



First National Bank Modaraba

(An Islamic Financial Institution)

Managed By: National Bank Modaraba Management Company Limited
(A subsidiary of National Bank of Pakistan)

FNBM/2023/0099
Oct 03,2023

Ms Fatima Azmat
Assistant Manager
Listed Companies Compliance Department-RAD
PSX
Karachi

Dear Sir: Re: Suspension of Trading in the Certificates of the Modaraba and Progress Report

Please refer to your letter No. PSX/Gen-1587 dated Sep 28,2023. The nature, status and progress made for the rectification of the non-compliance is mentioned as under:

Nature of Non-compliance:

- FNBM charged provisioning in compliance with SECPs Prudential regulations for Modarabas on its Non-Performing Loans (NPLs), mostly in the textiles. As a result it started booking losses which eventually exceeded 50% of its paid up capital.
- FNBM is managed by a wholly owned subsidiary of NBP. NBP in June, 2018 approved injection of further equity of Rs.300 Million in FNBM, however NBP has not yet received its requisite approvals from SBP.
- On the basis of one accounting figure of accumulated losses, and without considering the fact that these losses could be temporary, the Registrar Modaraba SECP technically triggered Section 23(I)(ii)(b) the Modaraba Companies and Modaraba (Floatation and Control) Ordinance 1980, and filed a winding up application in the Modaraba Tribunal Lahore.

Nature of FNBM's accumulated losses:

- Accumulated losses comprised mainly of provisioning charged against NPLs. Provisioning is not a permanent expense/loss but it is building of a reserve and this loss attains finality only when recovery efforts from NPLs fail.
- FNBM has filed recovery suits against all its defaulters (NPLs) where against almost all of them favorable decree orders from respective Banking Courts have been obtained, and the execution proceeding are underway. The chances of recoveries from these cases are bright.



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Progress made for rectification of the non-compliance:

- Since last two years (the period of suspension of trading) FNBM has made considerable cash recoveries from NPLs through settlement/restructuring arrangements resulting in reversals in provisioning, booking of net profits in the annual/interim financial statements of March 31, 2021 onwards, and reduction in the accumulated losses. These financial statements were timely transmitted to PSX.
- More cash recoveries and reversal in provisioning are expected in the next year. Depending on the relevant economic conditions, if the current trend/pace of recoveries from NPLs continues than it is expected that FNBM could become in compliance with the 50% threshold of Section 23(l)(ii)(b) within around next two years.
- FNBM has also prayed to Honorable Modaraba Tribunal Lahore to set aside and remand the application back to SECP in order to afford FNBM an opportunity to work out an amicable arrangement with the SECP in better interest of stakeholders particularly of the Modaraba Certificate Holders. The matter is pending adjudication.

In case you require further information in this regard then you may please contact us.

Best regards

Farah Aslam

CFO/Company Secretary