,754</b>	<b>6,225</b>	<b>(55,311)</b>
<b>DISTRIBUTION:</b>						
Cash Dividend(%)	5.00	5.00	5	5	0	0
Bonus (%)	-	-	-	-	-	-
<b>RATIOS:</b>						
Breakup Value (Rs.)	5.02	5.34	5.63	5.98	5.66	4.04
Earning per Certificate (Rs.)	2.78	0.53	0.82	0.81	0.18	(1.63)
Return on Equity (Rs.)	55.37	15.15	14.55	14.14	3.23	N/A

## Chairman's Review

Dear Certificate Holders

I am pleased to present report on the affairs of First Punjab Modaraba for the year ended June 30, 2020. The year under consideration witnessed critical challenge of economic slowdown amid COVID 19 pandemic. Such was the severity of COVID19 shock that Pakistan's real GDP recorded a negative growth. With the possibility of the recession lasting more than a year and individuals depending on their limited savings, things will become more tense in times to come. In addition to keeping track of balance of payments, required now for health-related expenditure. Government has to make a decision between saving lives and saving livelihoods.

The Modaraba is part of a prominent financial services group led by The Bank of Punjab, who has implemented strategies and policies to carve a distinct position in the market based on years of banking expertise. The Modaraba's vision and mission encompass promotion of Islamic mode of financing and progressive enhancement of fully researched Islamic Financing Products so as to continuously meet its customer's need. The Board is well aware of its responsibility to set up the corporate governance framework, directing the Management to deliver accountable business performance in business relationships and compliance in all reporting.

The Board of Directors comprises six members, possessing diversified banking and financial expertise. During the year, Ms. Samina Afsar joined the Board who brings along an extensive global work experience in Europe, Middle East and Asia in technology field working with some of the biggest telecommunication brands in world. However Mr. Mehboob-ul-Hassan and Mr. Khalid S. Tirmizey resigned from the Board during the year.

The Board had close look on the financial reporting in shape of quarterly accounts presented by the Management and adequately played its role in strategic guidance on policy matters. The annual review of the Board performance to maintain high degree of effectiveness and performance is carried out on self-assessment basis. A comprehensive questionnaire covering the fundamental principles of good corporate governance with prime focus to enhance Modaraba's performance is filled out by the Board members.

I take this opportunity to thank Registrar Modaraba, Securities & Exchange Commission of Pakistan, Pakistan Stock Exchange and other relevant regulatory bodies for their continued guidance and support extended to the Modaraba.



Nadeem Amir  
Chairman  
December 02, 2020



# Directors' Report

The Board of Directors of Punjab Modaraba Services (Pvt.) Limited, the Management Company of First Punjab Modaraba (the Modaraba) is pleased to present the 27th Directors' Report of the Modaraba, together with audited financial statements and auditors' report for year ended June 30, 2020.

## COMPOSITION OF THE BOARD

During the year under review:

- i. the Board comprised of all seven male directors and one female director.
- ii. the Board included one executive and seven non-executive directors.
- iii. the names of Board Committees members were as under:

### Audit Committee

Mr. Imran Bashir,	Chairman
Mr. Nadeem Amir,	Member
Mr. Ijaz ur Rehman Qureshi,	Member

### Human Resource Committee

Mr. Ijaz ur Rehman Qureshi,	Chairman
Mr. Nadeem Amir,	Member
Mr. Aamir Malik,	Member

### Risk Management Committee

Mr. Ijaz ur Rehman Qureshi,	Chairman
Mr. Nadeem Amir,	Member
Mr. Aamir Malik,	Member

During the year Mr. Mahboob-ul-Hassan and Mr. Khalid S. Tirmizey resigned from the Board.

## Economic Outlook and Future Prospects

The country was on path towards stabilization until the pandemic hit. The pre-pandemic situation was marked by improvement on the external front and improvements witnessed on the fiscal side, where the government policies posted a primary surplus in 9MFY20, and year-on-year growth in tax collection, despite missing the 2019-20. However, in the post-pandemic situation, the economy has taken a hit with GDP in FY20 expected to shrink by 0.38.

To help stave off the effect of the pandemic, the government launched an aggressive policy response including a Rs1.24 trillion stimulus package. This included Rs.200 billion earmarked for daily wage workers and employees who have lost their jobs. In addition, Rs12,000 were announced to be distributed to around 12 million families all over Pakistan through the Ehsaas Emergency Cash Programme. This was coupled with easing on the monetary front that included the key interest rate cut by 525 basis points to 8% as well as the multiple refinancing schemes to help businesses stay afloat.

## Principal activities and performance of Modaraba

The Modaraba is a perpetual and multi-dimensional Modaraba and is primarily engaged in the business of Ijarah, Musharikah and Morabaha financing, equity investment and other related businesses in accordance with the injunctions of Islam.

The year under consideration remained depressed for all sectors of the country owing to economic slowdown. Increase in discount rate during initial part of year made leasing business very expensive for customers. Resultantly, private sector credit declined significantly. On the expense side, borrowing cost increased exorbitantly, tainting the thin spreads. As the economy moved into the second half of the year, COVID-19 related lockdowns immensely impacted the economic activity across the country. Such was the severity of the COVID-19 shock that Pakistan's real GDP recorded a negative growth. The Modaraba faced the brunt of on-going economic recession in the country which resulted in substantial loss during the year.

The strategy of procurement of fresh assets for sustainable growth and intended diversification of business model will be focused by the Modaraba in future. The recovery from non-performing assets will remain priority going forward.

## Financial Results

The financial results of the Modaraba are summarized below:

	<b>2020</b> <b>Rupees</b>	2019 Rupees
Profit / (Loss) for the year	(55,310,891)	6,225,166
Accumulated Loss – brought forward	(364,283,405)	(352,253,538)
Other Comprehensive Income	-	-
Profit available for appropriation	-	6,225,166
<b>Appropriations</b>		
Transfer to statutory reserve	-	1,245,033
Final dividend 2018@5%	-	17,010,000
Un-appropriated profit / (loss) – Carried Forward	(419,594,296)	(364,283,405)
Earning per certificate - Rs.	(1.63)	0.18



## Profit Distribution and transfer to reserves

In view of loss for the year, dividend payout and transfer to reserves was not considered by the Board.

## FPM Financial Strength Rating

The Pakistan Credit Rating Agency (Pvt.) Limited (PACRA) has maintained long term rating of "A-" and short term rating of "A2" with "Stable" outlook, based on annual and interim review.

## Wholly owned Subsidiary

The wholly owned subsidiary of the Company, i.e. Punjab Capital Securities (Private) Limited incurred loss of Rs.0.884 million during the year amid depressed capital market and COVID19 outbreak. The net assets stood at Rs.69.604 million by close of the year. Better performance is expected from the subsidiary on back of subsequent to the year relaxations in lockdowns.

## Corporate and Financial Reporting Framework

- The financial statements, prepared by the management of the Modaraba, present its state of affairs fairly, the result of its operations, cash flows and changes in equity;
- Proper books of account of the Modaraba have been maintained;
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departures there from have been adequately disclosed and explained;
- The system of internal control is sound in design and has been effectively implemented and monitored;
- There are no significant doubts upon the Modaraba's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

- There were no principal risks or uncertainties facing the Modaraba.
- There were no significant changes that have occurred during the financial year concerning the nature of the business of the Modaraba or its subsidiary.
- There were no material changes and commitments affecting the financial position of the Modaraba which have occurred between the end of the financial year of the Modaraba to which the financial statement relates and the date of the report.
- Key operating and financial data of the Modaraba for the last six years in summarized form is annexed.
- There are no outstanding demands of statutory payments on account of taxes, duties, levies and charges as at 30 June 2020, except for those disclosed in financial statements.
- The value of investments of the staff provident fund, based on audited accounts, was Rupees 4,000,000 as at 30 June, 2020.
- During the year, four meetings of the Board of Directors were held. Attendance by each director was as follow:

Name of Directors	No. of Meetings Attended
Mr. Khalid Siddiq Tirmizey	4
Mr. Nadeem Amir	4
Mr. Mahboob-ul Hassan	0
Mr. Ijaz-ur-Rehman Qureshi	4
Mr. Umer Iqbal Sheikh	4
Mr. Imran Bashir	4
Mr. Aamir Malik	4
Ms. Samina Afsar	0

- Leave of absence was granted to the Directors, who could not attend the Board meetings.
- During the year Mr. Mahboob-ul-Hassan and Mr. Khalid S. Tirmizey resigned while Ms. Samina Afsar joined the Board.
- During the year, four meetings of the Audit Committee were held. Attendance by each member was as follow:

Name of Directors	No. of Meetings Attended
Mr. Imran Bashir	4
Mr. Nadeem Amir	4
Mr. Ijaz-ur-Rehman Qureshi	4

- No amount was paid by the Modaraba to any of the directors for attending meetings of the Board of Directors and Audit Committee. The management company paid an amount of Rs.125,000/- to one of the independent directors.
- The pattern of the holding by the certificate holders is included in this annual report.
- No trades in certificates of the Modaraba were carried out by the Directors, Executives or their spouses and minor children during the year ended June 30, 2020.

#### Role of Certificate-Holders

The Board aims to ensure that the Modaraba's certificate holders are kept informed about major developments affecting the Modaraba's state of affairs. To achieve this objective, information is communicated to certificate holders through quarterly, half-yearly and annual reports. The Board appreciates certificate-holders' active participation at annual review meeting to ensure high level of accountability.

#### Auditors

The present auditors M/s EY Ford Rhodes, Chartered Accountants, being eligible for appointment and upon their consent to act as auditors, have been appointed auditors of the Modaraba for financial year ending June 30, 2021 subject to the approval of Registrar Modaraba.

#### Compliance with the Code of Corporate Governance

The requirements of the Listed Companies (Code of Corporate Governance) Regulations, 2019, relevant for year ended June 30, 2020 have been duly complied with and any exceptions have been disclosed in the Statement of Compliance with the Best Practices of Corporate Governance.

#### Statement of Ethics and Business Practices

The Board has adopted a Code of Conduct that sets out core values relating to lawful and ethical conduct of business. All employees have a copy of this code of conduct and are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulations. This forms a part of the Modaraba's compliance structure.

#### Social, Ethical and Environmental Responsibilities

The Board is conscious of social, ethical and environmental matters and is planning for its continued participation in these areas of public interest.

#### Acknowledgments

The Board appreciates the continuous guidance and support extended by the Registrar Modaraba and Securities & Exchange Commission of Pakistan and expects to be its beneficiary in future as well.

#### For and on behalf of the Board



(Aamir Malik)  
Chief Executive



(Ijaz ur Rehman Qureshi)  
Director

Lahore: December 02, 2020

## ڈائریکٹرز رپورٹ

پنجاب موداربا سروسز (پرائیویٹ) لمیٹڈ جو فرسٹ پنجاب موداربا کی انتظامی کمپنی ہے، اس کے بورڈ آف ڈائریکٹرز 30 جون 2020 کے آڈٹ نتائج اور ڈائریکٹر رپورٹ مسرت کے ساتھ پیش کرتے ہیں۔

### بورڈ کی تشکیل

ذیر غور سال کے دوران

- ۱۔ بورڈ میں سات مرد ڈائریکٹرز اور ایک خاتون ڈائریکٹر شامل ہیں۔
- ۲۔ بورڈ میں ایک ایگزیکٹو ڈائریکٹر اور سات نان ایگزیکٹو ڈائریکٹرز شامل تھے۔
- ۳۔ بورڈ کمیٹیوں کے ممبرز کے نام درج ذیل تھے۔

### آڈٹ کمیٹی

جناب عمران بشیر، چیئر مین

جناب ندیم عامر، ممبر

جناب اعجاز الرحمان قریشی، ممبر

### ہنومن ریسورس کمیٹی

جناب اعجاز الرحمان قریشی، چیئر مین

جناب ندیم عامر، ممبر

جناب عامر ملک، ممبر

### رسک منیجمنٹ کمیٹی

جناب اعجاز الرحمان قریشی، چیئر مین

جناب ندیم عامر، ممبر

جناب عامر ملک، ممبر

سال کے دوران جناب محبوب الحسن نے استعفیٰ دے دیا اور جناب خالد الیس ترمزی بورڈ سے ریٹائر ہوئے۔

## معاشی آؤٹ لک اور مستقبل کے امکانات

ملک وبائی مرض کی زد میں آنے تک استحکام کی طرف گامزن تھا۔ خارجی محاز پر پہلے سے پھیلنے والی پریشانی کی صورتحال میں غیر معمولی بہتری آئی تھی اور مالی معاملات میں بہتری دیکھنے میں آئی، جہاں حکومت نے 9MFY20 میں ایک ابتدائی سرپلس اور سال بہ سال ٹیکس کی وصولی میں سالانہ اضافے کو بھی شامل کیا تاہم 2019-20 میں COVID-19 کے بعد کی صورتحال میں GDP کی نمو میں 0.38% کی کمی کا امکان ہے۔

اس وبائی مرض کے اثرات کو روکنے میں مدد کے لئے، حکومت نے جارحانہ پالیسی کا آغاز کیا ہے جس میں 1.24 ٹریلین روپے کا محرک پیکیج بھی شامل ہے۔ اس میں روزانہ مزدوری کرنے والے ملازمین اور ملازمت سے محروم ملازمین کے لئے مختص 200 ارب روپے شامل ہیں۔ اس کے علاوہ احساس ایمرجنسی کیش پروگرام کے ذریعے پورے پاکستان میں 12 ملین کے قریب خاندانوں میں 12000 روپے تقسیم کئے جارہے ہیں۔ اس کے ساتھ مالی محاذ پر نرمی کی گئی تھی جس میں 525 بیس پوائنٹس کی کمی سے 8 فیصد کی شرح کے ساتھ ساتھ کاروبار کو تیز رہنے میں مدد کے لئے ایک سے زیادہ دفعہ ری فنانسنگ اسکیمیں بھی شامل ہیں۔

## مضاربہ کی اہم سرگرمیاں اور کارکردگی

پنجاب مضاربہ ایک مستقل اور کثیر جہتی مضاربہ ہے اور بنیادی طور پر شرعی احکامات کے مطابق اجارہ، مشارکہ اور مراباہ کی مالی اعانت، ایکویٹی سرمایہ کاری اور دیگر متعلقہ کاروبار میں مصروف ہے۔

زیر غور سال معاشی سست روی کی وجہ سے ملک کے تمام شعبوں کے لئے پست رہا۔ سال کے ابتدائی حصے کے دوران ڈسکاؤنٹ ریٹ میں اضافہ نے صارفین کے لیزنگ بزنس کو بہت مہنگا کر دیا۔ نتیجہ کے طور پر نجی شعبوں کے قرضوں میں نمایاں کمی واقع ہوئی۔ اخراجات میں اضافے کی وجہ سے قرض لینے کی لاگت میں غیر معمولی اضافہ ہوا۔ جب معیشت سال کے دوسرے نصف حصے میں منتقل ہوئی تو COVID-19 سے متعلق لاک ڈاؤن نے پورے ملک کی معاشی سرگرمی پر بہت زیادہ اثر ڈالا۔ اس کے جھٹکے کی شدت یہ تھی کہ پاکستان کے حقیقی GDP میں منفی نمو ریکارڈ کی گئی۔ مضاربہ کو بھی ملک میں جاری معاشی بد حالی کا سامنا کرنا پڑا جس کے نتیجے میں سال کے دوران کافی نقصان ہوا۔

پائیدار نمو کے لئے تازہ اثاثوں کی خریداری اور کاروباری ماڈل کی حکمت عملی کو مستقبل میں توجہ دی جائے گی۔ نادھندگان سے بازیابی آگے بڑھنے میں ترجیح رہے گی۔

## مالی نتائج

مضاربہ کے مالی نتائج کا خلاصہ ذیل میں کیا گیا ہے۔

2019	2020	
روپے	روپے	
6,225,166	(55,310,891)	سال کے لئے منافع (نقصان)
(352,253.538)	(364,283,405)	پچھلا مجموعی نقصان
		دیگر آمدنی
6,225,166	-	منافع مختص
		تخصیصات
1,245,033	-	قانونی ریزرو میں تبادلہ
17,010,000	-	حتمی منافع (2018 - 5%)
(364,283,405)	(419,594,296)	غیر مختص شدہ منافع (نقصان)
0.18	(1.63)	کمائی فی سٹیفکیٹ
=====		

منافع کی تقسیم اور زخائر میں منتقلی

بورڈ نے 02 دسمبر 2020 کو منعقدہ اپنے اجلاس میں سال کے دوران نقصان کے پیش نظر صفر روپے کے نقد منافع کی منظوری دی۔

## FPM کی مالی طاقت کی درجہ بندی

پاکستان کریڈٹ ریٹنگ ایجنسی (پرائیویٹ) لمیٹڈ PACRA نے سالانہ اور عبوری جائزے پر مبنی مستحکم آؤٹ لک کے ساتھ A2 کی طویل مدتی درجہ بندی اور A2 کی مختصر مدتی درجہ بندی کو برقرار رکھا ہے۔

## مکمل ملکیتی ماتحت ادارہ

کمپنی کی مکمل ملکیت میں چلنے والی کمپنی یعنی پنجاب کپیٹل سیکورٹیز (پرائیویٹ) لمیٹڈ کو اداس کپیٹل مارکیٹ اور COVID-19 کی وبا کے ساتھ ایک سال کے دوران 1.6 ملین روپے کا نقصان ہوا۔ سال کے اختتام تک خالص اثاثے 67.412 ملین روپے تھے۔ لاک ڈاؤن میں ایک سال کی چھوٹ کے بعد ماتحت ادارہ سے بہتر کارکردگی کی توقع کی جاتی ہے۔

## کارپوریٹ اور مالی رپورٹنگ کا فریم ورک

- ✧ مضاربہ تیار کردہ مالی معاملات، انتظامیہ، کیش فلو اور ایکویٹی میں بدلاؤ کی صورتحال کو منصفانہ طور پر پیش کرتے ہیں۔
- ✧ مضاربہ کا حساب کتاب مکمل طور پر برقرار رکھا جاتا ہے۔
- ✧ مالی بیانات کی تیاری کے لئے مناسب اکاؤنٹنگ پالیسیاں مستقل طور پر لاگو ہوتی ہیں اور محاسبہ کا تخمینہ معقول اور محتاط ہوتا ہے۔
- ✧ پاکستان میں قابل اطلاق بین الاقوامی مالیاتی رپورٹنگ سسٹم کے تحت مالی بیانات کی تیاری اور وضاحت طلب باتیں الگ بیان کی گئی ہیں۔
- ✧ اندرونی کنٹرول کا نظام مستحکم ہے اور موثر انداز میں نافذ العمل ہے۔
- ✧ مضاربہ کی آگے بڑھنے کی قابلیت میں کوئی شبہ نہیں۔
- ✧ کارپوریٹ گورنس کے بہترین طریقہ کار سے کسی قسم کی مراعات نہیں لی جیسا کہ ضوابط میں درج ہے۔
- ✧ مضاربہ کو کوئی بنیادی خطرہ یا غیر تقینی صورتحال درپیش نہیں ہے۔
- ✧ مضاربہ یا اس کی ماتحت کمپنی کی حیثیت کو اس مالی سال کے دوران کسی قسم کی خاص تبدیلی کا سامنا نہیں کرنا پڑا۔
- ✧ مضاربہ کو مالی حیثیت کو متاثر کرنے میں کوئی مادی تبدیلی کا رگزار نہیں اور مالی سال کے اختتام پر مالیات کو تبدیل کرنے والا کوئی عنصر نہیں۔

✧ گزشتہ چھ سالوں پر محیط مضاربہ کے کلیدی اور مالی اعداد و شمار کو گنجا کیا گیا ہے۔

✧ 30 جون 2020 تک کوئی ٹیکس، ڈیوٹی یا محصولات کی قانونی ادائیگی بقایا نہیں ہے ماسوائے جن کا ذکر مالیات میں ہے۔

✧ پراویڈنٹ فنڈ کی سرمایہ کاری کی مالیت 30 جون 2020 تک آڈٹ شدہ کھاتوں کے مطابق 4,000,000 روپے تھی۔

✦ سال کے دوران بورڈ آف ڈائریکٹرز کے چار اجلاس ہوئے جو اس طرح تھے۔

ڈائریکٹر کا نام	اجلاسوں میں شرکت کی تعداد
جناب خالد صدیق ترمزی	4
جناب ندیم عامر	4
جناب محبوب الحسن	0
جناب اعجاز الرحمان قریشی	4
جناب عمر اقبال شیخ	4
جناب عمران بشیر	4
جناب عامر ملک	4

✦ غیر حاضر رہنے والے ڈائریکٹرز کو رخصت کی اجازت دیدی گئی تھی۔

✦ اس سال کے دوران جناب محبوب الحسن نے استعفیٰ دیا، جناب خالد الیس ترمزی ریٹائر ہوئے جبکہ محترمہ شمینہ افسر نے بورڈ میں شمولیت اختیار کی۔

✦ اس سال کے دوران آڈٹ کمیٹی کے چار اجلاس ہوئے جس میں حاضری درج ذیل تھی۔

ڈائریکٹر کا نام	اجلاسوں میں شرکت کی تعداد
جناب عمران بشیر	4
جناب ندیم عامر	4
جناب اعجاز الرحمان قریشی	4

✦ بورڈ آف ڈائریکٹرز اور آڈٹ کمیٹی کے اجلاسوں میں شرکت کے لئے کسی بھی ڈائریکٹر کو مضاربہ کے ذریعے کوئی رقم ادا نہیں کی گئی۔

✦ انتظامیہ کمپنی نے ایک ڈائریکٹر کو 125,000 روپے کی رقم ادا کی۔

✦ سرٹیفیکیٹ رکھنے والوں کے انعقاد کا تفصیل سالانہ رپورٹ میں شامل ہے۔

✦ 30 جون 2020 کو ختم ہونے والے سال کے دوران ڈائریکٹرز، ایگزیکٹو یا ان کے شریک حیات اور نابالغ بچوں کے ذریعے مضاربہ کے سرٹیفیکیٹ میں کوئی تجارت نہیں ہوئی۔

### سرٹیفیکیٹ رکھنے والوں کا کردار

بورڈ کا مقصد یہ یقینی بنانا ہے کہ مضاربہ کے سرٹیفیکیٹ رکھنے والوں کو مضاربہ کی حالت کو متاثر کرنے والی بڑی پیشرفت سے آگاہ رکھا جائے۔ اس مقصد کو حاصل کرنے کے لئے سہ ماہی، نصف سال اور سالانہ رپورٹس کے ذریعے معلومات پہنچائی جاتی ہیں۔ اعلیٰ سطح کے احتساب کو یقینی بنانے کے لئے بورڈ سالانہ جائزہ اجلاس میں سرٹیفیکیٹ رکھنے والوں کی فعال شرکت کی تعریف کرتا ہے۔

### آڈیٹر

موجودہ آڈیٹر میسرز ای وائی فورڈ روڈس (چارٹرڈ اکاؤنٹینٹ) تقرری کے اہل ہوئے اور 30 جون 2021 کو ختم ہونے والے سال کے لئے آڈیٹر مقرر کئے گئے ہیں جن کا اندراج رجسٹر ارمضاربہ سے ہوا ہے۔

### کارپوریٹ گورننس کے ضابطہ اخلاق کی تعمیل

30 جون 2020 کو ختم ہونے والے سال کے لئے کمپنی ریگولیشنز 2019 کی مکمل تعمیل کی گئی ہے اور کارپوریٹ گورننس کے بہترین طرز عمل کو پورا کرتے ہوئے کچھ نہیں چھپایا گیا۔

### اخلاقیات اور کاروباری طریقوں کا بیان

بورڈ نے ایک ضابطہ اخلاق اپنایا ہے جو کاروبار کے قانونی اور اخلاقی طرز عمل سے متعلق بنیادی قدروں کا تعین کرتا ہے۔ تمام ملازمین کے پاس اس ضابطہ اخلاق کی ایک کاپی موجود ہے اور ان سے توقع کی جاتی ہے کہ وہ صارفین، عملہ اور ضوابط کے سلسلے میں سلیمیت اور منصفانہ سلوک کے اعلیٰ معیار کا سلوک کریں۔ یہ مضاربہ کی تعمیلاتی ڈھانچے کا ایک حصہ بنتا ہے۔

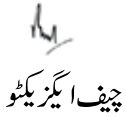
### معاشرتی، اخلاقی اور ماحولیاتی ذمہ داریاں

بورڈ سماجی، اخلاقی اور ماحولیاتی امور سے آگاہ ہے اور عوامی مفاد کے ان شعبوں میں اپنی مستقل شرکت کے نئے منصوبے بنا رہا ہے۔

## اعترافات

بورڈ، رجسٹرار مودارباہ اور سیکیورٹیز اینڈ ایکسچینج کمیشن آف پاکستان کی جانب سے دی گئی مستقل رہنمائی اور مدد کو سراہتا ہے اور مستقبل میں بھی اس کی توقع کرتا ہے۔ بورڈ، اپنے سٹیفیکٹ ہولڈرز کی جانب سے دی گئی سرپرستی کا بھی شکر گزار ہے۔

منجانب / برائے بورڈ آف ڈائریکٹرز

  
چیف ایگزیکٹو

  
ڈائریکٹر

لاہور، 02 دسمبر 2020

# Statement of Compliance

with Listed Companies (Code of Corporate Governance) Regulations, 2019

**Name of company**  
**Year ending**

**FIRST PUNJAB MODARABA**  
**JUNE 30, 2020**

The company has complied with the requirements of the Regulations in the following manner:

1. The total number of directors are SIX as per the following:
  - a. Male: Five
  - b. Female: One
2. The composition of Board is as follows:
  - a) Independent Directors Two
  - b) Non-executive directors Three
  - c) Executive directors One
  - d) Female directors One
3. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this modaraba;
4. The modaraba has prepared a code of conduct and has ensured that appropriate steps have been taken to disseminate it throughout the modaraba along with its supporting policies and procedures;
5. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the modaraba. 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 as empowered by the relevant provisions of the Act and these Regulations;
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 following directors have obtained certifications under directors training program:
  - Mr. Nadeem Amir
  - Mr. Ijaz ur Rehman Qureshi
  - Mr. Aamir Malik
  - Ms. Samina Afsar
10. The Board has approved appointment of CFO, 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:

**a) Audit Committee**

Mr. Imran Bashir	Chairman
Mr. Nadeem Amir	Member
Mr. Ijaz ur Rehman Quresh	Member

**b) HR and Remuneration Committee**

Mr. Ijaz ur Rehman Qureshi	Chairman
Mr. Nadeem Amir	Member
Mr. Aamir Malik	Member

**c) Risk Management Committee**

Mr. Ijaz ur Rehman Qureshi	Chairman
Mr. Nadeem Amir	Member
Mr. Aamir Malik	Member

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 (quarterly/half yearly/ yearly) of the committee were as per following:

Committee	Meetings held
a) Audit Committee	Quarterly
b) HR and Remuneration Committee	Annual
c) Risk Management Committee	On need basis

15. The Board has set up an effective internal audit function who is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the modaraba;

15. 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, 6, 7, 8, 27, 32, 33 and 36 of the Regulations have been complied with.

19. Explanation for non-compliance with requirement of proviso to regulation 24 and 28(2) are given below:
- i. In view of the scale of operations of Modaraba, same person remained CFO and company secretary.
  - ii. The Modaraba understands that directors nominated by Parent Bank can be more suitable in formulation of human resource policies aligned with Group's policies. Accordingly, independent director was not appointed in Human Resource & Remuneration Committee.



Nadeem Amir  
Chairman



# Review Report to the Certificate Holders

## OF FIRST PUNJAB MODARABA

Review report on the Statement of Compliance contained in the 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 (the Board) of Punjab Modaraba Services (Private) Limited, the Management Company of First Punjab Modaraba (the Modaraba) for the year ended 30 June 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 the Management Company of the Modaraba. Our responsibility is to review whether the Statement of Compliance reflects the status of the Management Company's compliance with the provisions of the Regulations in respect of the Modaraba 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 Management Company's personnel and review of various documents prepared by the 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 Boards' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Management Company's corporate governance procedures and risks.

The Regulations require the Management Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board for their review and approval, the Modaraba's related party transactions and also ensure compliance with the requirements of section 208 of the Companies Act, 2017. 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 upon recommendation of the Audit Committee. We have not carried out procedures to assess and determine the Management Company's process for identification of related parties and that whether the related party transactions were taken at arm's length price or not.

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

Further, we highlight below instances of non-compliance with the requirements of the Regulations as reflected in the note reference where these are stated in the Statement of Compliance.

S. No.	Note Reference	Description
(i)	19 (i)	In view of the scale of operations of Modaraba, the position of CFO and company secretary were held by same person.
(ii)	19 (ii)	The independent director could not be appointed as Chairman and member of Human Resource and remuneration Committee.

**EY Ford Rhodes**  
**Chartered Accountants**  
**Place: Lahore**  
**Date: 07 December 2020**



## NOTICE OF ANNUAL REVIEW MEETING

The Certificate Holders are hereby notified that the Certificate Transfer Books shall remain closed from 23-12-2020 to 30-12-2020 (both days inclusive), for the purpose of attending Annual Review Meeting. All transfers received in order upto close of business hours on December 22, 2020 with our Registrar's office, M/s. Hameed Majeed Associates (Pvt.) Ltd., H.M House, 7-Bank Square, The Mall, Lahore, will be considered in time.

The Annual Review Meeting of the Certificate holders will be held at 10:00 am on Wednesday, December 30, 2020 through video link (Zoom Meeting) to review the performance of the Modaraba for the year ended June 30, 2020 in terms of Prudential Regulation No.11, Part IV for Modarabas.

The Certificate Holders are requested to send intimation through valid email ID to the address given below to participate in the meeting through video link, at least seven (07) days prior to the date of meeting:

**[arm2020@punjabmodaraba.com.pk](mailto:arm2020@punjabmodaraba.com.pk)**

The Modaraba will communicate participation link through return email. Further, the certificate holders may send their comments / suggestions on the above email address or on Whatsapp / Mobile no. 0300 0774434, at least seven (07) days prior to the date of meeting.

The annual audited financial statements of the Modaraba for year ended June 30, 2020 are also available on Modaraba's website: **[www.punjabmodaraba.com.pk](http://www.punjabmodaraba.com.pk)**.

By the Order of  
Board of Directors

**(Mudassar Kaiser Pal)**  
**COMPANY SECRETARY**



# PATTERN OF SHAREHOLDINGS

AS ON JUNE 30, 2020

Number of ShareHolders	Shareholdings		Total Number of Share Held	Percentage of Total Capital
	From	To		
931	1 -	100	41,192	0.12
1382	101 -	500	383,170	1.13
1039	501 -	1000	847,456	2.49
585	1001 -	5000	1,313,092	3.86
105	5001 -	10000	775,572	2.28
42	10001 -	15000	533,587	1.57
29	15001 -	20000	523,486	1.54
16	20001 -	25000	365,485	1.07
7	25001 -	30000	192,477	0.57
6	30001 -	35000	199,418	0.59
4	35001 -	40000	148,068	0.44
5	40001 -	45000	211,500	0.62
5	45001 -	50000	248,000	0.73
2	50001 -	55000	106,000	0.31
2	55001 -	60000	117,000	0.34
1	65001 -	70000	67,550	0.20
3	70001 -	75000	222,900	0.66
1	75001 -	80000	80,000	0.24
1	80001 -	85000	85,000	0.25
1	85001 -	90000	89,500	0.26
1	90001 -	95000	91,000	0.27
4	95001 -	100000	396,500	1.17
3	105001 -	110000	322,786	0.95
1	110001 -	115000	112,500	0.33
2	115001 -	120000	233,423	0.69
1	130001 -	135000	135,000	0.40
1	150001 -	155000	151,000	0.44
1	175001 -	180000	178,500	0.52
6	195001 -	200000	1,191,144	3.50
1	205001 -	210000	210,000	0.62
1	210001 -	215000	215,000	0.63
1	220001 -	225000	223,500	0.66
2	255001 -	260000	512,500	1.51
2	295001 -	300000	600,000	1.76
1	350001 -	355000	351,000	1.03
1	365001 -	370000	367,500	1.08
1	520001 -	525000	525,000	1.54
1	640001 -	645000	642,223	1.89
1	1265001 -	1270000	1,265,777	3.72
1	1320001 -	1325000	1,325,000	3.89
1	5095001 -	5100000	5,099,500	14.99
1	5230001 -	5235000	5,232,194	15.38
1	8085001 -	8090000	8,088,500	23.78
<b>4,203</b>			<b>34,020,000</b>	<b>100.00</b>



# Categories of Certificate Holders

as at June 30, 2020

Categories of Shareholders	No. of Certificate Holders	Shares Held	Percentage
<b>Individuals</b>	<b>4,148</b>	<b>13,517,755</b>	<b>39.7347</b>
<b>Associated Companies, Undertakings and Related Parties</b>			
THE BANK OF PUNJAB		4,788	0.0141
PUNJAB MODARABA SERVICES (PVT) LTD.		13,320,694	39.1555
TRUSTEE-THE BANK OF PUNJAB			
EMPLOYEES GRATUITY FUND		5,099,500	14.9897
<b>Running Total:</b>	<b>3</b>	<b>18,424,982</b>	<b>54.1593</b>
<b>MUTUAL FUNDS</b>			
SSECURITY STOCK FUND LTD.		3,100	0.00911
PRUDENTIAL STOCKS FUND LIMITED		100	0.00029
<b>Running Total:</b>	<b>7</b>	<b>3,200</b>	<b>0.0094</b>
<b>Directors, Chief Executive Ofcer and their spouse and minor children</b>		<b>NIL</b>	<b>NIL</b>
<b>Executives</b>		<b>NIL</b>	<b>NIL</b>
<b>Public Sector Companies and Corporations</b>	<b>1</b>	<b>400</b>	<b>0.0012</b>
<b>Banks, Development Financial Institutions, Non Banking Financial Institutions, Insurance Companies, Takaful, Modarabas and Pension Funds.</b>	<b>14</b>	<b>1,899,197</b>	<b>5.5826</b>
<b>Others</b>	<b>30</b>	<b>174,466</b>	<b>0.5128</b>
<b>GRAND TOTAL</b>	<b>4,203</b>	<b>34,020,000</b>	<b>100.00</b>



# **UnConsolidated Financial Statements**

as at June 30, 2020





## Auditors' Report to the Certificate Holders

We have audited the annexed unconsolidated balance sheet of First Punjab Modaraba (the Modaraba) as at 30 June 2020 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated 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 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 management company's (Punjab Modaraba Services (Private) 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 First Punjab Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and Modaraba Companies and Modaraba Rules, 1981;
- (b) In our opinion:
  - i) the unconsolidated balance sheet and unconsolidated 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, except for the changes as stated in note 4.1 with which we concur;
  - (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 unconsolidated balance sheet, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and

respectively give a true and fair view of the state of the Modaraba's affairs as at 30 June 2020 and of the profit, its comprehensive income its cash flows and changes in equity for the year then ended; and

- (d) In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980(XVIII of 1980), was deducted by the Modaraba company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

**EY Ford Rhodes**  
**Chartered Accountants**  
**Audit Engagement Partner: Farooq Hameed**  
**Lahore**  
**07 December, 2020**

# Annual Shari'ah Advisor's Report

Being Shari'ah Advisor of first Punjab Modaraba (FPM) managed by Punjab Modaraba Services (PVT) Limited (hereafter referred as "FPM") it is my responsibility to review the FPM procedures & systems.

On the other hand it is the responsibility of FPM Management to follow the Islamic Financial Accounting Standards notified by SECP and guidelines set by the Shariah Advisor and to take prior approval of Shari'ah Advisor for policies and services being offered by the FPM.

I have conducted the Shari'ah review of First Punjab Modaraba (FPM) for the year ended June 30, 2020 in accordance with the requirements of the Shari'ah Compliance and Shari'ah Audit Mechanism for Modarabas and report that in my opinion:

1. The Modaraba has a mechanism which has strengthened the Shari'ah compliance, in letter and spirit and the systems, procedures and policies adopted by the Modaraba are in line with the Shari'ah principles ;
2. The agreement(s) entered into by the Modaraba are Shari'ah compliant and the financing agreement(s) have been executed on the formats as approved by the Religious Board of SECP and all the related conditions have been met;
3. During the year, the Shari'ah Advisor visited the premises regularly to provide Shari'ah assistance in day to day operations.
4. Any cases which were required to be consulted in accordance with the Shari'ah guidelines discussed and duly resolved.
5. Shari'ah compliance review has been conducted and related matters have been discussed with concerned have been staff.
6. Charity amount has been credited to Charity Account.
7. Detailed Morabaha training session conducted during the period.

## Conclusion

To the best of my information and according to the explanations given to me, the business transactions undertaken by the Modaraba and all other matters incidental thereto are in conformity with the Shari'ah requirements.

Consequently, I pray to Allah Almighty to grant First Punjab Modaraba remarkable success and help the entire team at every step and keep away from every hindrance and difficulty.



MUFTI MUHAMMAD UMAR  
SHARI'AH ADVISOR

MUFTI MUHAMMAD UMAR  
SHARI'AH ADVISOR  
FIRST PUNJAB MODARABA

06 August, 2020

# Unconsolidated Balance Sheet

As at 30 June 2020

## ASSETS

### Non current assets

	Note	2020 Rupees	2019 Rupees
Tangible fixed assets			
- Ijarah assets	5.1	509,909,085	363,711,083
-assets in own use	5.2	3,107,836	3,338,201
Intangible assets	6	-	-
Investment in subsidiary	7	76,500,000	76,500,000
Long term musharikhah investment - secured	8	228,414,227	382,757,015
Long term morabaha investment - secured	9	8,821,104	9,053,126
Long term deposits	10	203,444	203,444
Deferred tax asset	11	64,398,663	64,398,663
		<b>891,354,359</b>	<b>899,961,532</b>

### Current assets

Short term morabaha investment - secured	12	290,546,077	294,796,541
Current maturity of long term investment	13	412,794,668	479,398,426
Ijarah rental receivable	14	272,887,424	300,162,866
Advances, deposits, prepayments and other receivables	15	187,551,827	108,106,122
Tax refund due from government		3,736,354	4,145,679
Cash and bank balances	16	25,102,916	43,024,878
		<b>1,192,619,266</b>	<b>1,229,634,512</b>
<b>TOTAL ASSETS</b>		<b>2,083,973,625</b>	<b>2,129,596,044</b>

## EQUITY AND LIABILITIES

Authorized certificate capital  
50,000,000 (30 June 2019: 50,000,000) modaraba  
certificates of Rs. 10 each

**500,000,000**      **500,000,000**

Issued, subscribed and paid-up certificate capital  
34,020,000 (30 June 2019: 34,020,000) certificates of  
Rs. 10 each

	17.1	<b>340,200,000</b>	340,200,000
Capital reserves	18	216,692,528	216,692,528
Accumulated loss	18	(419,594,296)	(364,283,405)
		<b>137,298,232</b>	<b>192,609,123</b>

### Non current liabilities

Long term security deposits	19	61,340,259	51,453,730
Deferred morabaha income	20	4,206,452	776,860
Long term musharikhah finance - secured	21	648,738,613	1,223,621,569
		<b>714,285,324</b>	<b>1,275,852,159</b>

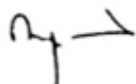
### Current liabilities

Current maturity of non current liabilities	22	85,702,657	95,179,731
Redeemable capital - participatory and unsecured	23	1,013,549,225	445,518,493
Profit payable	24	37,742,338	40,771,650
Trade and other payables	25	77,937,508	61,114,844
Provision for taxation		-	992,666
Unclaimed profit		17,458,341	17,557,378
		<b>1,232,390,069</b>	<b>661,134,762</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,083,973,625</b>	<b>2,129,596,044</b>

### Contingencies and commitments

26

The attached notes from 1 to 41 form an integral part of these financial statements.



**Chief Financial Officer**  
Punjab Modaraba Services  
( Private ) Limited



**Chief Executive**  
Punjab Modaraba Services  
( Private ) Limited



**Director**  
Punjab Modaraba Services  
( Private ) Limited



**Director**  
Punjab Modaraba Services  
( Private ) Limited



# Unconsolidated Profit and Loss Account

For the Year Ended 30 June 2020

	Note	2020 Rupees	2019 Rupees
<b>Income</b>			
Income from ijarah rentals	27.1	64,229,845	42,919,970
Income from morabaha financing	27.2	10,246,204	7,459,176
Income from diminishing musharaka financing	27.3	110,808,247	117,576,608
Gain on disposal of fixed assets	28	2,100,302	1,571,610
Other income	29	10,699,583	17,902,902
		<b>198,084,181</b>	<b>187,430,266</b>
<b>Expenses</b>			
Administrative expenses	30	38,373,706	39,202,027
Ijarah receivables written off		-	679,630
Finance cost	31	207,676,049	150,423,380
		<b>246,049,755</b>	<b>190,305,037</b>
<b>Operating (loss) before provision</b>		<b>(47,965,574)</b>	<b>(2,874,771)</b>
Reversal for impairment of ijarah assets		-	9,000,000
(Provision)/Reversal against ijarah rentals	14.1	(293,700)	3,828,092
Provision against other receivable		-	(3,318,088)
(Provision)/Reversal for musharika investment	13.1	(7,051,617)	52,825
		<b>(7,345,317)</b>	<b>9,562,829</b>
<b>Operating profit after provision and impairment</b>		<b>(55,310,891)</b>	<b>6,688,058</b>
<b>Modaraba Company's management fee</b>	32	-	-
		<b>(55,310,891)</b>	<b>6,688,058</b>
<b>Taxation</b>	33	-	462,892
<b>(Loss)/Profit for the year</b>		<b>(55,310,891)</b>	<b>6,225,166</b>
<b>(Loss) / Earnings per certificate - basic and diluted</b>	34	<b>(1.63)</b>	<b>0.18</b>

The attached notes from 1 to 41 form an integral part of these financial statements.

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(Private) Limited

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**Director**  
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**Director**  
Punjab Modaraba Services  
(Private) Limited



# Unconsolidated Statement of Comprehensive Income

For the Year Ended 30 June 2020

	<u>2020</u> Rupees	<u>2019</u> Rupees
(Loss) / Profit for the year	<b>(55,310,891)</b>	6,225,166
Other Comprehensive Income for the year	-	-
<b>Total comprehensive (loss) / income for the year</b>	<b><u>(55,310,891)</u></b>	<b><u>6,225,166</u></b>

The attached notes from 1 to 41 form an integral part of these financial statements.

**Chief Financial Officer**  
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(Private) Limited

**Chief Executive**  
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**Director**  
Punjab Modaraba Services  
(Private) Limited

**Director**  
Punjab Modaraba Services  
(Private) Limited



# Unconsolidated Cash Flow Statement

For the Year Ended 30 June 2020

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>Cash flow from operating activities</b>			
<b>Cash generated from operations</b>	<b>38</b>	<b>(200,577,294)</b>	72,003,005
Profit paid on redeemable capital		<b>(69,980,950)</b>	(34,371,236)
Profit paid on musharikhah finances		<b>(140,557,198)</b>	(96,561,229)
Taxes paid		<b>(583,340)</b>	(3,468,094)
		<b>(211,121,488)</b>	(134,400,559)
<b>Net cash used in operating activities</b>		<b>(10,544,194)</b>	(62,397,554)
<b>Cash flow from investing activities</b>			
Proceeds from disposal of fixed assets		-	66,500
Purchase of fixed assets in own use	<b>5.2</b>	<b>(426,507)</b>	(1,643,908)
<b>Net cash generated from investing activities</b>		<b>(426,507)</b>	(1,577,408)
<b>Cash flow from financing activities</b>			
Musharikhah finances	<b>21</b>	<b>(574,882,956)</b>	30,126,534
Redeemable capital	<b>23</b>	<b>568,030,732</b>	45,518,493
Profit distributed among the certificate holders		<b>(99,037)</b>	(15,814,199)
<b>Net cash generated from financing activities</b>		<b>(6,951,261)</b>	59,830,828
<b>Net (decrease) in cash and cash equivalents</b>		<b>(17,921,962)</b>	(4,144,134)
<b>Cash and cash equivalents at the beginning of the year</b>		<b>43,024,878</b>	47,169,012
<b>Cash and cash equivalents at the end of the year</b>	<b>16</b>	<b>25,102,916</b>	43,024,878

The attached notes from 1 to 41 form an integral part of these financial statements.

**Chief Financial Officer**  
Punjab Modaraba Services  
(Private) Limited

**Chief Executive**  
Punjab Modaraba Services  
(Private) Limited

**Director**  
Punjab Modaraba Services  
(Private) Limited

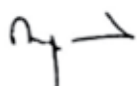
**Director**  
Punjab Modaraba Services  
(Private) Limited

# Unconsolidated Statement of Changes in Equity

For the Year Ended 30 June 2020

	Certificate Capital Rupees	Capital Reserve Statutory Reserves Rupees	Revenue Reserve Accumulated Loss Rupees	Total Rupees
<b>Balance as at 01 July 2018</b>	<b>340,200,000</b>	<b>215,447,495</b>	<b>(352,253,538)</b>	<b>203,393,957</b>
Profit for the year	-	-	6,225,166	6,225,166
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	6,225,166	6,225,166
Transfer to statutory reserves	-	1,245,033	(1,245,033)	-
Transactions with owners				
Profit distribution for the year ended 30 June 2018 at Rs. 0.5 per certificate	-	-	(17,010,000)	(17,010,000)
<b>Balance as at 30 June 2019</b>	<b>340,200,000</b>	<b>216,692,528</b>	<b>(364,283,405)</b>	<b>192,609,123</b>
<b>Loss for the year</b>	-	-	(55,310,891)	(55,310,891)
<b>Other comprehensive income for the year</b>	-	-	-	-
<b>Total comprehensive loss for the year</b>	-	-	(55,310,891)	(55,310,891)
<b>Balance as at 30 June 2020</b>	<b>340,200,000</b>	<b>216,692,528</b>	<b>(419,594,296)</b>	<b>137,298,232</b>

The attached notes from 1 to 41 form an integral part of these financial statements.



**Chief Financial Officer**  
Punjab Modaraba Services  
( Private ) Limited



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Punjab Modaraba Services  
( Private ) Limited



**Director**  
Punjab Modaraba Services  
( Private ) Limited



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Punjab Modaraba Services  
( Private ) Limited



# Notes to the Unconsolidated Financial Statements

For the year ended June 30, 2020

## 1. Status and Nature of Business

First Punjab Modaraba (the Modaraba) was formed under the Modaraba Companies and Modaraba (Flotation and Control) Ordinance, 1980 and rules framed there under and is managed by Punjab Modaraba Services (Private) Limited (wholly owned subsidiary of The Bank of Punjab), a company incorporated in Pakistan. The registered office of the Modaraba is situated at Office No. 100, 3rd floor, National Tower, 28-Egerton Road, Lahore. The Modaraba commenced its operations on 23 December 1992. The Modaraba is listed on Pakistan Stock Exchange.

The Modaraba established its wholly owned subsidiary on November 29, 2016 as a private limited Company under the name of Punjb Capital Securities (Pvt) Limited. The registered office of Punjab Capital Securities (Pvt) Limited is situated at 3rd Floor, LSE Plaza, 19-Khayabane Aiwane Iqbal, Lahore. The Company is mainly engaged in the business of brokerage services, portfolio management and consultancy services.

The Modaraba is a perpetual and multi-dimensional Modaraba and is primarily engaged in the business of Ijarah, Musharikhah and Morabaha financing, equity investment and other related businesses in accordance with the injunctions of Islam.

### 1.1 Management's Assessment of Going Concern

In assessing the going concern status of the Modaraba, management has carefully assessed a number of factors covering the performance of the business, business prospects and appetite of majority shareholder to continue financial support. Based on the analysis of these, management is comfortable that the Modaraba will be able to continue as a going concern in the foreseeable future.

During the year ended 30 June 2020, the Modaraba has incurred an operating loss of Rs. 55,310,891 which is mainly due to increase in finance cost. The accumulated losses, net of reserves, as at 30 June 2020 amount to Rs. 202,901,768 (2019: Rs.147,590,877) which exceeds fifty percent of the total amount subscribed by the holders of the Modaraba Certificates. Further the current liabilities of the Modaraba exceed its current assets by RS.39,770,803 as at 30 June 2020.

In order to address going concern issue in terms of section 23 of the Modaraba Companies and Modarabas (Flotation and Control) Ordinance, 1980 (the Modaraba Ordinance), The Bank of Punjab (BOP) being the parent company of the Modaraba's Management Company' has planned to extend its due support in terms of capital injection. Further, BOP has confirmed that it shall continue to provide financial support to the Modaraba in order to mitigate the liquidity risk. The Modaraba is in process of obtaining relevant approvals from SECP to initiate real estate activities

On the basis of support and the arrangements as outlined above and the business plan prepared by the management which has been approved by the Board of Directors, the management is of the view that no material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and the Modaraba shall be able to operate on going concern basis in the foreseeable future. Consequently, these financial statements have been prepared reflecting these assumptions.

## 1.2 Impact of COVID-19 on Financial Statement

The COVID19 pandemic has disturbed the economy in multiple ways. From interrupted supply lines, multiple business closures to halted manufacturing plants, every industry has felt its impact. The Modaraba is primarily exposed in Transport sector which was one of the most affected categories.

On operational side, the office of the Modaraba could not be opened on regular or full day basis while customers' nature of business did not permit distant or online work. At the same time, customers' shutdowns gave rise to liquidity issues eventually leading to impaired repayments. On the other hand, fresh credit demand decreased significantly jolting the growth trail. Cumulatively, all the factors shunned the profitability of the Modaraba to a considerable extent.

In view of the relaxation provided by SECP for deferral of Principal and restructuring of loan, the Modaraba has rescheduled some of its Musharakah and Ijarah with its customers on the basis of written request of the customers which had no material impact on the carrying amounts of assets and liabilities or item of income and expenses as required under the relevant accounting and reporting standards, that require specific disclosure in the financial statements.

Due to overall uncertain situation about the impacts and duration for which such a situation will continue, the overall impact on the modaraba's financial position and financial performance cannot be predicted with reasonable certainty.

## 2. Basis of Preparations

### 2.1 Statement of compliance

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

- International Financial Reporting Standards (IFRS Standards) issued by International Accounting Standards Board (IASB) as notified under Companies Act, 2017;
- Provisions of and directives issued under the Companies Act, 2017; and
- The requirements of Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Prudential Regulations for Modarabas (hereinafter referred to as the relevant laws).

Where provisions and directives issued under Companies Act, 2017 and the relevant laws differ from IFRS Standards, the provisions and directives issued under Companies Act, 2017 and the relevant laws have been followed.

The SECP has issued directive (vide SRO 431 (I) / 2007 dated May 22, 2007) that Islamic Financial Accounting Standard 2 (IFAS 2) shall be followed in preparation of the financial statements by Companies and Modarabas while accounting for Lease Financing transactions as defined by the said standard. The Modaraba has adopted the said standard.



The SECP has deferred the applicability of IFRS-9 for Modarabas upto June 30, 2021 via SRO 131(I) / 2019 dated February 24, 2020. However, the Modaraba had already adopted other requirements of IFRS 9 except for provision against Islamic financings. Therefore, the Modaraba has continued same practice during the current year as well. The provision against financing has been determined in accordance with requirement of the Prudential Regulations.

These financial statements are the separate financial statements of the Modaraba in which investments in subsidiary are accounted for on the basis of direct equity interest rather than on the basis of reported results. Consolidated financial statements are prepared separately.

## **2.2 Basis of measurement**

These financial statements have been prepared under the historical cost convention.

## **2.3 Functional and presentation currency**

These financial statements are presented in Pakistan Rupees which is also the Modaraba's functional currency. Figures have been rounded off to the nearest rupees, unless otherwise stated.

## **2.4 Significant accounting estimates and judgments**

The preparation of financial statements in conformity with the approved accounting standards requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise judgment in application of the Modaraba's accounting policies. The estimates, judgment and associated assumptions are based on the management's experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an on-going basis.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both the current and future periods. The areas where various assumptions and estimates are significant to the Modaraba's financial statement or where judgment was exercised in the application of accounting policies are as follows:

### **2.4.1 Depreciation/Amortization**

Estimates of residual values, useful lives and depreciation methods of fixed assets in own use and Ijarah assets (note 5)

### **2.4.2 Provision against non-performing loans and advances**

The Modaraba reviews its portfolio to assess amount of non-performing contracts and provision required there against on a quarterly basis. The provision is made in accordance with the prudential regulations issued by Securities and Exchange Commission of Pakistan.

### **2.4.3 Income taxes**

The Modaraba takes into account relevant provisions of current income tax laws while providing for current and deferred tax.

#### **2.4.4 Provision against non performing financing (Suspense income)**

The Modaraba reviews its overdue ijarah rentals, morabaha receivable and musharikah receivable at each reporting date to assess whether provision should be recorded in profit and loss account, in addition to the mandatory provisions required in accordance with the Prudential Regulations issued by the SECP. In particular, judgment by management is required in the estimation of the amount and the timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

### **3. New accounting standards / amendments and IFRS interpretations that are effective for the year ended 30 June 2020**

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

IFRS 16–Leases

IFRIC 23–Uncertainty over Income Tax Treatments

IFRS 9–Prepayment Features with Negative Compensation – (Amendments)

IAS 28–Long-term Interests in Associates and Joint Ventures – (Amendments)

IAS 19–Plan Amendment, Curtailment or Settlement – (Amendments)

IFRS 3–Business Combinations - Previously held Interests in a joint operation – (Amendments)

IFRS 11–Joint Arrangements - Previously held Interests in a joint operation

IAS 12–Income Taxes - Income tax consequences of payments on financial instruments classified as equity

IAS 23–Borrowing Costs - Borrowing costs eligible for capitalization

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any effect on the financial statements except as described in note 4.1.



### 3.1 New accounting standards / amendments and IFRS interpretations that are not yet effective

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

	Effective date annual periods beginning on or after:
IFRS 3 - Definition of a Business (Amendment)	01 Jan 2020
IFRIC 9 , IAS 39 and IFRS 7- Interest Rate Benchmark Reforms (Amendments)	01 Jan 2020
IAS 1 and IAS 8 - Definition of Material (Amendment)	01 Jan 2020
IFRS 16 - COVID 19 Related Rent Concessions (Amendments)	01 Jan 2020
IAS 1 - Classification of Liabilities as Current or Non Current (Amendments)	01 Jan 2022
IFRS 3 - Reference to the Conceptual Framework (Amendment)	01 Jan 2022
IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use (Amendment)	01 Jan 2022
IAS 37 - Onerous Contracts – Costs of Fulfilling a Contract (Amendment)	01 Jan 2022
IFRS 9 - Financial Instruments- Fees in the '10 percent' test for derecognition of financial liabilities (Ammendment)	01 Jan 2022
IAS 41 -Agriculture – Taxation in fair value measurements (Ammendment)	01 Jan 2022

The above standards and amendments are not expected to have any material impact on the Modaraba's financial statements in the period of initial application.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for annual reporting period beginning on or after January 01, 2020. The Modaraba expects that such improvements to the standards will not have any material impact on the Modaraba's financial statements in the period of initial application.

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

Standards	Effective date (annual periods beginning on or after)
IFRS 1 – First time adoption of International Financial Reporting Standards	January 01, 2009
IFRS 14 – Regulatory Deferral Accounts	January 01, 2016
IFRS 17 – Insurance Contracts	January 01, 2022

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### 4.1 Change in accounting policy

###### IFRS 16- 'Leases'

During the current year, the Modaraba have adopted the IFRS 16 as issued by the International Accounting Standards Board (IASB) in January 2016.

IFRS 16 supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. As described in note 2.1 the Modaraba has adopted IFAS 2 for Lease Financing Transactions as defined by the said standard. Therefore, IFRS 16 did not have an impact for leases where the Modaraba is the lessor.

The Modaraba adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Modaraba has not entered into any contract during the year as lessee. Therefore, the adoption of IFRS 16 did not have material impact on the amount recognized in the Balance Sheet, Profit & Loss Account Statement of Comprehensive Income, Statement of Cash Flows or Earnings Per Share as the Modaraba does not have any operating lease contract which is not short term or immaterial value.

##### 4.2 Tangible fixed assets

###### Assets in own use

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets' carrying amounts or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated



with the items will flow to the Modaraba and the cost of the items can be measured reliably. All other repairs and maintenance expenses are charged to the profit and loss account as and when incurred.

Depreciation on all fixed assets is charged to profit and loss on straight line basis, so as to write off the historical cost of an asset over its estimated useful life at annual rates mentioned in note 5.2.

Residual values and the useful lives of the assets are reviewed at least at each financial year end and adjusted if impact on depreciation is significant.

Assets' residual values and useful lives are reviewed and adjusted, if appropriate at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The Modaraba assesses at each balance sheet date whether there is any indication that fixed asset may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognized 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 repair and maintenance costs are charged to income during the period in which they are incurred. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset.

### **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 amounts or recognised as separate assets, as appropriate, only where it is probable that the future economic benefits associated with the assets will flow to the Modaraba and the cost of the items can be measured reliably. The useful lives and amortisation method are reviewed and adjusted, as appropriate, at each reporting 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.

Gain or loss on disposal of intangible assets, if any, is taken to the profit and loss account in the period in which these arise.

### **Ijarah Assets**

Ijarah assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is charged to profit and loss account applying the straight line method whereby the cost of an asset less salvage value is written off over the period of

facility, which is considered to be the estimated useful life of the asset. However, in the event the asset is expected to be available for re-ijarah, depreciation is charged over the economic life of asset using straight line basis. In respect of additions and disposals during the year, depreciation is charged proportionately from the date of delivery of assets to the date of its maturity / termination.

Ijarah income is recognized on an accrual basis as and when the rental becomes due.

#### **4.3 Impairment (Including provision for potential ijarah losses and write offs)**

The carrying amount of the Modaraba's assets are reviewed at each reporting date to determine whether there is any indication of impairment in any asset or group of assets. If such an indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the profit and loss account. For loans and receivables, a provision for impairment is established when there is objective evidence that the Modaraba will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective profit rate.

Provision for non-performing leases, if any, is made in accordance with the requirements of the Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan (SECP) and is charged to the profit and loss account in the current period. Outstanding balances in net investment in Ijarah finance are written off when there is no realistic prospect of recovery.

#### **4.4 Investment in Subsidiary**

Investment in subsidiary is initially recognized at cost. At subsequent reporting dates, the recoverable amounts are estimated to determine the extent of impairment losses, if any, and carrying amounts of investments are adjusted accordingly. Impairment losses are recognized as expense. Where impairment losses subsequently reverse, the carrying amounts of the investments are increased to the revised recoverable amounts but limited to the extent of initial cost of investments. A reversal of impairment loss is recognized in the profit and loss account.

#### **4.5 Ijarah rentals and Musharikah investments**

Ijarah rentals and Musharikah investments are stated net of provision and suspense income. Provision is recognized for Ijarah rentals receivable and musharikah investment, in accordance with the Prudential Regulations for Modarabas issued by Securities and Exchange Commission of Pakistan (SECP). Bad debts are written-off when identified.

#### **4.6 Morabaha Investments**

Morabaha investments are stated net of provision. Provision is recognized for Morabaha investments in accordance with the Prudential Regulations for Modaraba's issued by the Securities and Exchange Commission of Pakistan. Bad debts are written off when identified.

Morabaha receivable are recorded by the Modaraba at the invoiced amount and disclosed as such in the balance sheet.

Purchase and sales under Morabaha and the resultant profit are accounted for on the culmination of Morabaha transaction.



The profit on that portion of sales revenue not due for payment are deferred by accounting for a debit to “Unearned Morabaha Income” account with the corresponding credit to “Deferred Morabaha Income” account and shown in the balance sheet as a liability.

## 4.7 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand and cash with banks in current, savings and deposit accounts.

## 4.8 Financial instruments

### 4.8.1 Financial assets

#### Financial assets - initial recognition

The Modaraba has adopted IFRS 9 Financial Instruments with effect from 1 July 2018. Accordingly, financial assets are classified, at initial recognition, and subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Company’s business model for managing them. With the exception of trade debts and bank balance that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade debts that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding.

This assessment is referred to as the SPPI test and is performed at an instrument level.

“The Modaraba’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

#### Financial assets - subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- a) Financial assets at fair value through profit or loss
- b) Financial assets at amortized cost (debt instruments)
- c) Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)

- d) Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

#### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

The Modaraba does not have financial assets recorded at fair value through profit or loss.

#### **Financial assets at amortized cost (debt instruments)**

This category is the most relevant to the Modaraba. The Modaraba measures financial assets at amortized cost if both of the following conditions are met:

- a) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Modaraba's financial assets at amortized costs includes advances, deposits, prepayments and other receivables, ijarah rental receivables, musharikhah investment, morabaha investment and long term deposits.

#### **Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)**

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.



Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Modaraba does not have equity instruments recorded at fair value through OCI with no recycling of cumulative gains and losses upon derecognition.

### **Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)**

The Modaraba measures debt instruments at fair value through OCI if both of the following conditions are met:

- a) The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Modaraba does not have debt instruments recorded at fair value through OCI with recycling of cumulative gains and losses.

### **Financial assets - Derecognition**

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is primarily derecognized when:

- a) The rights to receive cash flows from the asset have expired; or
- b) The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

### **Financial assets - Impairment**

The Modaraba recognizes an allowance for expected credit losses ("ECL") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Modaraba considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

However, NBFI & Modaraba Association of Pakistan, based on the clarification of the SECP, have informed all its members that the provisioning criteria will remain those as framed under Modaraba Ordinance, 1980 and Rules & Regulations framed therein. Accordingly, the Modaraba has maintained provision against financing assets in accordance with relevant laws applicable to Modaraba.

Securities and Exchange Commission of Pakistan (SECP) through its S.R.O No. 985 (1) / 2019 dated 2nd September 2019, in partial modification of its previous S.R.O 229 (1) / 2019 dated February 14, 2019 notified that , in respect of companies holding financial assets due from Government of Pakistan, the requirement contained in 'IFRS-9 (Financial Instruments ) with respect to application of Expected credit losses method" shall not be applicable till 30 June 2021, provided that the company follow relevant requirement of IAS-39 'Financial instruments: Recognition and Measurement', in respect of above referred financial assets during the exemption period. Consequently, these financial statements do not include the impact of ECL method in respect of 'Tax refunds due from government'.

For bank balances, the Company applies a simplified approach in calculating ECLs based on lifetime expected credit losses. The Company reviews internal and external information available for each bank balance to assess expected credit loss and the likelihood to receive the outstanding contractual amount. The expected credit losses are recognized in the statement of profit or loss.

Upon adoption of IFRS 9, the Company has no material impact on amounts in the statement of financial position as the current methodology adequately reflects requirements of the new standards.

## 4.8.2 Financial liabilities

### Financial liabilities - initial recognition

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Modaraba's financial liabilities include deferred morabaha income, redeemable capital, trade and other payables, unclaimed profit, profit payable and long term musharika finance.

### Financial liabilities - subsequent measurement

#### Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

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

This category applies to long term loans, short term borrowings utilized under mark-up arrangements, creditors, liabilities against assets subject to finance lease, accrued and other liabilities.

### Financial liabilities - derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of profit or loss.

### Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the financial statements when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on net basis, or realize the asset and settle the liabilities simultaneously.

#### 4.9 Finance arrangements including Certificates of Musharikah

These are carried on the balance sheet at principal amount.

Profits on these arrangements are recognized as expense in the period in which they incur.

Profit on Musharikah finance is accounted for 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 each year after determination of the actual rate.

#### 4.10 Provisions

Provisions are recognized when the Modaraba has a 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 are adjusted to reflect the current best estimate.

#### 4.11 Staff retirement benefit

##### Defined contribution plan

The Modaraba operates a recognized provident fund for all eligible employees. Equal monthly contributions @ 8.33% of the basic salary are made to the fund both by the Modaraba and employees.

##### Defined benefit plan

The Modaraba operates an un-funded gratuity scheme for its eligible employees completing prescribed period of service in accordance with service rules of the Modaraba. Provision is made for gratuity in accordance with the requirements laid down by IAS 19. The actuarial gains and losses are recognized in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognized in other comprehensive income with no subsequent recycling to profit and loss.

#### 4.12 Revenue recognition

##### Ijarah rentals

Ijarah rentals are recognized as income on accrual basis, as and when rentals become due.

Documentation charges, front-end fee and other Ijarah income are recognized as income on receipt basis. Unrealized Ijarah income pertaining to non-performing Ijarah is held in suspense account, where necessary, in accordance with the requirements of the Prudential Regulations (PR).

##### Morabaha transaction

Profit on morabaha transaction is recognized over the period the payment becomes due. The unearned portion is reflected as deferred morabaha income.

Profit on musharikah arrangement is recognized under the effective interest rate, based on the amount outstanding.



## **Profit on bank deposit**

Return on bank deposits are recognized on accrual basis, using effective interest rate method.

## **Capital gain or losses on sale of investment**

Capital gain / loss on investment is recognized on sale of the respective investments.

## **Dividend income**

Dividend income on equity instruments is recognized when the right to receive the same is established.

## **Commission income**

Commission income is recognized on accrual basis.

### **4.13 Trade date accounting**

All 'regular way' purchases and sales of quoted equity securities are recognized on the trade date i.e. the date that the Modaraba commits to purchase/sell the asset. 'Regular way' purchases or sales of quoted investments require delivery within three working days after the transaction date as per stock exchange regulations.

### **4.14 Profit distribution and appropriations**

Profit distribution and appropriation to reserves are recognized as liability in the financial statements in the period in which these are approved. Transfer to statutory reserve and any of the mandatory appropriations, as may be required by law, are recognized in the period to which these relate.

### **4.15 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. The income of non-trading modarabas is exempt from tax provided that not less than 90% of their profits are distributed to the certificate-holders as reduced by amount transferred to a mandatory reserve as required under the provisions of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) are distributed to the certificate holders.

#### **Deferred**

The Modaraba accounts for deferred taxation using the balance sheet liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. The carrying amount of all deferred tax assets is reviewed at each balance sheet date and reduced to the extent, if it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the profit and loss account.

#### 4.16 Earnings per certificate

Earnings per certificate is calculated by dividing the profit after taxation for the year by weighted average number of certificates outstanding during the year. Diluted earnings per certificate is determined by adjusting the profit or loss attributable to ordinary certificate holders by taking into account the conversion of any diluted potential ordinary certificate.

#### 4.17 Segment reporting

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

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

	<u>Note</u>	<u>2020 Rupees</u>	<u>2019 Rupees</u>
<b>5. TANGIBLE FIXED ASSETS</b>			
Leased assets	<b>5.1</b>	<b>509,909,085</b>	363,711,083
Assets in own use	<b>5.2</b>	<b>3,107,836</b>	3,338,201
		<u><b>513,016,921</b></u>	<u>367,049,284</u>



# First Punjab Modaraba

Description	COST			DEPRECIATION			IMPAIRMENT			NET BOOK VALUE		
	As at	Additions	Transfer	As at	Charge	Transfer	As at	Reversal	Transfer	As at	Depreciation	
	1 July 2019			30 June 2020	for the year		30 June 2020	for the year		30 June 2020	Rate	%
-----Rupees-----												
Plant and machinery	642,157,200	7068,305	(110,450,364)	538,775,141	9,944,191	(102,648,629)	420,683,996	20,593,102	-	20,593,102	97,498,043	As per term
Vehicle	394,687,833	270,220,536	(113,717,770)	551,190,599	67,094,817	(40,025,625)	177,825,101	1,104,397	-	1,104,397	372,261,101	As per term
Cessna aircraft	13,552,604	-	-	13,552,604	-	-	13,552,604	-	-	-	-	As per term
Consumer products	24,103,475	49,824,249	(9,715,800)	64,211,924	19,818,157	(7151,757)	24,061,983	-	-	-	40,149,941	As per term
	<b>1,074,501,112</b>	<b>327,113,090</b>	<b>(233,883,934)</b>	<b>1,167,730,268</b>	<b>689,092,530</b>	<b>(96,857,165)</b>	<b>(149,826,011)</b>	<b>636,123,684</b>	<b>-</b>	<b>21,697,499</b>	<b>509,909,085</b>	

Description	COST			DEPRECIATION			IMPAIRMENT			NET BOOK VALUE		
	As at	Additions	Transfer	As at	Charge	Transfer	As at	Reversal	Transfer	As at	Depreciation	
	1 July 2018			30 June 2019	for the year		30 June 2019	for the year		30 June 2019	Rate	%
-----Rupees-----												
Plant and machinery	641,915,470	2,343,000	(2,029,500)	642,228,970	9,763,465	(1,834,373)	513,460,204	20,593,102	-	20,593,102	108,175,664	As per term
Vehicle	220,786,051	194,220,797	(20,390,785)	394,616,063	42,581,925	(2,416,715)	150,684,139	1,104,397	-	1,104,397	242,827,527	As per term
Cessna aircraft	13,552,604	-	-	13,552,604	-	-	13,552,604	-	-	-	-	As per term
Consumer products	20,608,226	14,021,402	(10,526,153)	24,103,475	10,044,845	(9,473,559)	11,395,583	-	-	-	12,707,892	As per term
	<b>896,862,351</b>	<b>210,585,199</b>	<b>(32,946,438)</b>	<b>1,074,501,112</b>	<b>640,426,942</b>	<b>(62,390,235)</b>	<b>(13,724,647)</b>	<b>689,092,530</b>	<b>-</b>	<b>21,697,499</b>	<b>363,711,083</b>	

- 5.1.1** Transfers represent the assets disposed through negotiation after expiry / termination of Ijarah. However, in view of large number of disposals, detail of each disposal has not been given.
- 5.1.2** The Gross Carrying amount (cost) of fully depreciated assets that are still in use amounts to Rs. 553,815,454 (30 June 2019 : Rs. 634,195,971).

## 5.2 Assets in own use

Description	COST			DEPRECIATION		NET BOOK VALUE	
	As at 1 July 2019	Additions	Disposal	As at 30 June 2020	Charge for the year	As at 30 June 2020	Depreciation Rate
-----Rupees-----							
Office Equipment	2,585,910	44,730	-	2,630,640	292,586	2,155,057	15% & 30%
Furniture & Fixtures	1,976,956	381,777	-	2,358,733	234,720	1,361,956	15%
Vehicles	2,174,400	-	-	2,174,400	129,566	538,924	20%
	<b>6,737,266</b>	<b>426,507</b>	<b>-</b>	<b>7,163,773</b>	<b>656,872</b>	<b>4,055,937</b>	
						<b>3,107,836</b>	

Description	COST			DEPRECIATION		NET BOOK VALUE	
	as at 1 July 2018	Additions	Disposal/ Adjustment	As at 30 June 2019	Charge for the year	As at 30 June 2019	Depreciation Rate
-----Rupees-----							
Office equipment	2,449,802	271,408	(135,300)	2,585,910	311,850	1,862,471	15% & 30%
Furniture and fixtures	1,976,956	-	-	1,976,956	213,569	1,127,236	15%
Vehicles	801,900	1,372,500	-	2,174,400	245,631	409,358	20%
	<b>5,228,658</b>	<b>1,643,908</b>	<b>(135,300)</b>	<b>6,737,266</b>	<b>771,050</b>	<b>3,399,065</b>	
						<b>3,338,201</b>	

**5.2.1** The Gross Carrying amount (cost) of fully depreciated assets that are still in use amounts to Rs. 1,459,609 (30 June 2019 : Rs. 1,459,609).



	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>6 Intangible assets</b>			
Computer software	<b>6.1</b>	-	-
<b>6.1 Computer software</b>			
Cost		<b>1,295,000</b>	1,295,000
Amortization		<b>(1,295,000)</b>	(1,295,000)
		<u>-</u>	<u>-</u>

## 7 Investment in subsidiary

The Modaraba formed a wholly owned subsidiary, Punjab Capital Securities (Private) Limited, under permission from Securities and Exchange Commission of Pakistan (SECP) vide letter dated October 21, 2016 to undertake brokerage business. The subsidiary was incorporated on November 29, 2016. During the period, total investment in subsidiary remains at Rs. 76,500,000 (2019: Rs. 76,500,000).

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>8 Long term musharikhah investment - secured</b>			
Long term musharikhah investment	<b>8.1</b>	<b>650,894,432</b>	866,449,630
Less: Current portion of long term musharikhah investment	<b>13</b>	<b>(422,480,205)</b>	(483,692,615)
		<u><b>228,414,227</b></u>	<u>382,757,015</u>

**8.1** The profit charged on these facilities ranged from 8.55% to 22.55% per annum (2019: 8.55% to 19.41% per annum). These facilities are secured by way of personal guarantees and mortgage of properties.

	<u>Note</u>	<u>2020</u> Rupees	<u>2019</u> Rupees
<b>9 Long term morabaha investment - secured</b>			
Long term morabaha investment	<b>9.1</b>	<b>21,619,598</b>	20,036,259
Add: Unearned morabaha income	<b>9.2</b>	<b>2,077,112</b>	2,232,204
		<b>23,696,710</b>	22,268,463
Less: Current portion of long term morabaha investment	<b>13</b>	<b>(12,489,038)</b>	(11,799,993)
		<b>11,207,672</b>	10,468,470
Less: Current portion of unearned morabaha income	<b>13</b>	<b>(2,386,568)</b>	(1,415,344)
		<b>8,821,104</b>	9,053,126

**9.1** These are secured against mortgage of properties, hypothecation and pledge of stocks, personal guarantees and demand promissory notes. The rate of profit on morabaha finances ranges from 8.50% to 23% per annum (2019: 8% to 23%).

**9.2** These represent receivables against morabaha transactions on deferred payment basis at a specified profit margin.

## 10 Long term deposits

Represents non interest bearing security deposit paid to LESCO and Central Depository Company.

	<u>Note</u>	<u>2020</u> Rupees	<u>2019</u> Rupees
<b>11 Deferred tax</b>			
	<b>11.1</b>	<b>64,398,663</b>	64,398,663

**11.1** This represents deferred tax asset created against brought forward losses and depreciation & amortization expense available for use in future. The management is confident that sufficient taxable profits will be available to set off these losses. Further, the management does not intend to avail exemption under clause 100 of Part 1 of Second Schedule to the Income Tax Ordinance 2001.

The aggregate deferred tax asset available to the Modaraba for set off against future taxable profits as at 30 June 2020 amounted to Rs. 150.92 million (30 June 2019: Rs. 104.30 million). Of these, deferred tax asset aggregating Rs. 64.39 million (30 June 2019: Rs 64.39 million) have been recognized in the financial statements.



Expiry of bussiness losses, depreciation & alternative corporate tax are as follows:

<u>Tax year</u>	<u>Nature</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
2026	Business loss	<b>22,232,390</b>	-
Unlimited	Depreciation	<b>24,378,509</b>	-
2024	Alternate corporate tax	<b>9,816,975</b>	9,816,975
2025	Alternate corporate tax	<b>16,739,766</b>	16,739,766
2026	Alternate corporate tax	<b>3,489,927</b>	3,489,927
2027	Alternate corporate tax	<b>4,016,478</b>	4,016,478
2028	Alternate corporate tax	<b>4,711,236</b>	4,711,236
2029	Alternate corporate tax	<b>1,136,970</b>	1,136,970
2030	Alternate corporate tax	-	-
		<b>39,911,352</b>	39,911,352

## 12 Short term morabaha investment-secured

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
Short term morabaha Investment	<b>12.1</b>	<b>521,591,548</b>	525,782,308
Add: Unearned morabaha income	<b>12.2</b>	<b>4,515,908</b>	4,575,612
		<b>526,107,456</b>	530,357,920
Less: Provision for doubtful morabaha Investment	<b>12.3</b>	<b>(235,561,379)</b>	(235,561,379)
		<b>290,546,077</b>	294,796,541

**12.1** These are secured against mortgage of properties, hypothecation and pledge of stocks, personal guarantees and demand promissory notes. The rate of profit on morabaha finances ranges from 16.29% to 19.45% per annum (2019: 12.53% to 24.50% per annum).

**12.2** These represent receivables against morabaha transactions on deferred payment basis at a specified profit margin.

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>12.3 Provision for doubtful morabaha investment</b>			
Opening balance		<b>235,561,379</b>	235,561,379
Additions during the year		-	-
Closing balance		<b>235,561,379</b>	235,561,379

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupee</u>
<b>13 Current maturity of long term investment</b>			
Current portion of long term musharika investment	<b>8</b>	<b>422,480,205</b>	483,692,615
Less: Provision against musharika investment	<b>13.1</b>	<b>(15,761,143)</b>	(8,709,526)
		<b>406,719,062</b>	474,983,089
Current portion of long term morabaha investment	<b>9</b>	<b>12,489,038</b>	11,799,993
Add: Unearned morabaha income	<b>9</b>	<b>2,386,568</b>	1,415,344
Less: Provision against morabaha investment	<b>13.2</b>	<b>(8,800,000)</b>	(8,800,000)
		<b>6,075,606</b>	4,415,337
		<b>412,794,668</b>	479,398,426
<b>13.1 Provision against musharika investment</b>			
Opening balance		<b>8,709,526</b>	8,762,351
Additions during the year			
Specific provision		<b>10,561,330</b>	-
General provision		<b>-</b>	-
		<b>10,561,330</b>	-
Reversed during the year		<b>(3,509,713)</b>	(52,825)
Closing balance		<b>15,761,143</b>	8,709,526
<b>13.2 Provision for doubtful morabaha investment</b>			
Opening balance		<b>8,800,000</b>	8,800,000
Charge during the year		<b>-</b>	-
Closing balance		<b>8,800,000</b>	8,800,000
<b>14 Ijarah rental receivables</b>			
Ijarah rental receivable		<b>428,484,372</b>	456,145,744
Less: Provision against ijarah rental receivable	<b>14.1</b>	<b>(155,596,948)</b>	(155,303,248)
Less: Ijarah receivables written off		<b>-</b>	(679,630)
		<b>272,887,424</b>	300,162,866



	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>14.1 Provision against ijarah rental receivable</b>			
Opening balance		<b>155,303,248</b>	159,480,340
Additions of Provision during the year		<b>293,700</b>	27,654
Reversals of Provision during the year		-	(3,855,746)
Reversals of Suspension during the year		-	(349,000)
Closing balance		<b>155,596,948</b>	155,303,248

**14.2 Future Ijarah rentals receivable**

Aggregate amount of future ijarah rentals receivable on the basis of agreements executed up to 30 June 2020 are as follows:

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
Up to one year		<b>175,733,168</b>	107,479,972
Above one year and up to five year		<b>266,958,991</b>	189,812,614
		<b>442,692,159</b>	297,292,586

**15 Advances, deposits, prepayments and other receivables**

Profit receivable			
- Morabaha investment	<b>15.1</b>	<b>10,535,511</b>	7,483,463
- Musharikhah investment	<b>15.2</b>	<b>36,979,801</b>	19,666,546
		<b>47,515,312</b>	27,150,009
Prepayments		<b>3,342,702</b>	4,318,376
Advances		<b>2,807,424</b>	2,229,584
Non-banking assets		<b>31,782,500</b>	18,775,000
Other receivables		<b>113,232,181</b>	66,761,445
		<b>198,690,119</b>	119,234,414
Less: Provision against other receivable	<b>15.3</b>	<b>(11,128,292)</b>	(11,128,292)
		<b>187,551,827</b>	108,106,122

**15.1 Morabaha profit receivable**

Morabaha profit receivable		<b>37,656,836</b>	33,618,060
Less: Income transferred to suspense	<b>15.1.1</b>	<b>(27,121,325)</b>	(26,134,597)
		<b>10,535,511</b>	7,483,463

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>15.1.1 Income transferred to suspense</b>			
Opening balance		<b>26,134,597</b>	26,134,597
Addition during the year	<b>27.2</b>	<b>986,728</b>	-
Suspension written off		-	-
Closing balance		<b>27,121,325</b>	26,134,597
<b>15.2 Musharikah profit receivable</b>			
Musharikah profit receivable		<b>56,869,751</b>	36,518,275
Less: Income transferred to suspense	<b>15.2.1</b>	<b>(19,889,950)</b>	(16,851,729)
		<b>36,979,801</b>	19,666,546
<b>15.2.1 Income transferred to suspense</b>			
Opening balance		<b>16,851,729</b>	11,677,261
Addition during the year	<b>27.3</b>	<b>6,555,237</b>	6,467,843
Reversal of Suspension during the year	<b>27.3</b>	<b>(3,517,016)</b>	(1,293,375)
Closing balance		<b>19,889,950</b>	16,851,729
<b>15.3 Provision against other receivable</b>			
Opening balance		<b>11,128,292</b>	7,810,204
Additions during the year		-	3,318,088
		-	3,318,088
Closing balance		<b>11,128,292</b>	11,128,292



	<u>Note</u>	<u>2020</u> Rupees	<u>2019</u> Rupee
<b>16 Cash and bank balances</b>			
Cash at banks			
- Current accounts	16.1	-	18,612,220
- Deposit accounts	16.2&16.3	24,791,967	24,000,000
- Savings accounts	16.2&16.3	49,509	393,411
- Current account with State Bank of Pakistan	16.4	65,249	15,249
		24,906,725	43,020,880
Cash in hand		196,191	3,998
		<b>25,102,916</b>	<b>43,024,878</b>

**16.1** The balance of Rs. 3.89 million (2019: Rs.7.98 million) is maintained with The Bank of Punjab (the holding company of the Modaraba's Management Company).

**16.2** Under the terms and conditions for the issuance of certificates of musharikah (both long and short term), the Modaraba is required to maintain a Redemption Reserve Fund equal to at least 5% of the contribution against Certificates of Musharikah Finance received, which may be utilized for redemption purposes.

**16.3** The rate of profit on deposit and saving accounts ranges between 4.25% to 13.00% per annum (2019: 4.25% to 13.13% per annum).

**16.4** This account has been opened for payment of online charges of the Credit Information Bureau of State Bank of Pakistan.

	<u>Note</u>	<u>2020</u> Rupees	<u>2019</u> Rupees	
<b>17 Certificate capital</b>				
Authorized certificate capital				
50,000,000 modaraba certificates of Rs.10 each		<u><b>500,000,000</b></u>	<u>500,000,000</u>	
<b>17.1</b> Issued, subscribed and paid-up certificate capital				
<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	
----- <b>(Number of Certificates)</b> -----				
<b>20,000,000</b>	20,000,000	Certifficates of Rs.10/- fully paid on cash	<b>200,000,000</b>	200,000,000
<b>14,020,000</b>	14,020,000	Certifficates of Rs.10/- issued as bonus Certifficates	<b>140,200,000</b>	140,200,000
<u><b>34,020,000</b></u>	<u>34,020,000</u>	<u><b>340,200,000</b></u>	<u>340,200,000</u>	

**17.1** As at 30 June 2019, The Punjab Modaraba Services (Private) Limited (the management company) held 13,320,694 (2019: 13,320,694) certificates of Rs. 10 each.

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>18 Reserves</b>			
<b>Capital reserve</b>			
Statutory reserve	18.1	216,692,528	216,692,528
<b>Revenue reserves</b>			
Accumulated loss		(419,594,296)	(364,283,405)
		<u>(202,901,768)</u>	<u>(147,590,877)</u>

**18.1** This represents profit set aside to comply with the Prudential Regulations for Modarabas issued by Securities and Exchange Commission of Pakistan requiring modaraba to transfer not less than 20% and not more than 50% of its profits after tax in such manner that reserves equal 100% of the paid up capital. Thereafter a sum not less than 5% of the profit after tax is to be set aside.

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>19 Long Term Security deposits</b>			
Long term security deposits against Ijarah		144,656,348	140,602,505
Less: Current maturity of security deposits	22	(83,316,089)	(89,148,775)
		<u>61,340,259</u>	<u>51,453,730</u>
<b>20 Deferred morabaha income</b>			
Deferred morabaha income	9 & 12	6,593,020	6,807,816
Less: Current maturity of deferred morabaha income		(2,386,568)	(6,030,956)
		<u>4,206,452</u>	<u>776,860</u>
<b>21 Long term musharikhah finance secured</b>			
Opening balance		1,223,621,569	1,193,495,035
Additions during the year		2,378,250,696	1,176,941,616
Less: Paid during the year		(2,953,582,615)	(1,146,815,082)
		<u>(575,331,919)</u>	<u>30,126,534</u>
	21.1	<u>648,289,650</u>	<u>1,223,621,569</u>

**21.1** The Modaraba has availed musharikhah finance facilities from The Bank of Punjab having approved limits of Rs. 1,585 million (2019: Rs. 1,585 million) maturing latest by 31 October 2020. These facilities are secured by way of first pari passu charge over present and future



fixed assets of Modaraba for amount of Rs. 860 million, first pari passu charge over present and future current assets of Modaraba for an amount of Rs. 1,040 million and ranking charge over present and future current assets for an amount of Rs. 860 million. The estimated share of profit payable on musharika facilities is 3 month KIBOR per annum (2019: 3 month KIBOR per annum).

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>22 Current maturity of non current liabilities</b>			
Current maturity of long term security deposits	<b>22.1</b>	<b>83,316,089</b>	89,148,775
Current maturity of deferred morabaha income	<b>20</b>	<b>2,386,568</b>	6,030,956
		<b>85,702,657</b>	95,179,731

**22.1** This includes security deposit amounting to Rs. 82.70 million (2019: Rs.82.70 million) against those ijarah where the customers have defaulted payment of rentals and the Modaraba has filed suits for recovery.

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>23 Redeemable capital - participatory and unsecured</b>			
Opening balance		<b>445,518,493</b>	400,000,000
Add: Issued during the year		<b>2,410,030,732</b>	51,018,493
Add: Re- issued during the year		<b>105,000,000</b>	400,000,000
Less: Redeemed during the year		<b>(1,947,000,000)</b>	(405,500,000)
		<b>568,030,732</b>	45,518,493
Closing balance	<b>23.1</b>	<b>1,013,549,225</b>	445,518,493

**23.1** The Certificates of Musharaka have been issued with a maturity of upto 9 months. The share of profit payable ranges from 5.35% to 13.75% per annum (2019: 6.50% to 12.75%).

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>24 Profit payable</b>			
Musharika finance		<b>18,685,681</b>	34,609,950
Redeemable capital		<b>19,056,657</b>	6,161,700
		<b>37,742,338</b>	40,771,650

	<b>Note</b>	<b>2020</b> <b>Rupees</b>	<b>2019</b> <b>Rupees</b>
<b>25 Trade and other payables</b>			
Accrued expenses	<b>25.1</b>	<b>3,859,647</b>	2,421,217
Tax deducted at source		<b>817,321</b>	806,214
Advances against ijarah / morabaha / musharikah		<b>57,114,805</b>	51,713,709
Other payables		<b>16,145,735</b>	6,173,704
		<b>77,937,508</b>	61,114,844

**25.1** This Includes amount in respect of gratuity payable to employees amounting to Rs. 3.66 million (2019: 2.00 million).

## 26 Contingencies and commitments

### 26.1 Contingencies

**26.1.1** The assessing officer, while finalizing assessments for the years 1997-98 and 1998-99, made add backs out of profit and loss account. The Modaraba had filed an appeal before the Commissioner of Income Tax (Appeals) (CIT-(A)), who has rejected the appeals. The Modaraba has filed an appeal, against the order of CIT-(A), before the honorable Income Tax Appellate Tribunal, which has been decided in favor of Modaraba, however Income Tax Department has filed appeal before honorable Lahore High Court. Modaraba management company expects a favorable outcome of the case.

**26.1.2** Additional Commissioner Inland Revenue (ACIR) issued order under section 122 (5A) of the Income Tax Ordinance, 2001, (the Ordinance) for tax year 2003 while rejecting the exemption claimed from tax under Clause 100 of Part I of Second Schedule to the Ordinance and made additions on account of provision for bad debts, which resulted in a tax liability of Rs. 27.410 million. The Modaraba filed a rectification application under section 221 of the Ordinance for reducing the tax rate from 35% to 25%, resultantly the rectification order passed by the tax department and reduced the tax liability to Rs. 14.580 million. The Modaraba also filed an appeal before the CIR (Appeals) for tax year 2003 against the order of ACIR. In this regard, after hearing of the appeal, the CIR (Appeals) by accepting the claim of exemption has issued a favorable order to the Modaraba while deleting the tax liability of Rs. 14,580,110 vide order No. 31 dated 27 June 2009. The income tax department has filed an appeal before Appellate Tribunal Inland Revenue against the order of CIR (Appeals) which was decided in favor of the Modaraba. Subsequent to year end the Income Tax Department has filed reference in High Court against decision of Appellate Tribunal Inland Revenue which is pending for adjudication. Modaraba management company expects a favorable outcome of the case.

**26.1.3** Additional Commissioner Inland Revenue (ACIR) issued order under section 122 (5A) of the Income Tax Ordinance, 2001, (the Ordinance) for tax year 2005 while rejecting the exemption claimed from tax under Clause 100 of Part I of Second Schedule to the Ordinance in an arbitrary manner and assessing the taxable income at Rs. 49.85 million



and tax liability at Rs. 17.67 million. The Modaraba filed a rectification application under section 221 of the Ordinance for reducing the tax rate from 35% to 25%. Further, the Modaraba has filed an appeal before the CIR (Appeals) for tax year 2005 against this order. In this regard, after hearing of the appeal, the CIR (Appeals) by accepting the claim of exemption has issued a favorable order to the Modaraba while deleting the tax liability of Rs. 17.67 million

The income tax department has filed an appeal before Appellate Tribunal Inland Revenue against the order of CIR (Appeals) which was decided in favor of the Modaraba. Subsequent to year end the Income Tax Department has filed reference in High Court against decision of Appellate Tribunal Inland Revenue which is pending for adjudication. Modaraba management company expects a favorable outcome of the case.

## 26.1.4 Legal suits against Modaraba

Suit for rendition of account Rs. 22.145 million filed by a defaulter against the Modaraba. The suit is pending in Honorable Banking Court. The management is of the view that case has no merit and would be disposed off in favor of the Modaraba.

## 26.2 Commitments

**26.2.1** Musharikhah commitments approved but not disbursed as on balance sheet date amount to Nil (2019: Rs.10.85 million).

	<u>Note</u>	<u>2019</u> <u>Rupees</u>	<u>2018</u> <u>Rupees</u>
<b>27 Operating income</b>			
<b>27.1 Income from ijarah rentals</b>			
Ijarah income		<b>161,087,010</b>	104,961,205
Add: Reversal of rentals suspended	<b>14.1</b>	-	349,000
Less: Depreciation on ijarah Assets		<b>(96,857,165)</b>	(62,390,235)
		<b>64,229,845</b>	42,919,970
<b>27.2 Income from morabaha financing</b>			
Morabaha investment		<b>11,232,932</b>	7,459,176
Less: Rental suspended	<b>15.1.1</b>	<b>(986,728)</b>	-
		<b>10,246,204</b>	7,459,176
<b>27.3 Income from diminishing musharaka financing</b>			
Musharikhah investment		<b>113,846,468</b>	122,751,076
Add: Reversals of rentals suspended	<b>15.2.1</b>	<b>3,517,016</b>	1,293,375
Less: Rentals suspended	<b>15.2.1</b>	<b>(6,555,237)</b>	(6,467,843)
		<b>110,808,247</b>	117,576,608

	<b>Note</b>	<b>2020</b> <b>Rupees</b>	<b>2019</b> <b>Rupees</b>
<b>28 Gain on disposal of assets</b>			
Gain on disposal of non banking assets		<b>1,333,000</b>	1,329,500
Gain on disposal of owned assets		<b>-</b>	42,283
Gain/ (Loss) on disposal of Ijarah assets		<b>767,302</b>	199,827
		<b>2,100,302</b>	1,571,610
<b>29 Other income</b>			
Profit on bank deposits		<b>3,113,493</b>	2,078,482
Processing fee		<b>1,743,356</b>	2,917,336
Cheque return charges		<b>17,500</b>	795,500
Miscellaneous income from musharikhah		<b>1,490,539</b>	6,748,470
Miscellaneous income from morabaha		<b>740,508</b>	13,244
Miscellaneous income		<b>3,594,187</b>	5,349,870
		<b>10,699,583</b>	17,902,902
<b>30 Administrative expenses</b>			
Salaries and benefits	<b>30.1</b>	<b>27,638,711</b>	27,657,494
Traveling and conveyance		<b>230,168</b>	236,985
Depreciation - owned asset	<b>5.2</b>	<b>656,872</b>	771,050
Legal and professional		<b>709,946</b>	831,382
Printing and stationary		<b>796,794</b>	679,384
Insurance		<b>968,951</b>	767,528
Fee and subscription		<b>1,440,664</b>	1,950,075
Auditor's remuneration	<b>30.2</b>	<b>585,000</b>	585,000
Repair and maintenance		<b>1,213,149</b>	619,485
Vehicle running and maintenance		<b>157,494</b>	141,319
Power and utilities		<b>911,386</b>	901,278
Entertainment expenses		<b>665,410</b>	544,006
Advertisement		<b>58,768</b>	104,925
Telephone and postage		<b>624,615</b>	419,166
Corporate expenses		<b>514,646</b>	834,669
Rent rates and taxes		<b>6,040</b>	-
Selling and marketing expenses		<b>1,085,442</b>	1,366,007
Miscellaneous expenses		<b>109,650</b>	792,274
		<b>38,373,706</b>	39,202,027

**30.1** Salaries and other benefits include Rs. 0.887 million (2019: Rs. 0.788 million) on account of provident fund contribution and Rs. 1.656 million (2019: Rs. 1.09 million) in respect of gratuity payable to employees.



	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>30.2 Auditors' remuneration</b>			
Audit fee		<b>300,000</b>	300,000
Half yearly review and others		<b>175,000</b>	175,000
Out of pocket expenses		<b>110,000</b>	110,000
		<b>585,000</b>	585,000

## 31 Finance cost

Financial charges on musharikhah		<b>124,632,929</b>	112,848,077
Financial charges on redeemable capital		<b>82,875,907</b>	37,317,866
Bank charges		<b>167,213</b>	257,437
		<b>207,676,049</b>	150,423,380

## 32 Management fee

Management fee is payable to Punjab Modaraba Services (Private) Limited. Owing to losses during the year, modaraba management company fee for the year is not provided for.

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>33 Taxation</b>			
<b>Current Tax</b>			
- Current year		-	3,027,324
<b>Deferred</b>			
- Relating to origination and reversal of temporary differences		-	(2,564,432)
		-	462,892

## 34 Earning per certificate

### 34.1 Basic

Basic earnings per certificate are calculated by dividing the net profit for the year by the weighted average number of certificates outstanding during the year as follows:

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
(Loss) / Profit for the year		<b>(55,310,891)</b>	6,225,166
Weighted average number of ordinary certificates		<b>34,020,000</b>	34,020,000
(Loss) / Earning per certificate		<b>(1.63)</b>	0.18

### 34.2 Diluted

No figure for diluted earnings per certificate has been presented as the Modaraba has not issued any instruments which would have an impact on earnings per certificate when exercised.

### 35 Transactions with related parties

The related parties and associated undertakings comprise of The Bank of Punjab, Punjab Modaraba Services (Private) Limited and Punjab Capital Securities (Private) Limited. Transactions with related parties and associated undertakings other than remuneration and benefits to key management personnel under the term of employment are as follows:

#### 35.1 Balances outstanding at the end of year

	Note	2020 Rupees	2019 Rupees
<b>35.1.1 The Bank of Punjab (Holding company of Modaraba's Management Company)</b>			
Musharikah finances		648,738,613	1,223,621,569
Profit payable on musharikah finances		18,685,681	34,609,950
Certificates of musharikah		1,000,000,000	400,000,000
Profit payable on certificates of musharikah		17,742,455	5,936,301
<b>35.1.2 Punjab Modaraba Services (Private) Limited (Management Company)</b>			
Management fee		-	-
<b>35.1.3 Punjab Capital Securities (Pvt.) Ltd. (Subsidiary Company)</b>			
Investment in shares		76,500,000	76,500,000
<b>35.2 Transactions during the period</b>			
<b>35.2.1 The Bank of Punjab (Holding company of Modaraba's Management Company)</b>			
Bank charges		167,213	257,437
Profit charged on finances		124,632,929	112,848,077
Profit charged on certificates of Musharikah		80,752,732	36,917,809
<b>35.2.2 Punjab Modaraba Services (Private) Limited (Management Company)</b>			
Management fee paid		-	-



## 36 Remuneration of officers and executives

	2 0 2 0		
	Executives	Other employees	Total
	Rupees	Rupees	Rupees
Remuneration	14,900,738	341,222	15,241,960
House rent allowance	4,858,704	136,489	4,995,193
Utility allowance	1,748,049	34,122	1,782,171
Medical allowance	998,740	34,122	1,032,862
Provident fund contribution	858,392	28,424	886,816
Gratuity Fund	2,042,927	-	2,042,927
Expenses reimbursed	1,656,782	-	1,656,782
	<b>27,064,332</b>	<b>574,379</b>	<b>27,638,711</b>
Number of employees at the year end	<b>30</b>	<b>3</b>	<b>33</b>
Average no of employees	<b>30</b>	<b>3</b>	<b>33</b>

**36.1** The Chief Financial Officer has been provided a vehicle on Ijarah.

	2 0 1 9		
	Officers	Other employees	Total
	Rupees	Rupees	Rupees
Remuneration	14,801,292	345,402	15,146,694
House rent allowance	4,928,678	138,162	5,066,840
Medical allowance	2,252,865	34,542	2,287,407
Utility allowance	1,024,673	34,542	1,059,215
Provident fund contribution	771,418	16,428	787,846
Gratuity fund	1,087,344	-	1,087,344
Expenses reimbursed	2,222,148	-	2,222,148
	<b>27,088,418</b>	<b>569,076</b>	<b>27,657,494</b>
Number of employees at the year end	<b>29</b>	<b>2</b>	<b>31</b>
Average number of employees	<b>29</b>	<b>2</b>	<b>31</b>

## 37 Financial instruments

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

- Credit risk
- Liquidity risk
- Market risk

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

### 37.1 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Modaraba by failing to discharge an obligation. The risk is generally limited to the carrying to principal amounts and accrued profit thereon, if any. The Modaraba's policy is to enter into financial contracts in accordance with the internal risk management policies and the requirements of the Prudential Regulations. The carrying amount of the following financial assets represents the maximum credit exposure at the reporting date:

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
Bank balances	16	24,906,725	43,020,880
Musharikah investment	8	635,133,289	857,740,104
Long term morabaha investment	9	14,896,710	13,468,463
Short term morabaha investment	12	290,546,077	294,796,541
Ijarah rental receivable	14	272,887,424	300,162,866
Advances, deposits, prepayments and other receivables	15	149,619,201	103,787,746
Long term deposits	10	203,444	203,444
		<u>1,388,192,870</u>	<u>1,613,180,044</u>

#### 37.1.1 Bank balances

The Modaraba kept its surplus funds with banks having good credit rating. Currently the surplus funds are kept with banks having medium to long term rating from AAA to AA+ and short term rating from A1+ to A1. Credit risk rating of the banks are as follows:

Banks	Short Term	Long Term	Agency
The Bank of Punjab	A1+	AA	PACRA
Bank Alfalah Limited	A1+	AA+	PACRA
Al Baraka Bank (Pakistan) Limited	A1	A	PACRA
National Bank of Pakistan	A1+	AAA	PACRA
Meezan Bank Limited	A1+	AA+	JCR-VIS
Bank Islami Pakistan Limited	A-1	A+	PACRA
NRSP Microfinance Bank Limited	A-1	A	PACRA

#### 37.1.2 Description of Collateral held

The Modaraba's ijarah are secured against ijarah assets and personal guarantees. In few ijarah additional collateral is also obtained in the form of mortgaged property.

Morabaha investments are secured by way of personal guarantees of the directors, pledge of stocks, mortgage of properties and charge on the assets varying from case to case.

Musharikah investments are secured by way of personal guarantees and mortgage of properties.



## 37.1.3 Aging Analysis of Morabaha receivable

Past due	2020			
	Total	Non-classified	Classified	Suspension
	-----Rupees-----			
Not yet due	-	-	-	-
Less than 6 months	3,586	3,586	-	-
6 to 12 months - OAEM	10,531,925	-	10,531,925	-
1 to 2 years - Substandard	986,728	-	986,728	986,728
2 to 3 years - Doubtful	-	-	-	-
More than 3 years - Loss	26,134,597	-	26,134,597	26,134,597
	<b>37,656,836</b>	<b>3,586</b>	<b>37,653,250</b>	<b>27,121,325</b>

Past due	2019			
	Total	Non-classified	Classified	Suspension
	-----Rupees-----			
Not yet due	-	-	-	-
Less than 6 months	7,483,463	7,483,463	-	-
6 to 12 months - OAEM	-	-	-	-
1 to 2 years - Substandard	-	-	-	-
2 to 3 years - Doubtful	-	-	-	-
More than 3 years - Loss	26,134,597	-	26,134,597	26,134,597
	<b>33,618,060</b>	<b>7,483,463</b>	<b>26,134,597</b>	<b>26,134,597</b>

Suspension is recognized by the Modaraba on the basis of requirements given under the Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

### 37.1.4 Aging Analysis of Morabaha investment

Past due	2020			
	Total	Non-classified	Classified	Provision
	-----Rupees-----			
Not yet due	-	-	-	-
Less than 6 months	59,397,134	59,397,134	-	-
6 to 12 months - OAEM	12,700,000	-	12,700,000	-
1 to 2 years - Substandard	-	-	-	-
2 to 3 years - Doubtful	-	-	-	-
More than 3 years - Loss	471,114,013	-	471,114,013	244,361,379
	543,211,146	59,397,134	483,814,013	244,361,379

Past due	2019			
	Total	Non-classified	Classified	Provision
	-----Rupees-----			
Not yet due	-	-	-	-
Less than 6 months	53,465,795	53,465,795	-	-
6 to 12 months - OAEM	4,500,000	-	4,500,000	-
1 to 2 years - Substandard	9,708,481	-	9,708,481	-
2 to 3 years - Doubtful	-	-	-	-
More than 3 years - Loss	478,144,291	-	478,144,291	244,361,380
	545,818,567	53,465,795	492,352,772	244,361,380

Provision is recognized by the Modaraba on the basis of provision requirements given under Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.



### 37.1.5 Aging Analysis of Ijarah receivable

<u>Past due</u>	2020			
	Total	Non-classified	Classified	Suspension
	-----Rupees-----			
Not yet due	-	-	-	-
Less than 6 months	45,137,205	45,137,205	-	-
6 to 12 months - OAEM	61,953	-	61,953	-
1 to 2 years - Substandard	98,946	-	98,946	-
2 to 3 years - Doubtful	103,015	-	103,015	-
More than 3 years - Loss	383,083,253	-	383,083,253	155,303,248
	<b>428,484,372</b>	<b>45,137,205</b>	<b>383,347,167</b>	<b>155,303,248</b>

<u>Past due</u>	2019			
	Total	Non-classified	Classified	Suspension
	-----Rupees-----			
Not yet due	-	-	-	-
Less than 6 months	10,188,291	10,188,291	-	-
6 to 12 months - OAEM	6,293,500	-	6,293,500	-
1 to 2 years - Substandard	560,302	-	560,302	-
2 to 3 years - Doubtful	33,794,937	-	33,794,937	-
More than 3 years - Loss	404,629,084	-	404,629,084	155,303,248
	<b>455,466,114</b>	<b>10,188,291</b>	<b>445,277,823</b>	<b>155,303,248</b>

Suspension is recognized by Modaraba on the basis of requirements given under the Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

### 37.1.6 Aging Analysis of Musharikhah receivable

<u>Past due</u>	2020			
	Total	Non-classified	Classified	Suspension
	-----Rupees-----			
Not yet due	-	-	-	-
Less than 6 months	18,376,667	18,376,667	-	-
6 to 12 months - OAEM	151,778	-	151,778	-
1 to 2 years - Substandard	184,104	-	184,104	-
2 to 3 years - Doubtful	129,218	-	129,218	-
More than 3 years - Loss	38,027,984	-	38,027,984	19,889,950
	<b>56,869,751</b>	<b>18,376,667</b>	<b>38,493,084</b>	<b>19,889,950</b>
<u>Past due</u>	2019			
	Total	Non-classified	Classified	Suspension
	-----Rupees-----			
Not yet due	-	-	-	-
Less than 6 months	26,015,048	28,015,048	-	-
6 to 12 months - OAEM	5,198,385	-	5,198,385	4,879,344
1 to 2 years - Substandard	2,688,114	-	2,688,114	2,212,220
2 to 3 years - Doubtful	831,632	-	831,632	-
More than 3 years - Loss	9,831,471	-	9,831,471	9,370,405
	<b>44,564,650</b>	<b>28,015,048</b>	<b>16,461,969</b>	<b>16,461,969</b>

Suspension is recognized by the Modaraba on the basis of requirements given under the Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.



### 371.7 Aging Analysis of Musharikah investment

Past due	2020			
	Total	Non-classified	Classified	Provision
	-----Rupees-----			
Not yet due	509,844,905	509,844,905	-	-
Less than 6 months	36,240,675	36,240,675	-	-
6 to 12 months - OAEM	40,692,536	-	40,692,536	10,561,332
1 to 2 years - Substandard	6,816,317	-	6,816,317	-
2 to 3 years - Doubtful	8,400,000	-	8,400,000	-
More than 3 years - Loss	48,900,000	-	48,900,000	5,199,813
	<b>650,894,432</b>	<b>546,085,580</b>	<b>104,808,853</b>	<b>15,761,145</b>

Provision is recognized by the Modaraba on the basis of provision requirements given under Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

Past due	2019			
	Total	Non-classified	Classified	Provision
	-----Rupees-----			
Not yet due	769,103,248	769,103,248	-	-
Less than 6 months	21,672,427	-	21,672,427	-
6 to 12 months - OAEM	7,898,866	-	7,898,866	-
1 to 2 years - Substandard	9,020,454	-	9,020,454	-
2 to 3 years - Doubtful	-	-	-	-
More than 3 years - Loss	52,471,156	-	52,471,156	5,199,813
	<b>860,166,151</b>	<b>769,103,248</b>	<b>91,062,903</b>	<b>5,199,813</b>

Provision is recognized by the Modaraba on the basis of provision requirements given under Prudential Regulations for Modaraba and subjective evaluation carried out on an ongoing basis.

**371.8** The Modaraba manages credit risk and its concentration through diversification of activities to avoid undue concentration of risks with individuals, groups or specific industry segments. For this purpose, the Modaraba has established exposure limits for individuals and industrial sectors.

Break down of credit risk exposure by class of business as at 30 June 2020 is as follows:

	2020				
	Assets	Morabaha	Musharikah	Total	% age
	Ijarah	investment	investment		
	-----Rupees-----				
Bank and NBFi's	-	-	-	-	0.00%
Textile Spinning and Composite	40,391,050	171,104,735	4,232,936	215,728,721	12.97%
Sugar and Allied	-	32,000,000	-	32,000,000	1.92%
Electric Goods	3,032,650	94,223,643	-	97,256,293	5.85%
Chemical and Pharmaceuticals	616,347	2,720,170	25,646,217	28,982,734	1.74%
Paper and Board	100,000	-	-	100,000	0.01%
Food and Allied	5,302,655	-	39,065,855	44,368,510	2.67%
Individuals	66,481,180	85,694,115	90,089,953	242,265,248	14.57%
Jute	-	-	-	-	0.00%
Oil and Gas	-	-	42,190,906	42,190,906	2.54%
Miscellaneous	44,197,874	48,674,949	39,213,306	132,086,129	7.94%
Aviation and transport	300,936,139	-	398,263,043	699,199,182	42.05%
Engineering, Steel & Construction	48,851,189	67,500,000	5,854,511	122,205,700	7.35%
Cement	-	-	6,337,705	6,337,705	0.38%
	509,909,085	501,917,611	650,894,432	1,662,721,128	100%
	2019				
	Assets	Morabaha	Musharikah	Total	% age
	Ijarah	investment	investment		
	-----Rupees-----				
Bank and NBFi's	-	-	6,280,537	6,280,537	0.41%
Textile Spinning and Composite	34,623,160	84,629,810	4,935,074	124,188,044	8.15%
Sugar and Allied	-	18,559,437	-	18,559,437	1.22%
Electric Goods	3,032,650	72,764,405	71,990	75,869,045	4.98%
Chemical and Pharmaceuticals	750,007	2,504,850	25,880,632	29,135,489	1.91%
Paper and Board	100,000	-	-	100,000	0.01%
Food and Allied	6,902,057	-	39,431,052	46,333,109	3.04%
Individuals	46,621,706	51,547,463	105,790,340	203,959,509	13.39%
Oil and Gas	100,000	-	56,938,266	57,038,266	3.74%
Miscellaneous	49,300,360	48,778,686	63,549,861	161,628,907	10.61%
Aviation and transport	169,159,708	-	531,745,349	700,905,057	46.01%
Engineering, Steel & Construction	53,121,435	29,480,353	8,229,332	90,831,120	5.96%
Cement	-	-	8,604,192	8,604,192	0.56%
	363,711,083	308,265,004	851,456,625	1,523,432,712	100%



## 37.2 Liquidity risk

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

		2020				
		Carrying Amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years
		Rupees				
Financial liabilities						
Redeemable capital	1,013,549,225	1,032,605,776	1,032,605,776	-	-	-
Security deposits						
against Ijarah	144,656,348	144,656,348	82,886,889	429,200	25,478,950	35,861,309
Musharikah finance	648,738,613	742,547,993	23,452,345	23,452,345	46,904,690	648,738,613
Unclaimed profit	17,458,341	17,458,341	17,458,341	-	-	-
Trade and other payables	20,822,703	20,822,703	20,822,703	-	-	-
Profit payable	37,742,338	37,742,338	37,742,338	-	-	-
	<b>1,882,967,568</b>	<b>1,995,833,499</b>	<b>1,214,968,392</b>	<b>23,881,545</b>	<b>72,383,640</b>	<b>684,599,922</b>
		2019				
		Carrying Amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years
		Rupees				
Financial liabilities						
Redeemable capital	445,518,493	458,511,370	458,511,370	-	-	-
Security deposits						
against Ijarah	140,602,505	140,602,505	88,619,575	529,200	738,200	50,715,530
Musharikah finance	1,223,621,569	1,258,231,519	463,683,658	665,064,247	129,483,614	-
Unclaimed profit	17,557,378	17,557,378	17,557,378	-	-	-
Trade and other payables	60,308,630	60,308,630	60,308,630	-	-	-
Profit payable	40,771,650	40,771,650	40,771,650	-	-	-
	<b>1,928,380,226</b>	<b>1,975,983,053</b>	<b>1,129,452,261</b>	<b>665,593,447</b>	<b>130,221,814</b>	<b>50,715,530</b>

**37.2.1** The contractual cash flows relating to the above financial liabilities have been determined on the basis of profit rates effective as at year end (and includes both principal and profit payable thereon). The rates of profit have been disclosed in notes 22 and 24 to these financial statements.

### 37.3 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, profit rates and equity prices will affect the Modaraba's income or the value of its holdings of financial instruments. The Modaraba has adopted appropriate policies to minimize its exposure to this risk.

#### 37.3.1 Profit rate risk

At the reporting date, the profit rate profile of Modaraba's significant profit bearing financial instruments and the periods in which they mature is as follows:

	2020	2019	2020	2019
	Effective profit rate (Percentage)		Carrying amount (Rupees)	
<b>Financial assets</b>				
Musharikhah investment	8.55 - 22.55	8.55 - 19.41	635,133,289	857,740,104
Morabaha investment	8.50 - 23.00	8.50 - 23.00	305,442,787	301,457,188
Cash and bank balances	4.25 - 13.13	4.25 - 13.13	24,841,476	24,393,411
			<b>965,417,552</b>	<b>1,183,590,703</b>
<b>Financial liabilities</b>				
Redeemable Capital	5.35 - 13.75	6.50 - 12.75	1,013,549,225	445,518,493
Musharikhah finances	11.22 - 13.85	6.92 - 10.99	648,738,613	1,223,621,569
			<b>1,662,287,838</b>	<b>1,669,140,062</b>

#### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in profit rates at the reporting date would have increased / (decreased) profit for the year by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the basis for 2020.

	Profit and loss 100 bps	
	Increase	Decrease
<b>As at 30 June 2020</b>		
Cash flow sensitivity-variable rate financial assets	9,654,176	(9,654,174)
Cash flow sensitivity-variable rate financial liabilities	(16,622,879)	16,622,878
<b>Net effect</b>	<b>(6,968,703)</b>	<b>6,968,704</b>
	Profit and loss 100 bps	
	Increase	Decrease
<b>As at 30 June 2019</b>		
Cash flow sensitivity-variable rate financial assets	11,835,908	(11,835,908)
Cash flow sensitivity-variable rate financial liabilities	(16,691,401)	16,691,401
<b>Net effect</b>	<b>(4,855,493)</b>	<b>4,855,493</b>

The sensitivity analysis prepared is not necessarily indicative of the effects on profit for the year and assets / liabilities of the Modaraba.



### 37.3.2 Currency risk

As at 30 June 2020, there is no foreign exchange exposure on Morabaha's balance sheet.

### 37.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Modaraba's operations either internally within the Modaraba or externally at the Modaraba's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior. Operational risks arise from all of the Modaraba's activities.

- The Modaraba's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its objective of generating returns for certificate holders.
- The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors of the management Company. This responsibility encompasses the controls in the following areas:
  - requirements for appropriate segregation of duties between various functions, roles and responsibilities;
  - requirements for the reconciliation and monitoring of transactions;
  - compliance with regulatory and other legal requirements;
  - documentation of controls and procedures;
  - requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
  - ethical and business standards;
  - risk mitigation, including insurance where it is effective.

### 37.5 Fair value of financial instruments

The IFRS-13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### 37.6 Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Modaraba defines as net operation income divided by total capital employed. The Board of Directors also monitors the level of dividend payouts to certificate holders.

**37.7 Reconciliation of liabilities arising from financing activities**

	Balance as on 01 July 2019	Availed / Announced	Repaid / Redeemed	Balance as at 30 June 2020
Long term musharikhah finance	1,223,621,569	2,378,250,696	(2,953,582,615)	<b>648,289,650</b>
Dividend Payable	17,557,378	-	(99,040)	<b>17,458,338</b>
Redeemable capital	445,518,493	2,515,030,732	(1,947,000,000)	<b>1,013,549,225</b>
	<b>1,686,697,440</b>	<b>4,893,281,428</b>	<b>(4,900,681,655)</b>	<b>1,679,297,213</b>

**38 Cash flow from operating activities**

	2020 Rupees (55,310,891)	2019 Rupees 6,688,058
<b>(Loss) / Profit for the period</b>		
<b>Adjustments for:</b>		
Depreciation of ijarah assets	<b>96,857,165</b>	62,390,235
Depreciation of assets in own use	<b>656,872</b>	771,050
Gain on disposal of Ijarah assets	<b>(767,302)</b>	(199,827)
Gain on disposal of owned assets	-	(42,283)
Gain on disposal of non-banking assets	<b>(1,333,000)</b>	(1,329,500)
Provision against other receivable	-	3,318,088
Reversal for impairment of ijarah assets	-	(9,000,000)
Provision/(reversal) for ijarah rentals	<b>293,700</b>	(3,828,092)
Provision/(reversal) for musharikhah investment	<b>7,051,617</b>	(52,825)
Financial charges on musharikhah finances	<b>124,632,929</b>	112,848,077
Financial charges on redeemable capital	<b>82,875,907</b>	37,317,866
	<b>310,267,888</b>	202,192,789
<b>Operating profit before working capital changes</b>	<b>254,956,997</b>	208,880,846
<b>Working capital changes</b>		
(Increase)/decrease in operating assets:		
Morabaha investment	<b>6,251,809</b>	(35,017,002)
Purchase of assets under ijarah arrangements	<b>(327,113,090)</b>	(210,585,199)
Payment of musharikhah investment	<b>215,555,198</b>	39,034,427
Proceeds from transfer of ijarah assets	<b>84,825,225</b>	19,421,618
Ijarah Rental Receivable - net	<b>26,981,742</b>	(679,945)
Advances, deposits, prepayments and other receivables	<b>(78,112,706)</b>	(3,108,238)
	<b>(71,611,822)</b>	(190,444,883)
Increase/(decrease) in operating liabilities:		
Security deposits - net	<b>409,455</b>	31,928,773
Trade and other payables	<b>16,822,664</b>	21,638,268
	<b>17,232,119</b>	53,567,041
Net changes in operating assets and operating liabilities	<b>(54,379,703)</b>	(136,877,842)
<b>Cash generated from operations</b>	<b>200,577,294</b>	72,003,005



	2020 Rupees	2019 Rupees
<b>39 Provident fund</b>		
Size of the fund	<b>4,874,516</b>	4,658,879
Percentage of investments made	<b>100%</b>	0%
Fair value of investments made	<b>4,000,000</b>	0
Cost of Investement	<b>4,000,000</b>	0

Breakup of investment in terms of amount and percentage of the size of the provident fund are as follows:

	2020 (Audited)		2019 (Audited)	
	investment	investment as % of size of the fund	Investment	investment as % of size of the fund
Mutual Funds	-	-	-	-
Team Deposit Receipts	<b>4,000,000.0</b>	<b>100%</b>	-	-
Scheduled Banks	-	-	-	-
	<b>4,000,000.0</b>	<b>100%</b>	-	-

Investments out of provident fund have been made in accordance with the provisions of sections 218 of companies Act, 2017 and the rules formulated for this purpose.

## 40 Corresponding figures

Corresponding figures have been rearranged or reclassified wherever necessary for the purpose of comparison and better presentation. However, no significant reclassifications have been made during the year except as given below:

Description	Form	To	2019 Rupees
Reclassification of Ijarah Assets-Cost	Plant & Machinery	Vehicle Cost	71,770
Reclassification of Ijarah Assets-accumulated depreciation	Plant and machinory	Vehicle Cost	(71,770)

The above reclassification does not have any meterial effect on information presented in the statment of financial position and cash flow. Therefore, third balance sheet has not been presented.

## 41 Date of authorization for issue

The unconsolidated financial statements of Modaraba were approved by the Directors of Modaraba Management Company and authorized for issue on 02, December 2020.

**Chief Financial Officer**  
Punjab Modaraba Services  
( Private ) Limited

**Chief Executive**  
Punjab Modaraba Services  
( Private ) Limited

**Director**  
Punjab Modaraba Services  
( Private ) Limited

**Director**  
Punjab Modaraba Services  
( Private ) Limited



# **Consolidated Financial Statements**

as at June 30, 2020





## Auditors' Report to the Certificate Holders

We have audited the annexed consolidated balance sheet of First Punjab Modaraba and its subsidiary (the Group) as at 30 June 2020 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the consolidated 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 consolidated financial statements are the Modaraba management company's (Punjab Modaraba Services (Private) 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 consolidated financial statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 First Punjab Modaraba and its subsidiaries as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and Modaraba Companies and Modaraba Rules, 1981;
- (b) In our opinion:
  - (i) the consolidated balance sheet and unconsolidated 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, except for the changes as stated in note 4.1, with which we concur;
  - (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 unconsolidated balance sheet, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at 30 June 2019 and of the profit, its comprehensive income its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

**EY Ford Rhodes**  
**Chartered Accountants**  
**Audit Engagement Partner: Farooq Hameed**  
**Lahore**  
**07 December, 2020**



# Consolidated Balance Sheet

As at 30 June 2020

## ASSETS

### Non current assets

	Note	2020 Rupees	2019 Rupees
Tangible fixed assets			
- Ijarah assets	5.1	509,909,085	363,711,083
- assets in own use	5.2	4,332,069	4,803,650
Intangible Assets	6	6,765,726	6,765,726
Long term investment	7	19,605,539	19,155,066
Long term musharika investment - secured	8	228,414,227	382,757,015
Long term morabaha investment - secured	9	8,821,104	9,053,126
Long term deposits	10	2,381,853	2,281,853
Deferred tax asset	11	64,398,663	64,398,663
		<b>844,628,266</b>	<b>852,926,182</b>

### Current assets

Short term morabaha investment - secured	12	290,546,077	294,796,541
Current maturity of long term investment	13	412,794,668	479,398,426
Ijarah rental receivable	14	272,887,424	300,162,866
Trade receivable	15	8,983,643	6,535,096
Advances, deposits, prepayments and other receivables	16	196,617,173	118,634,000
Tax refund due from government		5,945,010	5,871,699
Cash and bank balances	17	69,445,617	77,720,149
		<b>1,257,219,612</b>	<b>1,283,118,777</b>

## TOTAL ASSETS

## EQUITY AND LIABILITIES

### Operating (loss) / profit before provision

Authorized certificate capital 50,000,000 (30 June 2019: 50,000,000) modaraba certificates of Rs. 10 each		<b>500,000,000</b>	<b>500,000,000</b>
Issued, subscribed and paid-up certificate capital 34,020,000 (30 June 2019: 34,020,000) certificates of Rs. 10 each	18	<b>340,200,000</b>	<b>340,200,000</b>
Statutory reserves	19	<b>216,692,528</b>	<b>216,692,528</b>
Fair value reserve	19	<b>8,846,368</b>	<b>8,846,368</b>
Accumulated loss	19	<b>(435,710,622)</b>	<b>(379,965,427)</b>
		<b>130,028,274</b>	<b>185,773,469</b>

### Non current liabilities

Long term security deposits	20	<b>61,340,259</b>	<b>51,453,730</b>
Deferred morabaha income	21	<b>4,206,452</b>	<b>776,860</b>
Long term musharika finance - secured	22	<b>648,738,613</b>	<b>1,223,621,569</b>
		<b>714,325,324</b>	<b>1,275,852,159</b>

### Current liabilities

Current maturity of non current liabilities	23	<b>85,702,657</b>	<b>95,179,731</b>
Redeemable capital - participatory and unsecured	24	<b>1,013,549,225</b>	<b>445,518,493</b>
Profit payable	25	<b>37,742,338</b>	<b>40,771,650</b>
Trade and other payables	26	<b>102,700,068</b>	<b>74,174,754</b>
Provision for taxation		<b>381,651</b>	<b>1,217,325</b>
Unclaimed profit		<b>17,458,341</b>	<b>17,557,378</b>
		<b>1,257,534,280</b>	<b>674,419,331</b>

## TOTAL EQUITY AND LIABILITIES

### Contingencies and commitments

27

**2,101,847,878**

**2,136,044,959**

The attached notes 1 to 43 form an integral part of these financial statements.

Chief Financial Officer  
Punjab Modaraba Services  
(Private) Limited

Chief Executive  
Punjab Modaraba Services  
(Private) Limited

Director  
Punjab Modaraba Services  
(Private) Limited

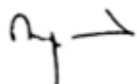
Director  
Punjab Modaraba Services  
(Private) Limited

# Consolidated Profit and Loss Account

For the Year Ended 30 June 2020

	Note	2020 Rupees	2019 Rupees
<b>Income</b>			
Income from ijarah rentals	28.1	64,229,845	42,919,970
Income from morabaha financing	28.2	10,246,204	7,459,176
Income from diminishing musharaka financing	28.3	110,808,247	117,576,608
Revenue from contract with customers	29	8,189,093	9,753,404
Gain on disposal of fixed assets	30	2,100,302	1,571,610
Other income	31	15,029,857	22,099,287
		<b>210,643,548</b>	<b>201,380,055</b>
<b>Expenses</b>			
Administrative expenses	32	51,648,886	52,178,334
Ijarah receivables written off		-	679,630
Finance cost	33	207,688,021	150,432,133
		<b>259,336,906</b>	<b>203,290,097</b>
<b>Operating (loss) before provision</b>		<b>(48,693,359)</b>	<b>(1,910,042)</b>
Reversal for impairment of ijarah assets		-	9,000,000
(Provision)/ Reversal against ijarah rentals	14.1	(293,700)	3,828,092
Provision against other receivable		-	(3,318,088)
(Provision)/ Reversal for musharikah investment	13.1	(7,051,617)	52,825
		<b>(7,345,317)</b>	<b>9,562,829</b>
<b>Operating (loss) / profit after provision and impairment</b>		<b>(56,038,676)</b>	<b>7,652,787</b>
<b>Modaraba Company's management fee</b>	34	-	-
		<b>(56,038,676)</b>	<b>7,652,787</b>
<b>Taxation</b>	35	156,992	631,681
<b>(Loss)/ Profit for the year</b>		<b>(56,195,668)</b>	<b>7,021,106</b>
<b>(Loss)/ Earnings per certificate - basic and diluted</b>		<b>(1.65)</b>	<b>0.21</b>

The attached notes 1 to 43 form an integral part of these unconsolidated financial statements.



**Chief Financial Officer**  
Punjab Modaraba Services  
( Private ) Limited



**Chief Executive**  
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( Private ) Limited



**Director**  
Punjab Modaraba Services  
( Private ) Limited



**Director**  
Punjab Modaraba Services  
( Private ) Limited



## Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2020

	2020 Rupees	2019 Rupees
<b>(Loss) / Profit for the year</b>	<b>(56,195,668)</b>	7,021,106
<b>Other Comprehensive that will not be reclassified to profit or loss in subsequent period:</b>	-	-
Gain on equity instrument designated at fair value through other comprehensive income	<b>450,473</b>	837,362
<b>Total comprehensive income for the year</b>	<b>(55,745,195)</b>	7,858,468

The attached notes 1 to 43 form an integral part of these financial statements.

**Chief Financial Officer**  
Punjab Modaraba Services  
( Private ) Limited

**Chief Executive**  
Punjab Modaraba Services  
( Private ) Limited

**Director**  
Punjab Modaraba Services  
( Private ) Limited

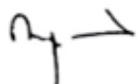
**Director**  
Punjab Modaraba Services  
( Private ) Limited

# Consolidated Cash Flow Statement

For the Year Ended 30 June 2020

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>Cash flow from operating activities</b>			
<b>Cash (used in) / generated from operations</b>	<b>40</b>	<b>210,088,980</b>	<b>76,870,114</b>
Profit paid on redeemable capital		<b>(69,980,950)</b>	(34,371,236)
Profit paid on musharikah finances		<b>(140,557,198)</b>	(96,561,229)
Taxes paid		<b>(1,065,976)</b>	(4,713,948)
		<b>(211,604,124)</b>	(135,646,413)
<b>Net cash used in operating activities</b>		<b>(1,515,144)</b>	<b>(58,776,299)</b>
<b>Cash flow from investing activities</b>			
Proceeds from disposal of fixed assets		-	66,500
Dividend Income		<b>675,180</b>	421,988
Intangible Assets Purchased		-	(265,726)
Purchase of fixed assets in own use	<b>5.2</b>	<b>(483,307)</b>	(1,685,258)
<b>Net cash generated from / (used in) investing activities</b>		<b>191,873</b>	<b>1,462,496</b>
<b>Cash flow from financing activities</b>			
Musharikah finances	<b>22</b>	<b>(574,882,956)</b>	30,126,534
Redeemable capital	<b>24</b>	<b>568,030,732</b>	45,518,493
Profit distributed among the certificate holders		<b>(99,037)</b>	(15,814,199)
<b>Net cash used in / generated from financing activities</b>		<b>(6,951,261)</b>	<b>59,830,828</b>
<b>Net (decrease) in cash and cash equivalents</b>		<b>(8,274,532)</b>	<b>(407,967)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>77,720,149</b>	<b>78,128,116</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>17</b>	<b>69,445,617</b>	<b>77,720,149</b>

The attached notes 1 to 43 form an integral part of these financial statements.




**Chief Financial Officer**  
Punjab Modaraba Services  
( Private ) Limited



**Chief Executive**  
Punjab Modaraba Services  
( Private ) Limited



**Director**  
Punjab Modaraba Services  
( Private ) Limited



**Director**  
Punjab Modaraba Services  
( Private ) Limited



# Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2020

	Certificate Capital	Capital Reserve Fair Value reserve	Statutory reserve	Revenue Reserve Accumulated loss	Total
	-----Rupees-----				
Balance as at 01 July 2018	340,200,000	8,009,006	211,960,411	(365,244,416)	194,925,001
Profit for the year	-	-	-	7,021,106	7,021,106
Other comprehensive income for the year	-	837,362	-	-	837,362
Total comprehensive income for the year	-	837,362	-	7,021,106	7,858,468
Transfer to statutory reserves	-		1,245,033	(1,245,033)	-
Adjustments to statutory reserve			3,487,084	(3,487,084)	
Profit distribution for the year ended 30 June 2018 at Rs. 0.5 per certificate	-	-	-	(17,010,000)	(17,010,000)
Balance as at 30 June 2019	340,200,000	8,846,368	216,692,528	(379,965,427)	185,773,469
Loss for the year	-	-	-	(55,785,195)	(55,785,195)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(55,785,195)	(55,785,195)
Balance as at 30 June 2020	340,200,000	8,846,368	216,692,528	(435,710,622)	130,028,274

The attached notes 1 to 43 form an integral part of these financial statements.

**Chief Financial Officer**  
Punjab Modaraba Services  
(Private) Limited

**Chief Executive**  
Punjab Modaraba Services  
(Private) Limited

**Director**  
Punjab Modaraba Services  
(Private) Limited

**Director**  
Punjab Modaraba Services  
(Private) Limited

# Notes to the Consolidated Financial Statements

For the year ended June 30, 2020

## 1. The Group and its Operations

### 1.1 The "Group" consists of:

#### Parent

First Punjab Modaraba

Subsidiary Company	Percentage of holding	
	2020	2019
Punjab Capital Securities (Private) Limited	100%	100%

First Punjab Modaraba (the Modaraba) was formed under the Modaraba Companies and Modaraba (Flotation and Control) Ordinance, 1980 and rules framed there under and is managed by Punjab Modaraba Services (Private) Limited (wholly owned subsidiary of The Bank of Punjab), a company incorporated in Pakistan. The registered office of the Modaraba is situated at 3rd floor, National Tower, Egerton Road, Lahore. The Modaraba commenced its operations on 23 December 1992. The Modaraba is listed on Pakistan Stock Exchange.

The Modaraba is a perpetual and multi-dimensional Modaraba and is primarily engaged in the business of Ijarah, Musharika and Morabaha financing, equity investment and other related businesses in accordance with the injunctions of Islam.

#### Punjab Capital Securities (Private) Limited

The Punjab Capital Securities (Private) Limited ("the Company") is registered under the repealed Companies Ordinance, 1984 (which is replaced by Companies Act 2017) as a company limited by shares on the 29th day of November 2016. The Company is mainly engaged in business of brokerage services, portfolio management and consultancy services. The registered office of the Company is situated at Room No 319, 3<sup>rd</sup> Floor, Lahore stock exchange (LSE) Building, Lahore.

### 1.2 Basis of Consolidation

The Group consolidated financial statements include the consolidated financial statements of the Modaraba and its subsidiary.

Subsidiary are fully consolidated from the date on which control is transferred to the Modaraba. They are deconsolidated from the date that control ceases. The consolidated financial statements of subsidiary have been consolidated on line by line basis. All significant inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated.

The Modaraba applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets



acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Modaraba recognizes any non-controlling interest in the acquiree on an acquisition- by-acquisition basis, at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. The consolidated financial statements of the Modaraba and its subsidiary are prepared upto the same reporting date using consistent accounting policies.

Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through income statement.

Any contingent consideration to be transferred by the Modaraba is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill, if any, is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in income statement. After initial recognition, is measured at carrying value i.e. cost at the date of acquisition less any accumulated impairment.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Modaraba ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Modaraba had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

### **Non-controlling interest**

The Group applies a policy of treating transactions with non- controlling interests as transaction with parties external to the Group. Disposals of non-controlling interests results in gain and losses for the Group that are recorded in the profit and loss account.

## **1.3 Management's Assessment of Going Concern**

In assessing the going concern status of the Modaraba, management has carefully assessed number of factors covering the performance of the business, business prospects and appetite of majority shareholder to continue financial support. Based on the analysis of these, management is comfortable that the Modaraba will be able to continue as a going concern in the foreseeable future.

During the year ended 30 June 2020, the Modaraba has incurred an operating loss of Rs. 55,310,891 which is mainly due to increase in finance cost. The accumulated losses, net of reserves, as at 30 June 2020 amount to Rs. 202,901,768 (2019: Rs.147,590,877) which exceeds fifty percent of the total amount subscribed by the holders of the Modaraba Certificates. Further the current liabilities of the Modaraba exceed its current assets by Rs.39,770,803 as at 30 June 2020.

In order to address going concern issue in terms of section 23 of the Modaraba Companies and Modarabas (Flotation and Control) Ordinance, 1980 (the Modaraba Ordinance), The Bank of Punjab (BOP) being the parent company of the Modaraba's Management Company' has planned to extend its due support in terms of capital injection. Further, BOP has confirmed that it shall continue to provide financial support to the Modaraba in order to mitigate the liquidity risk. The Modaraba is in process of obtaining relevant approvals from SECP to initiate real estate activities

On the basis of support and the arrangements as outlined above and the business plan prepared by the management which has been approved by the Board of Directors, the management is of the view that no material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and the Modaraba shall be able to operate on going concern basis in the foreseeable future. Consequently, these financial statements have been prepared reflecting these assumptions.

#### **1.4 Impact of COVID-19 on Financial Statements**

The COVID19 pandemic has disturbed the economy in multiple ways. From interrupted supply lines, multiple business closures to halted manufacturing plants, every industry has felt its impact. The Modaraba is primarily exposed in Transport sector which was one of the most affected categories.

On operational side, the office of the Modaraba could not be opened on regular / full day basis while customers' nature of business did not permit distant or online work. At the same time, customers' shutdowns gave rise to liquidity issues eventually leading to impaired repayments. On the other hand, fresh credit demand decreased significantly jolting the growth trail. Cumulatively, all the factors shunned the profitability of the Modaraba to a considerable extent.

In view of the relaxation provided by SECP for deferral of Principal and restructuring of loan, the Modaraba has rescheduled some of its Musharakah and Ijarah with its customers on the basis of written request of the customers which had no material impact on the carrying amounts of assets and liabilities or item of income and expenses as required under the relevant accounting and reporting standards, that require specific disclosure in the financial statements.

Due to overall uncertain situation about the impacts and duration for which such a situation will continue, the overall impact on the modaraba's financial position and financial performance cannot be predicted with reasonable certainty.



## 2. Basis of Preparations

These financial statements are the consolidated financial statements of the group in which investment in subsidiary is accounted for on the basis of acquisition method. Standalone financial statements of Modaraba and its subsidiary are prepared separately.

### 2.1 Statement of compliance

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

- International Financial Reporting Standards (IFRS Standards) issued by International Accounting Standards Board (IASB) as notified under Companies Act, 2017;
- Provisions of and directives issued under the Companies Act, 2017; and
- The requirements of Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and Prudential Regulations for Modarabas (hereinafter referred to as the relevant laws).

Where provisions and directives issued under Companies Act, 2017 and the relevant laws differ from IFRS Standards, the provisions and directives issued under Companies Act, 2017 and the relevant laws have been followed.

The SECP has issued directive (vide SRO 431 (I) / 2007 dated May 22, 2007) that Islamic Financial Accounting Standard 2 (IFAS 2) shall be followed in preparation of the financial statements by Companies and Modarabas while accounting for Lease Financing transactions as defined by the said standard. The Modaraba has adopted the said standard.

### 2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for certain financial assets and liabilities which are stated at their fair value or amortized cost as applicable.

### 2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees which is also the Modaraba's functional currency. All financial information presented in Pakistan Rupees has been rounded to the nearest rupee.

### 2.4 Significant accounting estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise judgment in application of the Modaraba's accounting policies. The estimates, judgment and associated assumptions are based on the management's experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an on-going basis.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both the current and future periods. The areas where various assumptions and estimates are significant to the Modaraba's financial statement or where judgment was exercised in the application of accounting policies are as follows:

#### **2.4.1 Depreciation/Amortization**

Estimates of residual values, useful lives and depreciation methods of fixed assets in own use and Ijarah assets (note 5)

#### **2.4.2 Provision against non-performing loans and advances**

The Modaraba reviews its portfolio to assess amount of non-performing contracts and provision required there against on a quarterly basis. The provision is made in accordance with the prudential regulations issued by Securities and Exchange Commission of Pakistan.

#### **2.4.3 Income taxes**

The Group takes into account relevant provisions of current income tax laws while providing for current and deferred tax.

#### **2.4.4 Provision against non performing financing (Suspense income)**

The Modaraba reviews its overdue ijarah rentals, morabaha receivable and musharika receivable at each reporting date to assess whether provision should be recorded in profit and loss account, in addition to the mandatory provisions required in accordance with the Prudential Regulations issued by the SECP. In particular, judgment by management is required in the estimation of the amount and the timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

### **3. New accounting standards / amendments and IFRS interpretations that are effective for the year ended 30 June 2020**

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

IFRS 16 – Leases

IFRIC 23 – Uncertainty over Income Tax Treatments

IFRS 9 – Prepayment Features with Negative Compensation – (Amendments)

IAS 28 – Long-term Interests in Associates and Joint Ventures – (Amendments)

IAS 19 – Plan Amendment, Curtailment or Settlement – (Amendments)

IFRS 3 – Business Combinations - Previously held Interests in a joint operation – (Amendments)



IFRS 11 – Joint Arrangements - Previously held Interests in a joint operation

IAS 12 – Income Taxes - Income tax consequences of payments on financial instruments classified as equity

IAS 23 – Borrowing Costs - Borrowing costs eligible for capitalization

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any material effect on the financial statements.

### 3.1 New accounting standards / amendments and IFRS interpretations that are not yet effective

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

	Effective date annual periods beginning on or after:
IFRS 3 - Definition of a Business (Amendment)	01 Jan 2020
IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reforms (Amendments)	01 Jan 2020
IAS 1 & IAS 8 - Definition of Material (Amendment)	01 Jan 2020
IFRS 16 - COVID 19 Related Rent Concessions (Amendments)	01 Jan 2020
IAS 1 - Classification of Liabilities as Current or Non Current (Amendments)	01 Jan 2022
IFRS 3 - Reference to the Conceptual Framework (Amendment)	01 Jan 2022
IFRS 16 - Property, Plant and Equipment: Proceeds before Intended Use (Amendment)	01 Jan 2022
IAS 37 Onerous Contracts – Costs of Fulfilling a Contract (Amendment)	01 Jan 2022
IFRS 9 - Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities (Amendment)	01 Jan 2022
IAS 41 - Agriculture – Taxation in fair value measurements (Amendment)	01 Jan 2022

The above standards and amendments are not expected to have any material impact on the Group consolidated financial statements in the period of initial application.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for annual reporting period beginning on or after January 01, 2020. The Group expects that such improvements to the standards will not have any material impact on the Group consolidated financial statements in the period of initial application.

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

<b>Standards</b>	<b>Effective date (annual periods beginning on or after)</b>
IFRS 1 – First time adoption of International Financial Reporting Standards	January 01, 2009
IFRS 14 – Regulatory Deferral Accounts	January 01, 2016
IFRS 17 – Insurance Contracts	January 01, 2022

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

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those of the previous year except for the change explained below:

##### **4.1 Change in accounting policy**

##### **IFRS 16- 'Leases'**

During the current year, the Group have adopted the IFRS 16 as issued by the International Accounting Standards Board (IASB) in January 2016.

IFRS 16 supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. As described in note 2.1 the Group has adopted IFAS 2 for Lease Financing Transactions as defined by the said standard. Therefore, IFRS 16 did not have an impact for leases where the Modaraba is the lessor.

The Modaraba adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Modaraba has not entered into any contract during the year as lessee. Therefore, the adoption of IFRS 16 did not have material impact on the amount recognized in the Balance Sheet, Profit & Loss Account Statement of Comprehensive Income, Statement of Cash Flows or Earnings Per Share as the Modaraba does not have any operating lease contract which is not short term or immaterial value.

## 4.2 Tangible fixed assets

### Assets in own use

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets' carrying amounts or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance expenses are charged to the profit and loss account as and when incurred.

Depreciation on all fixed assets is charged to profit and loss on straight line basis, so as to write off the historical cost of an asset over its estimated useful life at annual rates mentioned in note 5.2.

Residual values and the useful lives of the assets are reviewed at least at each financial year end and adjusted if impact on depreciation is significant.

Asset's residual values and useful lives are reviewed and adjusted. If appropriate at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The Group assesses at each balance sheet date whether there is any indication that fixed asset may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognized 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 repair and maintenance costs are charged to income during the period in which they are incurred. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset.

### 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 amounts or recognised as separate assets, as appropriate, only where it is probable that the future economic benefits associated with the assets will flow to the Modaraba and the cost of the items can be measured reliably. The useful lives and amortisation method are reviewed and adjusted, as appropriate, at each reporting 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.

Gain or loss on disposal of intangible assets, if any. Is taken to the profit and loss account in the period in which these arise.

### **Ijarah Assets**

Ijarah assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is charged to profit and loss account applying the straight line method whereby the cost of an asset less salvage value is written off over the period of facility, which is considered to be the estimated useful life of the asset. However, in the event the asset is expected to be available for re-ijarah, depreciation is charged over the economic life of asset using straight line basis. In respect of additions and disposals during the year, depreciation is charged proportionately from the date of delivery of assets to the date of its maturity / termination.

Ijarah income is recognized on an accrual basis as and when the rental becomes due.

### **4.3 Impairment (Including provision for potential ijarah losses and write offs)**

The carrying amount of the Modaraba's assets are reviewed at each reporting date to determine whether there is any indication of impairment in any asset or group of assets. If such an indication exists, the recoverable amount of the assets is estimated and impairment losses are recognised immediately as an expense in the profit and loss account. For loans and receivables, a provision for impairment is established when there is objective evidence that the Modaraba will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective profit rate.

Provision for non-performing leases, if any, is made in accordance with the requirements of the Prudential Regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan (SECP) and is charged to the profit and loss account in the current period. Outstanding balances in net investment in Ijarah finance are written off when there is no realistic prospect of recovery.

### **4.4 Ijarah rentals and Musharikah investments**

Ijarah rentals and Musharikah investments are stated net of provision and suspense income. Provision is recognized for Ijarah rentals receivable and musharikah investment, in accordance with the Prudential Regulations for Modarabas issued by Securities and Exchange Commission of Pakistan (SECP). Bad debts are written-off when identified.

### **4.5 Morabaha Investments**

Morabaha investments are stated net of provision. Provision is recognized for Morabaha investments in accordance with the Prudential Regulations for Modaraba's issued by the Securities and Exchange Commission of Pakistan. Bad debts are written off when identified.

Morabaha receivable are recorded by the Modaraba at the invoiced amount and disclosed as such in the balance sheet.

Purchase and sales under Morabaha and the resultant profit are accounted for on the culmination of Morabaha transaction.

The profit on that portion of sales revenue not due for payment are deferred by accounting



for a debit to “Unearned Morabaha Income” account with the corresponding credit to “Deferred Morabaha Income” account and shown in the balance sheet as a liability.

## 4.6 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand and cash with banks in current, savings and deposit accounts.

## 4.7 Financial instruments

### 4.7.1 Financial assets

#### Financial assets - initial recognition

The Group has adopted IFRS 9 Financial Instruments with effect from 1 July 2018. Accordingly, financial assets are classified, at initial recognition, and subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group business model for managing them. With the exception of trade debts and bank balance that do not contain a significant financing component or for which the Group has applied the practical expedient, the Modaraba initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade debts that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding.

This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset. There are no changes in classification and movement of the financial asset except log term investment.

#### Financial assets - subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- a) Financial assets at fair value through profit or loss
- b) Financial assets at amortized cost (debt instruments)
- c) Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)

- d) Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

#### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

The Modaraba does not have financial assets recorded at fair value through profit or loss.

#### **Financial assets at amortized cost (debt instruments)**

This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- a) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group financial assets at amortized costs includes advances, deposits, prepayments and other receivables, ijarah rental receivables, musharikhah investment, morabaha investment and long term deposits.

#### **Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)**

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group does not have equity instruments recorded at fair value through OCI with no recycling of cumulative gains and losses upon derecognition.

### **Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)**

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- a) The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group does not have debt instruments recorded at fair value through OCI with recycling of cumulative gains and losses.

### **Financial assets - Derecognition**

A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is primarily derecognized when:

- a) The rights to receive cash flows from the asset have expired; or
- b) The group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

### **Financial assets - Impairment**

The Group recognizes an allowance for expected credit losses ("ECL") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Group considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

However, NBFI & Modaraba Association of Pakistan, based on the clarification of the SECP, have informed all its members that the provisioning criteria will remain those as framed under Modaraba Ordinance, 1980 and Rules & Regulations framed therein. Accordingly, the Modaraba has maintained provision against financing assets in accordance with relevant laws applicable to Modaraba.

Securities and Exchange Commission of Pakistan (SECP) through its S.R.O No. 985 (1) / 2019 dated 2nd September 2019, in partial modification of its previous S.R.O 229 (1) / 2019 dated February 14, 2019 notified that , in respect of companies holding financial assets due from Government of Pakistan, the requirement contained in 'IFRS-9 (Financial Instruments ) with respect to application of Expected credit lossess method" shall not be applicable till 30 June 2021, provided that the company follow relevant requirement of IAS-39 'Financial instruments: Recognition and Measurement', in respect of above referred financial assets during the exemption period. Consequently, these consolidated financial statements do not include the impact of ECL method in respect of 'Tax refunds due from government'.

For bank balances, the Group applies a simplified approach in calculating ECLs based on lifetime expected credit losses. The Group reviews internal and external information available for each bank balance to assess expected credit loss and the likelihood to receive the outstanding contractual amount. The expected credit losses are recognized in the statement of profit or loss.

Upon adoption of IFRS 9, the Group has no material impact on amounts in the statement of financial position as the current methodology adequately reflects requirements of the new standards.

## 4.7.2 Financial liabilities

### Financial liabilities - initial recognition

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group financial liabilities include deferred morabaha income, redeemable capital, trade and other payables, unclaimed profit, profit payable and long term musharikah finance.

### Financial liabilities - subsequent measurement

#### Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

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

This category applies to long term loans, short term borrowings utilized under mark-up arrangements, creditors, liabilities against assets subject to finance lease, accrued and other liabilities.

### Financial liabilities - derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of profit or loss.

### Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the financial statements when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on net basis, or realize the asset and settle the liabilities simultaneously.

## 4.8 Finance arrangements including Certificates of Musharikah

These are carried on the balance sheet at principal amount.

Profits on these arrangements are recognized as expense in the period in which they incur.

Profit on Musharikhah finance is accounted for 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 each year after determination of the actual rate.

#### **4.9 Provisions**

Provisions are recognized when the Modaraba has a 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 are adjusted to reflect the current best estimate.

#### **4.10 Staff retirement benefit**

#### **4.11 Defined contribution plan**

The Modaraba operates a recognized provident fund for all eligible employees. Equal monthly contributions @ 8.33% of the basic salary are made to the fund both by the Modaraba and employees.

#### **Defined benefit plan**

The Modaraba operates an un-funded gratuity scheme for its eligible employees completing prescribed period of service in accordance with service rules of the Modaraba. Provision is made for gratuity in accordance with the requirements laid down by IAS 19. The actuarial gains and losses are recognized in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognized in other comprehensive income with no subsequent recycling to profit and loss.

#### **4.12 Revenue recognition**

##### **Ijarah rentals**

Ijarah rentals are recognized as income on accrual basis, as and when rentals become due.

Documentation charges, front-end fee and other Ijarah income are recognized as income on receipt basis. Unrealized Ijarah income pertaining to non-performing Ijarah is held in suspense account, where necessary, in accordance with the requirements of the Prudential Regulations (PR).

##### **Morabaha transaction**

Profit on morabaha transaction is recognized over the period the payment becomes due. The unearned portion is reflected as deferred morabaha income.

Profit on musharikhah arrangement is recognized under the effective interest rate, based on the amount outstanding.



## **Profit on bank deposit**

Return on bank deposits are recognized on accrual basis, using effective interest rate method.

## **Capital gain or losses on sale of investment**

Capital gain / loss on investment is recognized on sale of the respective investments.

## **Dividend income**

Dividend income on equity instruments is recognized when the right to receive the same is established.

## **Commission income**

Commission income is recognized on accrual basis.

### **4.13 Trade date accounting**

All 'regular way' purchases and sales of quoted equity securities are recognized on the trade date i.e. the date that the Modaraba commits to purchase/sell the asset. 'Regular way' purchases or sales of quoted investments require delivery within three working days after the transaction date as per stock exchange regulations.

### **4.14 Profit distribution and appropriations**

Profit distribution and appropriation to reserves are recognized as liability in the financial statements in the period in which these are approved. Transfer to statutory reserve and any of the mandatory appropriations, as may be required by law, are recognized in the period to which these relate.

### **4.15 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. The income of non-trading modarabas is exempt from tax provided that not less than 90% of their profits are distributed to the certificate-holders as reduced by amount transferred to a mandatory reserve as required under the provisions of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) are distributed to the certificate holders.

#### **Deferred**

The Group accounts for deferred taxation using the balance sheet liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. The carrying amount of all deferred tax assets is reviewed at each balance sheet

date and reduced to the extent, if it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the profit and loss account.

#### 4.16 Earnings per certificate

Earnings per certificate is calculated by dividing the profit after taxation for the year by weighted average number of certificates outstanding during the year. Diluted earnings per certificate is determined by adjusting the profit or loss attributable to ordinary certificate holders by taking into account the conversion of any diluted potential ordinary certificate.

#### 4.17 Segment reporting

EAs per IFRS 8 - 'Operating Segments', operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision maker. The chief executive officer of the management company has been identified as the chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments.

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

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>5. TANGIBLE FIXED ASSETS</b>			
Leased assets	<b>5.1</b>	<b>509,909,085</b>	363,711,083
Assets in own use	<b>5.2</b>	<b>4,332,069</b>	4,803,650
		<u><b>514,241,154</b></u>	<u>368,514,733</u>

## 5.1 Ijarah assets

Description	COST			DEPRECIATION			IMPAIRMENT			NET BOOK VALUE			
	As at 1 July 2019	As at Additions	Transfer	As at 30 June 2020	As at 1 July 2019	Charge for the year	As at 30 June 2020	Reversal for the year	Transfer	As at 30 June 2020	As at 30 June 2020	Depreciation Rate	
-----Rupees-----													
Plant and machinery	642,157,200	7,068,305	(110,450,364)	538,775,141	513,388,434	9,944,191	(102,648,629)	420,685,996	20,593,102	-	-	20,593,102	97,498,043 As per term
Vehicle	394,687,833	270,220,536	(113,717,770)	551,190,599	150,755,909	67,094,817	(40,025,625)	177,825,101	1,104,397	-	-	1,104,397	372,261,101 As per term
Cessna aircraft	13,552,604	-	-	13,552,604	13,552,604	-	-	13,552,604	-	-	-	-	- As per term
Consumer products	24,103,475	49,824,249	(9,715,800)	64,211,924	11,395,583	19,818,157	(7,151,757)	24,061,983	-	-	-	-	40,149,941 As per term
	1,074,501,112	327,113,090	(233,883,934)	1,167,730,268	689,092,530	96,857,165	(149,826,011)	636,123,684	21,697,499	-	-	21,697,499	509,909,085

Description	COST			DEPRECIATION			IMPAIRMENT			NET BOOK VALUE		
	As at 1 July 2018	Additions	Transfer	As at 30 June 2019	As at 1 July 2018	Charge for the year	As at 30 June 2019	As at 1 July 2018	Reversal for the year	Transfer	As at 30 June 2019	Depreciation Rate
												%

**5.1.1** Transfers represent the assets disposed through negotiation after expiry / termination of Ijarah. However, in view of large number of disposals, detail of each disposal has not been given.

**5.1.2** The Gross Carrying amount (cost) of fully depreciated assets that are still in use amounts to Rs. 553,815,454 (30 June 2019 : Rs. 634,195,971).

## 5.2 Assets in own use

Description	COST			DEPRECIATION		NET BOOK VALUE	
	As at 1 July 2019	Additions	Disposal	As at 30 June 2020	Charge for the year	As at 30 June 2020	Depreciation Rate
-----Rupees-----							
Office Equipment	3,306,762	63,730	-	3,370,492	364,846	2,471,629	15% & 30%
Furniture & Fixtures	2,725,941	381,777	-	3,107,718	311,186	1,674,161	15%
Vehicles	2,174,400	-	-	2,174,400	129,566	538,940	20%
Computer Equipments	1,175,180	37,800	-	1,212,980	149,290	848,791	20%
	<b>9,382,283</b>	<b>483,307</b>	<b>-</b>	<b>9,865,590</b>	<b>954,888</b>	<b>5,533,521</b>	
						<b>4,332,069</b>	

Description	COST			DEPRECIATION		NET BOOK VALUE	
	as at 1 July 2018	Additions	Disposal/ Adjustment	As at 30 June 2019	Charge for the year	As at 30 June 2019	Depreciation Rate
-----Rupees-----							
Office equipment	3,156,804	285,258	(135,300)	3,306,762	393,908	2,106,783	15% & 30%
Furniture and fixtures	2,698,441	27,500	-	2,725,941	301,716	1,362,975	15%
Vehicles	801,900	1,372,500	-	2,174,400	245,631	409,374	20%
Computer Equipments	1,175,180	-	-	1,175,180	203,855	699,501	20%
	<b>7,832,325</b>	<b>1,685,258</b>	<b>(135,300)</b>	<b>9,382,283</b>	<b>1,145,110</b>	<b>4,578,633</b>	
						<b>4,803,650</b>	

**5.2.1** The Gross Carrying amount (cost) of fully depreciated assets that are still in use amounts to Rs. 1,459,609 (30 June 2019 : Rs. 1,459,609).



	<u>Note</u>	<u>2020 Rupees</u>	<u>2019 Rupees</u>
<b>6 Intangible assets</b>			
LSE room	<b>6.1</b>	<b>4,265,726</b>	4,265,726
Trading right entitlement certificate (TREC)	<b>6.2</b>	<b>2,500,000</b>	2,500,000
Computer Software	<b>6.3</b>	-	-
		<b>6,765,726</b>	6,765,726

#### 6.1 LSE room

Cost		<b>4,265,726</b>	4,000,000
Addition/deletion during the year	<b>6.1.1</b>	<b>265,726</b>	265,726
(Reversal) / recognition of revaluation surplus		-	-
		<b>4,265,726</b>	4,265,726

This represents cost of right to use room given by LSE Financial Services Limited with indefinite useful life. These are considered to be indefinite as there is no foreseeable limit on the period during which an entity expects to consume the future economic benefits. The right to use the room was purchased on 24 April 2017 amounting to Rs.4,374,500.

**6.1.1** This represents charges in respect of transfer of right to use LSE room in the name of the Company.

	<u>Note</u>	<u>2020 Rupees</u>	<u>2019 Rupees</u>
<b>6.2 Trading right entitlement certificate (TREC)</b>			
Carrying value		<b>2,500,000</b>	2,500,000
Impairment in value of TREC		-	-
		<b>2,500,000</b>	2,500,000
Cost		<b>5,000,000</b>	5,000,000

This represents the trading right entitlement certificate by Pakistan Stock Exchange in order to carry out trading. In the year ended 30 June 2018, SECP has reduced the notional value of transferable TRE Certificate from Rs.5 million to Rs.2.5 million for the purpose of Base Minimum Capital (BMC) through its notification PSX/N-7178 dated 10 November 2017.

Further, the TREC is under lien in favor of PSX to meet the requirement of Base Minimum Capital (BMC) of the Risk Management Regulation of PSX Rule Book.

	<u>Note</u>	<u>2020 Rupees</u>	<u>2019 Rupees</u>
<b>6.3 Computer Software</b>			
Cost		<b>1,295,000</b>	1,295,000
Amortization		<b>(1,295,000)</b>	(1,295,000)
		-	-
Rate of amortization		<b>20%</b>	20%

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>7 LONG TERM INVESTMENT</b>			
843,975 (June 2019 : 843,975) Shares of LSE Financial Services Limited	<b>7.1</b>	<b>19,155,066</b>	10,308,698
Effect of application of IFRS 9		-	8,009,006
Other comprehensive income		<b>450,473</b>	837,362
		<b>19,605,539</b>	19,155,066

**7.1** In absence of active market for shares of LSE Financial Services Limited, it is measured using net asset value of 23.23 (2019: 22.70), which approximates the fair value of shares of LSE Financial Services Limited as majority assets held by LSE Financial Services Limited are carried at revaluation/fair value model.

**7.2** LSE Financial Services Limited shares are under lien in favor of PSX to meet the requirement of Base Minimum Capital (BMC) of the Risk Management Regulation of PSX Rule Book.

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>8 Long term musharikah investment - secured</b>			
Long term musharikah investment	<b>8.1</b>	<b>650,894,432</b>	866,449,630
Less: Current portion of long term musharikah investment	<b>13</b>	<b>(422,480,205)</b>	(483,692,615)
		<b>228,414,227</b>	382,757,015

**8.1** The profit charged on these facilities ranged from 8.55% to 22.55% per annum (2019: 8.55% to 19.41% per annum). These facilities are secured by way of personal guarantees and mortgage of properties.

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>9 Long term morabaha investment - secured</b>			
Long term morabaha investment	<b>9.1</b>	<b>21,619,598</b>	20,036,259
Add: Unearned morabaha income	<b>9.2</b>	<b>2,077,112</b>	2,232,204
		<b>23,696,710</b>	22,268,463
Less: Current portion of long term morabaha investment	<b>13</b>	<b>(12,489,038)</b>	(11,799,993)
		<b>11,207,672</b>	10,468,470
Less: Current portion of unearned morabaha income	<b>13</b>	<b>(2,386,568)</b>	(1,415,344)
		<b>8,821,104</b>	9,053,126

**9.1** These are secured against mortgage of properties, hypothecation and pledge of stocks, personal guarantees and demand promissory notes. The rate of profit on morabaha finances ranges from 8.50% to 23% per annum (2019: 8% to 23%).



**9.2** These represent receivables against morabaha transactions on deferred payment basis at a specified profit margin.

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>10 LONG TERM SECURITY DEPOSITS</b>			
National clearing company of Pakistan limited (NCCPL)		<b>1,500,000</b>	1,400,000
Central depository company Pakistan stock exchange (PSX)		<b>192,500</b>	192,500
Others		<b>576,909</b>	576,909
		<b>112,444</b>	112,444
		<b>2,381,853</b>	2,281,853

## **11 Deferred tax**

### **First Punjab Modaraba**

**11.1**

**64,398,663**

**64,398,663**

**11.1** This represents deferred tax asset created against brought forward losses and depreciation & amortization expense available for use in future. The management is confident that sufficient taxable profits will be available to set off these losses. Further, the management does not intend to avail exemption under clause 100 of Part 1 of Second Schedule to the Income Tax Ordinance 2001.

The aggregate deferred tax asset available to the Modaraba for set off against future taxable profits as at 30 June 2020 amounted to Rs. 166.92 million (30 June 2019: Rs. 118.07 million). Of these, deferred tax asset aggregating Rs. 66.39 million (30 June 2019: Rs 66.39 million) have been recognized in the financial statements. Due to uncertainty with regard to availability of future taxable profits for utilization of deferred tax assets, the management has not recognized deferred tax assets amounting to Rs. 102.52 million (2019: Rs. 53.67 million) for the year.

Expiry of alternate corporate tax, business and depreciation losses are as follows:

<u>Tax year</u>	<u>Nature</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
2024	Alternate corporate tax	<b>9,816,975</b>	9,816,975
2025	Alternate corporate tax	<b>16,739,766</b>	16,739,766
2026	Alternate corporate tax	<b>3,489,927</b>	3,489,927
2027	Alternate corporate tax	<b>4,016,478</b>	4,016,478
2028	Alternate corporate tax	<b>4,711,236</b>	4,711,236
2029	Alternate corporate tax	<b>1,136,970</b>	1,136,970
2030	Alternate corporate tax	-	-
		<b>39,911,352</b>	39,911,352

Expiry of business and depreciation losses are as follows:

<u>Tax year</u>	<u>Nature</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
2023	Business loss	5,781,136	5,781,136
2024	Business loss	7,275,839	7,275,839
2025	Business loss	1,639,442	76,505
2026	Business loss	22,232,390	-
		<u>36,928,807</u>	<u>13,133,480</u>
No Expiry	Depreciation and amortization loss	25,472,237	573,435
2025	Minimum tax	55,870	55,870
2026	Minimum tax	156,992	-
		<u>212,862</u>	<u>55,870</u>

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>12 Short term morabaha investment-secured</b>			
Short term morabaha Investment	12.1	521,591,548	525,782,308
Add: Unearned morabaha income	12.2	4,515,908	4,575,612
		526,107,456	530,357,920
Less: Provision for doubtful morabaha Investment	12.3	(235,561,379)	(235,561,379)
		<u>290,546,077</u>	<u>294,796,541</u>

**12.1** These are secured against mortgage of properties, hypothecation and pledge of stocks, personal guarantees and demand promissory notes. The rate of profit on morabaha finances ranges from 16.29% to 19.45% per annum (2019: 12.53% to 24.50% per annum).

**12.2** These represent receivables against morabaha transactions on deferred payment basis at a specified profit margin.

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>13 Current maturity of long term investment</b>			
Current portion of long term musharika investment	8	422,480,205	483,692,615
Less: Provision against musharika investment	13.1	(15,761,143)	(8,709,526)
		<u>406,719,062</u>	<u>474,983,089</u>
Current portion of long term morabaha investment	9	12,489,038	11,979,993
Add: Unearned morabaha income	9	2,386,568	1,415,344
Less: Provision against morabaha investment	13.2	(8,800,000)	(8,800,000)
		<u>6,075,606</u>	<u>4,415,337</u>
		<u>412,794,668</u>	<u>479,398,426</u>



	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>13.1 Provision against musharika investment</b>			
Opening balance		8,709,526	8,762,351
Additions during the year			
Specific provision		10,561,330	-
General provision		-	-
		10,561,330	-
Reversed during the year		(3,509,713)	(52,825)
Closing balance		15,761,143	8,709,526
<b>13.2 Provision for doubtful morabaha investment</b>			
Opening balance		8,800,000	8,800,000
Charge during the year		-	-
Closing balance		8,800,000	8,800,000
<b>14 Ijarah rental receivables</b>			
Ijarah rental receivable		428,484,372	456,145,744
Less: Provision against ijarah rental receivable	14.1	(155,596,948)	(155,303,248)
Less: Ijarah receivables written off		-	(679,630)
		272,887,424	300,162,866
<b>14.1 Provision against ijarah rental receivable</b>			
Opening balance		155,303,248	159,480,340
Additions during the year		293,700	27,654
Transfers during the year		-	-
Reversals during the year		-	(4,204,746)
Closing balance		155,596,948	155,303,248
<b>14.2 Future Ijarah rentals receivable</b>			
Aggregate amount of future ijarah rentals receivable on the basis of agreements executed up to 30 June 2020 are as follows:			
Up to one year		175,733,168	107,479,972
Above one year and up to five year		266,958,991	189,812,614
		442,692,159	297,292,586

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>15 TRADE RECEIVABLES</b>			
Receivable against margin financing		<b>5,879,854</b>	3,208,388
Receivable from NCCPL		<b>2,839,675</b>	2,978,311
Other receivables	<b>15.1</b>	<b>264,114</b>	348,397
		<b>8,983,643</b>	6,535,096

**15.1 Aging Analysis**

Within 5 days	<b>35,918</b>	111,788
Above 5 days	<b>228,196</b>	236,609
	<b>264,114</b>	348,397
Receivables above 5 days net-off collateral (after applying haircut)	<b>171,012</b>	88,986

**15.1.1** As per clarifications issued by PSX in its notice PSX/N-6741 this information is required as additional disclosure and does not provide accounting treatment hence no provision was recorded.

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>16 Advances, deposits, prepayments and other receivables</b>			
Profit receivable			
- Morabaha investment	<b>16.1</b>	<b>10,535,511</b>	7,483,463
- Musharikah investment	<b>16.2</b>	<b>36,979,801</b>	19,666,546
		<b>47,515,312</b>	27,150,009
Prepayments		<b>3,343,952</b>	4,319,626
Advances		<b>2,807,424</b>	2,229,584
Advances to suppliers		<b>119,585</b>	119,585
Advances to employees	<b>16.4</b>	-	116,914
Security Deposit	<b>16.5</b>	<b>8,900,000</b>	9,900,000
Non-banking assets		<b>31,782,500</b>	18,775,000
Accrued mark up on margin financing		<b>44,511</b>	390,129
Other receivables		<b>113,232,181</b>	66,761,445
		<b>207,745,465</b>	129,762,292
Less: Provision for non performing assets	<b>16.3</b>	<b>(11,128,292)</b>	(11,128,292)
		<b>196,617,173</b>	118,634,000

**16.1 Morabaha profit receivable**

Morabaha profit receivable		<b>37,656,836</b>	33,618,060
Less: Income transferred to suspense	<b>16.1.1</b>	<b>(27,121,325)</b>	(26,134,597)
		<b>10,535,511</b>	7,483,463



	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>16.1.1 Income transferred to suspense</b>			
Opening balance		<b>26,134,597</b>	26,134,597
Addition during the year	<b>28.2</b>	<b>986,728.00</b>	-
Suspension written off		-	-
Closing balance		<b>27,121,325</b>	26,134,597
<b>16.2 Musharikah profit receivable</b>			
Musharikah profit receivable		<b>56,869,751</b>	36,518,275
Less: Income transferred to suspense	<b>16.2.1</b>	<b>(19,889,950)</b>	(16,851,729)
		<b>36,979,801</b>	19,666,546
<b>16.2.1 Income transferred to suspense</b>			
Opening balance		<b>16,851,729</b>	11,677,261
Addition during the year	<b>28.3</b>	<b>6,555,237</b>	6,467,843
Reversal of suspension during the year	<b>28.3</b>	<b>(3,517,016)</b>	(1,293,375)
Closing balance		<b>19,889,950</b>	16,851,729
<b>16.3 Provision against other receivables</b>			
Opening balance		<b>11,128,292</b>	7,810,204
Additions during the year		-	3,318,088
Closing balance		<b>11,128,292</b>	11,128,292

**16.4** This includes advances to employees on account of expenses.

**16.5** This represents deposits with the Pakistan Stock Exchange Limited against regular trade and future trade exposure.

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>17 Cash and bank balances</b>			
Cash at banks			
- Current accounts	17.1	23,088,619	30,201,397
- Deposit accounts	17.2&17.3	46,046,049	47,104,509
- Savings accounts	17.2&17.3	49,509	393,411
- Current account with State Bank of Pakistan	17.4	65,249	15,249
		<b>69,249,426</b>	77,714,566
Cash in hand		196,191	5,583
		<b>69,445,617</b>	77,720,149

**17.1** The balance of Rs. 3.89 million (2019: Rs.17.98 million) is maintained with The Bank of Punjab (the holding company of the Modaraba's Management Company).

**17.2** Under the terms and conditions for the issuance of certificates of musharikhah (both long and short term), the Modaraba is required to maintain a Redemption Reserve Fund equal to at least 5% of the contribution against Certificates of Musharikhah Finance received, which may be utilized for redemption purposes.

**17.3** The rate of profit on deposit and saving accounts ranges between 4.25% to 13.00% per annum (2019: 4.25% to 13.13% per annum).

**17.4** This account has been opened for payment of online charges of the Credit Information Bureau of State Bank of Pakistan.

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>18 Issued, suscribed and paid up capital</b>			
<u>2020</u>			
<u>2019</u>			
------(Number of Certificates)-----			
<b>20,000,000</b>		<b>200,000,000</b>	200,000,000
20,000,000			
<b>14,020,000</b>		<b>140,200,000</b>	140,200,000
14,020,000			
<b>34,020,000</b>		<b>340,200,000</b>	340,200,000
34,020,000			

**18.1** As at 30 June 2020, The Punjab Modaraba Services (Private) Limited (the management company) held 13,320,694 (2019: 13,320,694) certificates of Rs. 10 each.



	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>19 Reserves</b>			
<b>Capital reserve</b>			
Statutory reserve	19.1	210,171,726	216,692,528
Revaluation surplus		-	-
Fair value reserve		8,846,368	8,846,368
		<b>225,538,896</b>	225,538,896
<b>Revenue reserves</b>			
Accumulated loss		(435,750,622)	(379,965,427)
		<b>(210,211,725)</b>	(154,426,531)

**19.1** This represents profit set aside to comply with the Prudential Regulations for Modarabas issued by Securities and Exchange Commission of Pakistan requiring modaraba to transfer not less than 20% and not more than 50% of its profits after tax in such manner that reserves equal 100% of the paid up capital. Thereafter a sum not less than 5% of the profit after tax is to be set aside.

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>20 Long term security deposits</b>			
Long term security deposits against Ijarah		144,656,348	140,602,505
Less: Current maturity of security deposits	23	(83,316,089)	(89,148,775)
		<b>61,340,259</b>	51,453,730
<b>21 Deferred morabaha income</b>			
Deferred morabaha income	9 & 12	6,593,020	6,807,816
Less: Current maturity of deferred morabaha income		(2,386,568)	(6,030,956)
		<b>4,246,452</b>	776,860
<b>22 Long term musharikhah finance secured</b>			
Opening balance		1,223,621,569	1,193,495,035
Additions during the year		2,378,250,696	1,176,941,616
Less: Paid during the year		(2,953,582,615)	(1,146,815,082)
		<b>(575,331,919)</b>	30,126,534
	<b>22.1</b>	<b>648,289,650</b>	1,223,621,569

**22.1** The Modaraba has availed musharikhah finance facilities from The Bank of Punjab having approved limits of Rs. 1,585 million (2019: Rs. 1,585 million) maturing latest by 31 October 2020. These facilities are secured by way of first pari passu charge over present and future fixed assets of Modaraba for amount of Rs. 860 million, first pari passu charge over present and future current assets of Modaraba for an amount of Rs. 1,040 million and ranking charge over present and future current assets for an amount of Rs. 860 million. The estimated share of profit payable on musharikhah facilities is 3 month KIBOR per annum (2019: 3 month KIBOR per annum).

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>23 Current maturity of non current liabilities</b>			
Current maturity of long term security deposits	<b>23.1</b>	<b>83,316,089</b>	89,148,775
Current maturity of deferred morabaha income	<b>21</b>	<b>2,386,568</b>	6,030,956
		<b>85,702,657</b>	95,179,731

**23.1** This includes security deposit amounting to Rs. 82.70 million (2019: Rs.82.70 million) against those ijarah where the customers have defaulted payment of rentals and the Modaraba has filed suits for recovery.

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>24 Redeemable capital - participatory and unsecured</b>			
Opening balance		<b>445,518,493</b>	400,000,000
Add: Issued during the year		<b>2,410,030,732</b>	51,018,493
Add: Re- issued during the year		<b>105,000,000</b>	400,000,000
Less: Redeemed during the year		<b>(1,947,000,000)</b>	(405,500,000)
		<b>568,030,732</b>	45,518,493
Closing balance	<b>24.1</b>	<b>1,013,549,225</b>	445,518,493

**24.1** The Certificates of Musharaka have been issued with a maturity of upto 9 months. The share of profit payable ranges from 5.35% to 13.75% per annum (2019: 6.50% to 12.75%).

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>25 Profit payable</b>			
Musharikah finance		<b>18,685,681</b>	34,609,950
Redeemable capital		<b>19,056,657</b>	6,161,700
		<b>37,742,338</b>	40,771,650

## 26 Trade and other payables

Accrued expenses	<b>26.1</b>	<b>3,859,647</b>	2,421,217
Trade Payable		<b>22,314,774</b>	11,518,564
Tax deducted at source		<b>817,321</b>	806,214
Advances against ijarah / morabaha / musharikah		<b>57,114,805</b>	51,713,709
Other payables		<b>18,593,521</b>	7,715,050
		<b>102,700,068</b>	74,174,754

**26.1** This Includes amount in respect of gratuity payable to employees amounting to Rs. 3.66 million (2019: 2 million).

## 27 Contingencies and commitments

### 27.1 Contingencies

**27.1.1** The assessing officer, while finalizing assessments for the years 1997-98 and 1998-99, made add backs out of profit and loss account. The Modaraba had filed an appeal before the Commissioner of Income Tax (Appeals) (CIT-(A)), who has rejected the appeals. The Modaraba has filed an appeal, against the order of CIT-(A), before the honorable Income Tax Appellate Tribunal, which has been decided in favor of Modaraba, however Income Tax Department has filed appeal before honorable Lahore High Court. Modaraba management company expects a favorable outcome of the case.

**27.1.2** Additional Commissioner Inland Revenue (ACIR) issued order under section 122 (5A) of the Income Tax Ordinance, 2001, (the Ordinance) for tax year 2003 while rejecting the exemption claimed from tax under Clause 100 of Part I of Second Schedule to the Ordinance and made additions on account of provision for bad debts, which resulted in a tax liability of Rs. 27.410 million. The Modaraba filed a rectification application under section 221 of the Ordinance for reducing the tax rate from 35% to 25%, resultantly the rectification order passed by the tax department and reduced the tax liability to Rs. 14.580 million. The Modaraba also filed an appeal before the CIR (Appeals) for tax year 2003 against the order of ACIR. In this regard, after hearing of the appeal, the CIR (Appeals) by accepting the claim of exemption has issued a favorable order to the Modaraba while deleting the tax liability of Rs. 14,580,110 vide order No. 31 dated 27 June 2009. The income tax department has filed an appeal before Appellate Tribunal Inland Revenue against the order of CIR (Appeals) which was decided in favor of the Modaraba. The Income Tax Department has filed reference in High Court against decision of Appellate Tribunal Inland Revenue which is pending for adjudication. Modaraba management company expects a favorable outcome of the case.

**27.1.3** Additional Commissioner Inland Revenue (ACIR) issued order under section 122 (5A) of the Income Tax Ordinance, 2001, (the Ordinance) for tax year 2005 while rejecting the exemption claimed from tax under Clause 100 of Part I of Second Schedule to the Ordinance in an arbitrary manner and assessing the taxable income at Rs. 49.85 million and tax liability at Rs. 17.67 million. The Modaraba filed a rectification application under section 221 of the Ordinance for reducing the tax rate from 35% to 25%. Further, the Modaraba has filed an appeal before the CIR (Appeals) for tax year 2005 against this order. In this regard, after hearing of the appeal, the CIR (Appeals) by accepting the claim of exemption has issued a favorable order to the Modaraba while deleting the tax liability of Rs. 17.67 million.

The income tax department has filed an appeal before Appellate Tribunal Inland Revenue against the order of CIR (Appeals) which was decided in favor of the Modaraba. Subsequent to year end the Income Tax Department has filed reference in High Court against decision of Appellate Tribunal Inland Revenue which is pending for adjudication. Modaraba management company expects a favorable outcome of the case.

#### **27.1.4 Legal suits against Modaraba**

Suit for rendition of account Rs. 22.145 million filed by a defaulter against the Modaraba. The suit is pending in Honorable Banking Court. The management is of the view that case has no merit and would be disposed off in favor of the Modaraba.

## 27.2 Commitments

**26.2.1** Musharikhah commitments approved but not disbursed as on balance sheet date amount to Nil (2019: Rs.10.85 million).

	<b>Note</b>	<b>2020 Rupees</b>	<b>2019 Rupees</b>
<b>28 Operating income</b>			
<b>28.1 Income from Ijarah rentals</b>			
Ijarah income		<b>161,087,010</b>	104,961,205
Add: Reversal of rentals suspended	<b>14.1</b>	-	349,000
Less: Depreciation on ijarah Assets		<b>(96,857,165)</b>	(62,390,235)
		<b>64,229,845</b>	42,919,970
<b>28.2 Income from morabaha financing</b>			
Morabaha investment		<b>11,232,932</b>	7,459,176
Less: Rental suspended		<b>(986,728)</b>	-
		<b>10,246,204</b>	7,459,176
<b>28.3 Income from diminishing musharaka financing</b>			
Musharikhah investment		<b>113,846,468</b>	122,751,076
Add: Reversals of rentals suspended	<b>16.2.1</b>	<b>3,517,016</b>	1,293,375
Less: Rentals suspended	<b>16.2.1</b>	<b>(6,555,237)</b>	(6,467,843)
		<b>110,808,247</b>	117,576,608
<b>29 REVENUE FROM CONTRACT WITH CUSTOMERS</b>			
Gross brokerage income		<b>9,748,920</b>	11,319,329
Federal excise duty		<b>(1,559,827)</b>	(1,565,925)
	<b>29.1</b>	<b>8,189,093</b>	9,753,404
<b>29.1 Gross brokerage income</b>			
Retail clients		<b>9,693,237</b>	11,209,014
Institutional clients		<b>55,683</b>	110,315
		<b>9,748,920</b>	11,319,329
<b>30 Gain on disposal of assets</b>			
Gain on disposal of non banking assets		<b>1,333,000</b>	1,329,500
Gain on disposal of owned assets		-	42,283
Gain/ (Loss) on disposal of Ijarah assets		<b>767,302</b>	199,827
		<b>2,100,302</b>	1,571,610



	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>31 Other income</b>			
Profit on bank deposits		5,262,251	2,478,099
Margin Finance Income		479,713	2,245,492
Margin Trading Income		-	7,768
Return on exposure deposit with PSX		881,800	1,096,808
Dividend Income		675,180	421,988
Processing fee		1,703,356	2,917,336
Cheque return charges		17,500	795,500
Miscellaneous income from musharikah		1,490,539	6,748,470
Miscellaneous income from modaraba		740,508	13,244
Miscellaneous income		3,745,906	5,374,582
Base minimum capital profit		33,104	-
		<u>15,029,857</u>	<u>22,099,287</u>
<b>32 Operating expenses</b>			
Salaries and benefits	32.1	37,670,520	37,381,605
Traveling and conveyance		245,588	263,915
Depreciation - owned asset	5.2	954,888	1,145,110
Legal and professional		1,397,016	1,261,111
Printing and stationary		796,794	679,384
Insurance		972,949	890,949
PSX, Clearing house and CDC Charges		448,512	627,712
Fee and subscription		1,800,276	2,307,830
Auditor's remuneration	32.2	995,000	796,500
Repair and maintenance		1,460,515	797,450
Vehicle running and maintenance		157,494	141,319
Power and utilities		1,354,515	1,282,820
Entertainment expenses		783,356	648,518
Advertisement		58,768	104,925
Commission paid to traders		27,096	326,568
Telephone and postage		794,561	515,505
Corporate expenses		514,646	834,669
Rent rates and taxes		18,230	13,027
Selling and marketing expenses		1,085,442	1,366,007
Miscellaneous expenses		112,720	793,410
		<u>51,648,886</u>	<u>52,178,334</u>

**32.1** Salaries and other benefits include Rs. 0.887 million (2019: Rs. 0.788 million) on account of provident fund contribution and Rs. 1.656 million (2019: Rs. 1.09 million) in respect of gratuity payable to employees.

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>32.2 Auditors' remuneration</b>			
Audit fee		500,000	300,000
Half yearly review and others		375,000	175,000
Out of pocket expenses		120,000	110,000
		<u>995,000</u>	<u>585,000</u>

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>33 Finance cost</b>			
Financial charges on musharikhah		<b>124,632,929</b>	112,848,077
Financial charges on redeemable capital		<b>82,875,907</b>	37,317,866
Bank charges		<b>177,583</b>	266,187
FED charges		<b>1,602</b>	3
		<b><u>207,688,021</u></b>	<u>150,432,133</u>

**34 Management fee**

Management fee is payable to Punjab Modaraba Services (Private) Limited. Owing to losses during the year, modaraba management company fee for the year is not provided for.

	<u>Note</u>	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
<b>35 Taxation</b>			
<b>Current Tax</b>			
- Current year		<b>156,992</b>	3,196,113
<b>Deferred</b>			
- Relating to origination and reversal of temporary differences		-	(2,564,432)
		<b><u>156,992</u></b>	<u>631,681</u>

**36 Earning per certificate****36.1 Basic**

Basic earnings per certificate are calculated by dividing the net profit for the year by the weighted average number of certificates outstanding during the year as follows:

	<u>2020</u> <u>Rupees</u>	<u>2019</u> <u>Rupees</u>
(Loss)/ Profit for the year	<b><u>(56,195,668)</u></b>	<u>6,225,166</u>
Weighted average number of ordinary certificates	<b><u>34,020,000</u></b>	<u>34,020,000</u>
(Loss)/ Earning per certificate	<b><u>(1.65)</u></b>	<u>0.18</u>

**36.2 Diluted**

No figure for diluted earnings per certificate has been presented as the Modaraba has not issued any instruments which would have an impact on earnings per certificate when exercised.



## 37 Transactions with related parties

The related parties and associated undertakings comprise of The Bank of Punjab, Punjab Modaraba Services (Private) Limited and Punjab Capital Securities (Private) Limited. Transactions with related parties and associated undertakings other than remuneration and benefits to key management personnel under the term of employment are as follows:

### 37.1 Balances outstanding at the end of year

	2020 Rupees	2019 Rupees
<b>37.1.1 The Bank of Punjab (Holding company of Modaraba's Management Company)</b>		
Musharikah finances	<b>648,738,613</b>	1,223,621,569
Profit payable on musharikah finances	<b>18,685,681</b>	34,609,950
Certificates of musharikah	<b>1,000,000,000</b>	400,000,000
Profit payable on certificates of musharikah	<b>17,742,455</b>	5,936,301

### 37.2 Transactions during the year

#### 37.2.1 The Bank of Punjab (Holding company of Modaraba's Management Company)

Bank charges	<b>177,583</b>	266,187
Profit charged on finances	<b>124,632,929</b>	112,848,077
Profit charged on certificates of Musharikah	<b>57,513,006</b>	36,917,809
Brokerage income earned	<b>68,926</b>	110,415

**38 Remuneration of officers and executives**

	2 0 2 0			
	Chief Executives	Executives	Other employees	Total
	Rupees	Rupees	Rupees	Rupees
Remuneration	2,580,000	18,485,738	341,222	21,406,960
House rent allowance	467,783	4,918,704	136,489	5,522,976
Utility allowance	258,000	1,748,049	34,122	2,040,171
Medical allowance	258,000	998,740	34,122	1,290,862
Provident fund contribution	134,325	1,013,792	28,424	1,176,541
Gratuity Fund	-	2,042,927	-	2,042,927
Expenses reimbursed	-	1,656,783	-	1,656,783
	<b>3,698,108</b>	<b>30,864,733</b>	<b>574,379</b>	<b>35,137,220</b>

Number of employees at the year end                      **1**                      **35**                      **3**                      **38**

Average number of employees during the year                      **1**                      **35**                      **3**                      **38**

**38.1** The Chief Financial Officer has been provided a vehicle on Ijarah.

	2 0 1 9			
	Chief Executives	Executives	Other employees	Total
		Rupees	Rupees	Rupees
Remuneration	2,400,000	17,692,542	345,402	20,437,944
House rent allowance	468,370	4,963,678	138,162	5,570,210
Medical allowance	240,000	2,252,865	34,542	2,527,407
Utility allowance	240,000	1,024,673	34,542	1,299,215
Provident fund contribution	124,956	905,543	16,428	1,046,927
Gratuity fund	-	1,087,344	-	1,087,344
Expenses reimbursed	-	2,222,148	-	2,222,148
	<b>3,473,326</b>	<b>30,148,793</b>	<b>569,076</b>	<b>34,191,195</b>

Number of employees at the year end                      **1**                      **33**                      **2**                      **35**

Average number of employees during the year                      **1**                      **33**                      **2**                      **35**

**39 Financial instruments**

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

- Credit risk
- Liquidity risk
- Market risk



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

## 39.1 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Modaraba by failing to discharge an obligation. The risk is generally limited to the carrying to principal amounts and accrued profit thereon, if any. The Modaraba's policy is to enter into financial contracts in accordance with the internal risk management policies and the requirements of the Prudential Regulations. The carrying amount of the following financial assets represents the maximum credit exposure at the reporting date:

	<b>Note</b>	<b>2020 Rupees</b>	<b>2019 Rupees</b>
Bank balances	<b>16</b>	<b>24,906,725</b>	43,020,880
Musharikah investment	<b>8</b>	<b>635,133,289</b>	857,740,104
Long term morabaha investment	<b>9</b>	<b>14,896,710</b>	13,468,463
Short term morabaha investment	<b>12</b>	<b>290,546,077</b>	294,796,541
Ijarah rental receivable	<b>14</b>	<b>272,887,424</b>	300,162,866
Advances, deposits, prepayments and other receivables	<b>15</b>	<b>149,619,201</b>	103,787,746
Long term deposits	<b>10</b>	<b>203,444</b>	203,444
		<b>1,388,192,870</b>	1,613,180,044

### 39.1.1 Bank balances

The Modaraba kept its surplus funds with banks having good credit rating. Currently the surplus funds are kept with banks having medium to long term rating from AAA to AA+ and short term rating from A1+ to A1. Credit risk rating of the banks are as follows:

Banks	Short Term	Long Term	Agency
The Bank of Punjab	A1+	AA	PACRA
Bank Alfalah Limited	A1+	AA+	PACRA
Al Baraka Bank (Pakistan) Limited	A1	A	PACRA
National Bank of Pakistan	A1+	AAA	PACRA
Meezan Bank Limited	A1+	AA+	JCR-VIS
Bank Islami Pakistan Limited	A-1	A+	PACRA
NRSP Microfinance Bank Limited	A-1	A	PACRA

### 39.1.2 Description of Collateral held

The Modaraba's ijarah are secured against ijarah assets and personal guarantees. In few ijarah additional collateral is also obtained in the form of mortgaged property.

Morabaha investments are secured by way of personal guarantees of the directors, pledge of stocks, mortgage of properties and charge on the assets varying from case to case.

Musharikah investments are secured by way of personal guarantees and mortgage of properties.

### 39.1.3 Aging Analysis of Morabaha receivable

<u>Past due</u>	2020			
	Total	Non-classified	Classified	Suspension
	-----Rupees-----			
Not yet due	-	-	-	-
Less than 6 months	3,586	3,586	-	-
6 to 12 months - OAEM	10,531,925	-	10,531,925	-
1 to 2 years - Substandard	986,728	-	986,728	986,728
2 to 3 years - Doubtful	-	-	-	-
More than 3 years - Loss	26,134,597	-	26,134,597	26,134,597
	<b>37,656,836</b>	<b>3,586</b>	<b>37,653,250</b>	<b>27,121,325</b>

<u>Past due</u>	2019			
	Total	Non-classified	Classified	Suspension
	-----Rupees-----			
Not yet due	-	-	-	-
Less than 6 months	7,483,463	7,483,463	-	-
6 to 12 months - OAEM	-	-	-	-
1 to 2 years - Substandard	-	-	-	-
2 to 3 years - Doubtful	-	-	-	-
More than 3 years - Loss	26,134,597	-	26,134,597	26,134,597
	<b>33,618,060</b>	<b>7,483,463</b>	<b>26,134,597</b>	<b>26,134,597</b>

Suspension is recognized by the Modaraba on the basis of requirements given under the Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.



## 39.1.4 Aging Analysis of Morabaha investment

Past due	2020			
	Total	Non-classified	Classified	Provision
	-----Rupees-----			
Not yet due	-	-	-	-
Less than 6 months	59,397,134	59,397,134	-	-
6 to 12 months - OAEM	12,700,000	-	12,700,000	-
1 to 2 years - Substandard	-	-	-	-
2 to 3 years - Doubtful	-	-	-	-
More than 3 years - Loss	471,114,013	-	471,114,013	244,361,379
	<b>543,211,146</b>	<b>59,397,134</b>	<b>483,814,013</b>	<b>244,361,379</b>

Past due	2019			
	Total	Non-classified	Classified	Provision
	-----Rupees-----			
Not yet due	-	-	-	-
Less than 6 months	53,465,795	53,465,795	-	-
6 to 12 months - OAEM	4,500,000	-	4,500,000	-
1 to 2 years - Substandard	9,708,481	-	9,708,481	-
2 to 3 years - Doubtful	-	-	-	-
More than 3 years - Loss	478,144,291	-	478,144,291	244,361,380
	<b>545,818,567</b>	<b>53,465,795</b>	<b>492,352,772</b>	<b>244,361,380</b>

Provision is recognized by the Modaraba on the basis of provision requirements given under Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

### 39.1.5 Aging Analysis of Ijarah receivable

Past due	2020			
	Total	Non-classified	Classified	Suspension
	-----Rupees-----			
Not yet due	-	-	-	-
Less than 6 months	45,137,205	45,137,205	-	-
6 to 12 months - OAEM	61,953	-	61,953	-
1 to 2 years - Substandard	98,946	-	98,946	-
2 to 3 years - Doubtful	103,015	-	103,015	-
More than 3 years - Loss	383,083,253	-	383,083,253	155,303,248
	<b>428,484,372</b>	<b>45,137,205</b>	<b>383,347,167</b>	<b>155,303,248</b>

Past due	2019			
	Total	Non-classified	Classified	Suspension
	-----Rupees-----			
Not yet due	-	-	-	-
Less than 6 months	10,188,291	10,188,291	-	-
6 to 12 months - OAEM	6,293,500	-	6,293,500	-
1 to 2 years - Substandard	560,302	-	560,302	-
2 to 3 years - Doubtful	33,794,937	-	33,794,937	-
More than 3 years - Loss	404,629,084	-	404,629,084	155,303,248
	<b>455,466,114</b>	<b>10,188,291</b>	<b>445,277,823</b>	<b>155,303,248</b>

Suspension is recognized by Modaraba on the basis of requirements given under the Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.



### 39.1.6 Aging Analysis of Musharikah receivable

Past due	2020			
	Total	Non-classified	Classified	Suspension
	-----Rupees-----			
Not yet due	-	-	-	-
Less than 6 months	18,376,667	18,376,667	-	-
6 to 12 months - OAEM	151,778	-	151,778	-
1 to 2 years - Substandard	184,104	-	184,104	-
2 to 3 years - Doubtful	129,218	-	129,218	-
More than 3 years - Loss	38,027,984	-	38,027,984	19,889,950
	<b>56,869,751</b>	<b>18,376,667</b>	<b>38,493,084</b>	<b>19,889,950</b>
Past due	2019			
	Total	Non-classified	Classified	Suspension
	-----Rupees-----			
Not yet due	-	-	-	-
Less than 6 months	26,015,048	28,015,048	-	-
6 to 12 months - OAEM	5,198,385	-	5,198,385	4,879,344
1 to 2 years - Substandard	2,688,114	-	2,688,114	2,212,220
2 to 3 years - Doubtful	831,632	-	831,632	-
More than 3 years - Loss	9,831,471	-	9,831,471	9,370,405
	<b>44,564,650</b>	<b>28,015,048</b>	<b>16,461,969</b>	<b>16,461,969</b>

Suspension is recognized by the Modaraba on the basis of requirements given under the Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

### 39.1.7 Aging Analysis of Musharikhah investment

Past due	2020			
	Total	Non-classified	Classified	Provision
	-----Rupees-----			
Not yet due	509,844,905	509,844,905	-	-
Less than 6 months	36,240,675	36,240,675	-	-
6 to 12 months - OAEM	40,692,536	-	40,692,536	10,561,332
1 to 2 years - Substandard	6,816,317	-	6,816,317	-
2 to 3 years - Doubtful	8,400,000	-	8,400,000	-
More than 3 years - Loss	48,900,000	-	48,900,000	5,199,813.00
	650,894,432	546,085,580	104,808,853	15,761,145

Provision is recognized by the Modaraba on the basis of provision requirements given under Prudential Regulations for Modarabas and subjective evaluation carried out on an ongoing basis.

Past due	2019			
	Total	Non-classified	Classified	Provision
	-----Rupees-----			
Not yet due	769,103,248	769,103,248	-	-
Less than 6 months	21,672,427	-	21,672,427	-
6 to 12 months - OAEM	7,898,866	-	7,898,866	-
1 to 2 years - Substandard	9,020,454	-	9,020,454	-
2 to 3 years - Doubtful	-	-	-	-
More than 3 years - Loss	52,471,156	-	52,471,156	5,199,813
	860,166,151	769,103,248	91,062,903	5,199,813

Provision is recognized by the Modaraba on the basis of provision requirements given under Prudential Regulations for Modaraba and subjective evaluation carried out on an ongoing basis.

**39.1.8** The Modaraba manages credit risk and its concentration through diversification of activities to avoid undue concentration of risks with individuals, groups or specific industry segments. For this purpose, the Modaraba has established exposure limits for individuals and industrial sectors.



Break down of credit risk exposure by class of business as at 30 June 2020 is as follows:

	2020				
	Assets Ijarah	Morabaha investment	Musharikah investment	Total	% age
	-----Rupees-----				
Bank and NBFIs	-	-	-	-	0.00%
Textile Spinning and Composite	40,391,050	171,104,735	4,232,936	215,728,721	12.97%
Sugar and Allied	-	32,000,000	-	32,000,000	1.92%
Electric Goods	3,032,650	94,223,643	-	97,256,293	5.85%
Chemical and Pharmaceuticals	616,347	2,720,170	25,646,217	28,982,734	1.74%
Paper and Board	100,000	-	-	100,000	0.01%
Food and Allied	5,302,655	-	39,065,855	44,368,510	2.67%
Individuals	66,481,180	85,694,115	90,089,953	242,265,248	14.57%
Jute	-	-	-	-	0.00%
Oil and Gas	-	-	42,190,906	42,190,906	2.54%
Miscellaneous	44,197,874	48,674,949	39,213,306	132,086,129	7.94%
Aviation and transport	300,936,139	-	398,263,043	699,199,182	42.05%
Engineering, Steel & Construction	48,851,189	67,500,000	5,854,511	122,205,700	7.35%
Cement	-	-	6,337,705	6,337,705	0.38%
	509,909,085	501,917,611	650,894,432	1,662,721,128	100%
	-----Rupees-----				
	2019				
	Assets Ijarah	Morabaha investment	Musharikah investment	Total	% age
	-----Rupees-----				
Bank and NBFIs -	-	6,280,537	6,280,537	-	0.41%
Textile Spinning and Composite	34,623,160	84,629,810	4,935,074	124,188,044	8.15%
Sugar and Allied	-	18,559,437	-	18,559,437	1.22%
Electric Goods	3,032,650	72,764,405	71,990	75,869,045	4.98%
Chemical and Pharmaceuticals	750,007	2,504,850	25,880,632	29,135,489	1.91%
Paper and Board	100,000	-	-	100,000	0.01%
Food and Allied	6,902,057	-	39,431,052	46,333,109	3.04%
Individuals	46,621,706	51,547,463	105,790,340	203,959,509	13.39%
Jute	-	-	-	-	0.00%
Oil and Gas	100,000	-	56,938,266	57,038,266	3.74%
Miscellaneous	49,300,360	48,778,686	63,549,861	161,628,907	10.61%
Aviation and transport	169,159,708	-	531,745,349	700,905,057	46.01%
Engineering, Steel & Construction	53,121,435	29,480,353	8,229,332	90,831,120	5.96%
Cement	-	-	8,604,192	8,604,192	0.56%
	363,711,083	308,265,004	851,456,625	1,523,432,712	100%

### 39.2 Liquidity risk

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

	2020					
	Carrying Amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years
Financial liabilities	----- Rupees -----					
Redeemable capital	1,013,549,225	1,032,605,776	1,032,605,776	-	-	-
Security deposits						
against Ijarah	144,656,348	144,656,348	82,886,889	429,200	25,478,950	35,861,309
Musharikah finance	648,738,613	742,547,993	23,452,345	23,452,345	46,904,690	648,738,613
Unclaimed profit	17,458,341	17,458,341	17,458,341	-	-	-
Trade and other payables	20,822,703	20,822,703	20,822,703	-	-	-
Profit payable	37,742,338	37,742,338	37,742,338	-	-	-
	<b>1,882,967,568</b>	<b>1,995,833,499</b>	<b>1,214,968,392</b>	<b>23,881,545</b>	<b>72,383,640</b>	<b>684,599,922</b>
	2019					
	Carrying Amount	Contractual cash flows	6 months or less	6 to 12 months	1 year to 2 years	2 years to 5 years
Financial liabilities	----- Rupees -----					
Redeemable capital	445,518,493	458,511,370	458,511,370	-	-	-
Security deposits						
against Ijarah	140,602,505	140,602,505	88,619,575	529,200	738,200	50,715,530
Musharikah finance	1,223,621,569	1,258,231,519	463,683,658	665,064,247	129,483,614	-
Unclaimed profit	17,557,378	17,557,378	17,557,378	-	-	-
Trade and other payables	60,308,630	60,308,630	60,308,630	-	-	-
Profit payable	40,771,650	40,771,650	40,771,650	-	-	-
	<b>1,928,380,226</b>	<b>1,975,983,053</b>	<b>1,129,452,261</b>	<b>665,593,447</b>	<b>130,221,814</b>	<b>50,715,530</b>

**39.2.1** The contractual cash flows relating to the above financial liabilities have been determined on the basis of profit rates effective as at year end (and includes both principal and profit payable thereon). The rates of profit have been disclosed in notes 22 and 24 to these financial statements.



### 39.3 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, profit rates and equity prices will affect the Modaraba's income or the value of its holdings of financial instruments. The Modaraba has adopted appropriate policies to minimize its exposure to this risk.

#### 39.3.1 Profit rate risk

At the reporting date, the profit rate profile of Modaraba's significant profit bearing financial instruments and the periods in which they mature is as follows:

	2020	2019	2020	2019
	Effective profit rate		Carrying amount	
	(Percentage)		(Rupees)	
<b>Financial assets</b>				
Musharikhah investment	8.55 - 22.55	8.55 - 19.41	635,133,289	857,740,104
Morabaha investment	8.50 - 23.00	8.50 - 23.00	305,442,787	301,457,188
Cash and bank balances	4.25 - 13.13	4.25 - 13.13	24,841,476	24,393,411
			<b>965,417,552</b>	<b>1,183,590,703</b>
<b>Financial liabilities</b>				
Redeemable Capital	5.35 - 13.75	6.50 - 12.75	1,013,549,225	445,518,493
Musharikhah finances	11.22 - 13.85	6.92 - 10.99	648,738,613	1,223,621,569
			<b>1,662,287,838</b>	<b>1,669,140,062</b>

#### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in profit rates at the reporting date would have increased / (decreased) profit for the year by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the basis for 2020.

	Profit and loss 100 bps	
	Increase	Decrease
<b>As at 30 June 2020</b>		
Cash flow sensitivity-variable rate financial assets	9,654,176	(9,654,174)
Cash flow sensitivity-variable rate financial liabilities	(16,622,879)	16,622,878
<b>Net effect</b>	<b>(6,968,703)</b>	<b>6,968,704</b>
	Profit and loss 100 bps	
	Increase	Decrease
<b>As at 30 June 2019</b>		
Cash flow sensitivity-variable rate financial assets	11,835,908	(11,835,908)
Cash flow sensitivity-variable rate financial liabilities	(16,691,401)	16,691,401
<b>Net effect</b>	<b>(4,855,493)</b>	<b>4,855,493</b>

The sensitivity analysis prepared is not necessarily indicative of the effects on profit for the year and assets / liabilities of the Modaraba.

### 39.3.2 Currency risk

As at 30 June 2020, there is no foreign exchange exposure on Morabaha's balance sheet.

### 39.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Modaraba's operations either internally within the Modaraba or externally at the Modaraba's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior. Operational risks arise from all of the Modaraba's activities.

- The Modaraba's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its objective of generating returns for certificate holders.
- The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors of the management Company. This responsibility encompasses the controls in the following areas:
  - requirements for appropriate segregation of duties between various functions, roles and responsibilities;
  - requirements for the reconciliation and monitoring of transactions;
  - compliance with regulatory and other legal requirements;
  - documentation of controls and procedures;
  - requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
  - ethical and business standards;
  - risk mitigation, including insurance where it is effective.

### 39.5 Fair value of financial instruments

The IFRS-13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### 39.6 Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Modaraba defines as net operation income divided by total capital employed. The Board of Directors also monitors the level of dividend payouts to certificate holders.



### 39.7 Reconciliation of liabilities arising from financing activities

	Balance as on 01 July 2019	Availed / Announced	Repaid / Redeemed	Balance as at 30 June 2020
Long term musharikhah finance	1,223,621,569	2,378,250,696	(2,953,582,615)	<b>648,289,650</b>
Dividend Payable	17,557,378	-	(99,040)	<b>17,458,338</b>
Redeemable capital	445,518,493	2,515,030,732	(1,947,000,000)	<b>1,013,549,225</b>
	<b>1,686,697,440</b>	<b>4,893,281,428</b>	<b>(4,900,681,655)</b>	<b>1,679,297,213</b>

### 40 Cash flow from operating activities

	2020 Rupees	2019 Rupees
<b>(Loss) /Profit for the period</b>	<b>(56,038,676)</b>	<b>7,652,787</b>
<b>Adjustments for:</b>		
Depreciation of ijarah assets	<b>96,857,165</b>	62,390,235
Depreciation of assets in own use	<b>954,888</b>	1,145,110
Gain on disposal of Ijarah assets	<b>(767,302)</b>	(199,827)
Gain on disposal of owned assets	-	(42,283)
Dividend Income	<b>(675,180)</b>	(421,988)
Gain on disposal of non-banking assets	<b>(1,333,000)</b>	(1,329,500)
Provision against other receivable	-	3,318,088
Reversal for impairment of ijarah assets	-	(9,000,000)
Provision/(reversal) for ijarah rentals	<b>293,700</b>	(3,828,092)
Provision/(reversal) for musharikhah investment	<b>7,051,617</b>	(52,825)
Financial charges on musharikhah finances	<b>124,632,929</b>	112,848,077
Financial charges on redeemable capital	<b>82,875,907</b>	37,317,866
	<b>309,890,724</b>	202,144,861
Operating profit before working capital changes	<b>253,852,048</b>	209,797,648
<b>Working capital changes</b>		
(Increase)/decrease in operating assets:		
Morabaha investment	<b>6,251,809</b>	(35,017,003)
Purchase of assets under ijarah arrangements	<b>(327,113,090)</b>	(210,585,199)
Payment of Musharakah investment	<b>215,555,198</b>	39,034,428
Proceeds from transfer of ijarah assets	<b>84,825,225</b>	19,421,618
Ijarah Rental Receivable - net	<b>26,981,742</b>	(679,945)
Dividend Income	<b>(100,000)</b>	489,456
Trade Receivables	<b>(2,448,547)</b>	2,996,077
Advances, deposits, prepayments and other receivables	<b>(76,650,174)</b>	(4,945,311)
	<b>(72,697,837)</b>	(189,285,879)
Increase/(decrease) in operating liabilities:		
Security deposits - net	<b>409,455</b>	31,928,773
Trade and other payables	<b>28,525,314</b>	24,429,572
	<b>28,934,769</b>	56,358,345
<b>Net changes in operating assets and operating liabilities</b>	<b>(43,763,068)</b>	(132,927,534)
<b>Cash generated from operations</b>	<b>210,088,980</b>	76,870,114

**41 Provident fund**

	<b>2020</b> <b>Rupees</b>	2019 Rupees
Size of the fund	<b>4,874,516</b>	4,658,879
Percentage of investments made	<b>100%</b>	0%
Fair value of investments made	<b>4,000,000</b>	0
Cost of Investement	<b>4,000,000</b>	0

Breakup of investment in terms of amount and percentage of the size of the provident fund are as follows:

	<b>2020</b> <b>(Audited)</b>		<b>2019</b> <b>(Audited)</b>	
	<b>investment</b>	<b>investment as % of size of the fund</b>	<b>Investment</b>	<b>investment as % of size of the fund</b>
Mutual Funds	-	-	-	-
Team Deposit Receipts	<b>4,000,000.0</b>	<b>100%</b>	-	-
Scheduled Banks	-	-	-	-
	<b>4,000,000.0</b>	<b>100%</b>	-	-

Investments out of provident fund have been made in accordance with the provisions of sections 218 of companies Act, 2017 and the rules formulated for this purpose.

**42 Corresponding figures**

Corresponding figures have been rearranged or reclassified wherever necessary for the purpose of comparison and better presentation. However, no significant reclassifications have been made during the year except as given below:

<b>Description</b>	<b>Form</b>	<b>To</b>	<b>2019</b> <b>Rupees</b>
Reclassification of Ijarah Assets-Cost	Plant & Machinery	Vehicle Cost	71,770
Reclassification of Ijarah Assets-accumulated depreciation	Plant and machinory	Vehicle Cost	(71,770)

The above reclassification does not have any meterial effect on information presented in the statment of financial position and cash flow. Therefore, third balance sheet has not been presented.

**43 Date of authorization for issue**

The unconsolidated financial statements of Modaraba were approved by the Directors of Modaraba Management Company and authorized for issue on 02 ,December 2020.

  
**Chief Financial Officer**  
Punjab Modaraba Services  
( Private ) Limited

  
**Chief Executive**  
Punjab Modaraba Services  
( Private ) Limited

  
**Director**  
Punjab Modaraba Services  
( Private ) Limited

  
**Director**  
Punjab Modaraba Services  
( Private ) Limited



## **First Punjab Modaraba**

Managed by:

**Punjab Modaraba Services (Pvt) Ltd.**

(A wholly owned subsidiary of The Bank of Punjab)

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